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Bank Polski

The PKO Bank Polski SA Group Directors' Report for the year 2012

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1. INTRODUCTION

1.1 The PKO Bank Polski SA Group – historical background

1919-1938	1. Pocztowa Kasa Oszczędności was established through a decree signed by the Head of the country Józef Piłsudski, prime minister Ignacy Paderewski and Hubert Linde - founder and the first president 2. Pocztowa Kasa Oszczędności vested with legal personality as a state institution, operating under the supervision and with guarantee of the State 3. first local branch of Pocztowa Kasa Oszczędności was founded in Poznań 4. Pocztowa Kasa Oszczędności started to run Szkolne School Savings Unions (Kasy Oszczędności) 5. with the initiative of Pocztowa Kasa Oszczędności, Treasury Ministry has decided to set up Bank Polska Kasa Opieki (today Pekao SA) as a public company to facilitate the Polish Diaspora the transfer of Polish foreign currencies to the country 6. Pocztowa Kasa Oszczędności strongly contributed to the development of non-cash transactions - every other larger industrial plant and any large company had a cheque account in Pocztowa Kasa Oszczędności, and cheque turnover in Poland was half as much greater than the cash
1939-1945	years of war were time of huge losses and standstill in the activity of Pocztowa Kasa Oszczędności
1949-1988	1. Pocztowa Kasa Oszczędności transformed to Powszechna Kasa Oszczędności 2. Banking Act introduced privilege of saving deposits held in Powszechna Kasa Oszczędności, they were covered by the State guarantee 3. Powszechna Kasa Oszczędności introduced a new and at that time very modern product: current account 4. Powszechna Kasa Oszczędności merged into the structures of the National Bank of Poland (NBP); yet retains its identity (1975) 5. Powszechna Kasa Oszczędności was separated from the National Bank of Poland (1988)
1991-2000	1. the first card 'PKO Ekspres', which served only to cash withdrawals from ATMs, was issued 2. the Memorandum of Association granted to Bank by the Council of Ministers include a modified name of Powszechna Kasa Oszczędności - Bank Państwowy (a state bank); PKO BP in the short form 3. the first Supervisory Board of PKO BP was appointed 4. the Bank became a sole shareholder in Inbudex Sp. z o.o. - currently Qualia Development Sp. z o.o. - a development company, which implements, through its subsidiaries, specific projects 5. IT departmental system ZORBA3000, which automated all banking operations performed in a branch was implemented 6. the mortgage loan 'Alicja' with deferred payment of a part of receivables was the most popular mortgage loan in country 7. the first internet information portal of the Bank was launched 8. a company PKO Towarzystwo Funduszy Inwestycyjnych SA, established by PKO BP and Credit Suisse Asset Management Holding Europe (Luxembourg) SA, started operations. Since 2009 the Bank is the sole shareholder of the Company, which manages investment funds' assets and clients' portfolios 9. PKO BP and Bank Handlowy w Warszawie SA established a company PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA. Since 2003 the Bank is the sole shareholder of the Company. The Company is active in the area of compulsory social security, within the so called II pillar of the pension reform 10. a company Bankowy Fundusz Leasingowy SA was established. The Company, together with its subsidiary, provides services of operating and financial leases of non-current assets and properties 11. PKO BP and Bank Śląski SA established a company Centrum Elektronicznych Usług Płatniczych eService SA. Since 2001 the Bank holds 100% of the Company's shares. eService processes information about payment transactions, manages the network of payment cards' acceptance and provides services offered on the basis of POS terminals 12. a package of mortgage loans 'Własny Kąt' for individual clients and a loan 'Nowy Dom' for corporate clients appeared in the PKO BP's offer 13. first Internet branch e-PKO was launched 14. the Bank was transformed into a wholly-owned subsidiary of the State Treasury under the name of PKO Bank Polski Spółka Akcyjna
2002-2009	1. the Bank took over Inteligo Financial Services SA. The Company provides services ensuring the maintenance and development of IT systems supporting banking systems, including electronic access to bank accounts (Inteligo account) 2. the Bank bought 66.65% of KREDOBANK SA shares. The Company is registered and operates in Ukraine. Currently the Bank owns 99.5655% in the Company's registered capital. KREDOBANK is a commercial bank, providing standard banking services for private and corporate clients 3. successful Bank's flotation took place - at the end of the first day of quotations, shares of the Bank reached a price of PLN 24.50 per unit against the issue price fixed at PLN 20.50 4. a consumer loan 'Szybki Serwis Kredytowy' due to its innovativeness proved to be one of the highest rated in the market 5. rollout of Integrated IT System O-ZSI in the Bank's network was completed 6. the company PKO BP Faktoring SA started operations 7. successful rights issue of 250 000 000 D series shares was conducted within public offering, which resulted in the Bank's capital increase from PLN 1 000 000 000 to PLN 1 250 000 000 (2009)

2010-2011	1. 'Lider' development strategy of PKO Bank Polski SA for years 2010-2012 was adopted 2. commercial scale issuance of EMV technology compliant contactless smart Visa cards commenced 3. PKO Bank Polski SA (through its subsidiary PKO Finance AB) issued 5-year Eurobonds with value EUR 800 million 4. a new, innovative offer of current accounts (ROR), diversified in terms of customer preferences, was added to the Bank's offer: SUPERKONTO Oszczędne, PKO Konto za Zero, PKO Konto dla Młodych, PKO Konto Pogodne, PKO Konto Pierwsze 5. PKO Bank Polski SA reached the highest ever value of amounts due from corporate clients, by which it became a leader in corporate entities loans 6. the PKO Bank Polski SA Group reached a record net profit of PLN 3 807.2 million
2012	1. execution of the 'Lider' Strategy for the years 2010-2012, resulting in a strengthening of the position of PKO Bank Polski SA as the leader of the Polish banking sector in terms of scale of operations, was successfully completed 2. the SKO Project was an actively developing programme with innovative solutions (i.a. online trading platform); as at the end of 2012, the programme was attended by ca. 4 thousand of school communities 3. issue of bonds to the American market in the amount of USD 1.0 billion took place – bonds issued by PKO Finance AB became benchmark securities not only for Polish entities but also for issuers from the financial institutions sector in Central and Eastern Europe 4. PKO Bank Polski SA won a prestigious contract for comprehensive services for the Social Insurance Institution (ZUS), making the Bank one of the key players in the transaction banking market 5. PKO Bank Polski SA launched a modern online transaction system - Supermakler, available also in the version for mobile devices

1.2 Selected financial data of the PKO Bank Polski SA Group in years 2009-2012

	2012	2011	2010	2009
Statement of financial position (in PLN million)				
Total assets*	193 480	190 748	169 661	156 479
Equity*	24 708	22 822	21 360	20 436
Loans and advances to customers*	143 876	141 634	130 668	116 573
Amounts due to customers*	146 194	146 474	132 981	125 073
Income statement (in PLN million)				
Net profit*	3 749	3 807	3 217	2 306
Net interest income*	7 883	7 609	6 516	5 051
Net fee and commission income*	3 071	3 101	3 143	2 583
Result on business activities*	11 570	11 142	10 198	8 868
Net impairment allowance and write-downs*	(2 325)	(1 930)	(1 868)	(1 681)
Administrative expenses*	(4 618)	(4 411)	(4 249)	(4 244)
Financial indicators				
ROE net**	15.9%	17.5%	14.9%	14.8%
ROA net**	2.0%	2.1%	2.0%	1.6%
Interest margin**	4.5%	4.6%	4.4%	3.9%
Capital adequacy ratio*	13.1%	12.4%	12.5%	14.7%
C/I*	39.9%	39.6%	41.7%	47.9%
Number of PKO Bank Polski SA's clients (in thousand)				
Retail clients	7 164	7 225	7 126	7 089
Small and medium enterprises	304	309	310	315
Housing market	49	44	38	32
Corporate clients	12	11	12	11
Operational data				
Number of PKO Bank Polski SA's branches (in number of units)	1 198	1 199	1 208	1 228
Number of employees (in number of full-time equivalents)	28 556	28 924	29 780	31 098
Number of current accounts in PKO Bank Polski SA (in thousand of units)	6 220	6 146	6 150	6 212
Data on shares				
Capitalisation of the stock exchange (in PLN million)	46 125	40 150	54 188	47 500
Number of shares (in million of units)	1 250	1 250	1 250	1 250
Share price (in PLN)	36.90	32.12	43.35	38.00
Dividend per share (in PLN) (paid in the particular year from the profit for the previous year)	1.27	1.98	1.90	1.00

* Data based on consolidated financial statements for the particular year.

** Data brought to comparability.

1.3 Characteristics of the PKO Bank Polski SA Group activity

The PKO Bank Polski SA Group is among the largest financial institutions in Poland and PKO Bank Polski SA, the parent company of the Group, is the largest commercial bank in Poland and a leading bank on the Polish market in terms of scale of operations, equity, loans, deposits, number of

clients and the size of the sales network. During the whole period of activity, the Bank had been consistently developing the prestige of its brand and providing (and still provides) services to many generations of Poles. The long tradition and clients' confidence are the source of an obligation. Therefore, The PKO Bank Polski SA Group consistently takes measures in order to consolidate its perception as an institution:

- secure, strong and competitive,
- modern and innovative, client-friendly and efficiently managed,
- socially responsible, concerned about the development of the cultural awareness of Poles.

Despite the keen market competition, the PKO Bank Polski SA Group effectively develops its operations not only in its traditional area of operations – serving retail clients. It became also the biggest financial institution for corporate clients and small and medium enterprises in Poland – especially with regard to financing their operations. It is a leader in the market for financial services offered to communes (gminas), districts (poviats), voivodeships and State budget sector. It is also the most important organiser of issues of municipal bonds.

The high client service standards and effective credit risk assessment procedures enabled the PKO Bank Polski SA Group to increase its gross loan portfolio by 2.3% to the level of PLN 150.7 billion in 2012. With regard to consumer loans, the market share reached 19.0%, whereas the amounts due to customers reached the level of PLN 146.2 billion as at the end of 2012 which enabled the Bank to maintain its leading position in respect of share in the deposit market, which amounted to 16.8%.

Due to the Bank's positive image on the capital market, as well as its high creditworthiness ratings confirmed by the rating agencies, the Bank was able to obtain significant funds from issues of bonds on the Polish market and on the international markets in 2012. In this way, the Bank diversifies its sources of funding and adjusts them to future regulatory requirements, which will be implemented as part of Basel III.

In 2012, the Group continued its activities concerning the efficiency of the expenditure and costs incurred, which manifested in a selective approach towards development of distribution network. As at the end of 2012, the largest network of PKO Bank Polski SA's branches in Poland comprised 1 198 branches and 1 208 agencies. The Bank's clients can use the systematically enriched e-banking services offered under the iPKO brand and as a part of Inteligo account. Customers of PKO Bank Polski SA also have an increasing number of ATMs at their disposal – as at the end of 2012, there were 2 803 ATMs.

The PKO Bank Polski SA Group is one of the largest employers in Poland. As at the end of 2012, the PKO Bank Polski SA Group employed 28 556 people. The comprehensive learning and education offer was aimed at building loyal and competent staff providing increasingly higher standard of services to the clients and achieving high performance.

Apart from the strictly banking and brokerage activities, the PKO Bank Polski SA Group provides specialist financial services relating to leasing, factoring, investment funds, pension funds, electronic payment services. Moreover, the PKO Bank Polski SA Group conducts investment and development operations.

The activities of the PKO Bank Polski SA's Foundation for the public good in the widest possible range are the expression of the Bank's social responsibility.

1.4 Selected financial data of the PKO Bank Polski SA Group

	2012	2011	Change 2012/2011
Net profit	3 748.6 PLN million	3 807.2 PLN million	-1.5%
Result on business activities*	11 569.9 PLN million	11 142.3 PLN million	3.8%
Net interest income	7 882.8 PLN million	7 609.1 PLN million	3.6%
Net commission income	3 071.2 PLN million	3 101.4 PLN million	-1.0%
Administrative expenses	(4 618.4) PLN million	(4 411.4) PLN million	4.7%
Net impairment allowance and write-downs	(2 325.2) PLN million	(1 930.4) PLN million	20.5%
C/I	39.9%	39.6%	0.3 pp.
ROE net	15.9%	17.5%	-1.6 pp.
ROA net	2.0%	2.1%	-0.1 pp.

* Result on business activities defined as operating profit before administrative expenses and net impairment allowance and write-downs.

The financial results achieved by the PKO Bank Polski SA Group in 2012 shaped up on a very high level, and loan and deposit volumes were the highest among institutions in the Polish banking sector. An adverse economic activity trend was observed in Poland in 2012. The economic processes were accompanied by high uncertainty as to the future growth prospects. At the same time, net profit of the Polish banking sector in 2012 increased, however significantly lower growth rate of this net profit was recorded compared to 2011. High level of the banking sector's net profit was an effect of i.a. high level of net interest income and maintaining a stable growth rate of administrative expenses.

The net profit generated by the PKO Bank Polski SA Group in 2012 amounted to PLN 3 748.6 million, which represents a decrease of 1.5%, i.e. by PLN 58.6 million comparing to the previous year profit. The achieved level of net profit was determined by:

- record result on business activities of the PKO Bank Polski SA Group, which reached a level of PLN 11 569.9 million (+3.8% y/y), mainly as a result of:
  - increase in net interest income by 3.6% y/y - mainly due to increase in interest income from loans and advances to customers (+6.1% y/y) and

- increase in result on financial operations[1] and net other operating income and expenses,

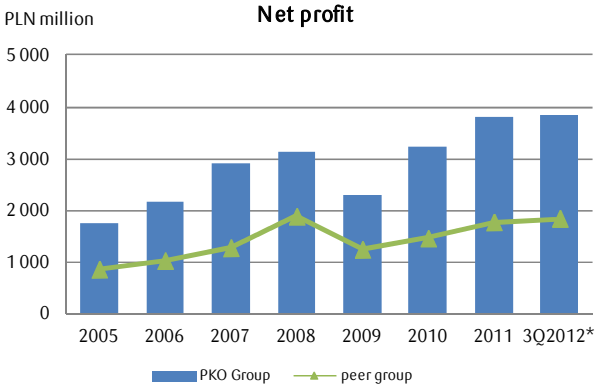
– increase in administrative expenses (+4.7% y/y); along with growth rate of income of the PKO Bank Polski SA Group at the level of 3.9% y/y, the C/I ratio increased by 0.3 pp. y/y to the level of 39.9%,

– increase in negative result on net impairment allowance and write-downs (+20.5% y/y), mainly impairment allowance on corporate loans,

– increase in the PKO Bank Polski SA Group's total assets by PLN 2.7 billion y/y to (to the level of PLN 193.5 billion) resulting from growth of loan activity financed mainly by the issue of bonds,

– secure and effective structure of the statement of financial position – strong deposit base, the level of equity of the PKO Bank Polski SA Group and the issue of bonds enabled growth of business activities; as at the end of 2012, the loan to deposit ratio (amounts due to customers) of the PKO Bank Polski SA Group amounted to 98.4% (loans to stable sources of funding ratio[2] amounted to 89.6%).

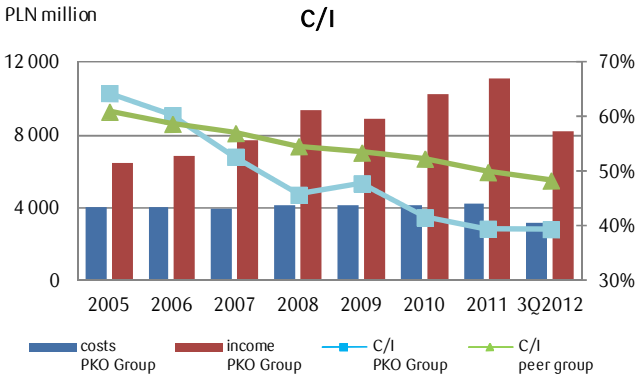
1.5 The PKO Bank Polski SA Group against its peer group[3]

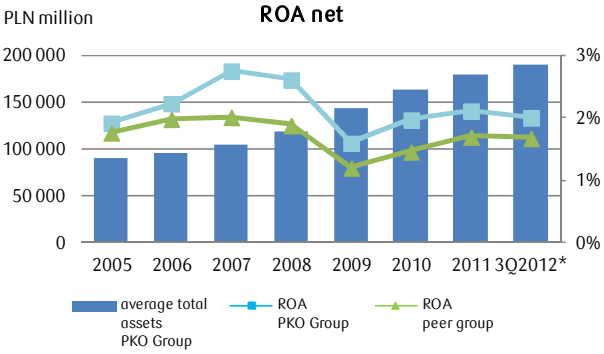


The stable situation in the banking sector in 2012 and the increase of average annual interest rates translated into the increase of the profits recorded by banks. In 2012, the PKO Bank Polski SA Group achieved high financial results.

* The value of net profit for 3Q2012 for particular banks was adopted as a sum of net profit recognised for 3Q2012 and for 4Q2011.

In 2012, Polish banking sector continued its activities aiming at reducing administrative expenses, including i.a. maintaining by banks a selective approach towards the development of the branch network and an intensive growth of internet banking. In 2012, the PKO Bank Polski SA Group maintained the relation of costs to income at a very low level – significantly lower than the value realised by the peer group.





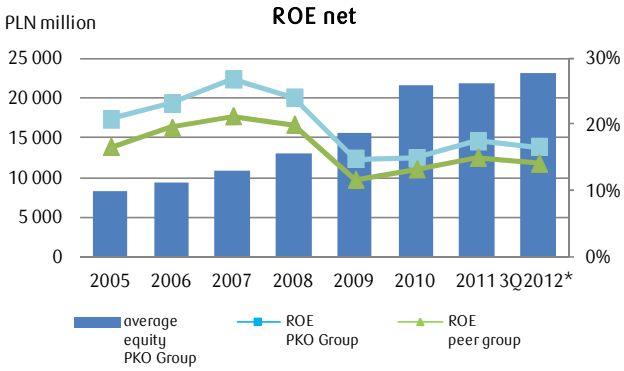
In 2012, financial results were influenced by uncertain macroeconomic condition, accompanied by limited increase in net interest income of banks and negative influence of increase in costs of credit risk.
At the same time, active policy of the PKO Bank Polski SA Group contributed to maintain a high return on assets.

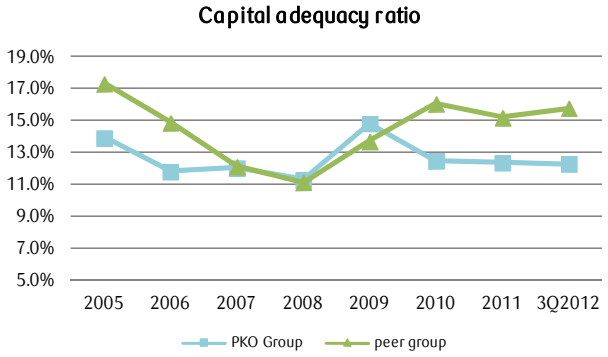
[1] Net income from financial operations is a sum of net income from financial instruments designated at fair value and gains less losses from investment securities.

[2] Stable sources of funding include amounts due to customers and external financing in the form of: the issue of securities, subordinated liabilities and amounts due to financial institutions.

[3] Peer group includes the following Groups: Pekao SA, BRE Bank SA, ING Bank Śląski SA, BZ WBK SA. Ratio calculations are based on the data available in consolidated annual reports of the particular banks (data for the years 2005-2011), and due to lack of publications of some of the banks from the peer group consolidated annual reports for 2012 before publication date of consolidated annual report of the PKO Bank Polski SA Group, data for 3 quarters of 2012 of these banks, as data representing trends in 2012, was adopted. All data is weighted by total assets.

The macroeconomic situation in 2012 contributed to a significantly lower growth rate of the financial result compared with 2011, which resulted in the stabilisation of return on equity. In 2012, the PKO Bank Polski SA Group maintained high profitability.



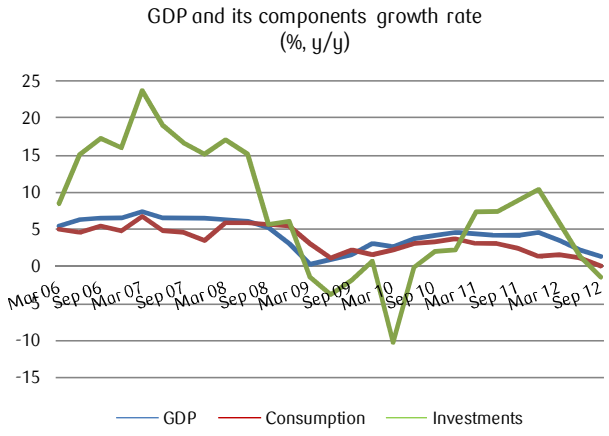


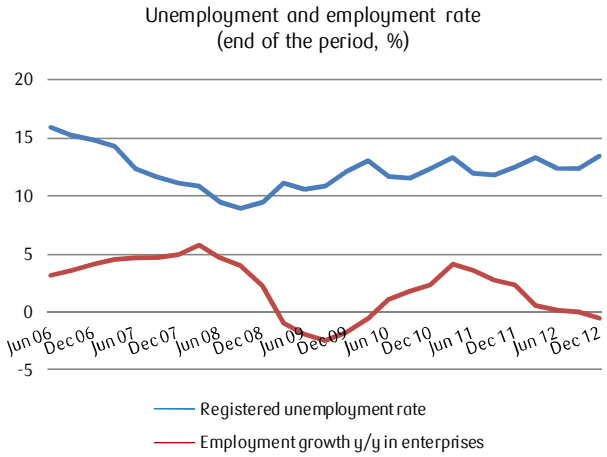
The capital adequacy of the banking sector in 2012 remained stable and as a result, capital adequacy ratio remained on a high level in the whole sector.
The level of capital adequacy ratio in the PKO Bank Polski SA Group remained also at a safe and stable level – significantly above the minimum level set by the Banking Act.

2. EXTERNAL BUSINESS ENVIRONMENT

2.1 Macroeconomic environment

A decrease in economic activity was observed in Poland in 2012. At the same time, adverse economic trends (stagnation/recession) continued in the euro zone and the EU funds from the Financial Perspective 2007-2013 were coming to an end. The economic processes were accompanied by the high uncertainty as to the future growth prospects. In 2012, GDP growth in Poland amounted to ca. 2.0% compared with 4.3% in 2011 with weakening GDP growth rate dynamics during the year. This significant slow-down was due to a decreasing growth rate of capital expenditure and a significant, negative contribution of inventories to growth (in particular in the second quarter of 2012), reflecting gradual adaptation of enterprises to new, unfavourable demand conditions. A decrease in private consumption was a result of inflation remaining at an increased level and a gradual deterioration in the situation on the labour market. Net export, which was achieved mainly due to a decrease in the import-intensive domestic demand component, had a positive effect on growth.
Given the slower GDP growth rate in 2012, only the slight increase in the employment rate in the corporate sector by 0.1% y/y, compared with 3.2% in 2011 was recorded, whereas the registered unemployment rate increased by 0.9 pp. per annum to 13.4% in December 2012. The increase in wages and salaries in the corporate sector decreased to 3.4% in 2012, compared with 5.0% in 2011.





The average annual inflation rate, measured with the consumer price index (CPI), decreased to 3.7% y/y in 2012 (from 4.3% y/y in 2011). Throughout most of the year, this index remained at a level close to that recorded in the previous year (ca. 4%) and outside the NBP inflation target corridor (2.5% +/- 1%), which was mainly due to supply shocks – fossil fuel prices remaining at high level and a strong growth of food prices. The value of the index started to decrease strongly in the fourth quarter, which was due to fuel price decreases, food disinflation and strong base effects. In December, CPI inflation amounted to 2.4% y/y.

2.2 Stock market

The year 2012 was a very good year for the global stock markets, including the Warsaw Stock Exchange. The WIG index increased by 26%. The year started with strong increases due to enthusiasm following the liquidity operations (LTRO) conducted by the European Central Bank. However, the second quarter brought a strong correction caused by disappointing macroeconomic data and fears that the euro zone might break up. Prosperity returned in the second half of the year, and the ECB President's declaration concerning conditional buy-out of peripheral euro zone government bonds should be considered the turning point. In an attempt to sum-up the whole year, one could say that the upturn on the stock markets was caused by three factors:

- a decrease in the system risk for the euro zone;
- expansive policies of central banks, which contributed to low market interest rates, and
- the forecasts that the low point of the business cycle in the European economy would be reached in the first half of 2013 at the latest.

The above mentioned factors encouraged investors to seek profits among more risky assets, such as shares.

2.3 Foreign exchange market

In 2012, the main factors determining changes on the foreign exchange market were the following:

- the debt crisis in the peripheral euro zone countries and the resulting market fears concerning the solvency and EMU membership of Greece and the stability of the Spanish financial system (the first half of 2012);
- quantitative expansions and intervention Fed bond buyouts (QE3, Twist Operation), ECB (LTRO, OMT) and other central banks;
- gradual slowdown of the economic growth followed by interest rate decreases (i.a. in Poland).

The foreign exchange market was characterised by high volatility. Ultimately, the exchange rate of the euro to the US dollar increased, as did the rate of the Polish zloty to both these currencies. Tensions in the global financial system associated with the debt crisis in the euro zone made it impossible for the National Bank of Switzerland to withdraw from defending the EUR/CHF exchange rate at the 1.20 level, since the market pressure kept the exchange rate of this currency pair close to the bottom limit determined by the SNB throughout the year. As a result, the CHF/PLN exchange rate was changing along the same lines as the EUR/PLN exchange rate throughout the year. EUR/USD amounted to 1.3194 at the end of the year, EUR/PLN amounted to 4.0750, and CHF/PLN amounted to 3.3721.

2.4 Interest rate market

In 2012, profitability decreases on the Polish interest rate market were mainly driven by expectations that the monetary policy in the world, including Poland, would become less strict. Such a scenario was supported by the belief that the disinflation process started in the middle of the previous year and that it would be continued in 2013. Additionally, fears of an economic slow-down increased in Poland around the end of the first half of the year and the beginning of the second half due to a decline in infrastructural investment and the economic downturn in the euro zone. The gradual decrease in credit risk premium in the euro zone was additional factor that had a positive effect on the prices of Polish Treasury bonds.
3-year LTROs introduced by the European Central Bank to provide banks with liquidity, and, subsequently the OMT programme announced in August to buy Treasury bonds on the secondary market, resulted in a rapid decrease in the CDS contracts' prices reflecting a risk of insolvency. During the whole year, the yield on Polish 2-year bonds decreased by 175 b.p. to 3.12%, and the yield on 5 and 10 year bonds decreased by 210–220 b.p. to 3.22% and 3.73%, respectively. 5-year CDS contract's prices for Poland decreased by 200 b.p. to 80 b.p., which reflects growing creditworthiness.
In accordance with the 'Monetary Policy Guidelines for 2012', the monetary policy objective was to maintain inflation at the level of 2.5%, with a symmetrical tolerance range for deviations of +/- 1 pp. Due to inflation remaining above the upper limit of the range, in May 2012 the Monetary Policy Council (RPP – Rada Polityki Pieniężnej) decided to increase interest rates by 25 b.p. to 4.75% (the reference rate). As the GDP growth was becoming slower and the inflation pressure was decreasing, RPP moved from stricter to less strict monetary policy measures over a period of 6 months. Namely, it decreased the interest rates in November by 25 b.p. and then by another 25 b.p. in December (to 4.25%). Average annual interest rate 3M WIBOR was at the level of 4.91% in 2012, which means an increase by 0.37 pp. compared with 2011.

2.5 The situation of the Polish banking sector

The situation of the Polish banking sector remained stable in 2012, although the rate of growth of the financial result was much lower than in 2011. In 2012, the net financial result amounted to PLN 16.1 billion and was 3.9% higher than in 2011. This increase was mainly due to an increase in the result on banking activities (+3.3% y/y), including the net interest income (1.5% y/y) and the other operating profit (15.9% y/y), as well as maintaining a stable growth rate of administrative expenses (3.7% y/y). An increase in net impairment allowance (ca. 4.0% y/y) resulting from deterioration in the quality of the loan portfolio had an adverse effect on the financial result.
The operating efficiency of the banking sector deteriorated slightly: as at the end of 2012, the C/I ratio amounted to 50.9%, compared with 50.7% in the previous year. The capital adequacy ratio of the banking sector remained high: it amounted to 14.7% and was higher compared with the previous year (+1.6 pp.).
The impaired receivables increased by 8.7% as at the end of 2012, and the share of such receivables in total receivables amounted to 8.8% compared with 8.2% as at the end of 2011. This situation was due to an increase in the non-performing large corporate loans (by ca. 34%), mainly resulting from a deterioration of the financial situation of the construction industry. The rate of non-performing loans for corporate loans as at the end of 2012 increased to 11.7% from 10.3% as at the end of 2011, for mortgage loans to 2.8% from 2.4% and for consumer loans it decreased to 17.3% from 17.9%.

As at the end of 2012, the total assets of the banking sector amounted to PLN 1 353 billion and were 4.5% higher than as at the end of 2011. The situation on the loan and deposit market was characterised by a significant slow-down in the lending activities of banks and a slight increase in the deposit volumes. The change in the loan and deposit volumes was affected by the appreciation of PLN, which reduced their value (a decrease in the PLN/CHF exchange rate of 6.8% and PLN/EUR of 7.4% in y/y terms).
In 2012, total loans increased by PLN 13.3 billion compared with PLN 118 billion in 2011, and the rate of their growth decreased from 15.2% y/y as at the end of 2011 to 1.5% y/y. After an adjustment for changes in the exchange rates, the total increase in loans amounted to ca. PLN 37 billion and was a half of the amount recorded in 2011.
Lending activity addressed to enterprises was significantly reduced. The amount of loans in this segment increased by ca. PLN 1.8 billion in 2012 compared with PLN 43 billion in 2011, and the growth rate decreased from 19.5% y/y as at the end of 2011 to 0.7% y/y. The banks introduced stricter terms and criteria for granting loans to enterprises, which was due to an increased risk associated with the deteriorating economic situation and an increased industry risk, including among others, in the construction sector.
The mortgage loans market was characterised by stagnation. As at the end of 2012, the growth rate of housing loans decreased from 19.2% y/y as at the end of 2011 to 0.8% y/y. The value of housing loans increased by PLN 2.6 billion in 2012, compared with PLN 51 billion in 2011. After eliminating foreign exchange differences, the actual increase in such loans in 2012 amounted to ca. PLN 18 billion and was 30% lower than in 2011. The sales of mortgage loans were adversely affected by a decrease in demand resulting from stronger fears associated with the future financial situation, stricter lending policies of banks due to implemented legal regulations, changes in the 'Rodzina na swoim' programme, and the deteriorating quality in the housing loan portfolio.
The decrease in the value of consumer loans was deeper. In 2012, their value decreased by ca. PLN 6.5 billion compared with PLN 3 billion in 2011. The lower value of such loans was due, among other things, to transfer of sales from the bank to lending firms within the same group in order to evade regulatory activity, the sale of a part of the non-performing loans portfolio, lower demand, stricter lending policies of banks resulting from newly implemented legal regulations, and an increase in competition from institutions other than banks.
In 2012, an increase in the total balance of deposits was more than 40% lower than in 2011; it amounted to ca. PLN 47 billion. The rate of growth of deposits decreased from 11% y/y as at the end of 2011 to 5.9% y/y as at the end of 2012. The main source of growth were deposits of households, which increased by PLN 36 billion. A growth was observed in the deposits of non-monetary financial institutions (of PLN 13 billion) and deposits of the budget sector (of ca. PLN 11 billion). At the same time, the volume of deposits of enterprises decreased by PLN 14 billion, which was mainly due to the deteriorating financial position of enterprises and the fact that they financed their growth from their own funds.
The gap between loans and deposits as at the end of 2012 amounted to PLN 66 billion and was ca. 34% lower than as at the end of 2011, which contributed to an improvement in the loans to deposits ratio to 107.9% compared with 112.6% as at the end of 2011.

2.6 The situation of the Polish non-banking sector

The investment funds sector

After the downturn in 2011, the upward trend prevailed on the investment fund market in 2012. The situation on the investment fund market in 2012 was the consequence of: a better situation on the WSE (an increase in the WIG index of 26.2% y/y (in 2011, WIG dropped by 20.8% y/y)), the continued positive trend on the debt market, and the policy of the Monetary Policy Council with respect to basic interest rates. These factors affected the valuation of investment fund assets and the net funds inflow. The assets of investment funds increased in 2012 to PLN 145.8 billion (27% y/y, ca. PLN 31 billion), compared with a decrease of 4.3% y/y (-PLN 5.1 billion) in 2011, and they reached the highest level ever. This was due to the positive valuation of assets (ca. PLN 10.7 billion compared with -PLN 9.9 billion in 2011) and a positive balance of payments and cancellations (ca. PLN 19.1 billion compared with PLN 0.4 billion in 2011). The net inflow of funds was the highest since the market collapse in 2007. In 2012, investors withdrew funds mainly from the share funds and the funds linked to the share market, which resulted in a net outflow of funds from these segments. The highest positive balance of payments and cancellations was recorded for debt funds (PLN 13.7 billion) and non-public asset funds (PLN 9.5 billion).
The upturn on the funds market affected non-interest income of banks participating in their distribution and the structure of savings of households.

The market of open pension funds

In 2012, the assets of open pension funds (OPF) increased to PLN 269.6 billion (20% y/y, PLN 45 billion; compared with 1.6% y/y, PLN 3.5 billion in 2011). The OPF market demonstrated the highest year-to-year growth of assets in its history (since 1999). The growth of OPF assets was strongly affected by the investment results of the funds, which was due to an improvement of the situation on the WSE share market (a WIG increase of 26.2% y/y, compared with a decrease of 20.8% y/y in 2011), and the continuation of the upward trend on the debt market. The inflow of new funds from the Social Insurance Institution had a lesser effect on the increase in OPF assets; it amounted to PLN 8.4 billion (half of the amount recorded in 2011). The significantly lower balance of transfers from the Social Insurance Institution to OPFs was a result of statutory solution reducing pension contribution transferred to OPFs from 7.3% to 2.3%, effective from May 2011.
As at the end of 2012, Treasury securities prevailed in the structure of the OPF portfolio - they accounted for ca. 45% (a decrease of 8 pp. y/y), followed by shares that accounted for 35% (an increase of 4 pp. y/y). The OPF portfolios as at the end of 2012 contained 252.7 million of shares, of which 63 million were bought in 2012. The shares of PKO Bank Polski SA prevailed in the OPF portfolio structure (9.7% of the OPF share portfolio).
In 2012, the number of participants in Pillar 2 increased to 15.9 million of people (an increase by 449 thousand compared with 562 thousand in 2011), which was due to the high level of unemployment and unfavourable demographic tendencies reflected in the lower number of people entering the labour market.

The lease market

After a period of high growth in the years 2010-2011, stagnation was observed on the lease market in 2012. The value of assets financed by lease firms increased by 0.3% y/y to PLN 31.2 billion. The main source of market stabilization were leases of machinery and equipment (+3.1% y/y) , including strong increase in the value of leases of agricultural machines (+45.4% y/y), which was mainly due to the utilisation of EU funds.

Leasing of vehicles had a negative effect on the market development (-0.1% y/y). This was particularly true about heavy vehicles (-4.8% y/y), due to a low demand for forwarding and transport services (the effect of the crisis in the euro zone). A downturn was observed on the property lease market, however, the downward trend slowed down significantly in the second half of 2012.
Leasing constituted a significant source of financing of activities of enterprises. The value of lease-financed assets in 2012 was higher than the value of the increase in loans granted by banks to non-financial corporate entities for investment purposes and for real property.

The factoring market

In 2012, the factoring market grew faster than in 2011. The amount of receivables financed by factoring firms grew by ca. 26% y/y to ca. PLN 100 billion. This was a result of an increase in demand for factoring services (the number of customers increased by 14% y/y, and the number of debtors of the factoring firms that belong to the Polish Factors Association increased by 9.2% y/y), extension of the product offer and growing competition.

2.7 The Ukrainian market

The estimated rate of GDP growth in Ukraine in 2012 was 0.2% y/y (according to SSSU's initial estimates), compared with 5.2% y/y in 2011. The decrease in economic growth in Ukraine was mainly related to a lower value of gross expenditure on fixed assets and continued negative foreign trade balance resulting from a decrease in foreign demand for the main goods exported by Ukraine. The fast growth of private consumption had a positive effect on the increase in economic activity in Ukraine in 2012. As in 2011, the NBU policy in 2012 was focused on mitigating the depreciation pressure on hryvnia. For this purpose, NBU maintained strict liquidity control in the banking system, and the surplus in demand for foreign currencies was satisfied through the sale of a part of the currency reserves. The official UAH/USD exchange rate of the NBU was maintained at a level of 7.99 throughout the year, although on the interbank market the rate grew from 8.01 in January to 8.18 on average in December. Following a decrease of 0.25 pp. in March, the basic interest rate of the Central Bank of Ukraine remained at a level of 7.50 in 2012. Due to insufficient liquidity in the banking system, the market interest rates on interbank deposits remained significantly above the official Central Bank rates throughout most of the year. In accordance with NBU data, the number of banks operating in Ukraine did not change in 2012 and amounted to 176 as at the end of December. The share of foreign capital in the capital of the Ukrainian banking sector decreased from 41.9% in 2011 to 39.5%.
A decrease in the economic growth rate caused a decrease in the rate of growth of the assets of the Ukrainian banking sector in 2012. The value of assets of Ukrainian banks amounted to UAH 73 billion compared with UAH 112.2 billion in 2011. The assets growth was slower due to the fact that the lending to enterprises gradually slowed down and the decrease in the value of the household loan portfolio was deeper. As at the end of December 2012, the value of the portfolio of loans granted to residents and non-residents increased by UAH 12.2 billion compared with December 2011 (in the same period of the previous year, the increase amounted to UAH 58.9 billion). The total loan portfolio value in December 2012 amounted to UAH 818.9 billion. The annual rate of growth of the loan portfolio decreased from 7.9% to 1.5% between December 2011 and December 2012. The decrease in the loan portfolio growth in that period was a result of a decrease in the rate of growth of the portfolio of loans granted to non-financial entities from 14.9% y/y to 5.2% y/y and a further decrease in the household loans portfolio. As at the end of 2012, the household loan portfolio value decreased by 6.8% y/y, following a 4.0% y/y decrease in the previous year. The rate of growth of the lending activity was still adversely affected by the regulations limiting access to loans in foreign currencies and unfavourable liquidity conditions on the interbank market associated with the NBU policy.
The rate of growth of total deposits (of both residents and non-residents) in the Ukrainian banking sector decreased in 2012. As at the end of December 2012, the balance of deposits in the banking sector amounted to UAH 603.0 billion, after an increase of 78.3 billion in relation to December 2011 (in the previous year, total deposits increased by UAH 82.2 billion). In December 2012, the annual increase in the value of deposits held in banks in Ukraine amounted to 14.2% compared with 18.6% y/y as at the end of 2011. The rate of growth of deposits slowed down in 2012 due to a decrease in the rate of growth of corporate deposits (as at the end of December), including deposits of non-financial entities to 13.2% y/y compared with 31.9% y/y in the previous year, and deposits of financial entities to -3.6% y/y compared with +13.7% y/y in December 2011. As far as the currencies of deposits are concerned, the decrease in growth was bigger in the case of foreign currency deposits than in the case of those denominated in the local currency. Due to the changes in the deposit base and the loan portfolio, the Loan-To-Deposit ratio (LTD) decreased to 1.36 in December 2012 from 1.54 in the previous year.
The equity of the banking sector in Ukraine increased in 2012 by 9.2% y/y compared with the increase by 12.9% y/y in 2011 and amounted to UAH 169.8 billion (15.1% of the total assets of banks in Ukraine). In 2012, the gradual improvement of the loan portfolio quality was continued. The value of non-performing loans as at the end of December 2012 decreased to UAH 72.5 billion from UAH 79.3 billion as at the end of 2011. The share of non-performing loans in the total loans decreased to 8.8% in December 2012 from 9.8% as at the end of 2011. ROA ratio of the Ukrainian banking sector increased in 2012 to 0.45% as at the end of the year from -0.8% in 2011, whereas ROE ratio increased in the same period from -5.3% to +3.0%.

2.8 Regulatory environment

In 2012 significant regulatory changes influenced banking and non-banking financial sector in Poland and banking sector in Ukraine, where subsidiaries of PKO Bank Polski SA operate. The financial and organisational situation of the PKO Bank Polski SA Group in 2012 was affected i.a. by:

- the Resolution of RPP of May 2012 increasing by 0.25 pp.: reference rate (to 4.75%), interest rate on refinancing loans secured with a pledge on securities (to 6.25%), the interest rate of fixed-term deposits placed by banks with the National Bank of Poland (to 3.25%) and the rediscount rate for bills of exchange accepted from banks for rediscounting,
- the Resolution of RPP of November and December 2012 decreasing in total by 0.5 pp.: reference rate (to 4.25%), interest rate on refinancing loans secured with a pledge on securities (to 5.75%), the interest rate of fixed-term deposits placed by banks with the National Bank of Poland (to 2.75%) and the rediscount rate for bills of exchange accepted by the National Bank of Poland from banks for rediscounting (to 4.5%),

- the Resolution No. 18/2011 of the Polish Financial Supervision Authority (PFSA) of 25 January 2011 (Official Journal of PFSA No. 3, item 6) which required banks to comply with rules determined by Recommendation S concerning credit exposures secured by mortgage, thus affecting the level of lending activity of banks,
- the Resolution No. 153/2011 of the PFSA of 7 June 2011 (Official Journal of PFSA No. 8, item 29); introducing from 30 June 2012 higher risk weights for retail exposures and exposures secured on housing real estate in the case of dependence the value of repayment on exchange rate fluctuations;
- the Resolution of the Bank Guarantee Fund (BGF) Council of 23 November 2011 increasing the interest rate specifying the amount of the guaranteed funds protection fund to be created by banks in 2012;
- the Resolution No. 324/2011 of the PFSA of 20 December 2011 introducing changes in the principles of determination of capital requirements for different types of risk and in the rules of determining liquidity standards obligatory for banks (Official Journal of PFSA No. 13, item 48);
- the Resolution No. 173/2012 of the PFSA (Official Journal of PFSA from 2012, item 9) implementing changes in the limits of exposures concentration and the Bank's large exposures definition as of 30 June 2012;
- the Act of 25 March 2011 on amendments of certain Acts related to functioning of the social security system (Journal of Laws No. 75, item 398) introducing the prohibition of acquisition for the open pension funds from 2012, which had an impact on the costs level and transfer of the open pension funds members between pension funds;
- the Act of 12 May 2011 on consumer loan (Journal of Laws No. 126, item 715) implementing significant changes affecting the lending activity in retail segment in 2012;
- the Act of 15 July 2011 amending the Act on financial support to families purchasing their own homes (Journal of Laws, No. 168, item 1006) as of 31 August 2011, specifying gradually termination of the 'Rodzina na Swoim' programme by 31 December 2012; which had an impact on the level of lending activity on the mortgage loans market;
- the Act of 22 December 2011 implementing amendments to the Tax Ordinance (Journals of Laws No. 291, item 1707) preventing from tax on profit from capital interest avoidance as at 1 April 2012, which influenced the situation on the retail deposit market;
- the Amendment of Act on the social insurance system (Journal of Laws of 2011 No. 291, item 1706), which increased the percentage rate of the contribution for disability pension insurance by 2 pp. (in the part financed by its remitters) as of 1 February 2012;
- Decree of the Council of Ministers of 26 April 2011 on determining the maximum portion of Open Pension Fund (OPF) assets possible to be invested in particular types of deposits (Journal of Laws of 2011, No. 90, item 516) increasing from the beginning of 2012 the maximum limit for OPF exposure to shares of companies listed on the regulated market by 2.5 pp. to 45% of their assets.

The situation of the PKO Bank Polski SA Group affected also new law regulations implemented in Ukraine:

- the Resolution No. 479/2011 of the Management Board of NBU preventing after 1 July 2012 including unregistered contributions in banks' equity and banning the payment of dividend, taking into consideration the requirements of the regulatory capital adequacy;
- the Resolution No. 486 of the Management Board of National Bank of Ukraine (NBU) dated 28 December 2011 setting out the principles for valuation, increasing and releasing of provisions for non-performing loans as at 30 January 2012;
- the Resolution No. 23 of the Management Board of NBU dated 25 January 2012 obligating banks to implement changes in the scope of setting up specific provisions by the end of 2012, taking into consideration the assessment of the borrowers' financial position and the accepted collateral;
- the Resolution No. 102 of the Management Board of NBU dated 21 March 2012 reducing the discount rate by 0.25 pp. to 7.5% from 23 March 2012; and increasing the mandatory reserve requirement for deposits in foreign currencies;
- the Resolution No. 248 of the Management Board of NBU introducing changes related to the formation of specific provisions and mandatory reserves as of 30 June 2012;
- the Decision No. 308/2012 of the Management Board of NBU introducing changes in the execution of foreign currency transactions by the bank as of 23 August 2012;
- the Decision No. 321/2012 of the Management Board of NBU extending from 7 September 2012 the period for which loans supporting bank liquidity are granted by NBU from 9 months to 2 years;
- the Decision No. 393/2012 of the Management Board of NBU according to which starting from 28 September 2012 banks are obliged to create provisions for potential losses in respect of active transactions in order to obtain refinancing loans for a period of more than 90 days;
- the Tax Code passed by the Resolution 2755-VI setting out the corporate income tax rate for 2012 at the level of 21%;
- the Act No. 4452-VI increasing the rate of bank charges to the deposit guarantee fund in respect of foreign currency deposits from 0.5% to 0.8%, which affects the level of banks' administrative expenses;
- the Act No. 11033 dated 25 July 2012 introducing changes in the principles of functioning of the money and loan market, including changes in proceedings with income from operations on the inter-bank market.

According to the Resolution No. 510 of the Management Board of NBU dated 10 December 2012 Ukrainian banks have been obliged to preparation stand-alone report for 2012 only according to IFRS.

3. FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP[4]

PKO Bank Polski SA and the other PKO Bank Polski SA Group entities did not release financial results forecasts for 2012.

3.1 Factors influencing results of the PKO Bank Polski SA Group

A decrease in economic activity was observed in Poland in 2012. At the same time, adverse recession trends continued in the euro zone economy. The economic processes were accompanied by the high uncertainty as to the future growth prospects.
The situation of the Polish banking sector remained stable in 2012, although the rate of growth of the financial result was much lower than in 2011. An increase in net impairment allowance resulting from deterioration in the quality of the loan portfolio had an effect on the financial result. The operating efficiency of the banking sector measured with C/I ratio also slightly deteriorated. The situation on the loan and deposit market was characterised by a significant slow-down in the lending activities of banks and a slight increase in the deposit volumes.
Actions undertaken by the PKO Bank Polski SA Group in 2012 allowed generating the net profit amounting to PLN 3 748.6 million. The profitability of the PKO Bank Polski SA Group shaped up on high level – as at the end of 2012, the ROE ratio amounted to 15.9%. An increase of debt securities in issue (+32.2% y/y) related to the issue of bonds and the high level of equity of the PKO Bank Polski SA Group covered the increasing capital needs, arising from the growth of the loan activity, and enabled the further stable growth of business activities. As at the end of 2012, the capital adequacy ratio amounted to 13.07%, while its minimum level, determined by the Banking Act, amounted to 8%.

3.2 Key financial indicators

The summary of results, achieved by the PKO Bank Polski SA Group in 2012, is represented by the level of the following key financial efficiency indicators, which are shown in the table below.

Table 1. Financial indicators of the PKO Bank Polski SA Group

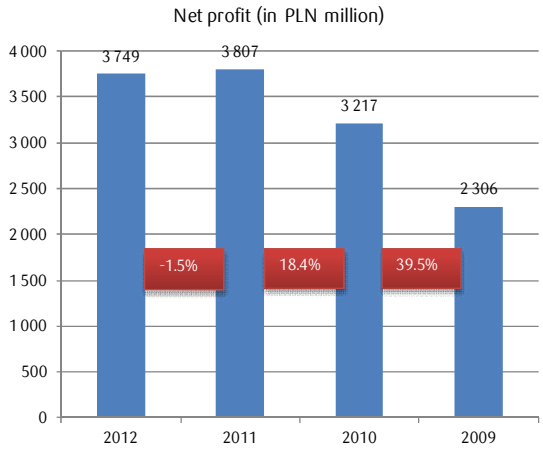
	31.12.2012	31.12.2011	31.12.2010	Change 2012-2011
ROA net (net profit/average total assets)	2.0%	2.1%	2.0%	-0.1 pp.
ROE net (net profit/average total equity)	15.9%	17.5%	14.9%	-1.6 pp.
C/I (cost to income ratio)	39.9%	39.6%	41.7%	0.3 pp.
Interest margin (net interest income/average interest-bearing assets)	4.5%	4.6%	4.4%	-0.1 pp.
The share of impaired loans*	8.9%	8.0%	8.0%	0.9 pp.
The coverage ratio of impaired loans**	50.4%	48.0%	44.6%	2.4 pp.

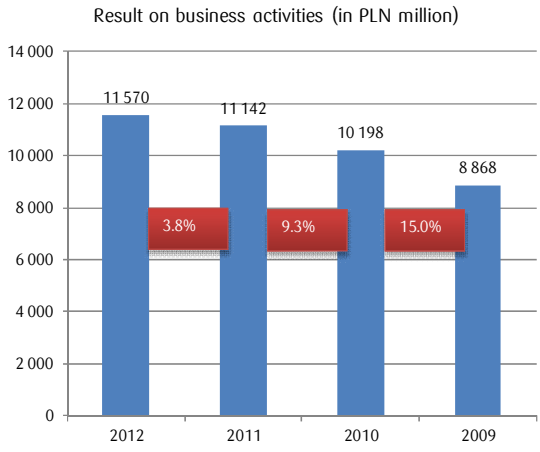
* Calculated by dividing the gross carrying amount of impaired loans and advances to customers by the gross carrying amount of loans and advances to customers.

** Calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying amount of impaired loans and advances to customers.

3.3 Consolidated income statement

In 2012, the PKO Bank Polski SA Group achieved consolidated net profit in the amount of PLN 3 748.6 million, which was PLN 58.6 million lower than in 2011.





[4] In this section, any differences in total balances, shares and growth rates result from rounding the amounts to PLN million and rounding percentages to one decimal place.

Table 2. Income statement of the PKO Bank Polski SA Group (in PLN million)

	2012	2011	Change (in PLN million)	Change (in %)
Interest and similar income	12 991.7	12 037.8	954.0	7.9%
Interest expense and similar charges	(5 109.0)	(4 428.6)	(680.3)	15.4%
Net interest income	**7 882.8**	**7 609.1**	**273.7**	**3.6%**
Fee and commission income	3 837.3	3 837.2	0.1	0.0%
Fee and commission expense	(766.1)	(735.7)	(30.4)	4.1%
Net fee and commission income	**3 071.2**	**3 101.4**	**(30.2)**	**-1.0%**
Dividend income	8.1	6.8	1.3	18.8%
Net income from financial instruments designated at fair value	94.19	(75.1)	169.2	x
Gains less losses from investment securities	79.8	20.2	59.6	4x
Net foreign exchange gains	256.1	337.3	(81.2)	-24.1%
Net other operating income and expense	177.7	142.5	35.1	24.6%
Net impairment allowance and write-downs	(2 325.2)	(1 930.4)	(394.8)	20.5%
Administrative expenses	(4 618.4)	(4 411.4)	(207.0)	4.7%
Operating profit	**4 626.2**	**4 800.5**	**(174.3)**	**-3.6%**
Share of profit (loss) of associates and jointly controlled entities	19.0	(19.7)	38.7	x
Profit (loss) before income tax	**4 645.3**	**4 780.9**	**(135.6)**	**-2.8%**
Income tax expense	(897.8)	(976.1)	78.3	-8.0%
Net profit (including non-controlling shareholders)	3 747.4	3 804.7	(57.3)	-1.5%
Profit (loss) attributable to non-controlling shareholders	(1.2)	(2.5)	1.3	-51.9%
Net profit (loss)	**3 748.6**	**3 807.2**	**(58.6)**	**-1.5%**

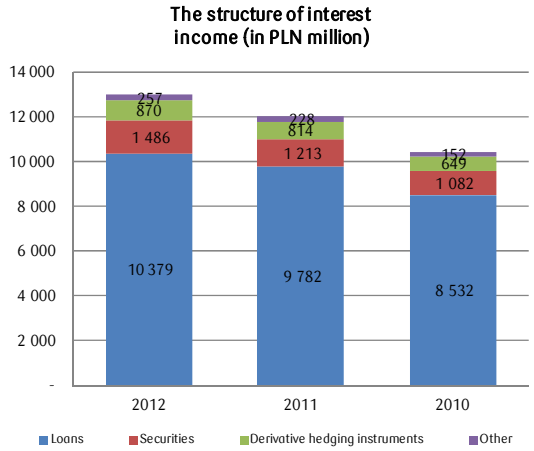
In the income statement of the PKO Bank Polski SA Group for the year 2012, the sum of revenue positions amounted to PLN 11 569.9 million and was PLN 427.5 million, i.e. 3.8% higher than in 2011, mainly as a result of an increase in net interest income by 3.6% y/y and an increase in result on financial operations and net other operating income and expense.

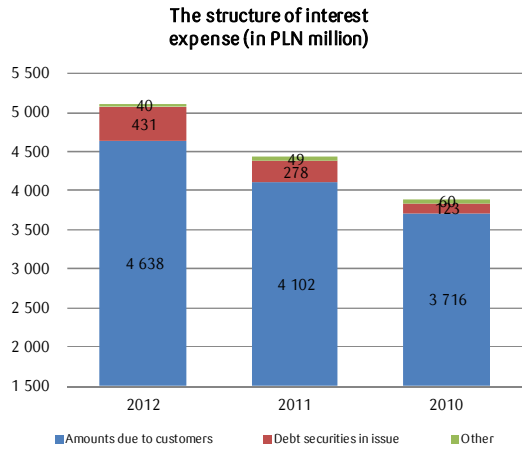
Net interest income

In 2012, net interest income was PLN 273.7 million higher than in the previous year, mainly due to interest income growth by PLN 954.0 million. In 2012, interest income amounted to PLN 12 991.7 million and in comparison with 2011 was higher by 7.9%, mainly as a result of an increase in:

- income in respect of loans and advances to customers (+)6.1% y/y - result of both an increase in net loan portfolio (+1.6% y/y), and growing average annual interest rates during 2012,
- income in respect of securities (+)22.4% y/y - result of an increase in the average volume and interest rate of securities.

The rate of growth in interest expense amounted to (+)15.4% y/y mainly due to an increase in the costs of amounts due to customers (including service costs of loans received from non-monetary financial institutions), due to increase in amounts due to customers as well as increase in interest rates of clients deposits (adapting deposit products to the growing average annual market rates). In 2012, the cost of servicing of own securities in issue significantly increased (+54.9% y/y) due to an increase in debt securities in issue.





In 2012, the average interest rate on loans in PKO Bank Polski SA amounted to 7.2%, whereas the average interest rate on deposits amounted in total to 3.1%, as compared with 7.1% and 2.9% in 2011 respectively.

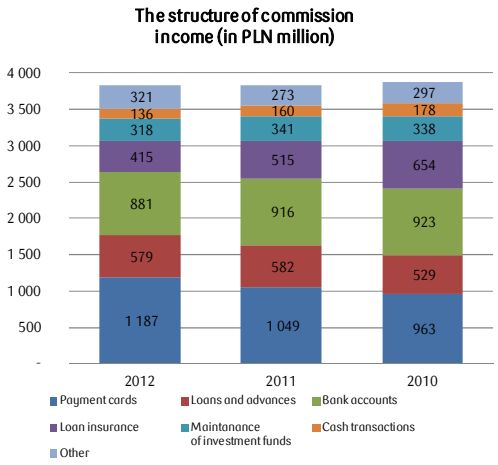
The interest margin of the PKO Bank Polski SA Group decreased by 0.1 pp. y/y to the level of 4.5% in 2012 mainly due to an increase in interest expense and change in structure of interest-bearing assets, consisting of the increase in share of securities and amounts due from banks at the expense of share of loans.

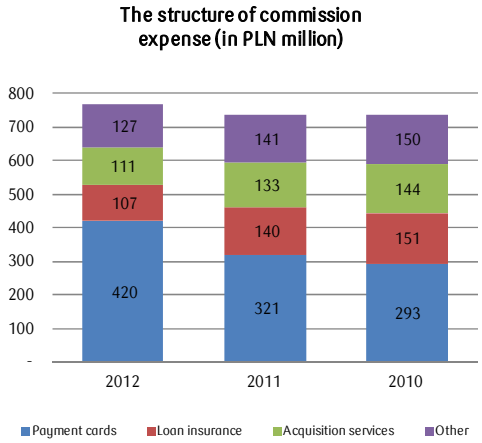
Table 3. Interest income and expense of the PKO Bank Polski SA Group (in PLN million)

	2012	Structure 2012	2011	Structure 2011	Change 2012/2011
Interest income, of which:	**12 991.7**	**100.0%**	**12 037.8**	**100.0%**	**7.9%**
Loans and advances to customers	10 378.9	79.9%	9 782.5	81.3%	6.1%
Securities	1 485.6	11.4%	1 213.3	10.1%	22.4%
Derivative hedging instruments	870.5	6.7%	814.3	6.8%	6.9%
Placements with banks	250.2	1.9%	218.7	1.8%	14.4%
Other	6.6	0.1%	9.0	0.1%	-26.7%
Interest expense, of which:	**(5 109.0)**	**100.0%**	**(4 428.6)**	**100.0%**	**15.4%**
Amounts due to customers	(4 637.6)	90.8%	(4 101.6)	92.6%	13.1%
Debt securities in issue	(431.0)	8.4%	(278.2)	6.3%	54.9%
Deposits from banks	(27.2)	0.5%	(45.7)	1.0%	-40.4%
Premium on debt securities available for sale	(9.9)	0.2%	(1.3)	0.0%	7.5x
Other expense	(3.2)	0.1%	(1.9)	0.0%	69.1%
Net interest income	**7 882.8**	**x**	**7 609.1**	**x**	**3.6%**

Net fee and commission income

In 2012, net fee and commission income was PLN 30.2 million lower than in the previous year, along with expense increase by PLN 30.4 million and stable amount of commission income.





Net fee and commission income in 2012 was mainly affected by:

- an increase in net commission income in respect of servicing payment cards (+5.3% y/y) mainly due to an increase in their transactionality,
- a decrease in commission income in respect of loan insurance (-19.4% y/y) - effect of the decrease in sale of consumer loans and housing loans with optional insurance,
- a decrease in commission income in respect of maintaining of bank accounts (-3.8% y/y) – due to the introduction in the Bank new price attractive offer of current accounts for client and associated customer migration,
- a decrease in commission income in respect of cash transactions (-15.0% y/y) due to the dynamic development of electronic banking in the PKO Bank Polski SA Group.

Table 4. Fee and commission income and expense of the PKO Bank Polski SA Group (in PLN million)

	2012	Structure 2012	2011	Structure 2011	Change 2012/2011
Fee and commission income, of which:	**3 837.3**	**100.0%**	**3 837.2**	**100.0%**	**0.0%**
Payment cards	1 186.7	30.9%	1 048.7	27.3%	13.2%
Maintenance of bank accounts	881.3	23.0%	916.5	23.9%	-3.8%
Loans and advances granted	578.5	15.1%	582.1	15.2%	-0.6%
Loan insurance	415.3	10.8%	515.5	13.4%	-19.4%
Maintenance of investment and open pension funds (including management fees)	318.2	8.3%	340.8	8.9%	-6.6%
Cash transactions	136.5	3.6%	160.5	4.2%	-15.0%
Securities transactions	82.9	2.2%	70.3	1.8%	17.8%
Servicing foreign mass transactions	48.8	1.3%	48.0	1.3%	1.7%
Performing the function of the Treasury bonds issue agent	39.3	1.0%	29.7	0.8%	32.4%
Sale and distribution of court fee stamps	25.6	0.7%	18.6	0.5%	37.6%
Fiduciary activities	3.7	0.1%	2.8	0.1%	31.8%
Other*	120.5	3.1%	103.8	2.7%	16.2%
Fee and commissions expense, of which:	**(766.1)**	**100.0%**	**(735.7)**	**100.0%**	**4.1%**
Payment cards	(420.3)	54.9%	(320.6)	43.6%	31.1%
Loan insurance	(111.3)	14.5%	(133.5)	18.1%	-16.6%
Acquisition services	(107.1)	14.0%	(140.2)	19.1%	-23.6%
Settlement services	(24.1)	3.1%	(21.0)	2.9%	14.7%
Operating services provided by banks	(10.8)	1.4%	(11.4)	1.6%	-5.9%
Assets management	(10.0)	1.3%	(16.2)	2.2%	-38.3%
Other**	(82.6)	10.8%	(92.9)	12.6%	-11.1%
Net fee and commission income	**3 071.2**	**x**	**3 101.4**	**x**	**-1.0%**

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

** Included in 'Other' are i.a.: fees and expenses paid by the Brokerage House to Warsaw Stock Exchange and the National Depository for Securities (KDPW).

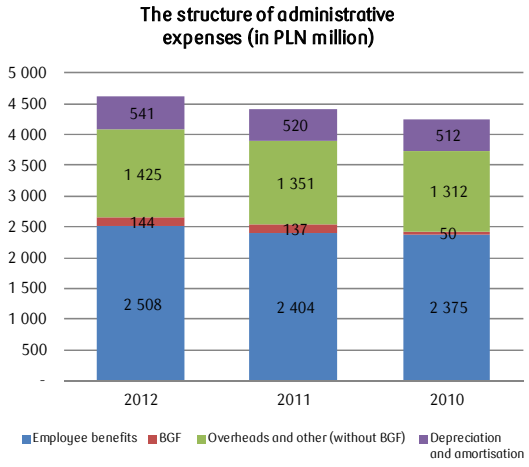
Result on financial operations

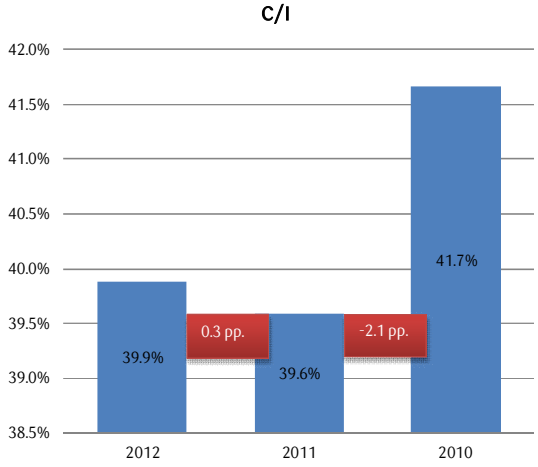
The result on financial operations in 2012 was significantly affected by a decrease in the profitability of Polish bonds. Net income from financial instruments designated at fair value increased by PLN 169.2 million compared to 2011, which was mainly due to disposals of securities and an increase in their valuation.

Net income from investment securities increased by PLN 59.6 million compared to 2011, which was mainly due to disposals of Treasury securities.

Administrative expenses

In 2012, administrative expenses increased by PLN 207.0 million as compared to the previous year (+4.7% y/y).





Their level was determined by:

- increase in employee benefits (+4.3% y/y), affected by both the increase in wages and salaries (+3.0% y/y) and employee insurance expense (+12.7% y/y),
- increase in amortisation and depreciation by 4.1% y/y - mainly as a result of increase in amortisation of intangible assets,

– increase in overheads and other expense (+5.5% y/y) – i.a. as a result of an increase in the BGF expenses, IT expenses and other overheads.

Table 5. Administrative expenses of the PKO Bank Polski SA Group (in PLN million)

	2012	Structure 2012	2011	Structure 2011	Change 2012/2011
Staff costs	(2 508.1)	54.3%	(2 403.7)	54.5%	4.3%
Overheads and other, of which:	(1 569.1)	34.0%	(1 487.5)	33.7%	5.5%
Contribution and payments to the Bank Guarantee Fund	*(144.0)*	*3.1%*	*(136.7)*	*3.1%*	*5.3%*
Depreciation and amortisation	(541.3)	11.7%	(520.2)	11.8%	4.1%
TOTAL	**(4 618.4)**	**100.0%**	**(4 411.4)**	**100.0%**	**4.7%**

An increase in the level of administrative expenses by 4.7% y/y, accompanied by an increase in the income of the PKO Bank Polski SA Group by 3.8% y/y, resulted in maintaining high operating efficiency of the PKO Bank Polski SA Group, measured with the C/I ratio, which amounted to 39.9% as at the end of 2012 (+0.3 pp. compared with 2011).

Net impairment allowance and write-downs

Net impairment allowance and write-downs reflects a conservative approach of the PKO Bank Polski SA Group to recognition and measurement of credit risk and the growth of credit portfolio. The increase in negative result on net impairment allowance (+20.5% y/y) is a result of the deterioration in the quality of the corporate loans portfolio, which was i.a. a consequence of deterioration of market situation of construction companies along with the improvement in the result on consumer loans.
As at the end of 2012, the share of impaired loans and the coverage ratio of impaired loans respectively amounted to 8.9% (an increase by 0.9 pp. in comparison to 2011) and 50.4% (an increase by 2.4 pp. in comparison to 2011), mainly due to the deterioration in quality of corporate loans.
Cost of risk as at the end of 2012 increased by 0.1 pp. to 1.4% compared to 1.3% as at the end of 2011, mainly due to an increase in impairment allowances on corporate loans.

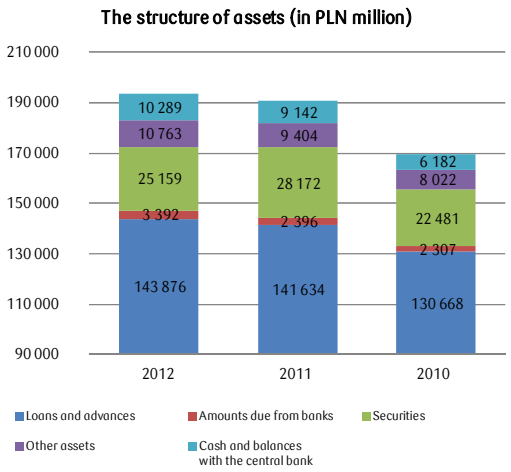
Table 6. Net impairment allowance and write-downs of the PKO Bank Polski SA Group (in PLN million)

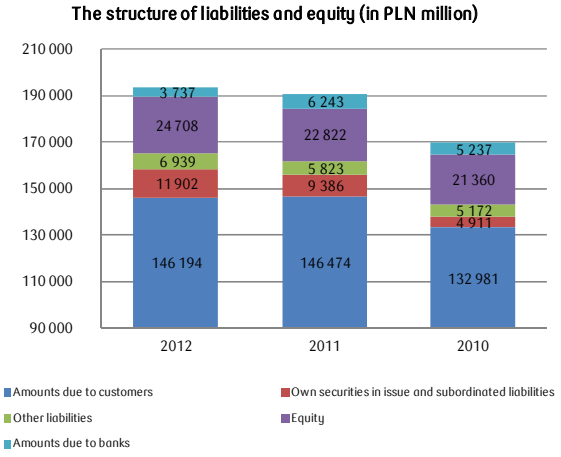
	2012	Structure 2012	2011	Structure 2011	Change 2012/2011
Net impairment allowance, of which:					
investment securities available for sale	(13.5)	0.6%	1.3	-0.1%	x
loans and advances to customers measured at amortised cost	(2 138.5)	92.0%	(1 838.8)	95.3%	16.3%
non-financial sector	(2 117.9)	91.1%	(1 807.6)	93.6%	17.2%
consumer loans	*(568.8)*	*24.5%*	*(661.0)*	*34.2%*	*-13.9%*
mortgage loans	*(460.0)*	*19.8%*	*(392.1)*	*20.3%*	*17.3%*
corporate loans	*(1 087.3)*	*46.8%*	*(754.4)*	*39.1%*	*44.1%*
debt securities	*(1.8)*	*0.1%*	*0.0*	*0.0%*	*x*
financial sector	5.5	-0.2%	(8.5)	0.4%	x
public sector	(5.6)	0.2%	(2.6)	0.1%	2.1x
finance lease receivables	(20.4)	0.9%	(20.1)	1.0%	1.6%
intangible assets	(11.3)	0.5%	(2.6)	0.1%	4.4x
investments in associates and jointly controlled entities	(24.3)	1.0%	(28.8)	1.5%	-15.8%
tangible fixed assets	(11.8)	0.5%	(4.5)	0.2%	2.6x
other	(125.8)	5.4%	(57.0)	3.0%	2.2x
Total	**(2 325.2)**	**100.0%**	**(1 930.4)**	**100.0%**	**20.5%**

3.4 Consolidated statement of financial position

Main items of the statement of financial position

The statement of financial position of the PKO Bank Polski SA Group is mainly influenced by the statement of financial position of the parent company. It determines both the size of total assets and the structure of assets and liabilities and equity.
The total assets of the PKO Bank Polski SA Group amounted to PLN 193.5 billion as at the end of 2012, which means an increase by 1.4% y/y. As a result, the PKO Bank Polski SA Group strengthened the position of the largest institution in the Polish banking sector.





The increase in total assets of the PKO Bank Polski SA Group was mainly due to an increase in the volume of loans and advances to customers by 1.6% y/y. The increase in total assets was financed mainly by an increase in debt securities in issue (+ 32.2% y/y) associated with the issue of bonds (detailed information relating to the issue is presented in Chapter 5.7).

Table 7. Main items of the statement of financial position of the PKO Bank Polski SA Group (in PLN million)

	31.12.2012	Structure 2012	31.12.2011	Structure 2011	Change 2012/2011
Cash and balances with the central bank	10 289.5	5.3%	9 142.2	4.8%	12.5%
Amounts due from banks	3 392.5	1.8%	2 396.2	1.3%	41.6%
Loans and advances to customers	143 875.6	74.4%	141 634.5	74.3%	1.6%
Securities	25 159.4	13.0%	28 171.6	14.8%	-10.7%
Other assets	10 762.7	5.6%	9 403.6	4.9%	14.5%
Total assets	**193 479.6**	**100.0%**	**190 748.0**	**100.0%**	**1.4%**
Amounts due to banks	3 737.1	1.9%	6 242.6	3.3%	-40.1%
Amounts due to customers	146 193.6	75.6%	146 473.9	76.8%	-0.2%
Debt securities in issue and subordinated liabilities	11 902.0	6.2%	9 386.2	4.9%	26.8%
Other liabilities	6 939.3	3.6%	5 823.4	3.1%	19.2%
Total liabilities	**168 772.0**	**87.2%**	**167 926.1**	**88.0%**	**0.5%**
Total equity	24 707.7	12.8%	22 822.0	12.0%	8.3%
Total liabilities and equity	**193 479.6**	**100.0%**	**190 748.0**	**100.0%**	**1.4%**
Loans/Deposits (amounts due to customers)	98.4%	x	96.7%	x	1.7 pp.
Loans/Stable sources of funding*	89.6%	x	88.4%	x	1.2 pp.
Interest bearing assets/Assets	89.1%	x	90.3%	x	-1.2 pp.
Interest paying liabilities/Liabilities	83.6%	x	85.0%	x	-1.3 pp.

* Stable sources of financing include amounts due to customers and external financing in the form of: issue of securities, subordinated liabilities and amounts due to financial institutions.

In 2012, the following efficiency ratios deteriorated: the return on assets (ROA) and the return on equity (ROE), by 0.1 pp. and 1.6 pp. respectively. The decrease was due to a negative growth of the net profit (-1.5% y/y) combined with an increase in average assets of 6.5% y/y and an increase of average equity by 8.4% y/y.

Loans and advances to customers

In the type structure of the net loan portfolio, the main items are loans and advances to the non-financial sector (94.2% of the portfolio as at the end of 2012), the share of which decreased by 1.4 pp. y/y, mainly due to a decrease in the share of consumer loans (-1.8 pp. y/y). Housing loans (+1.0% y/y) are the largest item of loans and advances to the non-financial sector (49.0% of the portfolio as at the end of 2012). The share of loans and advances to the public sector increased by 1.8 pp. y/y.

Table 8. Loans and advances to customers of the PKO Bank Polski SA Group – structure by type (in PLN million)

	31.12.2012	Structure 2012	31.12.2011	Structure 2011	Change 2012/2011
Loans and advances to the Bank's customers net	**143 875.6**	**100.0%**	**141 634.5**	**100.0%**	**1.6%**
Financial sector (without banks)	720.9	0.5%	1 215.3	0.9%	-40.7%
Non-financial sector	135 490.1	94.2%	135 368.5	95.6%	0.1%
mortgage loans	*70 562.8*	*49.0%*	*69 832.4*	*49.3%*	*1.0%*
corporate loans	*43 443.0*	*30.2%*	*42 663.2*	*30.1%*	*1.8%*
consumer loans	*20 583.1*	*14.3%*	*22 872.9*	*16.1%*	*-10.0%*
debt securities	*901.3*	*0.6%*	*0.0*	*0.0%*	*x*
Public sector	7 664.6	5.3%	5 050.7	3.6%	51.8%
corporate loans	*6 491.9*	*4.5%*	*5 050.7*	*3.6%*	*28.5%*
debt securities	*1 172.7*	*0.8%*	*0.0*	*0.0%*	*x*

In 2012, due to change of intention as regards holding of the selected portfolio of non-Treasury securities classified upon initial recognition as available for sale, the Bank reclassified them to loans and advances to customers.

In 2012, the term structure of the gross loan portfolio has changed: the share of long-term loans decreased by 1.0 pp. y/y in favour of short-term loans.

Table 9. Loans and advances to customers of the PKO Bank Polski SA Group – term structure (in PLN million)

	31.12.2012	Structure 2012	31.12.2011	Structure 2011	Change 2012/2011
Loans and advances to the Bank's customers (gross)	150 651.9	100.0%	147 292.7	100.0%	2.3%
Short-term	39 711.0	26.4%	37 349.3	25.4%	6.3%
Long-term	110 940.9	73.6%	109 943.4	74.6%	0.9%
Allowances - total	(6 776.3)	x	(5 658.2)	x	19.8%
Total	**143 875.6**	**x**	**141 634.5**	**x**	**1.6%**

Securities

The PKO Bank Polski SA Group's securities portfolio as at the end of 2012 amounted to PLN 25.2 billion and decreased by PLN 3.0 billion as compared with the end of 2011 which was mainly due to the reclassification of non-Treasury securities portfolio performed by the Bank.

Table 10. The PKO Bank Polski SA Group's securities portfolio (in PLN million)

	31.12.2012	Structure 2012	31.12.2011	Structure 2011	Change 2012/2011
Financial assets designated at fair value through profit and loss	12 629.7	50.2%	12 467.2	44.3%	1.3%
Investment securities available for sale	12 205.1	48.5%	14 393.3	51.1%	-15.2%
Trading assets	277.6	1.1%	1 311.1	4.7%	-78.8%
Securities held to maturity	47.0	0.2%	0.0	0.0%	x
Total	**25 159.4**	**x**	**28 171.6**	**x**	**-10.7%**

Amounts due to customers

In the structure of amounts due to customers by types, the main items are amounts due to retail clients (75.8% of the portfolio as at the end of 2012) the share of which increased by 4.7 pp. y/y mainly due to an increase of term deposits of retail clients (+5.5 pp. y/y) along with a decrease of the share of amounts due to corporate entities by 4.5 pp. y/y.

Table 11. Amounts due to customers of the PKO Bank Polski SA Group – structure by type (in PLN million)

	31.12.2012	Structure 2012	31.12.2011	Structure 2011	Change 2012/2011
Amounts due to retail clients	110 866.4	75.8%	104 183.1	71.1%	6.4%
Amounts due to corporate entities	31 868.3	21.8%	38 468.6	26.3%	-17.2%
Amounts due to state budget entities	3 458.9	2.4%	3 822.2	2.6%	-9.5%
Total amounts due to customers	**146 193.6**	**100.0%**	**146 473.9**	**100.0%**	**-0.2%**

In 2012, the term structure of amounts due to customers has changed: the share of amounts over 1 month up to 1 year increased by 5.0 pp. y/y at the expense of amounts up to 1 month and amounts over 1 year.

Table 12. Amounts due to customers of the PKO Bank Polski SA Group – term structure (in PLN million)

	31.12.2012	Structure 2012	31.12.2011	Structure 2011	Change 2012/2011
Up to 1 month	87 314.6	59.3%	93 164.5	62.7%	-6.3%
Over 1 month up to 3 months	16 314.4	11.1%	15 234.6	10.3%	7.1%
Over 3 months up to 1 year	41 024.8	27.9%	35 242.3	23.7%	16.4%
Over 1 year up to 5 years	1 121.1	0.8%	3 184.4	2.1%	-64.8%
Over 5 years	1 467.7	1.0%	1 798.6	1.2%	-18.4%
Value adjustments and interest	(1 049.0)	x	(2 150.6)	x	-51.2%
Total amounts due to customers	**146 193.6**	**x**	**146 473.9**	**x**	**-0.2%**

External financing

A supplementary source of financing of the PKO Bank Polski SA Group's operations in relation to the deposit base are: issues of securities and loans obtained from financial institutions. As at the end of 2012, such sources of financing included mainly debt securities in issue, including primarily on foreign markets.
In 2012, the Group's liabilities in respect of loans and advances received from monetary financial institutions decreased as a result of repayment of a syndicated loan in CHF and its partial renewal.

Table 13. External financing of the PKO Bank Polski SA Group (in PLN million)

	31.12.2012	Structure 2012	31.12.2011	Structure 2011	Change 2012/2011
Debt securities in issue	10 270.8	64.2%	7 771.8	49.4%	32.2%
Subordinated liabilities	1 631.3	10.2%	1 614.4	10.3%	1.0%
Loans and advances received – monetary institutions*	2 542.4	15.9%	4 360.9	27.7%	-41.7%
Loans and advances received – non-monetary institutions**	1 557.7	9.7%	1 988.0	12.6%	-21.6%
Total	**16 002.1**	**x**	**15 735.0**	**x**	**1.7%**

* The item 'Loans and advances received – monetary institutions' is recognised in 'Amounts due to banks' in the statement of financial position of the PKO Bank Polski SA Group.

** The item 'Loans and advances received – non-monetary institutions' is recognised in 'Amounts due to customers' in the statement of financial position of the PKO Bank Polski SA Group.

Equity and capital adequacy ratio

Equity increased by 8.3% p.a. and as at the end of 2012 accounted for 12.8% of total liabilities and equity of the PKO Bank Polski SA Group (+0.8 pp. y/y).
The capital adequacy ratio of the PKO Bank Polski SA Group amounted to 13.07% as at the end of 2012 and was at a higher level of 0.7 pp. compared to the end of 2011. Capital adequacy measured with the capital adequacy ratio remained at a safe level with the payment of dividend from net profit for 2011 of 40.15% and an increase of the loan portfolio.

Table 14. Equity and capital adequacy ratio of the PKO Bank Polski SA Group (in PLN million)

	31.12.2012	Structure 2012	31.12.2011	Structure 2011	Change 2012/2011
Equity, of which:	**24 707.7**	**100.0%**	**22 822.0**	**100.0%**	**8.3%**
Share capital	1 250.0	5.1%	1 250.0	5.5%	0.0%
Reserve capital	15 364.7	62.2%	13 041.4	57.1%	17.8%
General banking risk fund	1 070.0	4.3%	1 070.0	4.7%	0.0%
Other reserves	3 438.0	13.9%	3 460.4	15.2%	-0.6%
Financial assets available for sale	7.1	0.0%	(52.4)	-0.2%	x
Share of other comprehensive income of an associate	1.3	0.0%	(0.3)	0.0%	x
Cash flow hedges	51.9	0.2%	362.2	1.6%	-85.7%
Currency translation differences from foreign operations	(120.3)	-0.5%	(92.0)	-0.4%	30.7%
Unappropriated profits	(103.3)	-0.4%	(23.2)	-0.1%	4.5x
Net profit for the period	3 748.6	15.2%	3 807.2	16.7%	-1.5%
Non-controlling interest	(0.3)	0.0%	(1.3)	0.0%	-73.8%
Own funds	**20 491.0**	**x**	**18 342.9**	**x**	**11.7%**
Capital adequacy ratio	**13.07%**	**x**	**12.37%**	**x**	**0.7 pp.**

4. STRUCTURE OF THE PKO BANK POLSKI SA GROUP

As at 31 December 2012 the PKO Bank Polski SA Group consisted of the Bank, as the parent company, and 30 direct and indirect subsidiaries.

4.1 Entities included in the financial statements

The consolidated financial data includes: PKO Bank Polski SA – the parent company of the PKO Bank Polski SA Group and its subsidiaries as defined in IAS 27 'Consolidated and Separate Financial Statements'.

Table 15. Entities comprising the PKO Bank Polski SA Group

No.	Entity name	The value of exposure at acquisition cost (PLN thousand)	The share in the share capital (%)	Consolidation method
Parent company				
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna			
Direct subsidiaries				
2	KREDOBANK SA	935 619	99.5655	full method
3	Qualia Development Sp. z o.o.*	218 712	100	full method
4	PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	205 786	100	full method
5	PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	100	full method
6	Fort Mokotów Inwestycje Sp. z o.o. [1]	73 281	99.9891	full method
7	Bankowy Fundusz Leasingowy SA [2]	70 000	100	full method
8	Inteligo Financial Services SA	59 602	100	full method
9	Centrum Elektronicznych Usług Płatniczych 'eService' SA	55 500	100	full method
10	Bankowe Towarzystwo Kapitałowe SA	22 066	100	full method
11	'Inter-Risk Ukraina' Additional Liability Company	19 713	100	full method
12	PKO BP Finat Sp. z o.o.	11 693	100	full method
13	PKO Finance AB	172	100	full method
Subsidiaries of Qualia Development Sp. z o.o. [3]				
14	Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k. [4]	82 980	99.9750	full method
15	Qualia - Residence Sp. z o.o. *	56 384	100	full method
16	Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	20 001	99.8951	full method
17	Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k. [5]	19 000	99.9975	full method
18	Sarnia Dolina Sp. z o.o. *	8 187	56	full method
19	Qualia – Rezydencja Flotylla Sp. z o.o. *	7 575	100	full method
20	Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	4 700	99.9787	full method
21	Fort Mokotów Sp. z o.o. – in liquidation *	2 040	51	full method
22	Qualia Hotel Management Sp. z o.o. *	1 949	100	full method
23	Qualia Sp. z o.o. *	65	100	full method
24	Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k.	1	50	full method
25	Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k.	1	50	full method
26	Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Sp. k.	1	50	full method
27	Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k.	1	50	full method
Subsidiary of Bankowy Fundusz Leasingowy SA				
28	Bankowy Leasing Sp. z o.o.	82 424	100	full method
Subsidiary of 'Inter-Risk Ukraina' Spółka z d.o.				
29	Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. [6]	16 471	93.408	full method
Subsidiary of Bankowe Towarzystwo Kapitałowe SA				
30	PKO BP Faktoring SA [6]	13 329	99.9889	full method
Subsidiary of KREDOBANK SA				
31	Finansowa Kompania 'Idea Kapitał' Sp. z o.o.	1 568	100	full method

* the position comprises the value of shares at acquisition cost and inclusive of specific capital injections.

1 - the second shareholder of the Company is Qualia Development Sp. z o.o.

2 - acquisition cost does not include shares taken up as a result of increase in the share capital in the amount of PLN 20 million; the above mentioned increase in the share capital was not registered with the National Court Register as at 31 December 2012

3 - 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 value of exposure, value of contributions made by the limited partner is presented;
in the position of share in the share capital, the total contributions made by the limited partner is presented

4 - the Company was established as a result of transformation of the company PKO BP Inwestycje – Nowy Wilanów Sp. z o.o.;
in the position of value of exposure, acquisition cost of shares and the value of capital contributions before transformation into limited partnership is presented

5 - the Company was established as a result of transformation of the company PKO BP Inwestycje – Neptun Park Sp. z o.o.;
in the position of value of exposure, acquisition cost of shares and the value of capital contributions before transformation into limited partnership is presented

6 - the second shareholder of the Company is PKO Bank Polski SA

Table 16. Other subordinated entities included in the consolidated financial statements

No.	Entity name	The value of exposure at acquisition cost (PLN thousand)	The share in the share capital (%)	Consolidation method
Jointly controlled entities				
1	CENTRUM HAFFNERA Sp. z o.o.	44 371	49.43	equity method
2	Centrum Obsługi Biznesu Sp. z o.o.	17 498	41.44	equity method
Subsidiaries of CENTRUM HAFFNERA Sp. z o.o.				
3	Sopot Zdrój Sp. z o.o.*	68 026	100	equity method
4	Promenada Sopocka Sp. z o.o.	10 058	100	equity method
5	Centrum Majkowskiego Sp. z o.o.	3 833	100	equity method
6	Kamienica Morska Sp. z o.o.	976	100	equity method
Associates				
7	Bank Pocztowy SA	146 500	25.0001	equity method
8	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	33.33	equity method
9	Agencja Inwestycyjna CORP-SA SA	29	22.31	equity method
Subsidiaries of Bank Pocztowy SA				
10	Centrum Operacyjne Sp. z o.o.	3 284	100	equity method
11	Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o.	2 680	100	equity method

* The position comprises the value of shares at acquisition cost and inclusive of specific capital injections.

In addition, PKO Bank Polski SA holds shares in an associate Kolej Gondolowa Jaworzyna Krynicka SA (37.53% interest in the Company's share capital), disclosed as non-current assets held for sale.

4.2 Changes to the organisation of subordinated entities

In 2012, the structure of the PKO Bank Polski SA Group was affected by the following events:

1. Purchase of share and capital contribution to new company 'Inter-Risk Ukraina' Additional Liability Company

On 16 January 2012, PKO Bank Polski SA was registered with the State Ukrainian Register of Businesses as the sole shareholder of 'Inter-Risk Ukraina' Additional Liability Company. The additional liability means that the shareholder is responsible for the Company's liabilities up to 103% of its share in the Company's share capital, i.e. the Bank as the Company's shareholder, in case of insufficient amount of the Company's share capital to fulfil liabilities, bears additional liability up to 103% in the Company's share capital, i.e. up to UAH 44 573 thousand (PLN 17 049 thousand as at 31 December 2012).

PKO Bank Polski SA acquired from Towarzystwo Ubezpieczeniowe 'PZU Ukraina' SA and Towarzystwo Ubezpieczeniowe 'PZU Ukraina Ubezpieczenia na Życie' SA a total of 1 share in the above mentioned Company in the nominal value of UAH 275 thousand, which represents 100% of the Company's share capital and entitles to 100% of the votes at the General Shareholders' Meeting. The acquisition price was PLN 2 500 thousand.

On 30 January 2012, the Bank made a capital contribution to the above mentioned Company of UAH 43 million (i.e. PLN 17 213 thousand at the average NBP exchange rate as at 27 January 2012, applicable in the Bank as at 30 January 2012), conducted by increasing the nominal value of the Company's share. As a result of the above mentioned increase, the Company's share capital amounts to UAH 43 275 thousand.

The main purpose of acquiring and subsequently the operation of the Company is to use it to perform effective debt collection in Ukraine, including: the impaired loans portfolio purchased by Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and the impaired loans portfolio of KREDOBANK SA.

2. Taking control over Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. by 'Inter-Risk Ukraina' Additional Liability Company

In February 2012, PKO Bank Polski SA carried out a transaction consisting of selling 2% interest in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. to 'Inter-Risk Ukraina' Additional Liability Company. The acquisition price was PLN 30 thousand.

In February 2012 'Inter-Risk Ukraina' Additional Liability Company made a capital contribution to Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. in the amount of UAH 43 million, conducted by increasing the nominal value of the Company's share. As a result of the above mentioned increase, the Company's share capital amounts to UAH 46 101 thousand. The increase in the Company's share capital was registered with the State Ukrainian Register of Businesses on 27 February 2012.

As a result of the above mentioned changes 'Inter-Risk Ukraina' Additional Liability Company holds part of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., constituting 93.408% of the Company's share capital, which entitles to 93.408% of the votes at the General Shareholders' Meeting. The remaining part of the Company's share is owned by PKO Bank Polski SA.

3. Purchase of share in new company Finansowa Kompania 'Idea Kapitał' Sp. z o.o. by KREDOBANK SA

On 23 March 2012 KREDOBANK SA was registered with the State Ukrainian Register of Businesses as a sole shareholder of Finansowa Kompania 'Idea Kapitał' Sp. z o.o. KREDOBANK SA acquired from Towarzystwo Ubezpieczeniowe 'PZU Ukraina' SA 1 share in the above mentioned Company in the nominal value of UAH 4 100 thousand, constituting 100% of the Company's share capital which entitles to 100% of the votes at the shareholders' meeting. The acquisition price was UAH 4 100 thousand.

The Company's activities comprise provision of financial services.

4. Completion the liquidation process of Centrum Finansowe Puławska Sp. z o.o.

As part of the liquidation of the subsidiary Centrum Finansowe Puławska Sp. z o.o. on 1 March 2012 PKO Bank Polski SA took over the assets in bankruptcy of the above mentioned Company, including real estate in Warsaw where the Bank's Head Office is located.

Centrum Finansowe Puławska Sp. z o.o. in liquidation, on the basis of a decision dated 7 May 2012 of the District Court for the capital city of Warsaw, XIII Economic Department of the National Court Register, was removed from the National Court Register, effective on 28 May 2012.

5. Increase in the share capital of Bankowy Leasing Sp. z o.o.

In 2012, an increase in the share capital of Bankowy Leasing Sp. z o.o. in the total amount of PLN 25 000 thousand was registered with the National Court Register, of which in the amount of PLN 9 500 thousand on 31 January and in the amount of PLN 15 500 thousand on 8 August. As a result of the above mentioned increase, the share capital of Bankowy Leasing Sp. z o.o. amounts to PLN 82 414.5 thousand and consists of 164 829 shares, each of PLN 500 nominal value.

All the shares in the increased share capital were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA - for a price equal to the nominal value of the shares taken up.

As a result of the above mentioned transaction Bankowy Fundusz Leasingowy SA remains the sole shareholder of Bankowy Leasing Sp. z o.o.

6. Increase in the share capital of Fort Mokotów Inwestycje Sp. z o.o. and the repayment of the capital contribution to the shareholders

In 2012, an increase in the share capital of Fort Mokotów Inwestycje Sp. z o.o. was registered with the National Court Register in the total amount of PLN 29 738 thousand, of which on 31 August of PLN 21 685 thousand and on 10 December of PLN 8 053 thousand. As a result of the above mentioned increase, the share capital of Fort Mokotów Inwestycje Sp. z o.o. amounts to PLN 73 289 thousand and consists of 73 289 shares, each of PLN 1 thousand nominal value.

The shares in the increased Company's share capital were acquired by the present shareholders of the Company for the price equal to the nominal value of acquired shares, of which PKO Bank Polski SA acquired 29 735 shares with the total nominal value of PLN 29 735 thousand, and Qualia Development Sp. z o.o. (a subsidiary of PKO Bank Polski SA) acquired 3 shares with the total nominal value of PLN 3 thousand.

As a result of the above mentioned transaction PKO Bank Polski SA holds a total of 73 281 of the Company's shares with the total nominal value of PLN 73 281 thousand, which represents 99.9891% of share capital and entitles to 99.9891% of the votes at the General Shareholders' Meeting. The rest of the shares are held by Qualia Development Sp. z o.o.

On 26 September 2012, Extraordinary General Shareholders' Meeting of Fort Mokotów Inwestycje Sp. z o.o. passed the Resolution on the repayment of the capital contribution to the Company in the total amount of PLN 8 054 thousand to the shareholders, of which PLN 8 053 thousand to PKO Bank Polski SA and PLN 0.9 thousand to Qualia Development Sp. z o.o. The above mentioned repayment of the capital contribution, in accordance with Code of Commercial Companies, took place in November 2012 i.e. as of the Resolution became valid.

7. An increase in the share capital of Bankowe Towarzystwo Kapitałowe SA

On 8 November 2012, an increase in the share capital of Bankowe Towarzystwo Kapitałowe SA of PLN 500 thousand was registered with the National Court Register. As a result of the above mentioned increase, the share capital of Bankowe Towarzystwo Kapitałowe SA amounts to PLN 24 743.9 thousand and consists of 247 439 shares, each of PLN 100 nominal value.

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

As a result of the above mentioned transaction the Bank remains the sole shareholder of Bankowe Towarzystwo Kapitałowe SA.

8. Changes to the Qualia Development Sp. z o.o. Group

In 2012 in the Qualia Development Sp. z o.o. Group:

- Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Spółka komandytowa was created (the Company was registered with the National Court Register on 14 February 2012);
  The partners are: Qualia Development Sp. z o.o. (limited partner, amount of contribution: PLN 1 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand).
- Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Spółka komandytowa was created (the Company was registered with the National Court Register on 15 March 2012);
  The partners are: Qualia Development Sp. z o.o. (limited partner, amount of contribution: PLN 1 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand).
- Qualia spółka z ograniczoną odpowiedzialnością – Jurata Spółka komandytowa was created (the Company was registered with the National Court Register on 27 March 2012);
  The partners are: Qualia Development Sp. z o.o. (limited partner, amount of contribution: PLN 1 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand).
- amount of contribution and limited partnership amount in Qualia spółka z ograniczoną odpowiedzialnością – Pomeranka Spółka komandytowa were increased;
  On 17 April 2012, by the partners' resolution of the Company, the limited partner's – Qualia Development Sp. z o.o. amount of contribution was increased from PLN 1 thousand to PLN 20 001 thousand and the general partner's – Qualia Sp. z o.o. amount of contribution was increased from PLN 1 thousand to PLN 21 thousand, and the limited partnership amount was increased from PLN 1 thousand to PLN 20 001 thousand. The above mentioned changes were registered with the National Court Register on 19 June 2012.
- Qualia Development Sp. z o.o. became a sole shareholder of Qualia Hotel Management Sp. z o.o.
  On 1 June 2012 Qualia Development Sp. z o.o. acquired 1 share in Qualia Hotel Management Sp. z o.o. in the nominal value of PLN 50 from Qualia Sp. z o.o. The acquisition price is equal to the nominal value of the share.
  As a result of the above mentioned transaction Qualia Development Sp. z o.o. holds shares of Qualia Hotel Management Sp. z o.o. constituting 100% of the Company's share capital which entitles to 100% of the votes at the General Shareholders' Meeting.
- shares in UKRPOLINWESTYCJE Sp. z o.o. were sold
  On 23 October 2012 all shareholders of UKRPOLINWESTYCJE Sp. z o.o. with Head Office in Kiev concluded with Finansowa Kompania 'Komfort Capital' Sp. z o.o. with Head Office in Kiev shares sale agreement held in this Company.

Pursuant to the above mentioned agreement Qualia Development Sp. z o.o. sold a share equal to 55% of the share capital of UKRPOLINWESTYCJE Sp. z o.o. for the price of UAH 100 and recognised profit from the cessation of the Company's consolidation in the consolidated financial statements in the amount of PLN 3.1 million.
On 15 November 2012 the subjective agreement and resulting from it change in ownership were registered with the State Ukrainian Register of Businesses.

In 2012 the following capital contributions to companies of the Qualia Development Sp. z o.o. Group were made:

- PKO Bank Polski SA made capital contributions to Qualia Development Sp. z o.o. in the total amount of PLN 35 319 thousand,
- Qualia Development Sp. z o.o. made capital contributions to Qualia Residence Sp. z o.o. in the total amount of PLN 14 354 thousand,
- Qualia Development Sp. z o.o. made capital contributions to Qualia Hotel Management Sp. z o.o. in the total amount of PLN 1 898.5 thousand,
- Qualia Development Sp. z o.o. made an capital contribution to Qualia Sp. z o.o. in the amount of PLN 35 thousand,
- Qualia Sp. z o.o. made capital contributions to Qualia Hotel Management Sp. z o.o. in the total amount of PLN 1.5 thousand.

9. Events in the fourth quarter of 2012, which will result in changes in the PKO Bank Polski SA Group in 2013

On 29 November 2012 PKO Bank Polski SA transferred to Bankowy Fundusz Leasingowy SA funds in the amount of PLN 20 million as the taking up shares in the increased share capital of the Company. The above mentioned increase has to be registered with the National Court Register.
On 21 December 2012, a conditional agreement on acquisition by Qualia Development Sp. z o.o. of 44% shares in the share capital of Sarnia Dolina Sp. z o.o. was concluded between Qualia Development Sp. z o.o. – the Bank's subsidiary – and Przedsiębiorstwo Robót Inżynieryjnych 'Pol-Aqua' SA. After fulfilling all conditions of the agreement, Qualia Development Sp. z o.o. will become the sole shareholder of Sarnia Dolina Sp. z o.o.

5. ACTIVITIES AND DIRECTIONS OF DEVELOPMENT OF THE PKO BANK POLSKI SA GROUP[5]

5.1 Directions of development of the PKO Bank Polski SA Group

The directions of development of PKO Bank Polski SA in 2012 are set out in the strategic goals presented in the 'LIDER' Strategy for the years 2010-2012. The key assumptions of the vision of the Bank's development stipulated in the strategy included i.a.:

- remaining a universal bank with tradition, Polish nature, perceived as both modern and safe Bank,
- achieving sustainable competitive advantages and strengthening the leadership position in all major market segments,
- focusing services on clients' needs in order to build strong, long-term relationships,
- maintaining sustainable, organic growth in scale of operations and results, while improving efficiency,
- maintaining stable profitability and ensuring constant growth of the company's value, according to the expectations of shareholders,
- engaging in prudent risk management policy,
- obtaining the opinion of the best employer in the Polish financial sector.

The Bank's achievements and experience gained in 2012 and in the last three years of the 'LIDER' Strategy implementation confirm that these assumptions had been implemented successfully. PKO Bank Polski SA is systematically and consistently building its position of the bank market leader not only in Poland, but also in Central and Eastern Europe. A new strategy for the years 2013-2015 to be developed in the first quarter of 2013 will be a continuation of the previously adopted directions for the Bank's development and growth; at the same time, the current priorities and macroeconomic conditions will be taken into account.
The main goals pursued by the Bank in 2012 included i.a.:

- maintaining stable growth in the areas of profitability, efficiency and capital base;
- analysing the customers' needs and the related changes in segmentation and the offer required to adjust the service model to the needs of the individual market segment;
- development and optimisation of the branch network, and a simultaneous increase of the importance of remote channels, the call centre, self-service devices and remote access to accounts;
- centralisation and optimisation of processes, with a particular focus on a support functions;
- building active relationships with customers based on CRM;
- development of transaction platforms and alternative forms of financing.

Gradual improvement of customer service quality is one of the main strategic priorities of the Bank. When implementing system changes, the Bank at the same time makes efforts to improve customer satisfaction through actions including i.a. reconstruction and adjustment of transaction systems to achieve a faster, comprehensive and more ergonomic service, both at the branch and with the use of self-service devices and online channels. In order to ensure the efficient execution of business and customer-oriented efforts, works on optimisation of its product offer aimed at adjusting the Bank's services to the customers' needs and expectations are carried out. Moreover, important qualitative changes in customer service standards are being implemented, relating to the development and modernisation of the Bank's branches as well as their equipment and visualisation.
One of the directions of PKO Bank Polski SA development is to build a strong financial group. Subsidiaries of the Bank, constituting product centres, supplement basic financial services of the Bank's offer. Particular companies provide specialist services in respect of leasing, factoring, investment funds, pension funds, internet banking and servicing and settlement of card transactions. The PKO Bank Polski SA Group also consists of KREDOBANK SA that provides banking activities in Ukraine as well as of debt collecting and factoring company in Ukraine.

[5] Financial data concerning the companies of the PKO Bank Polski SA Group is presented in accordance with the Companies' financial statements prepared under IAS/IFRS.

The Group's strategy assumed concentration on the basic banking operations, supplemented by the complementary products and financial services offer. The Group's objective was to simplify and optimise the Group's structure, increase efficiency and achieve full consistency of the operating model used. Key strategic initiatives in this area included:

- integration of the Group entities, including mainly 'product factories' with the Bank, by i.a. centralisation of support functions or full transfer of entities' operations to the Bank,
- sale of assets not related to the core business of the Group,
- implementation of a new development strategy to KREDOBANK SA oriented on service of retail customers and SME operating largely in the western part of Ukraine,
- strengthening the Group's market position in selected market segments, including through acquisitions of companies,
- an increase in the efficiency of real estate management.

In 2012, PKO Bank Polski SA continued activities related to the simplification of the Group's structure and optimisation of administrative expenses (including the acquired operations of Centrum Finansowe Puławska Sp. z o.o. and conducted analysis related to the sale of the Bank's selected assets within or outside the Group).
In 2012, the Bank carried out works on development and creation of the strategic alliance model in the area of payments made by the Bank and a subsidiary - Centrum Elektronicznych Usług Płatniczych 'eService' SA. This project includes the possibility of selling the control shares block of the above mentioned Company by the Bank. As at the date of the financial statements preparation, no binding decisions were made and no final structure of the transaction was determined.
In 2012, the Bank made a proposal to Poczta Polska SA of conclusion long-term strategic alliance in the area of sale of financial services. A part of the proposed cooperation is to increase the share of the Bank's shareholding in Bank Pocztowy SA and execution of the existing cost and revenue synergies between PKO Bank Polski SA, Poczta Polska SA and Bank Pocztowy SA.
Activities related to the implementation of key strategic initiatives aimed at strengthening the effectiveness of the PKO Bank Polski SA Group's operations will be continued in 2013 within the scope specified in a new Strategy of the Bank.

5.2 Execution of the 'Lider' Strategy for the years 2010-2012

In the period of execution of the 'Lider' Strategy, the Bank successfully implemented its vision, gradually improving the quality of services provided, achieving record financial results and implementing top market standards of modern and efficient organisation.
From the business perspective, the strategic objectives realized by the Bank were based on three main pillars: retail banking, corporate banking and investment banking. The implementation of the strategic business objectives was focused on meeting the needs of the Bank's customers, both individual and institutional, taking into account the specific needs of particular market segments.
In the retail segment, the main results of implementing the "Leader" Strategy included, among others, the following:

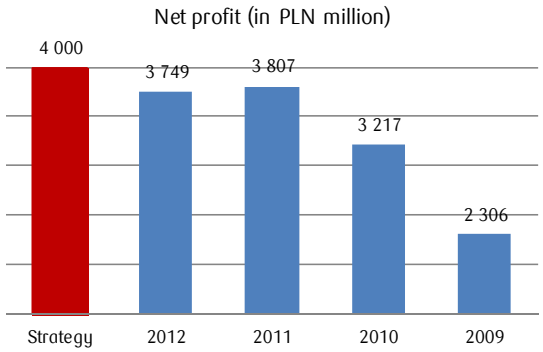
- modernizing the Bank's logo and image, based on a promotional campaign combined with a wide-ranging media and advertising campaign, which were well received and positively assessed by the majority of the customers surveyed (a survey by TNS);
- introducing a new offer of savings and deposit accounts (ROR), which represented an important element in the re-development of the Bank's image and changes in both the product offer and the Bank's organization and systems;
- re-instating and re-launching the school-operated savings account (Szkolna Kasa Oszczędności - SKO), a unique offer for an electronic student account combined with the first on-line banking service for children in Poland;
- implementing a new customer service model in private banking and personal banking through pro-active actions aimed at optimizing the service model and a dedicated product offer for these segments;
- implementing a new typology to the Bank's branches so as to better adapt to customer needs in specific micro-markets;
- developing the Bank's offer in remote-access channels, by, among others, filling in functional gaps in the Inteligo and iPKO electronic channels; developing a mobile access channel and mobile-operated authorization system; migrating payment cards to the EMV standard.

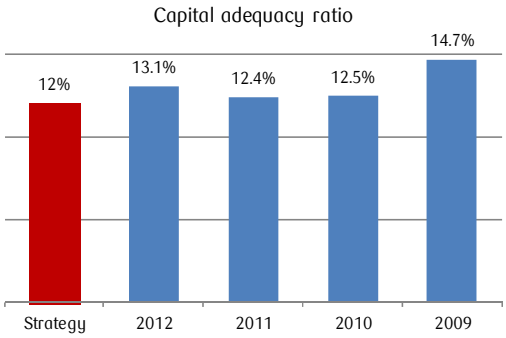
In the corporate and investment segments, the main results of implementing the "Leader" Strategy included, *inter alia*, the following:

- centralizing and standardizing customer service for the Bank's strategic customers;
- optimizing the lending process, which involved, *inter alia*, reorganizing the credit process and standardizing credit documentation;
- expanding the iPKO business electronic banking system, which involved integrating product front-ends (trade finance, treasury platform and other) and cooperating with the State Insurance Institution (ZUS);
- developing a CRM platform in order to position the Bank among the leaders in transactional platforms;
- centralizing corporate operations, which involved centralizing manual processes and support activities;
- developing the treasury products' offer, which included implementing the iPKO Dealer online trading platform;
- optimizing and expanding the Brokerage House's product offer, which included implementing an advanced lending model, improving the customer service standards, offering selected services provided by the Brokerage House in the Bank's branches, and launching a professional Call Centre dedicated to the Brokerage House's needs.

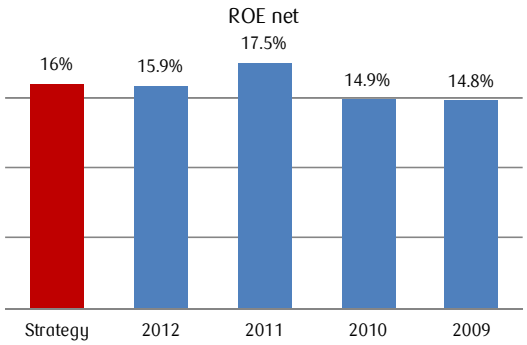
Financial results

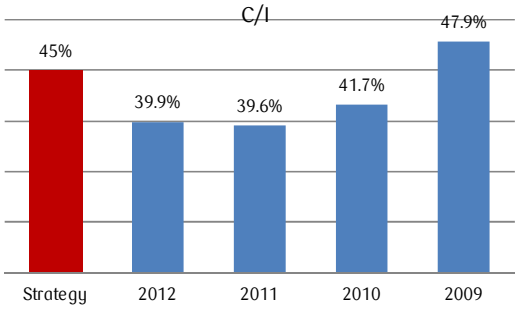
In the last three years, i.e. in the period of execution of the 'Lider' Strategy, the assets and loans of the PKO Bank Polski SA Group increased by ca. 24%, deposits increased by ca. 17% and the net profit increased by more than 63%. At the same time, the Bank maintained very safe capital adequacy and liquidity ratios and, as one of the strongest European financial institutions, it passed financial stability tests. The capital adequacy ratio of the Group as at the end of 2012 was higher than assumed in the Strategy and it amounted to 13.07%.





The most important effect of the achievement of the Group's strategic goals, particularly from the point of view of its investors, is apart from the market position, the high growth rate of the net profit. The positive effect on profit had i.a. the following factors: a lower rate of growth of administrative expenses and a further improvement of the efficiency of operations, measured with the C/I ratio. The Group achieved the financial goals of its strategy, such as i.a. high return on equity and the cost/income ratio at the level of ca. 40% (the target was below 45%).





5.3 Market shares of PKO Bank Polski SA

In 2012, the Bank maintained its leading position in respect of its share in the deposit market, which amounted to 16.8%. At the same time, the decrease in the market share in respect of deposits is connected with diversification of sources of funding. As regards loans, market shares stabilised at the level of 16.1% along with an increase in shares in respect of corporate customers (+0.1 pp.).

Table 17. Market shares of PKO Bank Polski SA (in %)*

	31.12.2012	31.12.2011	31.12.2010
Loans for:	**16.1**	**16.2**	**17.2**
retail clients, of which:	19.0	19.2	20.0
mortgage	*20.0*	*19.9*	*20.9*
in Polish zloty	*28.6*	*30.6*	*33.1*
in foreign currencies	*12.9*	*13.2*	*13.7*
consumer and other	*16.6*	*17.6*	*18.2*
corporate clients	13.2	13.1	14.1
Deposits for:	**16.8**	**17.8**	**17.9**
retail clients	21.8	22.3	23.2
corporate clients	10.2	12.1	11.7

* Data source: NBP reporting system – WEBIS.

5.4 Activities of PKO Bank Polski SA – the parent company of the PKO Bank Polski SA Group [6]

As at 31 December 2012, the relation of total assets of PKO Bank Polski SA to the total assets of the PKO Bank Polski SA Group amounted to 98.7% and share of net profit of PKO Bank Polski SA for 2012 in the PKO Bank Polski SA Group's consolidated net profit amounted to 95.8%.

[6] In this sub-chapter the Bank's management information is presented; any differences in total balances, shares and growth rates result from roundings.

PKO Bank Polski SA, as the parent company, constitutes the most important component of the statement of financial position and income statement of the PKO Bank Polski SA Group. Consolidated financial results presented in Chapter 3 reflect also the financial results of PKO Bank Polski SA.
PKO Bank Polski SA is a universal commercial bank offering services to both domestic and foreign retail, corporate and other clients. PKO Bank Polski SA is licensed to hold foreign exchange and currencies and sell/buy them, as well as perform a full range of foreign exchange services, open and hold bank accounts abroad and to deposit foreign exchange in these accounts.

5.4.1 Retail segment

In 2012, activities undertaken by the Bank within the retail segment were focused on increasing attractiveness and competitiveness of offered products with flexible reaction to changing market conditions.
In the area of retail segment, PKO Bank Polski SA focused on providing comprehensive banking services which satisfy both the credit needs and the deposit and settlements needs. Efforts to improve the quality of the service offer, i.a. by improving the standard of providing services to the clients and enhancing the skills of employees (product training courses) were also performed.

Loan offer in the retail segment

PKO Bank Polski SA gradually launched its new product offer in the retail segment and intensified cooperation with entrepreneurs, supporting economic growth. The Bank also continued projects aimed at a significant improvement of the customer service quality. Such projects comprised improvement of the sales processes and enhancing service standards based on the results of regular customer satisfaction surveys.

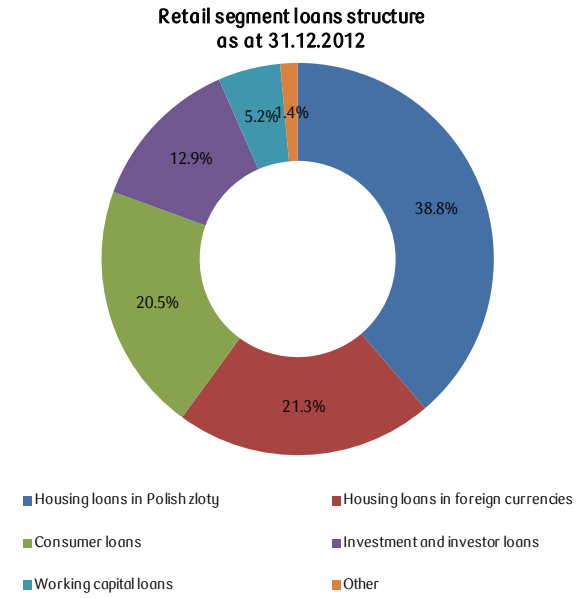


Table 18. Loans in the retail segment (in PLN million)

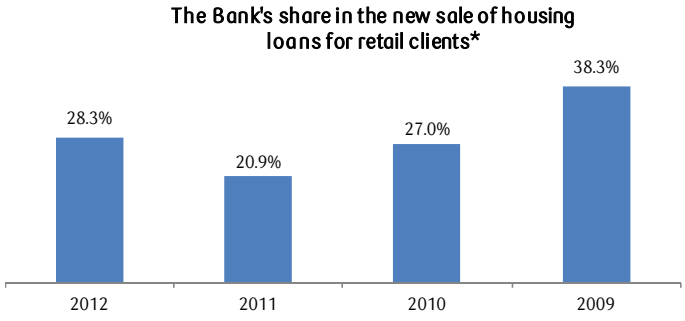
	31.12.2012**	31.12.2011*	Change 2012/2011	Change (in PLN million)
Gross loans and advances granted, of which:				
retail and private banking	21 849	24 248	-9.9%	(2 400)
small and medium enterprises	14 309	15 525	-7.8%	(1 216)
mortgage banking	63 961	63 155	1.3%	806
housing market (including refinanced by the State budget)	6 621	7 973	-17.0%	(1 352)
Total	**106 739**	**110 901**	**-3.8%**	**(4 162)**

* Change in relation to business volumes previously presented results from a change in presentation; volumes currently presented include also accrued interest. Additionally, the mortgage loan was presented in loans and advances of retail and private banking (previously recognised in mortgage banking loans).
** As a result of resegmentation of small and medium enterprises clients and housing market clients to the corporate segment performed in 2012, the loan volumes of such segments decreased by PLN 1 177 153 thousand and PLN 1 756 693 thousand respectively, compared to the end of 2011.

Housing loans

In 2012, the Bank maintained its strong position on the housing loans market, which confirms a high level of share in the housing loans market – 20%. According to the data of the Polish Bank Association, at the end of 2012 PKO Bank Polski SA took first place on the market with its 28.3% share in sale of housing loans for retail clients – selling loans only in Polish currency. Mortgage loan of PKO Bank Polski SA was awarded 'Złoty Bankier 2011' (Golden Banker 2011), winning the highest number of positive opinions of Internet users in the category 'best mortgage loan'.
In March 2012 the Bank organised a 'Drzwi otwarte do Twojego własnego mieszkania' (Open door to your own apartment) action, thanks to which clients could use a special mortgage loan offer. In 2012 the Bank, in order to meet clients' expectations, introduced a few promotional offers.

The customers were able to obtain a mortgage loan with a lower margin over the entire lending period, regardless of the loan amount and the amount of own contribution. The Bank offered an option of obtaining a loan without commission to customers who have a current account and a credit card in PKO Bank Polski SA and who sign an insurance contract in the event of losing a job and hospitalisation. In 2012, the Bank recorded a high volume of sales of loans as part of the 'Rodzina na Swoim' programme, which was associated with regulatory changes introduced in the said programme, as well as with the promotional terms offered by the Bank for the preferential housing loan. A series of changes in product procedures were developed by September 2012. These procedures included decreasing the maximum LTV level for the 'Własny Kąt hipoteczny' housing loan without insurance of the customer's own contribution, provided that some additional conditions concerning the security on the property financed are met.



*Source: Polish Bank Association

Consumer loans

In 2012, a decrease in the volume of consumer loans was observed in PKO Bank Polski SA, as well as in the whole banking sector. As one of the initiatives supporting the sales of such group of loans, PKO Bank Polski SA carried out promotional activities, mainly focused on the Cash Loan and the Aurum/Platinium loan. These activities were mainly aimed at offering the customers attractive credit terms, such as a lack of commission for granting the loan or a lower interest rate with minimum formalities. Moreover, in the case of the Cash Loan, the maximum amount of loan available increased to PLN 150 thousand and in the case of the Aurum/Platinium loan, promotional prices were offered in 2012 to the customers working in the particular professions i.a.: physician, architect, lawyer, university teacher and pharmacist.

Loans for small and medium enterprises

As part of the loan offer for small and medium enterprises, the scope of granting loans from the Council of Europe Development Bank (CEB) was extended by adding non-revolving working capital loans in PLN to the existing investment loan. Working capital loans provided as part of the CEB line gave the customers an opportunity to take advantage of preferential terms in respect of the credit margin, which decreased by 0.5 pp. in relation to the standard rate. Additionally, in November 2012, a new product was added to the offer addressed to small and medium enterprises – a multi-purpose credit limit, i.e. an innovative loan aimed at facilitating long-term financial planning, with only one collateral provided by the customer for all products granted as part of the limit. The Bank also increased the number of currencies in which supporting accounts can be opened. This new solution is addressed to clients engaged in import and export activities to enable them to perform operations and settlements of the Bank's customers with foreign partners.
In September 2012, the terms of financing the housing market customers were amended. The amendment took into account the current and expected directions of changes on the market and the Bank's credit policy relating to cooperation with housing developers were adjusted in a flexible way.

Deposit offer in the retail segment

In 2012, PKO Bank Polski SA continued activities relating to making the deposit offer more attractive to customers, both in terms of the permanent deposit offer and by introducing new products for customers. At the same time, PKO Bank Polski SA conducted activities aimed at diversifying sources of funding.

Table 19. Deposits in the retail segment (in PLN million)

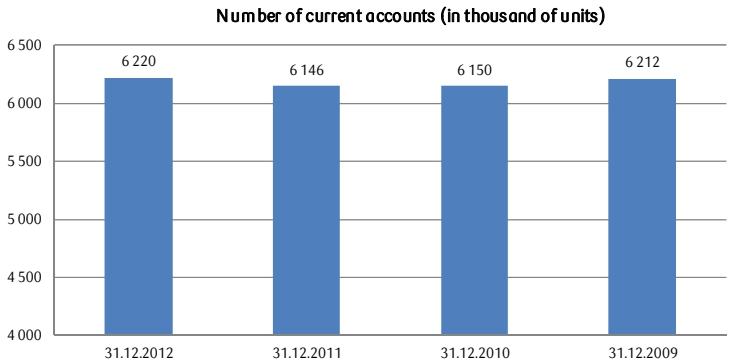
	31.12.2012**	31.12.2011*	Change 2012/2011	Change (in PLN million)
Client deposits, of which:				
retail and private banking	105 799	99 958	5.8%	5 842
small and medium enterprises	8 766	8 905	-1.6%	(139)
housing market clients	4 646	5 417	-14.2%	(771)
Total	**119 212**	**114 280**	**4.3%**	**4 932**

* Change in relation to business volumes previously presented results from a change in presentation.

** As a result of resegmentation of small and medium enterprises clients and housing market clients to the corporate segment performed in 2012, the deposit volumes of such segments decreased by PLN 22 233 thousand and PLN 313 960 thousand respectively, compared to the end of 2011.

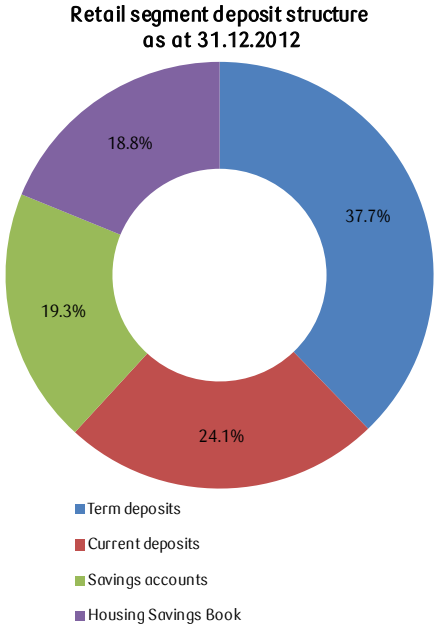
Current accounts

PKO Bank Polski SA remains a market leader in terms of the number of current accounts, which amounted to 6.2 million as at the end of 2012. An increase in the number of accounts resulted from introducing in 2011 New Offer of current accounts, including products diversified in terms of customer preferences: SUPERKONTO Oszczędne, PKO Konto za Zero, PKO Konto dla Młodych, PKO Konto Pogodne, PKO Konto Pierwsze.
In 2012, the Bank launched a process of opening accounts using a courier service and offered to customers a possibility of making money transfers via Western Union.



Term deposits and structured products

As at 31 December 2012, the value of retail market deposits amounted to PLN 119.2 billion, in which retail and private banking deposits prevailed. The retail segment customers invest their funds mainly in term deposits. Their share in the segment's deposits as at the end of 2012 was 37.7%. In 2012, the Bank offered its customers an opportunity to invest in the following deposits i.a.: deposits with progressive interest rates (Progresja 9M, an 'Even' and an 'Odd' deposit) and structured deposits (based on the oil prices, palladium prices, USD/PLN exchange rate). The offer comprised products tailored to various preferences of the customers and funds could be deposited for different periods.
The Bank's standard offer addressed to retail customers includes structured instruments sold in the form of structured deposits or Structured Bank Securities. The sales of such products are constantly growing in terms of value. Similarly, the embedded base assets gain attractiveness. The number of sales agreements for structured products concluded in 2012 was 3% higher than in 2011, and the sales volume was more than 15% higher. Products terminating in 2012 were characterised by high profitability: as many as 11 out of 12 series of deposits allowed the realisation of an additional coupon, and in most cases (8) it was the maximum coupon.



Savings accounts

Savings accounts also constituted a significant portion of the deposit structure – their share in the deposit structure as at the end of the year was 19.3%. The interest in this form of investing results from the possibility of combining an attractive interest rate (dependent on the level of invested funds) with flexible management of the funds. In 2012, the Bank's offer comprised savings accounts in the Polish currency and in foreign currencies.

Housing savings books

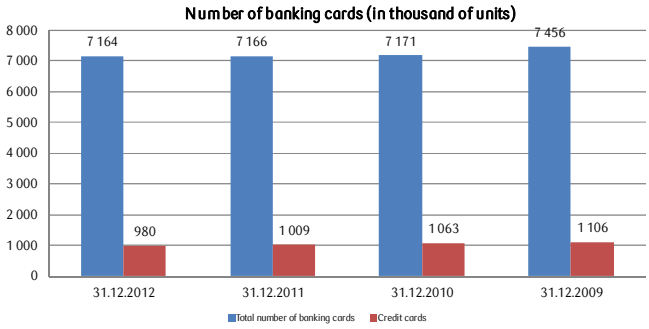
The Bank continued popularising the idea of systematic saving in 2012 and for this purpose, it offered its customers housing savings books with parameters adjusted to the current expectations of the customers. In 2012, the Bank's offer included housing savings books based on fixed and floating interest rates.

SKO's offer

In 2012, the Bank carried out the project 'Implementation of the new SKO offer' which was aimed at revitalising the SKO programme by developing a new model of servicing young customers. As a result, as part of the project, schools were offered 5 new SKO packages, differing according to preferences: SKO Account for the School, SKO Account for the Pupil, SKO Account for the Parent Council, SKO Account – School's Plan and SKO Account - Parent Council's Plan. The aim of the project is to educate the younger generation in financial management and the promotion of non-cash transactions. As at the end of 2012, ca. 85 thousand of students had SKO's internet accounts (SKO Account for the Pupil).

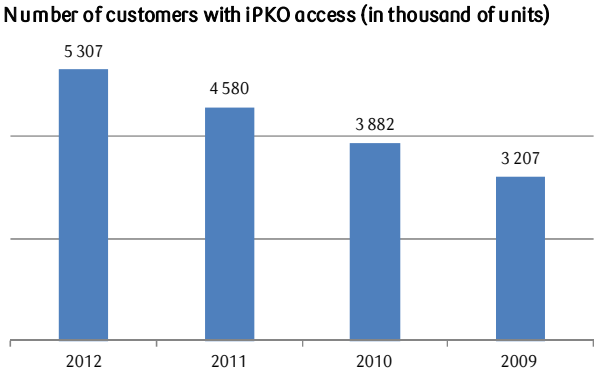
Banking cards

In 2012, issuing of Visa credit cards in the EMV technology and with the function of contactless payments began.
In 2012 the number of banking cards amounted to 7.2 million of units.



iPKO transaction service

In 2012, in order to increase the attractiveness of the iPKO transaction service, the Bank made changes to its product offer as well as introduced new functionalities and modified the existing ones. One of the significant changes was the implementation of functionalities enabling the users to analyse details of products held (i.a. transactions performed, price parameters). Significant changes implemented in 2012 to iPKO made it also easier to invest using the online service – the Brokerage House of PKO Bank Polski SA launched a transaction platform 'supermakler mobile', which supports investment account management with the use of mobile devices. The function of moving to the iPKO Dealer application was also launched to allow the customer to perform foreign exchange spot transaction.



5.4.2 Corporate segment

In 2012, as in the previous years, PKO Bank Polski SA enhanced the image of a partner of Polish entrepreneurship. Financing both the entrepreneurs' current operations (via working capital loans) and their future projects (via investment loans) and help to complete local government projects were the key priorities of the Bank's corporate segment.

The Bank regularly analysed market expectations and adapted its current offer of products and services so as to match the growing competitive pressure and meet the credit and non-credit needs of its corporate customers. Despite the unstable economic situation in the euro zone and the continuing unfavourable conditions in which the entrepreneurs are functioning, the Bank made an effort to meet the customers' expectations. The corporate segment of PKO Bank Polski SA successfully implemented a project of providing specialised services to strategic customers, providing them with high quality services and professional advice. At the same time, the Bank supported development of local government and State budget entities, maintaining a leading position in this market segment. PKO Bank Polski SA develops its business by building long-term relationships with corporate segment customers based on the high quality of the services and competences of the sales network. By adjusting the organisation of its sales network and the model of its functioning to the existing market conditions, the Bank improved the cooperation with all groups of corporate customers. These changes helped the Bank to maintain a high level of satisfaction with the services provided, which is reflected, among other things, in the growing number of customers.

Lending activity

In 2012, the volume of loans granted to corporate customers by PKO Bank Polski SA increased by 22.1%, and the total amount of financing provided to corporate customers, including bonds issued, increased by 15.2%.
As a result of achieving a higher growth rate of the loan volume compared with the growth rate of the whole market, PKO Bank Polski SA increased its share in the corporate loan market. This was possible due to the proactive approach of the Bank to continuous improvement of the product offer and its adaptation to the growing requirements of the customers.

Table 20. Financing of the corporate segment clients (in PLN million)

	31.12.2012**	31.12.2011*	Change 2012/2011	Change (in PLN million)
Gross corporate loans***	41 351	33 853	22.1%	7 498
Gross debt securities available for sale	4 252	5 740	-25.9%	(1 488)
Total financing	**45 603**	**39 594**	**15.2%**	**6 010**

* Change in relation to loan volumes previously presented results from a change in presentation; loans currently presented include also accrued interest.

** As a result of resegmentation of small and medium enterprises clients and mortgage market clients to the corporate segment performed in 2012, the loan volumes of this segment increased by PLN 1 177 153 thousand and PLN 1 756 693 thousand respectively, compared to the end of 2011.

*** Due to change of intention as regards holding of the selected portfolio of non-Treasury securities classified upon initial recognition as available for sale in 2012, the Bank reclassified them to loans and advances to customers and included them in the loan volume of the corporate segment. The gross carrying amount of reclassified portfolio as at 31 December 2012 amounted to PLN 2 078.1 million.

The highest loan transactions concluded by the Bank in 2012 included financing in the form of investment and working capital loans granted to entities from the financial, chemical and gas sectors and public finance sector entities. The unit values of the highest transactions were between PLN 600 million and PLN 2 000 million. Moreover, the Bank granted significant loans (with unit values of more than PLN 200 million) to enterprises from the power and construction sectors and local government units. Additionally, as part of the cooperation with the investment segment, the corporate segment customers can obtain structural financing in the form of syndicated loans and issues of non-Treasury debt securities.

Deposit activities and transaction banking

The volume of deposits as at the end of 2012 amounted to PLN 24.0 billion and it was lower by PLN 4.7 billion than in the same period of the previous year. It was a result of the Bank's liquidity policy and obtaining long-term financing from the wholesale market.
As part of the adjustment of its product offer to the current needs of the market, in the previous year the Bank extended its offer by adding accounts in the following currencies: Chinese yuan (CNY), Bulgarian lev (BGN), Latvian lat (LVL) and Romanian leu (RON). Moreover, the Bank added new functionalities to its interest Cash Pooling service.

Table 21. Deposits of the corporate segment clients (in PLN million)

	31.12.2012**	31.12.2011*	Change 2012/2011	Change (in PLN million)
Corporate deposits	23 968	28 653	-16.4%	(4 685)

* Change in relation to business volumes previously presented results from a change in presentation.

** As a result of resegmentation of small and medium enterprises clients and housing market clients to the corporate segment performed in 2012, the deposit volumes of this segment increased by PLN 22 233 thousand and PLN 313 960 thousand respectively, compared to the end of 2011.

PKO Bank Polski SA strives to improve the quality of the services provided in respect of transaction banking. In 2012 a comprehensive change of the tariff was made, adapting the level of fees to the quality of services in respect of electronic banking system.
The leading product of the corporate banking segment of PKO Bank Polski SA is the electronic banking system – iPKO Biznes. In 2012, the offer dedicated to corporate customers was extended for new verification tools. The possibility of automatic change in the currency of transfer transactions was also introduced, and the possibility of creating own groups of counterparties by users was implemented, facilitating settlements. On the iPKO Biznes platform corporate clients were i.a. allowed access to a new card module which enables the current monitoring of card transactions. At the same time, in 2012 the Bank introduced protection to its Business cards under the EMV standard.
In 2012 PKO Bank Polski SA introduced new products for corporate clients who engage in developer activities, i.e. a closed and open mortgage fiduciary account to accumulate funds paid in by the real estate purchaser. Funds from those accounts are transferred in part or in full (on specific conditions) to entities that conduct the construction investments and are at the same time corporate clients of the Bank.
In the previous year, the Bank won two tenders for servicing settlements: for the Social Insurance Institution (ZUS) and for one of the fastest-growing metropolitan areas in Poland. The execution of these projects helped introduce a number of system improvements and confirmed that the Bank, as a financial institution, is able to respond to varied needs of its customers by providing top quality products in a fast and flexible manner.

5.4.3 Investment segment

As part of the investment segment activities, the Bank performs operations on the money and the capital market, manages financial risk, and trades on the interbank interest rate and foreign exchange market. Transactions concluded with retail and corporate customers, including transactions associated with financing large investment projects and transaction banking services, constitute an important part of the activities of this segment.
Cooperation with customers of financial institutions, such as investment fund companies, pension and insurance companies, is a growing part of this segment. Ownership supervision of the PKO Bank Polski SA Group entities is a part of the activities of the investment segment which supplement the basic offer of financial services provided by the Bank.

The investment segment also performs activities aimed at diversifying the sources of financing of the Bank's operations. Such activities include obtaining funds on the Polish market and on international markets i.a. through bond issues and obtaining funds from monetary and non-monetary financial institutions (see section 5.7 for details).

Interbank market

The Bank is the Treasury Securities Dealer and the Money Market Dealer, and it acts as the market maker on the domestic interest rate and foreign exchange markets. As a result of its activity on the interbank market, the Bank was ranked second in the Treasury Securities Dealer of the Year 2013 competition and also second in the Money Market Dealer of the Year 2013 ranking.
The Bank actively managed financial risks (liquidity risk, interest rate risk and currency risk). Surplus funds in PLN, which were not used by the Bank for the purposes of its lending activity, were mainly invested on the Treasury securities market and in NBP money market bills.
The Bank continued the programme of issuing its own bonds on the domestic market. In 2012, as well as in the previous year, the bonds were mainly purchased by financial institutions, and the total issue value was PLN 5.8 billion (the total debt as at 31 December 2012 in respect of bonds issued under the programme amounts to PLN 500 million).

Activities of the Brokerage House of PKO Bank Polski SA

The Brokerage House of PKO Bank Polski SA is one of the leading brokerage houses and it provides its customers with wide access to capital market products and services. The year 2012 brought an improvement of the Brokerage House's market position, which was reflected in a 9.1% increase of its share in trading on the secondary stock market. Total turnover of the Brokerage House on the stock market was close to PLN 38 billion and it was 32% higher than in 2011. In this period, the market recorded a 27% decrease in turnover.
The Brokerage House was one of the top brokerage houses in terms of the number of companies for which it acted as the market maker on the NewConnect market (53 companies as at the end of 2012), and the generated value the turnover exceeded PLN 135 million, which gives the Brokerage House the 7th place on the market and almost 5% share in turnover. At the same time, the Brokerage House managed 54 agreements for acting as a market maker (3rd place in the market) and 24 agreements for acting as the issuer's market maker (5th place in the market). The Brokerage House remains an important player on the primary market. The value of IPO (Initial Public Offering) market transactions in which the Brokerage House acted as an intermediary in 2012 amounted to PLN 0.7 billion, which accounted for 20% of the market. The value of transactions concluded by the Brokerage House on the SPO (Secondary Public Offering) market exceeded PLN 1.2 billion.
In 2012, the Brokerage House acted as an issue agent for a Treasury bonds issue and offered its customers retail bonds with both fixed and floating interest rate.
As part of its operations, the Brokerage House maintained 175.9 thousand of securities and cash accounts and 150 thousand of active registration accounts which gives the Brokerage House high 4th place among 46 participants of National Depositary of Securities in terms of the number of securities accounts maintained.

Treasury products and structural financing

The investment segment actively participates in providing services to corporate customers. It takes part in transactions in the structural financing area and in providing services in respect of Treasury products, also for retail clients.
The PKO Bank Polski SA network of Treasury products distribution is diversified and tailored to the individual needs of the customers. Treasury transactions can be concluded through a network of consultants working in branches, dedicated specialists and dealers, as well as via an online channel (SPOT transactions).
In 2012, the highest sales growth rate was achieved in the area of foreign exchange SPOT transactions, where the number of operations increased by ca. 7% and the value of turnover – by 21%. As far as the sales of Treasury products are concerned, a significant increase in the online sales channel utilisation should be noted. The number of transactions concluded was more than 2.5 times bigger in 2012 than in the previous year.
The offer of Treasury products was extended by adding Asian currency options, which complemented the existing offer of currency products, and commodities – at present, the Bank offers hedging against risk for 16 types of commodities. Moreover, the Bank works intensively on adding interest rate options to its offer.
The PKO Bank Polski SA offer addressed to corporate customers is tailored to their individual needs. Products associated with the financing of large investment projects in the form of loans or issues of non-Treasury debt securities are a standard element of this offer. The financing is provided partly by consortia of banks. The Bank is the market leader in organising municipal bond issues - the share of the Bank's portfolio in the total portfolio of the market as at the end of November was close to 29%. The Bank also had a strong position in respect of municipal bond issues – the share of its portfolio exceeded 13%.
In 2012, PKO Bank Polski SA signed six loan agreements in the form of bank consortium and one annex to a previously concluded syndicated loan agreement. The total value of the agreements concluded was PLN 2.7 billion, of which the Bank's share amounted to PLN 1.7 billion.
Moreover, in 2012 the Bank signed 113 municipal bond issue agreements in the total amount of PLN 898.8 million, 13 corporate bond issue agreements (including 3 in the form of bank consortium), and 1 annex to an agreement previously signed in the form of bank consortium. The total value of issue agreements and annexes signed amounted to PLN 14.5 billion, of which the Bank's share amounted to PLN 8.0 billion.

Fiduciary services

The Bank maintains securities accounts and handles transactions on the domestic and the foreign markets. It also provides fiduciary services and acts as a depositary for pension and investment funds. It is a direct participant in the National Depository for Securities and the Securities Register (NBP), a member of the Council of Depositary Banks and the Non-Treasury Debt Securities Council of the Polish Banks Association.
The Bank's acquisition activity brought about the increase of 11% of the amount of assets held by clients. As at the end of 2012, the amount of funds held by clients on fiduciary accounts amounted to PLN 55.8 billion compared with PLN 49.4 billion as at the end of 2011. At the same time, the number of securities accounts served amounted to 1.5 thousand of units.

5.5 International cooperation

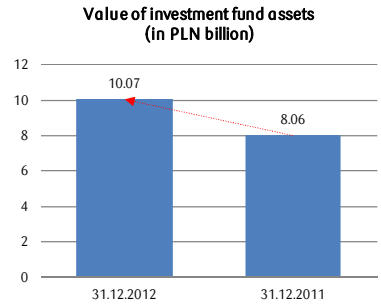
On 21 December 2012, PKO Bank Polski SA concluded the Global Loan III agreement with European Investment Bank (EIB) for the amount of EUR 150 million, which can be used in the following currencies: EUR, PLN, USD, CHF and GBP. Under this agreement, the Bank can use a tranche for small and medium enterprises for 8 years (with an option of extending it to 12 years if the tranche is repaid in instalments) and a tranche for the financing of infrastructure for 10 years (with an option of extending it to 15 years in case of the tranche repayment in instalments).
Under the 2020 European Fund for Energy, Climate Change and Infrastructure, PKO Bank Polski SA increased its capital involvement in the above mentioned fund from EUR 7 100 thousand as at the end of 2011 to EUR 25 250 thousand as at the end of 2012.
PKO Bank Polski SA participates in the above mentioned project as the only Bank operating in one of the new European Union members which was awarded the status of 'Core sponsor'. The Marguerite Fund was established in 2009 for 20 years and is currently launching several investment projects such as green-field and brown-field in the energy and the road sector in Poland, Spain, France and Belgium.
KREDOBANK SA (a subsidiary of PKO Bank Polski SA) cooperates with financial institutions in 15 countries within the international settlements system. It has 37 nostro accounts and 49 loro accounts.
In 2012, Bankowy Fundusz Leasingowy SA (a subsidiary of PKO Bank Polski SA) used the funds obtained from loans from the Council of Europe Development Bank (CEB) and from the European Investment Bank to finance the development of small and medium enterprises - the amount of funds used was EUR 41 million.

A broader description of the operations of PKO Bank Polski SA - the parent company of the PKO Bank Polski SA Group, including its business activities and financial results achieved in 2012 is presented in the Directors' Report of PKO Bank Polski SA for the year 2012, which forms an integral part of the Annual Report of PKO Bank Polski SA.

5.6 Activities of other entities of the PKO Bank Polski SA Group[7]

The Group provides via its subsidiaries specialist financial services relating to leasing, factoring, investment funds, pension funds, internet banking and settlement of card transactions and conducts operations in the real estate sector and through its subsidiaries in Ukraine conducts banking, debt collection and factoring activities.
General information on the selected PKO Bank Polski SA Group entities:

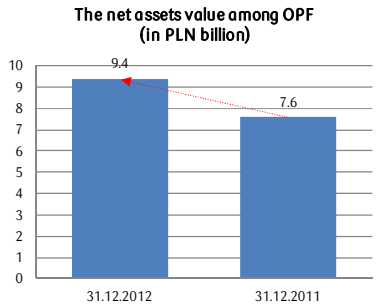
PKO Towarzystwo Funduszy Inwestycyjnych SA

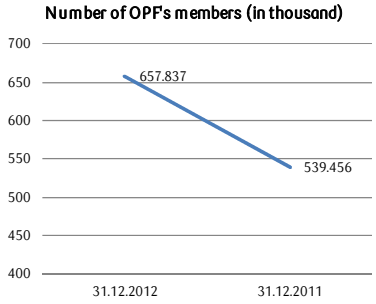


1. In 2012, the Company recorded a net profit in the amount of PLN 23.8 million (in 2011, the Company's net profit amounted to PLN 37.8 million).
2. The asset value of the funds managed by the Company amounted to PLN 10.07 billion as at the end of 2012, which gave the Company 6.9% share in the investment fund market and placed the Company on the 4th place among the investment funds*. In 2012, the asset value of the funds managed by the Company increased by 25%. An increase of the assets value was associated mainly with favourable situation on the stock exchange and positive net result on sales.
3. As at 31 December 2012, PKO TFI SA managed 36 investment funds and subfunds.
   * Source: Chamber of Fund and Asset Management

[7] In case of capital groups, the financial result presented in the description is the financial result attributable to the parent company.

PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA

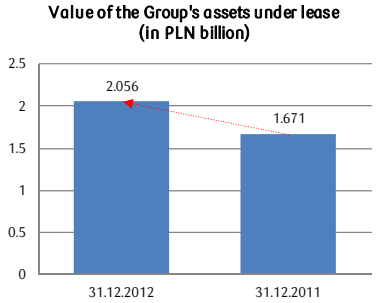




1. In 2012, PKO BP BANKOWY PTE SA recorded a net profit in the amount of PLN 16.8 million (in 2011, the Company's net profit amounted to PLN 4.7 million).
2. As at the end of 2012, the net assets value of PKO BP Bankowy OFE managed by PKO BP BANKOWY PTE SA, amounted to PLN 9.4 billion, which is an increase of 25% in comparison to the end of 2011. The increase in the net assets value of PKO BP Bankowy OFE was mainly the effect of gained rate of return and acquisition of new members.
3. As at 31 December 2012, the number of participants of PKO BP Bankowy OFE amounted to 657 837.
4. PKO BP Bankowy OFE holds the 9th place regarding the net assets value on the pension funds market and the 9th place regarding the number of OPF's members*.
5. According to the ranking of the Polish Financial Supervision Authority, PKO BP Bankowy OFE for the period from 30 September 2009 to 28 September 2012 reached a rate of return of 19.093% (the weighted average rate of return of 19.284%) holding thereby 8th place in the ranking of OPF for that period.
6. In August 2012, PKO BP BANKOWY PTE SA signed a contract with Powszechne Towarzystwo Emerytalne POLSAT SA on taking over the management of Otwarty Fundusz Emerytalny POLSAT. In October 2012 the approval of the President of the Office of Competition and Consumer Protection was obtained and in February 2013 the approval of the Polish Financial Supervision Authority on taking over the management of OFE POLSAT was obtained. As a result of taking over the management of OFE POLSAT by PKO BP BANKOWY PTE SA and then the liquidation of OFE POLSAT, the members of OFE POLSAT will become members of PKO BP Bankowy OFE, maintaining the unchanged account balance and period of membership achieved so far.

* Source: www.knf.gov.pl

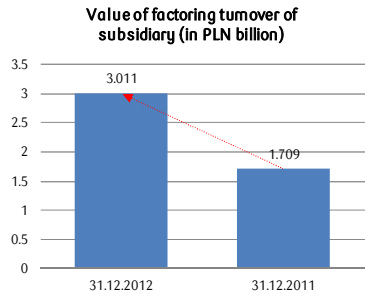
The Bankowy Fundusz Leasingowy SA Group



1. In 2012, the Group recorded a net profit in the amount of PLN 11.6 million (in 2011, the Group's net profit amounted to PLN 8.4 million).
2. In 2012, the Group entities leased out assets with a total value of PLN 2 056 million, i.e. an increase of 23.1% compared with 2011. The increase is a result of long-term cooperation with PKO Bank Polski SA and extension of sales channels to comprise vendor channel which cooperates closely with the supplier.
3. At the end of 2012, in terms of the value of assets leased, the Group ranked 4th position on the market with 6.6% market share*.
4. The total carrying amount of the lease investments of the Group entities amounted to PLN 3 252 million as at 31 December 2012 (as at the end of 2011 this value amounted to PLN 2 806 million).

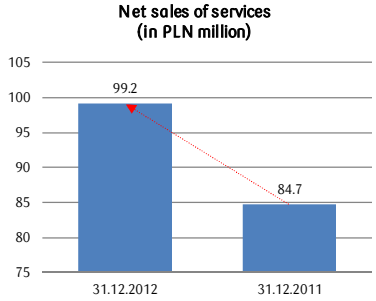
* Source: Polish Leasing Association

The Bankowe Towarzystwo Kapitałowe SA Group



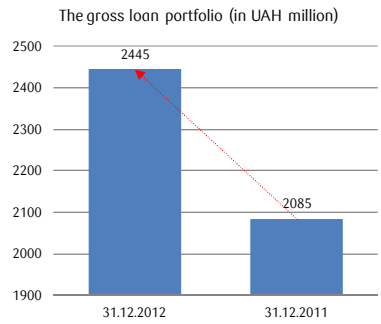
1. In 2012, the Group recorded a net profit in the amount of PLN 0.5 million (in 2011, the Group's net loss amounted to PLN 2.6 million).
2. In 2012, PKO BP Faktoring SA – the subsidiary of BTK SA – was providing domestic and export factoring services, both with and without the acceptance of risk and reverse factoring.
3. In 2012, the value of factoring turnover amounted to PLN 3 011 million (which is an increase of 76% y/y) and the number of clients increased to 138.
4. At the end of December 2012, PKO BP Faktoring SA ranked 9th place among factoring companies associated in the Polish Factors' Association, with a market share of 3.7%.

Inteligo Financial Services SA



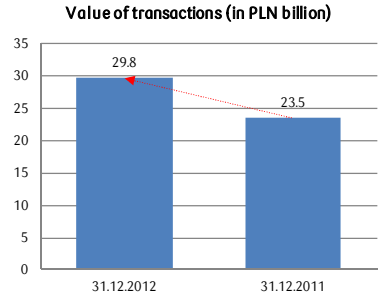
1. In 2012, the Company recorded a net profit in the amount of PLN 20.4 million (in 2011, the Company's net profit amounted to PLN 19.9 million).
2. As at the end of 2012, the Company provided electronic banking systems to more than 4.5 million customers of PKO Bank Polski SA using iPKO services.

The KREDOBANK SA Group (data according to IFRS/IAS)



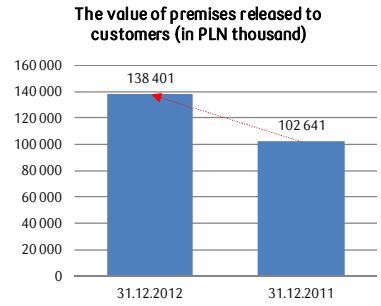
1. As at the end of December 2012, the Group incurred a net loss in the amount of UAH 92.0 million (PLN 36.8 million). In 2011, the net loss of KREDOBANK SA amounted to UAH 265.5 million (PLN 79.4 million).
2. In 2012, the Company's gross loan portfolio increased by UAH 360 million, i.e. by 17.3% and amounted to UAH 2 445 million as at 31 December 2012; the gross loan portfolio as denominated in PLN increased by PLN 48 million, i.e. by 5.4% and amounted to PLN 935 million as at the end of 2012.
3. In 2012, clients' term deposits of KREDOBANK SA increased by UAH 371 million, i.e. by 21.6% and amounted to UAH 2 089 million as at the end of 2012; term deposits as denominated in PLN increased by PLN 68 million, i.e. by 9.3% and amounted to PLN 799 million as at the end of the year.

Centrum Elektronicznych Usług Płatniczych 'eService' SA



1. In 2012, the Company recorded a net profit in the amount of PLN 25.2 million (in 2011, the Company's net profit amounted to PLN 23.7 million).
2. As at the end of 2012, the Company operated 68.9 thousand of payment terminal units reaching, according to Company's estimates, 23% market share.
3. In 2012, in CEUP 'eService' SA terminals processed transactions valued to PLN 29.8 billion, which is an increase of 26.8% compared with 2011.
4. In terms of the value of generated card transactions, market share estimated by the Company as at the end of 2012, amounted to 27%.
5. In 2012, the Company gained a few significant chain customers increasing the market share and effectively used the Bank's sales network to distribute its services. The key product area was development of approval of contactless transactions network and making this type of payment method popular among customers.

The Qualia Development Sp. z o.o. Group



1. In 2012, the Qualia Development Sp. z o.o. Group incurred a net loss in the amount of PLN 1.4 million (in 2011, the Group's net loss amounted to PLN 2.5 million).
2. In 2012, the Group's activities were focused on:
   - carrying out the final works related to the construction of projects Nowy Wilanów in Warsaw and Rezydencja Flotylla in Międzyzdroje,
   - conducting activities related to the completion of the construction projects of a residential building with an office function in Sopot and an hotel apartments in Gdańsk Jelitkowo,
   - developing a business formula for the new projects in Jurata, Władysławowo and Zakopane on properties purchased from PKO Bank Polski SA,
   - implementing a new business model based on execution and management of hotel apartments in connection with opening the first hotel facility Golden Tulip Międzyzdroje Residence.

The 'Inter-Risk Ukraina' Additional Liability Company Group (data according to IFRS/IAS)

1. The 'Inter-Risk Ukraina' Group was established in order to conduct an effective debt collection of KREDOBANK SA loans portfolio and the loans portfolio acquired by Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.
2. As at 31 December 2012, the Group incurred a net loss in the amount of UAH 83.5 million (PLN 33.4 million).

5.7 Issue of securities and amounts due to financial institutions

PKO Bank Polski SA diversifies its sources of funding. Developing business activities and achieving high financial results are accompanied by efforts aimed at maintaining appropriate liquidity buffers, which is particularly important when the economy slows down and the market environment is unstable. In 2012, PKO Bank Polski SA obtained the following funds:

1. On 21 June 2011, the Bank passed a resolution on granting consent for the opening of a programme for issuing own bonds on the domestic market ('the Issue Programme'). The Issue Programme amount is PLN 5 000 000 000 or its equivalent in other currencies. The funds obtained as a result of the issue of bonds under the Issue Programme will be used for the general purposes of financing the Bank. The term of the Issue Programme is unlimited (Current Report No. 32/2011). Due to the above mentioned Programme having been opened, on 10 February and 9 March 2012 the Bank issued short-term bonds totalling PLN 1.9 billion and then on 10 May, 6 June, 8 October and 12 November 2012 the Bank issued again short-term bonds rolling the debt resulting from the previously issued bonds.
   The total debt due to the bonds issued under the Programme amounted to PLN 500 million as at 31 December 2012.
2. On 19 June 2012, the Bank concluded a loan agreement with a consortium of banks, based on which it obtained financing in the amount of CHF 410 million for a period of 3 years.
3. On 24 July 2012, the Bank concluded a loan agreement with a subsidiary PKO Finance AB with its registered office in Sweden, based on which the Bank borrowed EUR 50 million raised by PKO Finance AB in a bond issue. The bonds issued bear fixed interest rate in the amount of

4.00% p.a., payable annually, and their maturity is ten years. The bonds are listed on the LSE in Luxembourg. The loan granted to the Bank by PKO Finance AB is not subordinated.

4. On 14 September 2012, the Bank carried out an issue of subordinated bonds with the total nominal value of PLN 1 600.7 million (current report No. 69/2012 and 72/2012). The bonds were issued on the basis of the Act on bonds with a view to designating the funds thus obtained, as approved by the Polish Financial Supervision Authority, for increasing the supplementary funds of PKO Bank Polski SA in accordance with Article 127 clause 3.2.b of the Banking Act. The bonds bear interest rate in biannual interest periods, interest on bonds shall be accrued on the nominal value using the variable interest rate equal to 6M+ WIBOR, plus a margin of 164 b.p. p.a. over the entire issue period.
   On 18 September 2012, the Polish Financial Supervision Authority granted its approval to:
   – an early redemption (call option) by PKO Bank Polski SA of all subordinated bonds with a total nominal value of PLN 1 600.7 million, issued by PKO Bank Polski SA on 30 October 2007;
   – using the funds raised in an issue of subordinated bonds performed on 14 September 2012 with a total nominal value of PLN 1 600.7 million for increasing the supplementary funds of PKO Bank Polski SA on the basis of Art. 127, clause 3.2b of the Banking Act.

   The issued subordinated bonds are listed on the WSE bond market Catalyst in the Alternative Trading System from 12 October 2012. The launch of securities in this market increased their liquidity, gave investors access to transparent, stock market quotes, enabling market valuation of such instrument, without the need of preparation internal valuation models.
5. On 20 September 2012, the Bank concluded a loan agreement with a subsidiary PKO Finance AB with its registered office in Sweden, based on which the Bank borrowed funds raised by PKO Finance AB in an issue of bonds on the American market performed based on documentation in force on the US debt market, in accordance with Regulation 144A, in the amount of USD 1 000 million (current report No. 71/2012, 74/2012, 75/2012 and 79/2012). The bonds issued bear fixed interest rate in the amount of 4.63% p.a., payable semi-annually, and their maturity is 10 years. The bonds are listed on the LSE in Luxembourg. The loan granted to the Bank by PKO Finance AB is not secured and not subordinated.
   Rating agencies gave the above mentioned issue of bonds denominated in American dollars (USD) the following ratings:
   – Standard and Poor's granted an 'A-' rating;
   – Moody's Investors Service granted an 'A2' rating.
6. On 21 September 2012, the Bank concluded a loan agreement with a subsidiary PKO Finance AB with its Head Office in Sweden, based on which the Bank borrowed CHF 500 million raised by PKO Finance AB in a bond issue. The bonds issued bear fixed interest rate in the amount of 2.536% p.a., payable annually, and their maturity is 3 years and 3 months. The bonds are listed on the SIX stock exchange in Zurich. The loan granted to the Bank by PKO Finance AB is not secured and not subordinated.
   The Standard and Poor's rating agency ('S&P') gave an 'A-' rating to this tranche of bonds issued as part of the EMTN programme.

5.8 Sponsorship activities of PKO Bank Polski SA

Sponsorship activities realised in 2012 were aimed at building the image of PKO Bank Polski SA as a reliable financial institution, open to the needs and expectations of its clients, engaged in the development of the country and local communities.

Table 22. The main sponsorship areas

	2012		2011	
Area	Number of projects	Share in budget	Number of projects	Share in budget
Image sponsorship	301	74%	322	40%
Sector sponsorship	139	26%	157	60%
Total	**440**	**100%**	**479**	**100%**

Sponsorship of culture and arts

Sponsorship of culture and arts is one of the most important areas of the sponsorship activities of PKO Bank Polski SA. Thanks to the subsidies provided by the Bank i.a. many museum projects were executed and many concert halls, libraries, operas and theatres from all parts of Poland could bring their plans to completion.
The Bank has cooperated with the National Museum in Warsaw for many years. The leading project executed in 2011 in cooperation with the Museum was the renovation of Jan Matejko's painting 'The Battle of Grunwald', which official presentation took place on 19 September 2012. Furthermore, in connection with the sponsorship of this outstanding work of art, a special event, a meeting with art, was organised for private banking customers in the Matejko Room at the National Museum.
Another project executed in the year of the 150th anniversary of the National Museum was the sponsorship of the Europa Jagellonica exhibition where more than 300 exhibits were on display.

Science and education

The largest project of the Bank in the group of undertakings in the area of science and education is carried out in cooperation with the Planetarium at the Copernicus Science Centre in Warsaw since the end of the year 2010. The projects carried out jointly with the Planetarium were focused mainly on children for whom the Bank dedicated the offer of School Savings Unions programme.

Sports events

The Bank has supported sports events with historical themes for four years, organised on the anniversaries of important events: enacting of the 3 May Constitution, the Warsaw Uprising and the regaining of independence.
In October 2012, the 13th Maciej Frankiewicz Poznań Marathon took place. PKO Bank Polski SA was its general sponsor for the third time already. The Poznań Marathon and the events that accompanied it were an opportunity to promote the Bank as a sponsor of other important projects, such as e.g. digitalisation of the greatest Polish films.
On the first weekend of March, the annual Piast Race (Bieg Piastów), the oldest and the most popular cross country ski race in Poland, was organised in Szklarska Poręba-Jakuszyce for the 36th time. In line with a long tradition, PKO Bank Polski SA was the patron of this event. Along with other contestants, employees of the banking sector, including representatives of PKO Bank Polski SA, also participated in this race.

Undertakings related to the sector

The Bank is involved in leading undertakings related to the sector, thus intensifying its promotional activities supporting sales of the offered products and services. The purpose of the supported initiatives was to present the Bank as the financial market leader.
The examples of such initiatives include i.a.: sponsorship of the Entrepreneur of the Year and Young Business Brands competitions, the 100 Women in Business Ranking, the 7th 'Pillars of the Polish Economy' Ranking, the 4th European Economic Congress in Katowice, the 18th Economic Forum in Toruń, the 2nd CEE IPO SUMMIT in Warsaw, the 2nd European Financial Congress, the 4th Retail Banking Congress, the Listed Company of the Year Gala, the 1st Congress of CFOs of SEG Listed Companies.

5.9 Charity activities of the PKO Bank Polski SA's Foundation

Charity activities play an important role in forming image of PKO Bank Polski SA as an institution that notices the significance of corporate social responsibility. Apart from the image issues, participation in charity activities creates also the possibility of contacts with opinion-setting circles. The charity activities of the Bank are carried out through the PKO Bank Polski SA's Foundation. From the beginning of its existence, the purpose of the Foundation is to act on behalf of the Bank and its Group for public benefit in the following areas: education, social aid, health protection and promotion, culture and arts, environment protection, activities supporting development of local communities and promoting social causes and organisation of voluntary work in the banking sector. The execution of these tasks builds strong relations between the Bank and the community and improves mutual trust. The Foundation is one of the main tools for performing such tasks.
In 2012, the PKO Bank Polski SA's Foundation allocated approx. PLN 11 million for programme-related activities , including above PLN 9 million for strategic projects and approx. PLN 2 million for local and individual projects.

Table 23. Main areas of charity activities

	2012		2011	
Area	Number of donations	Share in budget	Number of donations	Share in budget
Social aid	127	19%	85	24%
Life and health rescue	487	31%	61	29%
Sport and leisure	16	1%	48	13%
Education and entrepreneurship	35	19%	36	9%
Culture and national heritage	40	31%	13	12%
Help to victims of natural calamities and disasters	0	0%	6	1%
Other	0	0%	33	10%
Total	**705**	**100%**	**282**	**100%**

The effects of increased involvement of the Foundation in 2012 included i.a.:

- cooperation with the SPINKA Association on the 'Mobilność osób niepełnosprawnych' (Mobility of disabled people) project – a comprehensive programme for supporting the mobility of disabled persons;
- initiating strategic partnership with 'Klub Gaja' - an organisation engaged in environmental and cultural activities, in connection with the 'Zaadoptuj rzekę' (Adopt a river) project;
- initiating cooperation with the Vilnius Region Foundation and the Foundation for Helping the Children of the Grodno Region on the 'Repatriation' project aimed at bringing Polish families from Kazakhstan and helping them in the adaptation process.

Moreover, the Foundation continued cooperation with:

- the circle of Polish IT specialists, mathematicians and programmers in respect of the execution of joint projects and scholarship programmes (with the Warsaw University, the Foundation for Information Technology Development and the Strategic Solutions Centre);
- the SIEMACHA Association, on a project 'Education for children and adolescents threatened by social exclusion';
- the WIOSNA Association, on the 'Noble Parcel' project addressed to the poorest families;

and it participated in organisation of more than 30 Santa Claus' Day Meetings across Poland for children from care centres and orphanages, and for children of the employees of PKO Bank Polski SA. More than 7 thousand of children participated in these events.
At the same time, the Foundation also worked on:

- a system for electronic submission of applications by beneficiaries through an online system;
- methods for popularising volunteering among employees;
- preparation, in cooperation with the Inteligo brand, of a modern charity card 'dobro procentuje' (being good pays off), which will help support charity tasks in the strongest areas of the Foundation's programme, such as: education, health and ecology.

5.10 Promotional activities carried out by other companies of the PKO Bank Polski SA Group

In 2012, promotional activities of other companies of the Group were mainly aimed at promoting products and services offered by the Companies and were focused in particular on:

- carrying out marketing activities by PKO Towarzystwo Funduszy Inwestycyjnych SA supporting the sale of new products, including the systematic saving programme named 'Osobisty Program Inwestycyjny' (Personal Investment Programme) and activities promoting Pension Package of PKO TFI (Indywidualne Konto Emerytalne and Indywidualne Konto Zabezpieczenia Emerytalnego) carried out in the press and on the Internet;
- promotional activities of Centrum Elektronicznych Usług Płatniczych 'eService' SA for making MasterCard and VISA contactless payments popular in sales points i.a. as a part of 'VISA dołącz do najlepszych' (VISA join the best) contest and the organisation of contests promoting the sale of prepaid charges and the usage of 'Transakcja w Walucie Karty' (Transaction in the card currency – DCC) service;
- advertising activities of new pension products offered by PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA: PKO Indywidualnego Konta Zabezpieczenia Emerytalnego and PKO Indywidualnego Konta Emerytalnego;
- promoting products offered by the Bankowy Fundusz Leasingowy SA Group entities, in particular lease of machinery and equipment and passenger cars i.a. by participation in fairs (Wiatr i Woda (Wind and Water), Masz-bud, Trans Expo, Agro Show) and press advertising.

5.11 Prizes and awards granted to entities of the PKO Bank Polski SA Group

In 2012, PKO Bank Polski SA and other entities of the PKO Bank Polski SA Group have been granted numerous prizes and awards, including the following:

Products and services

Bank dla Firm (Bank for Companies)
For the first time PKO Bank Polski SA was awarded in the ranking of the 'Forbes' magazine – Bank dla Firm (Bank for Companies). The product offer, quality of services and a number of highly qualified advisors were appreciated.

Szkolne Kasy Oszczędności (School Savings Unions) as the 'Projekt Roku' (Project of the year)
PKO Bank Polski SA won the prize awarded by the Committee of the 7th E-Economy Congress in the Project of the Year category. The Committee members rewarded the PKO Bank Polski SA's project of School Savings Unions. In their opinion, it contributes to the development of e-economy in Poland, educates the young generation in financial management, and promotes non-cash transactions.

PKO Bank Polski SA with the Pearl of Innovation
PKO Bank Polski SA was awarded the Pearl of Innovation in the Pearls of the Polish Economy ranking for development of e-banking and, in particular, for the project of implementing an innovative mobile payment system at the beginning of 2013. The 'Pearls of the Polish Economy' ranking is prepared by the Institute of Economics of the Polish Academy of Sciences in cooperation with the publisher of the 'Polish Market' economic monthly.

2nd place in the Credit Card Ranking for the PKO Visa Infinite Card
The Forbes magazine gave the Visa Infinite card issued by PKO Bank Polski SA the 2nd place in its Credit Card Ranking. This black card for prestigious customers was ranked so high due to its exclusivity, top service quality and an extensive Privilege Programme for the most demanding group of customers.

Award for the Inteligo
The Inteligo account was awarded in the category 'User-friendly Internet Account 2011' in 'the Polish Internet' competition organised by The World Internet Foundation.

'Przyjazny Bank Newsweeka' (Newsweek Friendly Bank) ranking
Inteligo was again among the first three in the 'Przyjazny Bank Newsweeka 2012' (Newsweek Friendly Bank 2012) ranking, in the category of an internet bank. The Inteligo account was appreciated mainly for attractive price terms.

Złoty Bankier (Golden Banker)
PKO Bank Polski SA received the largest number of positive opinions from internet users in the best mortgage loan category, thus winning 1st place and getting 38% of the votes in the pool organised by the internet service Bankier.pl and PayU company.

Lider Informatyki (IT Leader)
PKO Bank Polski SA was the winner in competition 'Lider Informatyki' (IT Leader) organised by the Editorial Section of Computerworld in the category of Banking and Finance. Electronic banking interface for SKO, IT support for NEMO project and service system of the mass benefits of the Social Insurance Institution (ZUS) were appreciated.

Call Centre of PKO Bank Polski SA the best in Poland
PKO Bank Polski SA won the first place in research of telephone and mail customer service quality conducted by ARC Rynek i Opinia. The Bank defeated 15 competitor banks and scored more than 97 points out of 100. Pollsters appreciated call centre employees for a kindness, commitment and professionalism. Another factor that contributed to the success was the shortest waiting time on the market to connect with a consultant.

Brokerage and Treasury activities

The Brokerage House awarded by the WSE
The Brokerage House of PKO Bank Polski SA was awarded by the Warsaw Stock Exchange for its achievements in 2011. The Brokerage House received an award for the highest value of IPOs of companies introduced on the Warsaw Stock Exchange primary market.

Ranking of Brokerage Houses according to Forbes
The Forbes monthly announced the Brokerage House of PKO Bank Polski SA the greatest winner of this year's 'Ranking of Brokerage Houses' - the Brokerage House of PKO Bank Polski SA went up in nearly all the categories.

The Treasury Securities Dealer of the year 2013
The Ministry of Finance gave PKO Bank Polski SA the title of the Treasury Securities Dealer of the year 2013.
The choice was made based on the results of a contest conducted in accordance with the rules and regulations of performing the function of the Treasury Securities Dealer. The final score was determined based on points granted in the following three categories in the period from 1 October 2011 to 30 September 2012: participation in purchases on the primary market, quality of quotations on the secondary market and cooperation with the Ministry of Finance.

Awards for active participation in the Treasury BondSpot market
PKO Bank Polski SA received three awards for active participation in the Treasury BondSpot Poland market in 2011. The Bank received awards in the following categories: the most active on the Treasury BondSpot Poland market in the years 2002-2012, the most active in fixing sessions on that market in 2011, the biggest turnover in the Treasury BondSpot Poland cash segment in 2011.

Financial results

'100 best financial institutions' ranking
PKO Bank Polski SA ranked the 1st place in the financial institutions ranking by revenue for 2011 organised by Gazeta Finansowa.

'50 largest banks in Poland 2012' ranking
PKO Bank Polski SA received the main prize in the ranking of the '50 largest banks in Poland 2012' conducted by 'Bank' monthly. Among other things, the growth dynamics of the Bank's total assets and its overall market activity were appreciated.

The best annual report
The annual report of PKO Bank Polski SA for the year 2011 received the main prize in 'The Best Annual Report' contest, in the 'Banks and financial institutions' category. The contest is organised by the Accounting and Taxation Institute. As in the preceding years, the bank's report was considered the most useful for shareholders and investors.

Awards for the Management Board of the Bank

The President of the Management Board of PKO Bank Polski SA the Wektor 2011 (Vector 2011) award winner
Zbigniew Jagiełło, the President of the Management Board of PKO Bank Polski SA, received a 'Vector 2011' reward, granted by the Chapter of the Employers of Poland, for 'the spectacular success of PKO Bank Polski SA during the financial crisis and strong competition for the vision of the bank's development and effective strengthening of the leadership position on the market of Central and Eastern Europe'.

Zbigniew Jagiełło as Manager of the Year
Zbigniew Jagiełło, the President of the Management Board of PKO Bank Polski SA was honoured by Gazeta Bankowa with the title of the Banking Manager of the year 2011. At the same time, the Bank was awarded with the 'Highest Effectiveness' award in its category.

Zbigniew Jagiełło as one of the most efficient presidents
Zbigniew Jagiełło, the President of the Management Board of PKO Bank Polski SA, was listed among the 'Golden 10' most efficient presidents and the 'TOP 10 Professionals 2012'. Both lists were prepared and published by the 'Wprost' weekly.

Byki i Niedźwiedzie (Bulls and Bears)
Zbigniew Jagiełło received the statuette of the President of the Year. During the 18th edition of the 'Bulls and Bears' awards organised by Gazeta Giełdy Parkiet. Also the Brokerage House of PKO Bank Polski SA was awarded in the competition for carrying out the largest initial offerings and gaining the largest number of new investment accounts.

TOP 20
Zbigniew Jagiełło the President of the Management Board of PKO Bank Polski SA was included among the TOP 20 – best managers in the time of crisis, in the ranking organised by the Editorial Section of 'Bloomberg Businessweek Polska'. The Editorial Section explained its decision as follows: 'As a manager he is able to not only resist the crisis but also to gain from it and PKO Bank Polski SA is a company which in the conditions of high volatility and uncertainty on the markets achieves very good financial results and increases effectiveness'.

Złoty Bankier (Golden Banker)
Zbigniew Jagiełło, the President of the Management Board of PKO Bank Polski SA received an award in the special category 'Personality of the Year 2011' 'for his vision of modernising the largest Polish bank and its fulfilment'.

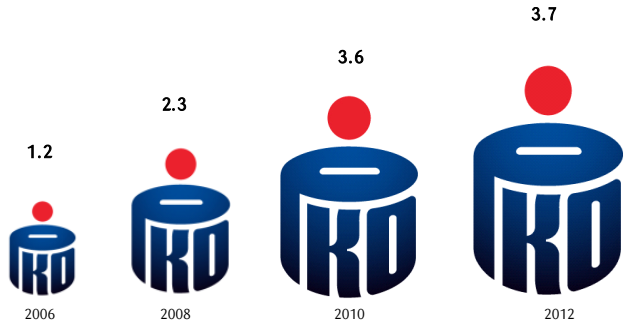
The brand

100 Most Valuable Firms according to Newsweek
PKO Bank Polski SA ranked the 1st place in the 'Banking' category in the ranking of the '100 most valuable firms according to Newsweek'. In accordance with the adopted methodology, as of the end of 2009 the Bank's value increased by approx. 84%.

PKO Bank Polski SA Marką Godną Zaufania (PKO Bank Polski SA – a Reliable Brand)
For the eighth time PKO Bank Polski SA received the Golden Statuette of the Reliable Brand in the 'Bank' category. The winning brand was chosen by 28% of participants in the annual survey carried out by the monthly Reader's Digest.

The strongest financial brand
PKO Bank Polski SA took the 1st place in the finance category, and the 2nd place in the general ranking. The PKO Bank Polski SA brand is one of the most valuable brands on the market. The Rzeczpospolita daily estimated its value at PLN 3.72 billion. Its value grew by as much as 200% over the last 6 years. As the authors of the ranking pointed out, the Bank i.a. made good use of the financial crisis by developing its lending activity, while its competitors belonging to global financial institutions cut down their business.

Value of PKO Bank Polski SA brand*



* according to the rating of the most valuable Polish brands published by Rzeczpospolita (in PLN billion)

For the purposes of the ranking, a worldwide used method relief from royalty was adopted. It is based on hypothetical licensing fees that the user of the brand would have to pay, if he did use it basing on the license agreement. Such a fee is settled in relation to net income on sales.

Employer

The Ideal Employer

PKO Bank Polski SA was one of the ten best employers in the 'Business' category and received the title of Ideal Employer 2012 in one of the most prestigious student rankings, carried out by an international company UniversumGlobal. The carried out studies show that the most important objectives of the Polish students in respect of professional career are employment security, achieving the expert position and balance between personal and professional life.

PKO Bank Polski SA as the most wanted employer

PKO Bank Polski SA was announced the most wanted employer in the survey conducted by Antal International, 'The most wanted employers in 2012 in the opinion of professionals and managers' in the 'Banking, insurance, financial institutions' category.

Top Employers

PKO Bank Polski SA received the international Top Employers certificate for the highest HR standards, title awarded by the CRF Institute which specialises in research of personnel policy and working conditions in organisations all over the world. Conducted research shows that PKO Bank Polski SA is perceived as a stable and modern institution which offers its employees development possibilities both through training and internal promotions.

Promotional activities

Złote strzały (Golden Arrows)

In the seventh edition of the Golden Arrow competition organised by the Direct Marketing Association and VFP Communications PKO Bank Polski SA was awarded two 'Golden Arrows'. In the 'Campaign' category the project of launching the zero cost account PKO Konto za Zero received an integrated statuette, while in the 'Golden Arrow open' category – the marketing campaign for relaunching the brand.

Silver EFFIE 2012

The campaign with the participation of Szymon Majewski, aimed at repositioning the PKO Bank Polski SA brand and refreshing the image of the biggest Polish bank, was rewarded in the 13th issue of Effie Awards.

Awards for the other Group entities

Pension Fund of 2012 in Poland

PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA received the above mentioned title from the World Finance magazine gathering together journalists and correspondents specialising in financial issues, published by World News Media in London.

Order Finansowy 2012 (Financial Order 2012)

PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA received the above mentioned award granted by the Home&Market monthly magazine in the pension funds category.

CEE IPO Summit Awards 2012

PKO Towarzystwo Funduszy Inwestycyjnych SA received the CEE IPO Summit Awards 2012 statuette in the Best Domestic Emerging Markets Long Fund category for the high quality of PKO TFI funds, which are based on a well-organised investment process, experienced managers, innovative products combined with a consistent approach to investment risk.

The best regular saving programme offered by an Investment Fund Company

The Personal Investment Programme (PIP) of PKO Towarzystwo Funduszy Inwestycyjnych SA was twice considered the best regular saving programme offered by Investment Funds in Poland by the Analizy Online research institution.

The UKRAINIAN BANKER AWARDS 2012 ranking

In the above mentioned ranking organised by the 'Inwestgazeta' financial and economic weekly, KREDOBANK SA was ranked second in the Ukraine in 'the best regional bank' category.

The Car Fleet Management Leaders ranking

Bankowy Fundusz Leasingowy SA took second place in Poland for the first half of 2012 in the above mentioned ranking published by Gazeta Finansowa.

Other

Lider Odpowiedzialnego Biznesu (Responsible Business Leader)
PKO Bank Polski SA was awarded the title of Lider Odpowiedzialnego Biznesu (Responsible Business Leader) for executing corporate social responsibility in all areas, in the second edition of competition organised under the auspices of Employers of Poland - in the financial sector category.

PKO Bank Polski SA as the Innovator of the Year 2012
PKO Bank Polski SA received the title of Innovator in a survey organised by the 'Wprost' weekly. The Bank was rewarded for its regular investments in the processes aimed at developing innovation on the banking market, which improve the competitive position of the whole Polish economy.

6. INTERNAL ENVIRONMENT

6.1 Principles of risk management

Risk management is one of the most important internal processes in PKO Bank Polski SA as well as in the other PKO Bank Polski SA Group entities. The objectives of risk management are to ensure an adequate level of security and profitability of business operations in the changing legal and economic environment. The level of risk plays an important role in the planning process.
The following types of banking risk which are subject to risk management have been identified in the PKO Bank Polski SA Group: credit risk, interest rate risk, currency risk, liquidity risk, commodities prices, price risk of equity instruments, operational risk, compliance risk, business risk (including strategic risk) and reputation risk. Derivatives risk is a subject to a special control due to the specific characteristics of these instruments.
Risk management in the Group is based on the following principles:

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

The risk management process is supervised by the Supervisory Board of the Bank, which is informed on a regular basis about the risk profile of the Bank as well as of the PKO Bank Polski SA Group and about the most important activities taken in the area of risk management.
The Bank's Management Board is responsible for the risk management, including supervising and monitoring of activities taken by the Bank in the area of risk management. The Bank's Management Board approves the most important decisions affecting the risk level of the Bank and enacts internal regulations defining the risk management system.
The risk management process is carried out in three, mutually independent lines of defence:

- the first line of defence, which is functional internal control that ensures using risk controls and compliance of the activities with the generally applicable laws,
- the second line of defence, which is the risk management system, including risk management methods, tools, process and risk management organisation,
- 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 of the Bank.

The Bank supervises activities of the individual subsidiaries of the PKO Bank Polski SA Group. As part of this supervision, the Bank sets out and approves their development strategies, including the level of the risk. The Bank also supervises the entities' risk management systems and provides support in the development of these systems. Additionally, it reflects business risk of the particular entities in the risk reporting and risk monitoring system of the entire Group.
The management process of certain types of risk in the Group entities are defined by internal regulations implemented by those entities, after taking the Bank's opinion and having taken into account the recommendations issued to the entities by the Bank. The internal regulations of the entities concerning risk management are introduced on the basis of consistent and comparable assessment of particular types of risk within the Bank and the Group entities, taking into consideration the specific nature of the entity's activity and the market on which it operates.
The PKO Bank Polski SA Group's priority is to maintain its strong capital position and to increase its stable sources of funding, which constitute a basis for the stable development of business activity, while maintaining the priorities of efficiency and effective cost control.

In this respect, the Bank took the following actions in 2012:

- it revolved a part of a syndicated loan in the amount of CHF 410 million repayable in July 2012 (with a new maturity in June 2015) and issued bonds in the amount of EUR 50 million, as part of the EMTN programme with 10-year maturity,
  CHF 500 million as part of the EMTN programme with ca. 3-year maturity and USD 1 billion on the American market, with 10-year maturity,
- transferred a part of the Bank's profit for 2011 to own funds,
- executed a call option in the third quarter of 2012 and on 30 October 2012 redeemed subordinated bonds of PLN 1.6 billion, issued in 2007, and recognised the funds from the issue of subordinated bonds issued on 14 September 2012 as part of the supplementary funds in the place of those funds.

Moreover, in December 2012, the Polish Financial Supervision Authority confirmed that PKO Bank Polski SA met the conditions of high materiality resulting from the PFSA decision issued in June 2011 on conditional consent for applying the AMA method. Therefore, the PFSA enable to use the AMA method to calculate the capital requirements in respect of operational risk without the limitation relating to a decrease in the capital requirement by no more than up to a level of 75% of the capital requirement calculated under the standardised approach. As a result, the Bank calculated the capital requirement in respect of operational risk as at the end of 2012 in full compliance with the AMA method.
In 2012, works aimed at optimising the lending process and increasing its efficiency through the improvement of the management information system (MIS) and optimisation of the lending process dedicated to individuals, small and medium enterprises (SME) and corporate clients were carried out at KREDOBANK SA. Furthermore, internal regulations concerning the basic principles of the lending process organisation and regulations relating to the process of lending to individuals and legal persons were amended.
In 2012, the Bankowy Fundusz Leasingowy SA Group (the BFL SA Group) focused mainly on building a safe lease portfolio to guarantee positive consolidated financial results of the BFL SA Group, safety of the capital and reduction in the share of irregular receivables in the portfolio. Moreover, the internal regulations concerning market risk management were amended.

6.1.1 Credit risk

Credit risk is defined as a risk of occurrence of losses due to a client'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 a client's ability to repay due amounts.
The objective of credit risk management is to reduce losses of loan portfolio and to minimise the risk of impaired loans, while maintaining an expected level of yield and loan portfolio value.
The Bank and the Group's subsidiaries apply mainly the following principles of credit risk management:

- a loan transaction requires comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk assessment related to loan transactions is measured on the stage of a loan request review and a cyclical basis during the monitoring process, taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures which are significant due to their risk levels or their 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 generated by the contract,
- loan granting decisions are made only by authorised persons within their authority,
- credit risk is diversified in particular by geographical location, by industry, by product and by clients,
- expected credit risk level is mitigated by setting by the Bank legal collateral, credit margins collected from clients and impairment allowances on loan exposures.

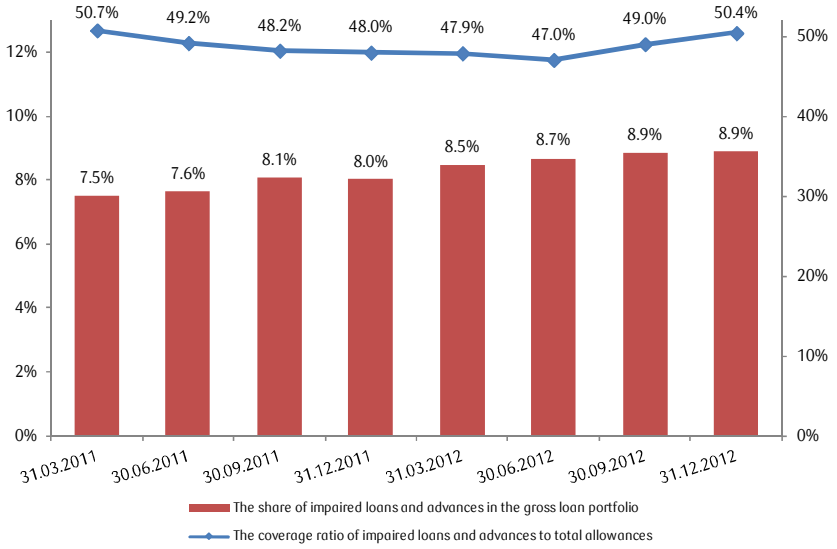
The above mentioned policies are executed by the Bank through the use of advanced credit risk management methods, both on the level of individual exposures and on the level of the whole credit portfolio of the Bank. These methods are verified and developed to ensure compliance with the internal ratings based requirements (IRB), i.e. advanced credit risk measurement method, which can be used while calculating capital requirements for credit risk after being approved by the Polish Financial Supervision Authority.
The Bank assesses the credit risk of retail clients on two levels: the client's borrowing capacity and creditworthiness. The assessment of borrowing capacity involves an examination of the client's financial situation, whereas the creditworthiness assessment involves scoring and evaluating the client's credit history obtained from external databases and internal records of the Bank.
Credit risk relating to the financing of corporate clients is assessed on two levels: the client and the transaction. These assessments are based on the ratings of the client and the transaction. The cumulative rating is a synthetic measure of credit risk.
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. This assessment is dedicated to low-value, uncomplicated loan transactions and it is performed in two dimensions: the client's borrowing capacity and creditworthiness. The borrowing capacity assessment involves examination of the customer's financial situation, whereas the creditworthiness assessment involves scoring and evaluation of the customer's credit history obtained from internal records of the Bank and external databases.
Information on ratings and scoring is widely used in the Bank for the purposes of credit risk management, the system of credit decision-making powers, determining the amounts above which independent credit assessment services are activated and in the credit risk assessment and reporting system.
In May 2012, a behavioural scoring system at the customer level was implemented at the Bank to replace the previous behavioural scoring system at the product level. The implementation of such scoring will make it possible to manage the total exposure of a retail customer using the mechanisms for comprehensive customer assessment based on both loan and deposit products held by that customer.

Table 24. The structure of loan portfolio and impairment allowances of the PKO Bank Polski SA Group (in PLN million)

	31.12.2012	31.12.2011	Change 2012/2011
Loans and advances to customers			
Assesed on the individual basis	8 088.0	6 549.4	23.5%
Impaired, of which:	6 506.7	5 701.5	14.1%
Receivables from finance leases	*134.4*	*142.2*	*-5.4%*
Not impaired, of which:	1 581.3	847.8	86.5%
Receivables from finance leases	*128.1*	*89.5*	*43.2%*
Assessed on the portfolio basis, of which:	6 939.2	6 095.7	13.8%
Impaired, of which:	6 939.2	6 095.7	*13.8%*
Receivables from finance leases	*132.2*	*107.9*	*22.5%*
Assessed on the group basis (IBNR), of which:	135 624.8	134 647.7	0.7%
Receivables from finance leases	*3 177.6*	*2 656.6*	*19.6%*
Loans and advances to customers - gross	**150 651.9**	**147 292.7**	**2.3%**
Allowances on exposures assessed on the individual basis	(2 707.9)	(2 079.6)	30.2%
Impaired, of which:	(2 647.5)	(2 079.6)	27.3%
Allowances on lease receivables	*(35.2)*	*(36.2)*	*-2.8%*
Allowances on exposures assessed on the portfolio basis, of which:	(3 516.5)	(2 910.0)	20.8%
Allowances on lease receivables	*(73.5)*	*(60.1)*	*22.4%*
Allowances on exposures assessed on the group basis (IBNR), of which:	(551.8)	(668.6)	-17.5%
Allowances on lease receivables	*(13.5)*	*(12.1)*	*11.2%*
Allowances – total	(6 776.3)	(5 658.2)	19.8%
Loans and advances to customers – net	**143 875.6**	**141 634.5**	**1.6%**

In 2012, the value of gross loans granted by the Group and assessed on the individual basis increased by PLN 1 538.6 million, assessed on the group basis increased by PLN 977.1 million and those assessed on the portfolio basis increased by PLN 843.5 million.
The chart below presents the share of impaired loans and their coverage ratio.

Chart 1. The share of impaired loans and advances in the PKO Bank Polski SA Group and the coverage ratio to total allowances



The share of impaired loans and advances in the PKO Bank Polski SA Group's gross loan portfolio as at 31 December 2012 amounted to 8.9% and increased by 0.9 pp. as compared to 31 December 2011 (see chapter 3.2).
The coverage ratio of impaired loans for the PKO Bank Polski SA Group as at 31 December 2012 amounted to 50.4%, compared with 48.0% as at 31 December 2011 (see chapter 3.2).
The Group entities, which have significant credit risk levels (the KREDOBANK SA Group, the BFL SA Group, the BTK SA Group, the 'Inter-Risk Ukraina' Group) manage their credit risk individually, but the methods used by them for credit risk assessment and measurement are adjusted to the methods used by PKO Bank Polski SA, taking into account the specific nature of the activities of these entities.
Any changes to the solutions used by the Group's subsidiaries are agreed each time with the Bank's units responsible for risk management.

The BFL SA Group, the BTK SA Group, the KREDOBANK SA Group and the 'Inter-Risk Ukraina' Group measure credit risk regularly and the results of such measurements are submitted to the Bank.
Appropriate organisational units of the Banking Risk Division participate in managing the credit risk in the Group entities by giving their opinions on projects and periodically reviewing internal regulations of the companies relating to the assessment of credit risk and preparation of recommendations relating to amendments in the drafts of regulations. The Bank supports implementation of the recommended changes in principles for assessing credit risk in the Group entities.

6.1.2 Interest rate risk

The interest rate risk is a risk of incurring losses on 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 potential 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.
In the process of interest rate risk management, the Group uses the Value at Risk (VaR) model, interest income sensitivity measure, stress testing and a repricing gap.
Methods of interest rate risk management in the Group's subsidiaries are defined by internal regulations implemented by those entities which are characterised by significant values of interest rate risk measure outcomes. These regulations are developed after consultation with the Bank and take into account recommendations issued to the entities by the Bank.
The PKO Bank Polski SA Group's exposure to interest rate risk as at 31 December 2012 and 31 December 2011 consisted mainly of the Bank's exposure. The interest rate risk for such currencies as PLN, EUR and CHF, generated by the Group entities, did not have a material influence on the interest rate risk of the whole Group and, as a result, did not change significantly its risk profile. Interest rate risk for USD was changed significantly by the exposure of the Group entities, in which the most significant exposure concerned KREDOBANK SA.

Table 25. VaR of PKO Bank Polski SA and stress tests analysis of the Group's exposure to the interest rate risk (in PLN thousand)

Name of sensitivity measure	31.12.2012	31.12.2011
VaR for a 10-day time horizon*	64 451	62 661
Parallel movement of the interest rate curves by 200 b.p. (stress test)**	270 818	530 726

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day time horizon interest rate VaR for the main currencies, which amounted to approx. PLN 14 287 thousand as at 31 December 2012 and PLN 29 673 thousand as at 31 December 2011.

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

As at 31 December 2012, the Bank's interest rate VaR for a 10-day time horizon amounted to PLN 64 451 thousand, which accounted for approximately 0.32% of the value of the Bank's own funds. As at 31 December 2011, VaR for the Bank amounted to PLN 62 661 thousand, which accounted for approximately 0.36% of the Bank's own funds (own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio).

6.1.3 Currency risk

Currency risk is the risk of incurring losses due to exchange rate changes, generated by maintaining open currency positions in a given foreign currencies.
The objective of managing the currency risk is to reduce potential losses arising from exchange rate changes to an acceptable level by shaping the currency structure of statement of financial position and off-balance sheet items.
The Group measures currency risk using the Value at Risk (VaR) model and stress tests.
Methods of currency risk management in the Group's subsidiaries are defined by internal regulations implemented by those entities. The regulations are developed by entities, for which currency risk measurement tools obtain a significant value, after consultation with the Bank and taking into account recommendations issued to the entities by the Bank.

Table 26. VaR of PKO Bank Polski SA and stress tests of the Group's exposure to the currency risk, cumulatively for all currencies (in PLN thousand)

Name of sensitivity measure	31.12.2012	31.12.2011
VaR for a 10-day time horizon*	628	1 470
Change of CUR/PLN by 20% (stress test)**	32 581	17 210

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk as well as the specific nature of the market on which they operate, the Bank does not calculate consolidated VaR. These entities apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day time horizon VaR, which amounted to ca. PLN 614 thousand as at 31 December 2012 and ca. PLN 467 thousand as at 31 December 2011.
** The table presents the value of the most adverse stress test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%.

The level of currency risk was low both as at 31 December 2012 and as at 31 December 2011.

Table 27. The Group's currency position for particular currencies (in PLN thousand)

Currency	Currency position as at 31.12.2012	Currency position as at 31.12.2011
USD	(153 155)	(180 781)
EUR	(13 818)	83 153
CHF	(20 180)	(37 266)
GBP	4 653	50
Other (global net)	15 609	11 630

6.1.4 Liquidity risk

The liquidity risk is a risk of the lack of the possibility to pay the debts on time due to the lack of liquid assets. Lack of liquidity may arise from an inadequate structure of the statement of financial position, mismatch 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 ensure the appropriate level of capital necessary 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.
The Group's policy concerning liquidity is based on keeping a portfolio of liquid securities and growth of stable sources of funding (in particular a stable deposit base). In its liquidity risk management policy, money market instruments, including NBP open market operations, are used.
To ensure an adequate liquidity level, the Bank and the subsidiaries of the PKO Bank Polski SA Group implemented limits and thresholds for short, medium and long-term liquidity risk.
Methods of liquidity risk management in the Group's subsidiaries are defined by internal regulations implemented by entities, for which currency risk measurement tools obtain a significant value.
These regulations are developed after consultation with the Bank and take into account recommendations issued to the entities by the Bank.
The table below presents the Bank's liquidity reserve as at 31 December 2012 and 31 December 2011.

Table 28. Liquidity reserve of PKO Bank Polski SA (in PLN million)

Name of sensitivity measure	31.12.2012	31.12.2011
Liquidity reserve to 1 month*	13 568	17 723

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

As at 31 December 2012, the level of permanent balances on deposits constituted approximately 93.3% of all deposits of the Bank (excluding interbank market), which is a decrease by ca. 1.5 pp. as compared to the end of 2011.

6.1.5 Commodity price risk

Commodity price risk is the risk of incurring a loss due to changes in commodity prices, generated by maintaining open positions on the 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 through 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 the commodity price risk on the Bank's financial position is immaterial. In 2012, the items in transactions generating commodity price risk were closed each time at the end of business day.

6.1.6 Price risk of equity securities

The price risk of equity securities is the risk of incurring a loss due to changes in the prices of equity securities on the public market or stock exchange indices, generated by maintaining open positions in instruments sensitive to changes in these market parameters.
The price risk of equity securities results from operations conducted as part of trading activities (the Brokerage House of PKO Bank Polski SA), investing activities and from other operations as part of banking activities generating a position in equity securities.
Managing the price risk of equity securities is aimed at limiting possible losses due to changes in the prices of equity securities on the public market or stock exchange indices to a level acceptable to the Bank, by optimising the positions taken in instruments sensitive to changes in these market parameters.
Risk management is carried out by imposing limits on the activity of the Brokerage House of PKO Bank Polski SA and monitoring their utilisation.
An influence 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 they are not expected to increase significantly.

6.1.7 Derivative instruments risk

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

- the value of an instrument changes with the change of the underlying instrument,
- 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,
- it is to be settled at a future date.

The process of derivatives risk management is integrated with the management of interest rate, currency, liquidity and credit risks. However, due to the specific nature of derivatives it is subject to special control specified in the internal regulations of the Bank.
For the purpose of measuring the risk of derivative instruments i.a. the Value at Risk (VaR) model, which is discussed in the chapter concerning interest rate risk or in the chapter concerning currency risk, depending on the risk factor affecting the value of a given instrument is used.
Risk management is carried out by imposing limits on derivative instruments divided into banking and trading portfolios, monitoring the use of limits and reporting risk level.
Master agreements concluded by the Bank with the major business partners based on the standards developed by the Polish Banks 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 of exposure, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreements (Credit Support Annex).
Methods of derivative instruments risk management in the Group's subsidiaries are defined by internal regulations implemented by entities which take positions in derivative instruments or plan to take positions in such instruments. These regulations are developed after consulting the Bank and taking into account the recommendations issued to the entities by the Bank.
The positions taken by Group entities in specified derivative instruments are determined in a similar manner to positions taken by the Bank in these derivative instruments, taking into consideration the specifics of economic activity of companies.

6.1.8 Operational risk

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 Group to events which are beyond its control.
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.
The Bank uses various solutions to limit its exposure to operational risk, including the following:

- control instruments,
- human resources management (staff selection, enhancement of professional qualifications of employees, motivation packages),
- setting threshold values of Key Risk Indicators (KRI),
- strategic tolerance limits and limits on operational risk losses,
- contingency plans,
- insurance,
- outsourcing,
- business continuance plans.

For the purposes of operational risk management, the Bank collects internal and external data about operational events and their effects, data about the operational environment and data concerning the quality of functional internal control.
If the risk level is increased or high, the Bank applies the following approaches:

- risk reduction – mitigating the effect of risk factors or the results of risk materialisation;
- risk transfer – transfer of liability for covering potential losses to a third party;
- risk avoidance – giving up the activity that generates a risk or eliminating the probability of occurrence of a risk factor.

In 2012, the dominant impact on the operational risk profile of the Group was exercised by the following three entities: PKO Bank Polski SA, the BFL SA Group and KREDOBANK SA. The other Group entities, considering their significantly smaller scale and type of activity, generate only reduced operational risk. The Group's subsidiaries manage operational risk according to principles of risk management in PKO Bank Polski SA, considering their specific nature and scale of activity.
The Group entities manage operational risk according to principles of risk management in PKO Bank Polski SA, considering their specific nature and scale of activity.

6.1.9 Compliance risk

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of the Group, employees of the Group or entities acting on its behalf to comply with the provisions of the law, internal regulations and standards of conduct adopted by the Bank, including ethical standards.
The objective of compliance risk management is to ensure the Group's compliance with law and adopted standards of conduct and the Bank's acting as an entity that is reliable, fair and honest, through mitigating compliance risk, reputation risk or the Group's credibility and mitigating the risk of occurring financial losses or legal sanction risk resulting from breach of regulations and ethical standards.
Compliance risk management involves in particular the following:

- preventing involvement of the Group in illegal activities,
- ensuring data protection,
- propagating of ethical standards and monitoring their functioning,
- conflict of interest management,
- preventing situations where the Group's employees could be perceived as pursuing their own interest in the professional context,
- professional, fair and transparent formulation of product offers, advertising and marketing messages,
- prompt, fair and professional consideration of complaints, requests and quality claims of clients.

The rules concerning the process of compliance risk management adopted by all Group's entities is inherent within the PKO Bank Polski SA Group.

6.1.10 Business risk

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

The strategic risk is defined as a risk related to the possibility of negative financial consequences resulting from erroneous decisions, decisions made on the basis of an incorrect assessment or failing to make appropriate decisions to the direction of strategic development of the Bank.

Managing the strategic risk is aimed at maintaining, on an acceptable level, the negative financial consequences resulting from erroneous decisions, decisions made on the basis of an incorrect assessment or failing to make appropriate decisions to the direction of the strategic development of the Bank.

In measuring the strategic risk, the Bank takes into account an impact of selected groups of factors, distinguished in the activity and in the environment, which comprise in particular:

- external factors,
- factors related to the growth and development of the banking activities,
- factors related to the management of human resources,
- factors related to investment activities,
- factors related to the organisation's culture.

6.1.11 Reputation risk

The reputation risk is defined as the risk related to a possibility of occurrence of negative variations from the planned results of the Group due to the deterioration of the Group's image.

The objective of managing the reputation risk is to protect the Group's image and limit the probability of the occurrence and level of image-related losses.

Management of reputation risk in the Group comprises mainly preventive activities aimed at reducing or minimising the scale and the scope of image-related events, as well as selection of effective tools for protective measures aimed at eliminating, mitigating or minimising the unfavourable effect of negative image-related events on the Group's image.

6.1.12 Capital adequacy[8]

Capital adequacy is the maintenance of own funds by the PKO Bank Polski SA Group which exceeds higher of: the amount of capital requirements (the so-called Pillar 1) or internal capital requirements (the so-called Pillar 2).

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

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

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

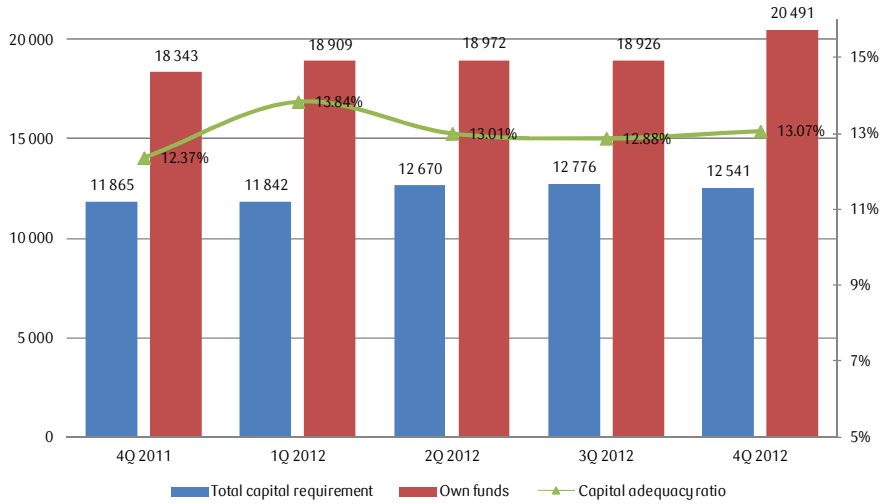
The main measures of capital adequacy are:

- the capital adequacy ratio, of which minimum level in accordance with the Banking Act is 8%,
- the ratio of own funds to internal capital, of which minimum level in accordance with the Banking Act is 1.0,
- the capital adequacy ratio for core equity (Common Equity Tier 1 ratio).

[8] Own funds for the purposes of capital adequacy are calculated in accordance with the provisions of the Banking Law and Resolution of the Polish Financial Supervision Authority No. 325/2011 of 20 December 2011 on deductions from own funds, their amount, their scope and conditions of their deduction from a bank's own funds, other statement of financial position items included in supplementary funds, their amount, their scope and conditions of inclusion in bank's supplementary funds, deductions from supplementary funds, their amount, their scope and conditions of their deduction from supplementary funds and the scope and manner of treating the activity of banks that are members of conglomerates in calculating own funds (Official Journal of PFSA No. 13, item 49 of 30 December 2011).

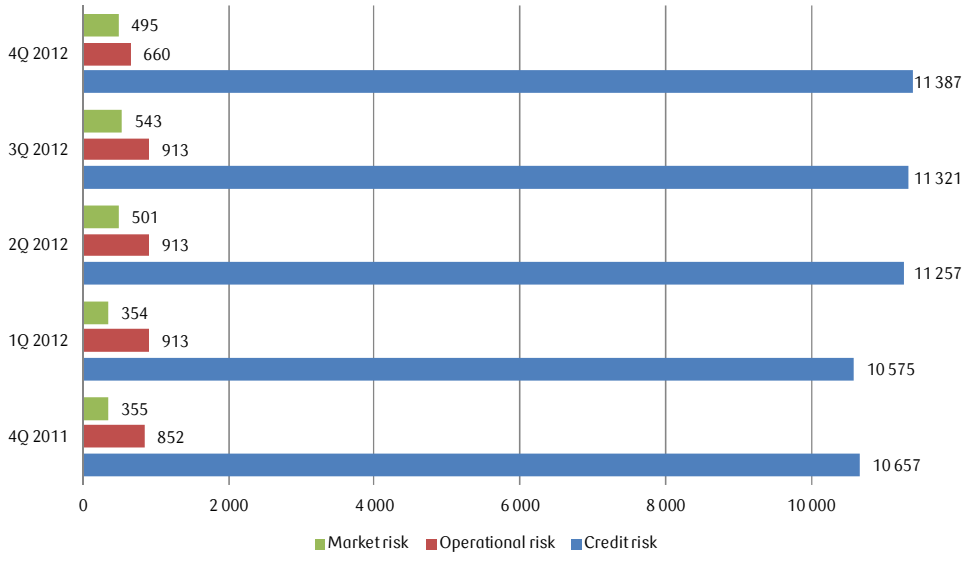
The capital adequacy level of the PKO Bank Polski SA Group in 2012 maintained at a safe level and was significantly above the statutory limits.

Chart 2. Capital adequacy of the PKO Bank Polski SA Group (in PLN million)



As at 31 December 2012 compared with 31 December 2011, the Group's capital adequacy ratio increased by 0.7 pp. to the level of 13.07%, as a result of the increase in the Group's own funds by 11.7% accompanied by the increase in the Group's total capital requirement by 5.7% y/y. As at 31 December 2012 compared with 31 December 2011, the Group's total capital requirement increased by PLN 676.5 million, mainly as a result of an increase in the capital requirement in respect of credit risk while the Group's own funds increased by PLN 2 148.1 million, mainly as a result of an increase in the Group's reserve capital.
The Group calculates capital requirements in accordance with the Polish Financial Supervision Authority Resolution No. 76/2010 of 10 March 2010 on the scope and detailed procedures for determining capital requirements for particular types of risk (Official Journal of the PFSA No. 2, item 11 of 9 April 2010 with subsequent amendments) in respect of credit risk – the standardised approach, in respect of the Bank's operational risk – the advanced measurement approach (AMA), in respect of market risk – the basic approach.

Chart 3. Capital requirements of the PKO Bank Polski SA Group (in PLN million)



An increase in the capital requirement in respect of credit risk by 6.8% y/y to the level of PLN 11 387.1 million contributed an increase in the loan protfolio and entry into force of the provision of the Resolution No. 153/2011 of the PFSA due to which from the date of 30 June 2012, there was an increase in risk weights (from 75% to 100%) for retail exposures and for exposures secured on residential property, for which the instalment of principal or interest depends on changes in the exchange rate of the currency or currencies other than the currency of revenues by the debtor.

An increase in the capital requirement in respect of market risk by 39.2% to the level of PLN 494.6 million was mainly due to the increase of liabilities due to securities underwriting agreements of corporate bonds with a simultaneous decrease of the corporate bonds' value (the total increase in the requirement in respect of bonds by ca. 77%).
A decrease in the capital requirement in respect of operational risk by 22.6% to the level of PLN 659.6 million was mainly due to elimination of conditions to maintain the limitation on the drop in the Bank's capital requirement by no more than up to a level of 75% of the requirement calculated under the standardised approach (TSA), applicable in the period from 30 June 2011 to 12 December 2012.

6.2 Human resources management

6.2.1 Incentive system in PKO Bank Polski SA

PKO Bank Polski SA has a remuneration and incentive system, in which the level of variable component of the salary is determined by the degree of achievement of the targets set. The procedure for target setting and performance measures used depends on the type of position and classification to one of the three employee groups: management, widely understood sales and processing-support. The system is based mainly on the Management by Objectives (MbO) model. As the individual remuneration is linked with the level and quality of performance of the tasks specified, the variable component of the remuneration is strengthened and represents an additional salary incentive. The system focuses on setting objectives which are aligned with the direction of development of the entire organisation; these tasks are then cascaded to particular organisational units and individual employees.
Three pillars of the remuneration and incentive system:
I Pillar, the so-called Management by Objectives (MbO) covers managers for which specific individual objectives may be assigned. The MbO consists of granting bonus which depends on the quality and degree of completion of the tasks assigned and is the system which focuses on: determining performance indicators, assessing performance against the targets assigned, granting bonuses depending on performance.
II Pillar, the so-called Individual Bonus System (IBS), is the system of bonuses which depends on the degree of completion of specific tasks in the areas of sales and effectiveness. The system covers those employees who are completing business tasks, mainly in retail branches and corporate centres, where individual or team, measurable targets can be defined or where there is a strong causal link between activities undertaken by individual employees and the level of achievement of the economic and financial results of the Bank.
III Pillar, the so-called Support Bonus System (SBS), includes other employees not covered by the system MbO and IBS. This is a typical 'participatory' solution, whereby award is granted for the achievement of targets by a person managing a given group of employees (a directors' contribution to the completion of tasks) and a unit. Given the nature of their jobs, such employees have an indirect, but significant impact on the degree of completion of the tasks assigned to their superior and the organisation as such, and thus participate in the results achieved by the Bank. It is also possible to define separate team targets (for an internal organisational unit). In this case, the SBS is a bonus which depends on the quality and degree of completion of the tasks assigned to a team – solidarity-related targets.

The PKO Bank Polski SA Group entities have incentive, remuneration and commission systems in which the level of variable component of the salary is determined by the degree of achievement of the individual targets set. The procedure for target setting and belonging to the particular system depends on performed tasks and the size of the company. Managers of the most Group entities and senior executive of the selected Group entities is covered by the Management System by MbO Objectives that is based on the principles that are applied in the Bank.

6.2.2 Remuneration policy in PKO Bank Polski SA

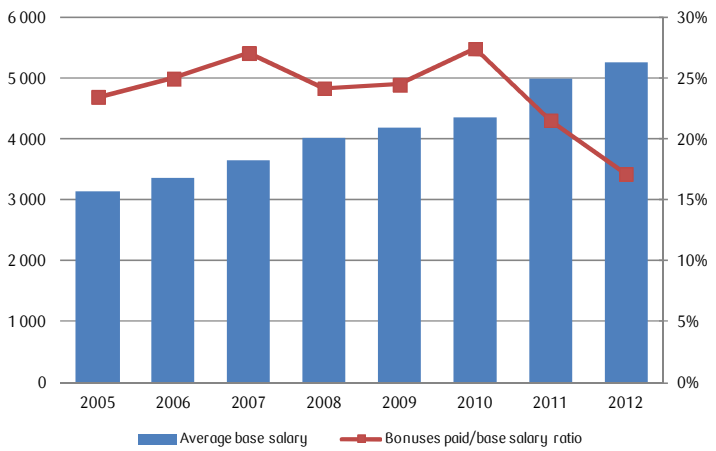
The basic internal regulation regard of remuneration policy is the Collective Labour Agreement (ZUZP) concluded with the company trade union organisations on 28 March 1994 (with subsequent amendments), under which employees of the Bank receive the following remuneration components:

- the base remuneration,
- additional remuneration for working overtime, as well as under conditions which are especially onerous and detrimental to health,
- long service bonuses,
- one-off cash bonuses in connection with retiring on a pension or a disability pension due to a complete or partial inability to work,

and in addition, based on the separate resolutions passed by the Management Board of the Bank as a result of a recommendation of ZUZP in consultation with the trade union organisations, bonuses and awards for special achievements in work.

In the PKO Bank Polski SA Group entities the principles of the remuneration are set out in rules of remuneration or in employment contracts depending on the size of employment. Principles of the remuneration of members of the Management Boards of those Companies are set out in the employment standards of the members of the Management Boards of the Group entities.

Chart 4. Average base salary and bonuses paid/base salary ratio (in PLN)



6.2.3 Benefits for employees

Medical care

The Bank ensures its employees additional, besides occupational health services (resulting from the regulations of the Polish Labour Code), medical care owed to employees according to various packages, addressed to particular groups of jobs as well. All packages enabled employees to have unlimited number of doctors' consultations in all areas of specialisation and to diagnostic tests ordered by them.
In 2011, the medical care for the employees was extended to include a health promotion programme called 'Zdrowie jak w Banku', covering, amongst others, a preventive health check and activities directed at health-oriented education and promoting a healthy life style.

The majority of the PKO Bank Polski SA Group entities ensure its employees additional medical care according to various packages depending on rules adopted in those Companies.
Providing broad range of charge medical services for employees constitutes a significant element of additional benefits provided for the employed in the PKO Bank Polski SA Group.

Social benefits

Table 29. Benefits granted by the Company Social Benefits Fund in 2012 to employees of PKO Bank Polski SA and former employees (pensioners, people receiving pre-retirement benefits) and members of their families

	Number of beneficiaries	Total money granted (in PLN million)
Refundable benefits*	4 649	65.8
Non-refundable benefits**	60 364	26.8
Total	65 013	92.6

* Housing loans.

** Including aids, organised and non-organised holidays subsidies, promotion of education, cultural and sport activities.

Number of employees

As at 31 December 2012, employment in the PKO Bank Polski SA Group amounted to 28 556 full-time positions, which is a decrease of 368 positions y/y. Employment in other (apart from PKO Bank Polski SA) Group entities increased by 142 positions which was related to development of business activities, while the increase in employment was mainly due to the following companies: the KREDOBANK SA Group, the 'Inter-Risk Ukraina' Additional Liability Company Group, the Qualia Development Sp. z o.o. Group and Inteligo Financial Services SA, whereas the biggest drop in employment concerned PKO BP BANKOWY PTE SA and was the result of restructuring of employment associated with the change of the business model of the company in terms of the statutory prohibition on acquisitions.

Table 30. Number of employees in PKO Bank Polski SA and other Group companies (in number of full-time equivalents)

	31.12.2012	31.12.2011	31.12.2010	Change in employment 2012/2011
PKO Bank Polski SA	25 399	25 908	26 770	(510)
Other Group entities	3 157	3 015	3 010	142
Total	28 556	28 924	29 780	(368)

As at 31 December 2012, PKO Bank Polski SA employed 25 892 persons (25 399 full-time equivalents). In 2012, redundancies for reasons unrelated to the employees affected 850 people.
Collective redundancies conducted in 2012 in the Bank resulted from the following reasons:

- the increase in the work effectiveness of the Bank's employees,
- adopting the number of employees to the changes in the manner or scope of tasks realised in the Bank's particular organisational entities and in the organisational units of the Head Office,
- implementing organisational changes, including the centralisation of functions and processes resulting in changes of the scope of tasks realised,
- implementing new IT technologies supporting cost reduction activities,
- needs of employment restructuring to adopt the qualification of the employed to changes in the manner of performing and in the quality of tasks realised by the Bank's organisational entities.

Training policy

All actions taken as a part of the training policy supported the execution of the 'Lider' Bank Development Strategy for the years 2010–2012. The training projects commenced in the previous years were adapted to the current needs of the employees and the possibilities of the organisation.
Objectives of the training projects executed in 2012:

- development of skills of the employees to support the execution of the PKO Bank Polski SA's strategic goals,
- promoting the Bank's values through training addressed to selected groups of employees,
- improvement of skills associated with selling techniques,
- maintaining the highest possible customer service quality,
- supporting the positive attitude to changes among the Bank's employees,

- increasing commitment to the performance of business tasks.

The above mentioned objectives could be achieved thanks to the consistent training policy followed by all teams of in-house and external trainers as part of the **'Training DNA'** programme.
The Training DNA was aimed at:

- exchange of knowledge and experience among all teams of internal trainers working in the Bank's structure;
- exchange of knowledge and experience between internal and external trainers conducting training courses for the Bank's employees;
- standardisation of training courses conducted by external and internal trainers;
- execution of selected training projects by multi-disciplinary teams (internal trainers);
- a consistent approach to analysing the training needs of the business on the basis of a competence model of PKO Bank Polski SA.

Selected training projects executed in 2012:

1. **'Akademia kompetencji' (Academy of Competence)**

It is as a competence development programme directed at the key managers of PKO Bank Polski SA – TOP 150.
In the previous years, meetings of the Academy of Competence were carried out with the slogan: 'Continuous improvement and Entrepreneurship'. In 2012, the following values of the Bank: 'Reliability and client Satisfaction' was the leading theme of inspiring meetings and workshops.
The aim of all meetings under the Academy was development of leadership competencies, supporting the strategy of the Bank as well as the inspiration for further development activities of managers.

2. **'Akademia Menedżera' (Manager's Academy)**

This is a comprehensive programme for the development of managerial skills in the form of workshops and training courses, co-financed by the European Union as a part of the European Social Fund.
The aim of the Academy is to ensure an increase in management knowledge and competencies which translates into an improvement in the Bank's operations, including:

- supporting the implementation of ambitious Bank Development Strategy for the years 2010-2012,
- change of staff mentality - orientation towards innovation and effectiveness,
- expanding skills which improve communication, the organisation of work and managing teams of employees, and developing tools supporting team management,
- shaping attitudes among managers directed at meeting customer needs, building long-term relationships and improving the quality of service.

Training and advisory activities as part of the Manager's Academy project will end in April 2013

3. **The programme of development of managerial skills addressed to sales managers in the Retail Market Area**

This is a programme for developing managerial skills for managers playing key roles in retail sales. The programme was aimed at developing social influence skills, the ability to manage relations in a team and the ability to use coaching and mentorship skills in planning, monitoring and controlling the sales network managers.

7. CORPORATE GOVERNANCE

7.1 Information for investors

7.1.1 Share capital and shareholding structure of PKO Bank Polski SA

As at 31 December 2012, the share capital of PKO Bank Polski SA amounted to PLN 1 250 000 thousand and consisted of 1 250 000 thousand shares with nominal value of PLN 1 each – shares are fully paid. In relation to the end of 2011 there were no changes in the share capital of PKO Bank Polski SA. All issued shares of PKO Bank Polski SA are not preferred shares.

Table 31. Share capital structure in PKO Bank Polski SA

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

To the best knowledge of PKO Bank Polski SA, as at 31 December 2012 there were three shareholders that hold, directly or indirectly, significant shareholding (at least 5%): the State Treasury, Bank Gospodarstwa Krajowego and ING Otwarty Fundusz Emerytalny, holding as at 31 December 2012, according to the Bank's knowledge, 417 406 277, 128 102 731 and 64 594 448 respectively of PKO Bank Polski SA's shares.
The share of the State Treasury, Bank Gospodarstwa Krajowego and ING Otwarty Fundusz Emerytalny in the share capital of PKO Bank Polski SA as at 31 December 2012 amounted to 33.39%, 10.25% and 5.17% respectively and matched the percentage share in the total number of votes at the General Shareholders' Meeting of PKO Bank Polski SA.

Table 32. Shareholding structure of PKO Bank Polski SA

Shareholders	As at 31.12.2012		As at 31.12.2011		Change of the share in the number of votes on GSM (pp.)
	Number of shares	Share in the number of votes on GSM	Number of shares	Share in the number of votes on GSM	
State Treasury	417 406 277	33.39%	512 406 277	40.99%	-7.60
Bank Gospodarstwa Krajowego	128 102 731	10.25%	128 102 731	10.25%	0.00
ING Otwarty Fundusz Emerytalny*	64 594 448	5.17%	-	x	x
Other shareholders**	639 896 544	51.19%	609 490 992	48.76%	2.43
Total	**1 250 000 000**	**100.00%**	**1 250 000 000**	**100.00%**	**0.00**

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

** As at 31 December 2011 ING OFE was included.

On 26 July 2012 PKO Bank Polski SA received a notification from the Minister of State Treasury of selling off a considerable stake of the Bank's shares by the State Treasury as a result of which the number of total votes held by the State Treasury in the Bank has changed.
According to the notification received by the Bank on 24 July 2012, 95 million Bank's shares held by the State Treasury were sold off in block transactions. Prior to the sell-off transaction conducted, the State Treasury held the total number of 512 406 277 Bank's shares giving the same number of votes at the General Shareholders' Meeting of the Bank. The shares amounted to 40.99% of the share capital and the same share in the total number of votes in the Bank. Together with BGK, holding 128 102 731 bearer shares representing 10.25% of the Bank's share capital, the above mentioned entities held 640 509 008 Bank's shares giving the same number of votes at the General Shareholders' Meeting of the Bank. The shares amounted to 51.24% of the Bank's share capital and the same share in the total number of votes in the Bank.
As a result of the above mentioned sell-off transaction on 24 July 2012 the State Treasury held 417 406 277 Bank's shares giving the same number of votes at the General Shareholders' Meeting of the Bank (33.39%).
On 31 July 2012 the Bank received a notification from ING Otwarty Fundusz Emerytalny about increasing the stake in PKO Bank Polski SA shares exceeding the threshold 5% of total number of votes at the General Shareholders' Meeting of the Bank. Prior to the purchase transaction ING Otwarty Fundusz Emerytalny held 53 631 448 shares of PKO Bank Polski SA, representing 4.29% of share capital and total number of votes at the General Shareholders' Meeting of the Bank. As a result of the acquisition of the PKO Bank Polski SA shares, cleared on 24 July 2012, ING Otwarty Fundusz Emerytalny increased its stake in the Bank's shares to 64 594 448, representing 5.17% of share capital and total number of votes at the General Shareholders' Meeting of the Bank.
On 31 January 2013, PKO Bank Polski SA informed about receiving a notification from BGK and the Minister of the State Treasury with regard to selling off a considerable block of Bank's shares as a result of which the number of total 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 in block transactions:

- Bank Gospodarstwa Krajowego sold 128 102 731 Bank's shares held, which amounted to 10.25% of the share capital and the number of total 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 number of total votes at the General Shareholders' Meeting of the Bank.

Prior to conclusion and settlement of this transaction, 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, which represent 31.39% of 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 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 these transactions Aviva OFE on 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 General Shareholders' Meeting of the Bank. After conclusion and the settlement of the above mentioned transactions Aviva OFE on 29 January 2013 held 83 952 447 Bank's shares representing 6.72% of the Bank's share capital and the total number of votes at the General Shareholders' Meeting of the Bank.

Table 33. Shareholding structure of PKO Bank Polski SA as at 29 January 2013

Shareholders	As at 29.01.2013		As at 28.01.2013		Change of the share in the number of votes on GSM (pp.)
	Number of shares	Share in the number of votes on GSM	Number of shares	Share in the number of votes on GSM	
State Treasury	392 406 277	31.39%	417 406 277	33.39%	-2.00
Bank Gospodarstwa Krajowego	0	0.00%	128 102 731	10.25%	-10.25
Aviva Otwarty Fundusz Emerytalny	83 952 447	6.72%	57 152 447	4.57%	2.14
ING Otwarty Fundusz Emerytalny*	64 594 448	5.17%	64 594 448	5.17%	0.00
Other shareholders	709 046 828	56.72%	582 744 097	46.62%	10.10
Total	**1 250 000 000**	**100.00%**	**1 250 000 000**	**100.00%**	**0.00**

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

7.1.2 Information concerning dividend

Dividend policy

On 4 April 2012, PKO Bank Polski SA adopted the dividend policy. The general principle of the Bank's dividend policy is the stable execution of dividend payments over a long period in keeping with the principle of prudent management and in line with the Bank's and the Group's financial capabilities. The objective of the dividend policy is to optimally shape the Bank's and the Group's capital structure, taking into account the return on capital employed and its cost, capital requirements related to development, accompanied by the necessity to ensure an appropriate level of the capital adequacy ratios.

The Management Board's intention is to recommend to the General Shareholders' Meeting in the future passing resolutions on dividend payments in amounts exceeding the adopted capital requirements indicated below:

- the capital adequacy ratio of the Bank and the Group will be above 12.00%, and the necessary capital buffer will be maintained,
- the common equity Tier 1 ratio of the Bank and the Group will be above 9.00%, and the necessary capital buffer will be maintained.

However, the dividend payment policy may be amended by the Management Board as required, and the decision in this matter will be made taking into account a number of factors related to the Bank and the Group, in particular, the current and anticipated financial standing and regulatory requirements. In accordance with the provisions of the law, each resolution on the payment of dividend will be considered by the General Shareholders' Meeting.

The dividend policy described above was approved by the Bank's Supervisory Board.

Dividend for the year 2011

On 9 May 2012 the Bank's Management Board adopted a resolution and decided to submit a recommendation to the Ordinary General Shareholders' Meeting on payment of a dividend for the year 2011 in the amount of PLN 1 587.5 million that is PLN 1.27 per share and proposed 12 June 2012 to be the date relevant establishing the right to the dividend (dividend day) and 27 June 2012 to be the dividend payment date.

In the opinion of the Management Board, the decision on the recommended distribution of profit for 2011 was in accordance with the Bank's dividend policy adopted on 4 April 2012. In the Bank's Management Board opinion a dividend payment in the recommended amount was to guarantee that the capital adequacy ratio is maintained above 12% and that the Tier 1 ratio is maintained above 9%, while maintaining the necessary capital buffer. In the Management Board opinion a dividend payment in the recommended amount should allow the Bank to maintain its good capital and liquidity position.

The proposed dividend level was in line with the recommendation of the Polish Financial Supervision Authority with regard to strengthening banks' capital bases. In accordance with a letter from the PFSA dated 29 December 2011, a bank may recommend payment of a dividend if:

- it has a capital adequacy ratio above 12%,
- its Tier 1 ratio is above 9%,
- it receives a BION rating of at least 2.5,
- the share of foreign currency loans to private individuals in its loan portfolio for private individuals does not exceed 50%.

PKO Bank Polski SA met all the above criteria such that the Management Board might recommend a payment of a dividend. The Management Board's recommendation on payment of a dividend was considered by and obtained a positive opinion of the Supervisory Board in accordance with § 9 clause 2 of the Memorandum of Association of the Bank. In accordance with Article 395 § 2 clause 2 of the Commercial Companies Code and § 34 of the Memorandum of Association of the Bank, the recommendation was submitted for consideration by the Bank's Ordinary General Shareholders' Meeting approving the financial statements for the financial year ending on the 31 December 2011.

On 6 June 2012, the Ordinary General Shareholders' Meeting of PKO Bank Polski SA, as a result of PKO Bank Polski SA profit appropriation for financial year 2011, allocated PLN 1 587.5 million (i.e. 40.15% of profit) as a shareholders dividend, representing PLN 1.27 per share and it was consistent with the recommendation of the Management Board. The General Shareholders' Meeting set the following dates:

- day of acquisition of the dividends right on 12 June 2012,
- the dividend payment date on 27 June 2012.

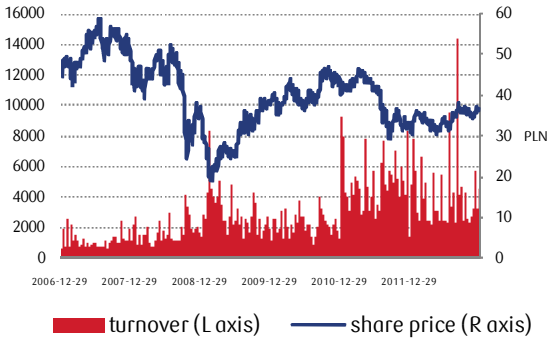
All of the shares of PKO Bank Polski SA, i.e. 1 250 000 000 were covered by the dividend.

7.1.3 Share price of PKO Bank Polski SA at the Warsaw Stock Exchange

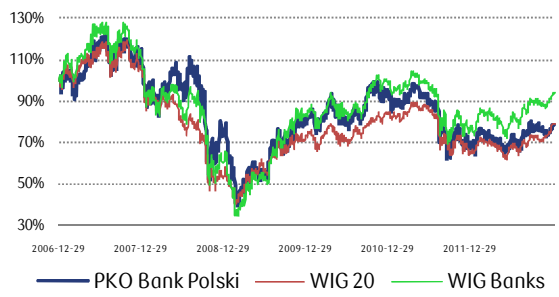
Share price of PKO Bank Polski SA

In 2012, the share price of PKO Bank Polski SA was mainly determined by the situation on the Warsaw Stock Exchange (GPW).

PKO Bank Polski SA share price and turnover in the period 29.12.2006-28.12.2012



Change of PKO Bank Polski SA share price compared to WIG 20 and WIG Banks indices in the period 01.01.2007-28.12.2012 (29.12.2006=100%)



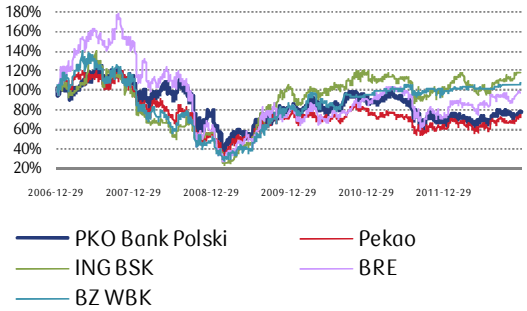
In 2012:

- the price of PKO Bank Polski SA shares increased by 14.9% (PLN + 4.78) from PLN 32.12 at the end of 2011 to PLN 36.90 at the end of 2012,
- the average price of the Bank's shares amounted to PLN 34.26 per share and was lower by 12.2% (PLN -4.78) than in 2011,
- the share price fluctuated in the range from PLN 30.50 (11 January and 24 May) to PLN 38.00 (14 September),
- the daily average volume of trading in the Bank's shares amounted to 2 410 thousand of shares while the highest level (14 366 thousand of shares) was recorded on 31 August and the lowest (601 thousand of units) on 30 October.

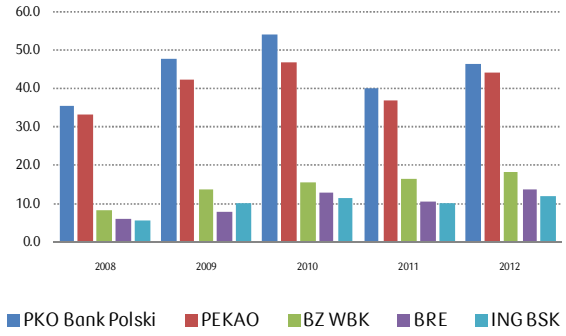
In 2012, stock prices on the WSE increased. The increases started in August, after significant decreases in the previous months of the year. This was mainly due to the fact that the moods of investors on the international financial markets improved, despite the continued adverse macroeconomic situation in both the European Union countries and the USA. Their optimism was largely associated with an anticipated improvement in the economic situation resulting from actions taken by the central banks, such as i.a. the Outright Monetary Transactions (OMT) programme launched by ECB in September to buy bonds of indebted euro zone countries, and the QE3 programme announced by the Fed, i.e. the third quantitative easing programme for buying mortgage bonds. Such actions helped ease tension on the financial markets.
The prices of the PKO Bank Polski SA's shares in 2012 were also affected by the expected, further sale of share blocks by BGK and the State Treasury after expiry of the 180-day lock-up following the sale of 95 million shares in July 2012.

Share prices of PKO Bank Polski SA and capitalisation of competitors

Change of PKO Bank Polski SA share price compared to share price of its competitors in the period 01.01.2007-28.12.2012 (29.12.2006=100%)



Capitalisation (as at the end of the period, PLN billion)



7.1.4 Assessment of financial credibility of PKO Bank Polski SA

Currently, the financial reliability ratings of PKO Bank Polski SA are awarded by three significant rating agencies:

- rating agencies Moody's Investors Service and Standard & Poor's assign a rating to the Bank at a charge, in accordance with its own bank assessment procedure,
- Fitch Ratings agency assigns a free-of-charge rating (not ordered by the Bank), on the basis of publicly available information, including primarily interim and annual reports, and information on the Bank made available during direct contacts of representatives of the agency with the Bank.

In 2012:

- on 8 May 2012 Standard and Poor's rating agency awarded the Bank the following rating, at the Bank's commission:
  - the Bank's long-term credit rating at the 'A-' level, with stable perspective,
  - the Bank's short-term credit rating at the 'A-2' level, with stable perspective,
- on 28 June 2012 Moody's Investors Service Ltd. rating agency ('Moody's') reduced the potential rating for the subordinated debt of PKO Bank Polski SA under the Eurobond issue programme (MTN) to (P)Baa3 from (P)A3 in connection with the withdrawal of Moody's of the assumption relating to the systemic support for this class of debt.
  The decrease was the result of a review initiated in November 2011 and related to reassessing the assumption as to the systemic support of the subordinated debt of a group of European banks, which led Moody's to the conclusion that there will be no systemic support for this class of debt. This conclusion shows that Poland is perceived by Moody's in a manner similar to other European countries, where the systemic support for subordinated debt may not be sufficiently predictable any more to support the rating of instruments used to reinforce capital.
- on 17 September 2012 Moody's Service agency informed about the changed outlook from 'stable' to 'negative' on Bank's deposit long-term ratings at the 'A2' level and Bank's debt liabilities long-term ratings at the 'A2' level.
  In the grounds of conducted change of the outlook for 'A2' ratings agency analysts informed that the change in outlook reflects a reduction in the State Treasury's ownership of the Bank and the State Treasury's medium-term plans to reduce its indirect shareholding in the Bank.
  The analysts working for the agency added that the ratings of PKO Bank Polski SA had three-notch uplift that was among the highest in the region. Such high uplift results from the fact that in Moody's opinion, it is very likely that the Bank will receive support from its main shareholders if needed, and the fact that the Bank plays an important role in the Polish banking and payment system.

Table 34. Ratings as at 31 December 2012

Rating with a charge	
Moody's Investors Service	
Long-term rating for deposits	A2 with negative perspective
Short-term rating for deposits	Prime-1
Financial strength	C- with negative perspective
Standard and Poor's	
Long-term loan rating of the Bank	A- with a stable perspective
Short-term loan rating of the Bank	A-2 with a stable perspective
Rating not requested by the Bank	
Fitch Ratings	
Support Rating	2

As at the end of 2012, KREDOBANK SA had the following rating granted by the international agency Standard & Poor's:

- long-term credit rating on the international scale – 'B-',
- forecast - 'Stable',
- short-term credit rating on the international scale - 'C',
- rating on the Ukrainian scale - 'uaBBB-'.

The rating level and forecasts of KREDOBANK SA are identical with the rating and forecasts of Ukraine as Country.

7.1.5 Investor relations

In 2012, the Bank's investor relation activities focused on the following areas:

- building a positive image of PKO Bank Polski SA as a reliable and transparent company among the existing and prospective investors, financial market analysts and rating agencies, through the use of various market communication tools,
- fulfilling the information duties of the Company as an issuer of securities, as required by the law,
- organising the General Shareholders' meeting and providing information to the Bank's shareholders,
- ensuring the Bank's cooperation with appropriate governmental bodies, organisations and capital market institutions in connection with the Bank's presence on the public securities market.

As part of market communication:

- after each quarter end, the Bank's and the Group's financial performance was presented by the Bank's Management Board in a meeting with capital market and debt securities analysts, organised on the Bank's premises, and during teleconferences in which ca. 75 analysts and representatives of investors participated each time,
- members of the Management Board of the Bank and the key management regularly participated in meetings (and teleconferences) with investors and analysts, both on the Bank's premises and in investor conferences. In 2012, there were ca. 95 meetings on the Bank's premises, ca. 120 meetings during 13 investor conferences and 5 roadshow projects and over 80 teleconferences,
- the Investor Relations Office maintained on-going contacts with analysts and investors, both corporate and individual, by answering many questions asked by telephone or e-mail and relating to business operations and financial performance of PKO Bank Polski SA,

- the Bank immediately published all information relevant to investors and the Bank's shareholders on the website of the Investor Relations Office: http://www.pkobp.pl/pkobppl-en/investor-relations/,
- in March 2012, the Bank launched its annual report for 2011 in the form of a dedicated online service (the on-line annual report). Presentation of reports in the form of mini web portals is gaining popularity on the capital markets. However, few listed companies have implemented this solution in Poland. The annual report published as a separate web portal www.pkobp.pl/raportroczny2011 is a tool for achieving the Bank's objectives in the area of information and image. First and foremost, it makes it easier to find and use the key information on the Company's results. It is presented in two language versions: Polish and English.

These activities were aimed at providing comprehensive information on the Bank's financial performance and activities, including the changes in market environment, to enable a sound assessment of the Bank's current position and outlook and the correct valuation of the company's assets. PKO Bank Polski SA makes every effort to ensure that periodic reports maintained the highest standards in respect of professionalism and fair information, so that they present the Bank's results in a complete and transparent manner and are as useful as possible to institutional investors, analysts and individual shareholders.

In October 2012 the Accounting and Taxation Institute honoured the Annual Report of PKO Bank Polski SA for the year 2011 with the Main Prize in 'The Best Annual Report' competition in the category 'Banks and financial institutions'. In this edition of the contest, PKO Bank Polski SA scored the highest number of points in all categories evaluated by the Chapter of the Competition. The Bank's annual report was evaluated the highest with respect to the Directors' Report, the application of standards in the preparation of annual reports under the IFRS/IAS, and for being the most useful for shareholders and investors.

PKO Bank Polski SA has taken part in 'The Best Annual Report' contest for several years, and regularly receives prizes and awards. The 2007 report was awarded with an additional diploma by the Team of Auditors of the Chapter of the Competition for a significant improvement in the quality of the financial statements prepared under the IFRS. The 2008 report was awarded for best application of the IFRS/IAS, and the report for 2009 received second prize in the 'Banks and financial institutions' category. The 2010 report received the Main Prize for Banks and an award in the 'Directors' Report' category.

7.2 Compliance with the rules for corporate governance

7.2.1 The rules for corporate governance and the scope of use

PKO Bank Polski SA applies the rules for corporate governance introduced in the form of a document 'Good Practices of Warsaw Stock Exchange Companies' approved by the Supervisory Board of the Warsaw Stock Exchange SA on 4 July 2007 (the Resolution No.12/1170/2007) with subsequent amendments.

The above mentioned document on corporate governance rules is publicly available at the website: www.corp-gov.gpw.pl, which is the official site of Warsaw Stock Exchange SA in the topic of corporate governance of companies listed on Warsaw Stock Exchange SA.

In 2012, PKO Bank Polski SA took necessary actions with an aim to fully obey the rules included in the document 'Good Practices of Warsaw Stock Exchange Companies'.

In the opinion of the Management Board in 2012 PKO Bank Polski SA did not depart from application of rules specified in the above mentioned document.

7.2.2 Control systems in financial statements preparation process

Internal control and risk management

Internal control system being in force in PKO Bank Polski SA is an element of the Bank management system, and which is composed of the following items: control mechanisms, compliance of Bank's operations with binding laws and internal regulations of the Bank and internal audit. The system of controls is complemented by functional internal control.

Internal control system covers the whole Bank, including organisational entities, organisational units of the Head Office and subsidiaries included in the PKO Bank Polski SA Group.

The objective of the internal control system is to support management of the Bank, including decision processes which contribute to ensuring the following: the Bank's effectiveness and efficiency, reliability of its financial reporting and the compliance of Bank's operations with binding laws and internal regulations. Within the system of internal control the Bank identifies risk: connected with every action, transaction, product and process, resulting from the organisational structure of the Bank and the Group.

Control mechanisms are aimed at ensuring that all tasks and activities at the Bank are performed correctly.

The Bank's organisational units and Head Office's units are obliged to perform their tasks in accordance with the generally applicable law and the Bank's internal rules and regulations. The compliance is checked during internal functional inspections and verified independently by the Internal Audit Department in the course of its audits.

The functional internal control in the Bank is exercised in the following manner:

- at the stage of legislative works, by providing compliance of internal regulations with generally binding laws, including defining adequate control mechanisms within internal regulations which guarantee a proper execution of processes and tasks,
- by employees in the course of their activities concerning the scope of business of organisational teams and units,
- at the stage of verification, by management and persons authorised by it, the correctness of performed tasks by employees, especially its compliance with binding laws and regulations, internal regulations and prudence norms.

General principles, described above, are also used in the process of financial statements preparation.

The operation of internal control system and risk management in respect of the process of preparation of the financial statements is based on control mechanisms embedded in the functionality of the reporting systems and on the on-going verification of compliance with the books of accounts and other documents underlying the financial statements and with the binding laws concerning accounting principles and financial statements preparation.
The process of the preparation of the financial statements is subject to cyclical multi-level functional control, in particular concerning the correctness of accounting reconciliations, merit-based or substantial analysis or truth and fairness of financial information. In accordance with the internal regulations, the financial statements are accepted by the Management Board of PKO Bank Polski SA and the Supervisory Board's Audit Committee established by the Supervisory Board of PKO Bank Polski SA in 2006.
Information included in the financial statements is prepared in accordance with International Financial Reporting Standards, after taking into account all data available.
Information concerning objectives and risk management policies as well as quantitative information relating to individual risk types is included in annual and interim financial statements. The information referred to above comprises:

- credit risk (including the risk of concentration and financial institutions' credit risk),
- market risk (including interest rate, currency, liquidity, securities prices and derivatives risks),
- operational risk,
- compliance risk,
- strategic risk,
- reputation risk,
- capital adequacy.

On an annual basis, in a document separate from the financial statements, the full scope of information relating to capital adequacy, in accordance with the Resolution No. 385/2008 of the PFSA with subsequent amendments is disclosed. At the website of PKO Bank Polski SA, in the section 'Investor Relations', the last report 'Capital Adequacy and Risk Management (Pillar III) in the PKO Bank Polski SA Group as at 31 December 2011' is available.

Entity authorised to audit financial statements

In accordance with the Resolution of the Supervisory Board on the rules for selecting an auditor, PKO Bank Polski SA applies the rule according to which it is assumed that:

- the maximum period of uninterrupted cooperation with the same audit company is 6 years. Starting from the cooperation period covering audit of the financial statements for years 2014-2016, the maximum cooperation period is 5 years,
- contracts for audits and reviews of the financial statements are concluded for the maximum period of 3 years,
- an audit company may perform an audit of the financial statements again after the period of at least 3 years.

Information concerning the agreement concluded with the entity authorised to audit financial statements:

- On 28 March 2011, the Supervisory Board of PKO Bank Polski SA selected PricewaterhouseCoopers Sp. z o.o. as the entity authorised to audit and review the Bank's financial statements and the consolidated financial statements of the Group. PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw, Al. Armii Ludowej 14, has been entered to the list of registered auditors maintained by the National Council of Registered Auditors with No. 144. The Bank's Supervisory Board appointed the auditor authorised to audit and review financial statements in accordance with applicable laws and professional requirements, on the basis of par. 15 clause 1 point 3 of the Bank's Memorandum of Association.
- On 14 April 2011, PKO Bank Polski SA concluded a contract with PricewaterhouseCoopers Sp. z o.o., an entity authorised to audit financial statements, for an audit of standalone and consolidated financial statements for the years ended 31 December 2011, 2012 and 2013 respectively and for a review of standalone and consolidated financial statements for the six-month periods ended respectively 30 June 2011, 2012, 2013. In the past, the Bank used the services of PricewaterhouseCoopers Sp. z o.o. for the purpose of auditing and reviewing the financial statements of PKO Bank Polski SA and the Group for the years 2008-2010, and for related services.
- Total fees payable to PricewaterhouseCoopers Sp. z o.o. under the contracts concluded by PKO Bank Polski SA amounted to PLN 4 373.4 thousand for the financial year of 2012 compared to PLN 5 080.5 thousand for the financial year of 2011.

Table 35. Fee for the entity authorised to audit financial statements (in PLN thousand)

No.	Title	2012	2011
1.	Audit of standalone and consolidated financial statements	1 140	1 140
2.	Authenticating services, including a review of financial statements	2 795	1 910
3.	Tax consulting services	216	0
4.	Other services	222	2 030
TOTAL		**4 373**	**5 080**

7.2.3 Shares and shareholders of PKO Bank Polski SA

To the best knowledge of PKO Bank Polski SA, as at 31 December 2012 there were three shareholders that hold, directly or indirectly, significant shareholding (at least 5%): the State Treasury, Bank Gospodarstwa Krajowego and ING Otwarty Fundusz Emerytalny, holding directly 417 406 277, 128 102 731 and 64 594 448 respectively of PKO Bank Polski SA's shares.
The percentage share of the State Treasury, Bank Gospodarstwa Krajowego and ING Otwarty Fundusz Emerytalny in the share capital of PKO Bank Polski SA as at 31 December 2012 amounted to 33.39%, 10.25% and 5.17% respectively and matched the percentage share in the total number of votes at the General Shareholders' Meeting of PKO Bank Polski SA.
Special control rights are not resulting from PKO Bank Polski SA securities for their holders.

7.2.4 Limitations on the shares of PKO Bank Polski SA

All the shares of PKO Bank Polski SA carry the same rights and obligations. None of the shares are preference shares, in particular in relation to voting rights and dividends. The Memorandum of Association of PKO Bank Polski SA restrict the voting rights of shareholders holding more than 10% of the total number of votes at the General Shareholders' Meeting and forbids those shareholders to execute more than 10% of the total number of votes at the General Shareholders' Meeting. The above limitation does not apply to:

- those shareholders who on the date of passing the resolution of the General Shareholders' Meeting introducing the limitation of the voting rights had rights from the shares representing more than 10% of the total number of votes at the Bank (i.e. the State Treasury and BGK),
- shareholders who have the rights from A-series registered shares (the State Treasury), and
- shareholders acting jointly with the shareholders referred to in point (ii) based on an agreement concerning the joint execution of voting rights from shares. Moreover, limitation of the voting rights shall expire when the share of the State Treasury in the Bank's share capital drops below 5%.

In accordance with § 6 clause 2 of the PKO Bank Polski SA's Memorandum of Association, the conversion of A-series registered shares into bearer shares and the transfer of these shares requires an approval of the Council of Ministers in the form of a resolution. Conversion into bearer shares or transfer of A-series registered shares, after getting above mentioned approval, results in the expiry of the above restrictions in respect of shares subject to conversion into bearer shares or transfer, to the extent to which this approval was given.

7.2.5 The Memorandum of Association and manner of functioning of the General Shareholders' Meeting of PKO Bank Polski SA

Principles for amending the Memorandum of Association of PKO Bank Polski SA

Principles for amending the Memorandum of Association of PKO Bank Polski SA comply with the provisions of the Commercial Companies Code and the Banking Act.
Resolutions of the Annual General Shareholders' Meeting relating to share preference and to issues of the Bank's merger by transferring all of its assets to another company, its liquidation, reduction of share capital by cancelling a part of the shares without increasing it at the same time or changing the scope of the Bank's operations which would lead to the Bank ceasing its banking activities - all require a 90% majority of the cast votes.

Changes in the Memorandum of Association in 2012

In 2012, there were no changes implemented to the Memorandum of Association of PKO Bank Polski SA.

7.2.6 The General Shareholders' Meeting, its manner of functioning and fundamental powers

Annual General Shareholders' Meeting of PKO Bank Polski SA is convened as ordinary or extraordinary meeting in accordance with the provisions of the Code of Commercial Companies and the Memorandum of Association, and based on the policies defined in the by-laws of the Annual General Shareholders' Meeting.
The fundamental powers of the Annual General Shareholders' Meeting, apart from other matters defined in the binding laws, include adopting resolutions concerning the following matters:

- appointment and dismissal of Supervisory Board Members,
- approval of by-laws of the Supervisory Board,
- determining the manner of redemption of shares and the amount of consideration for the shares subject to buyout,
- creation and liquidation of special funds established from net profit appropriation,
- disposal by PKO Bank Polski SA of property items or perpetual usufruct right to property, provided that the value of the real property or the right being subject to such an act exceeds 1/4 of the share capital,
- issuance of convertible bonds or other instruments giving the right to acquire or take up PKO Bank Polski SA's shares.

Allowed to participate in the Annual General Shareholders' Meeting are beneficiaries of rights attached to registered shares, as well as pledges and usufructuaries having voting rights, who have been entered in the Register of Shares at the day of registration and holders of bearer shares, if they were shareholders of the Bank at the day of the registration and they asked, within the act compliant time frame specified in the notification on the call of the Annual General Shareholders' Meeting , the entity maintaining their securities accounts for registered certificate on the right to participate in the Annual General Shareholders' Meeting .
The shareholder who is a natural person may participate in the Annual General Shareholders' Meeting and exercise his voting right in person or by proxy. The shareholder who is not a natural person may participate in the Annual General Shareholders' Meeting and exercise his voting right

through a proxy authorised to file declarations of will on his behalf, or by proxy.
An authorisation should be prepared, under the sanction of nullity, in writing and attached to the minutes of the General Shareholders' Meeting or granted in an electronic form. The right to represent a shareholder who is not natural person should be specified in the original or a copy: the excerpt from the relevant register, presented possibly with authorisation or sequence of authorisations. These documents should be presented at the time of drawing up the attendance register or sent electronically until the day before the day of the General Shareholders' Meeting on an email address indicated on announcement of convening the General Shareholders' Meeting.
The person(s) granting an authorisation on behalf of a shareholder who is not natural person should be listed in an up-to-date excerpt from the relevant register of a given shareholder.
Management Board Member and an employee of PKO Bank Polski SA may serve as proxy of shareholders at the Annual General Shareholders' Meeting of PKO Bank Polski SA.
Projects of resolutions proposed by the Management Board to accepting by the General Shareholders' Meeting with justification and opinion of the Supervisory Board and complete text of the documentation, which will be presented to the General Shareholders' Meeting, are published on the Bank's website in the time enabling acquainted with them and evaluated them.
The Bank make available projects of resolutions notified in accordance with the provisions of the Commercial Companies Code by authorised shareholder or shareholders before the General Shareholders' Meeting immediately after making it available on the website.
A shareholder or shareholders representing at least one twentieth of the share capital of the Bank may demand that certain matters be included in the agenda of the General Shareholders' Meeting. Such demand should be filed with the Management Board of the Bank no later than twenty one days before the date set for the meeting. The demand should contain a justification or a draft resolution concerning the proposed item on the agenda. The demand may be filed in an electronic form.
A shareholder or shareholders of PKO Bank Polski SA representing at least one twentieth of the share capital may, before the date of the General Shareholders' Meeting, put forward to the Bank, in writing or by using electronic means of communication, draft resolutions concerning the matters included in the agenda of the General Shareholders' Meeting or matters which are to be included in the agenda. Moreover, shareholders during the General Shareholders' Meeting have the right to propose projects of resolutions and submit proposals of changes or supplements to the projects of resolutions, included in the agenda of the General Shareholders' Meeting.
Removing from agenda or desisting, at the request of shareholders, from further discussing the matter included in the Annual General Shareholders' Meeting agenda requires that the Annual General Shareholders' Meeting resolution is adopted by the majority of 3/4 of votes, after prior consent of all those shareholders present at the Annual General Shareholders' Meeting who applied for including the matter in the agenda.
Resolutions of the Annual General Shareholders' Meeting are adopted by an absolute majority of votes, unless the binding laws or the Memorandum of Association of PKO Bank Polski SA provide otherwise.
The Annual General Shareholders' Meeting adopts resolutions by way of open vote, with the provision that votes by secret ballot are ordered in the following circumstances:

- elections,
- applications for dismissal of members of PKO Bank Polski SA's authorities or liquidators,
- applications for bringing members of PKO Bank Polski SA's authorities or liquidators to justice,
- in staff matters,
- on demand of at least one shareholder present or represented at the Annual General Shareholders' Meeting,
- in other cases defined in binding law regulations.

A shareholder may not, either personally or by proxy, or while acting in the capacity of a proxy of another person, vote on resolutions concerning his liability towards PKO Bank Polski SA on whatever account, including the acknowledgement of the fulfilment of his duties, release of any of his duties towards PKO Bank Polski SA, or any dispute between him and PKO Bank Polski SA.
Shareholders have the right to ask questions, through the Chairman of the Annual General Shareholders' Meeting,
to the Members of PKO Bank Polski SA's Management or Supervisory Boards and the PKO Bank Polski SA's auditor.
For each of the agenda point, each shareholder has the right to one own speech and one reply. Shareholders may, during the course of discussion on each of the agenda points, apply for closing the list of speakers or closing the discussion on the given agenda point.

7.2.7 The Supervisory Board and the Management Board of PKO Bank Polski SA in the reporting period

The Supervisory Board of PKO Bank Polski SA

The Supervisory Board is composed of 5 to 13 members appointed for a joint term of office of three years. Members of the Supervisory Board are appointed and dismissed by the General Shareholders' Meeting.
On 30 June 2011 the State Treasury, as the Eligible Shareholder, on the basis of § 11 clause 1 of the Bank's Memorandum of Association determined the number of the Supervisory Board members to include 9 persons, of which the Bank informed in a Current Report No. 36/2011.
The current term of office of all the Supervisory Board members started on 30 June 2011. The mandates of all the current Supervisory Board members shall expire at the latest on the date of holding the General Shareholders' Meeting to approve the financial statements for the financial year ended 31 December 2013.

Table 36. Composition of the Supervisory Board of PKO Bank Polski SA as at 31 December 2012

Functions	Competences
Cezary Banasiński – Chairman of the Bank's Supervisory Board On 20 April 2009 appointed until the end of the previous term of the Supervisory Board On 30 June 2011 reappointed for the current term of the Supervisory Board, on the same day appointed the Chairman of the Supervisory Board by the Minister of State Treasury	The doctor of laws, assistant professor at the Faculty of Law and Administration of the Warsaw University. Graduate of Faculty of Management and Faculty of Law and Administration of the Warsaw University. From 2001 to 2007 he was the President of the Office of Competition and Consumer Protection. He was responsible for the state of competition in the Polish market and the legal protection of consumers, as well as monitoring the provided public aid. From 2006 to 2007 he was a member of the Coordination Commission for Financial Conglomerates. From 2005 to 2006 he was a member of the Securities and Exchange Commission and the Insurance and Pension Fund Supervisory Commission. From 2002 to 2004 he was the head of the Negotiation Team for Poland's membership in the European Union responsible for the negotiation area 'Competition policy'. From 1999 to 2001 he held the position of the undersecretary of state at the Office of the Committee for European Integration, where he was responsible for harmonisation of the Polish law with the EU law. From 1997 to 2000 he was a counsel at the Office of Jurisdiction at the Constitution Tribunal responsible for analysing the jurisdiction of the European Court of Justice. Scholar of, among others, the Faculty of Law at the University in Vienna, Humboldt Foundation at Universities in Konstanz and Munich. He is the author and co-author of many publications: books, articles, commentaries for acts and judgments of the Court of Justice in the scope of the administration and economic law and the European economic law. Member of the Supervisory Board of PKN Orlen SA.
Tomasz Zganiacz – Deputy-Chairman of the Bank's Supervisory Board On 31 August 2009 appointed until the end of the previous term of the Supervisory Board On 30 June 2011 reappointed for the current term of the Supervisory Board, on the same day appointed the Deputy-Chairman of the Supervisory Board by the Minister of State Treasury	An experienced manager; currently Director of the Capital Markets Department within the Ministry of the Treasury. Until June 2009, President of TRITON DEVELOPMENT S.A., a development company listed on the stock exchange. Before that, his positions included that of Vice-President and Financial Director of ARKSTEEL SA (also listed), credit department manager at SOCIETE GENERALE bank, and member of the academic and teaching staff of the Institute of Production Systems Organisation of the Warsaw University of Technology. He took part in the National Investment Funds programme. Mr. Zganiacz has taken part in numerous projects implemented by business entities operating in various sectors by cooperating with commercial and investment banks, brokerage houses and other players on the capital markets. He has been responsible for managing finances and preparing and implementing investment projects, and has co-created development strategies. He has a wealth of experience in supervising commercial law companies, and was a member of the Supervisory Board of the Warsaw Stock Exchange. He is a Member of the Supervisory Board PZU SA. He graduated as an engineer, and also completed MBA postgraduate studies.
Mirosław Czekaj – Secretary of the Bank's Supervisory Board On 31 August 2009 appointed until the end of the previous term of the Supervisory Board On 30 June 2011 reappointed for the current term of the Supervisory Board. On 6 July 2011 appointed the Secretary of the Supervisory Board by the Supervisory Board	PhD in Economics, a graduate of the Nicolaus Copernicus University in Toruń. Auditor. In January 2007, he was elected by the Council of the City of Warsaw to the position of City Treasurer. Between 2004 and 2006, he was Vice-President of Bank Gospodarstwa Krajowego, responsible for the commercial activities of the bank and for supervising its branches. Previously, he was responsible for public sector and corporate finances. From 1992 to 2009, he held positions on the supervisory boards of numerous companies, including as Chairman of the Supervisory Board of Remondis - Szczecin Sp. z o.o., Chairman of the Supervisory Board of Fundusz Wspierania Rozwoju Gospodarczego Miasta Szczecina, Chairman of the Supervisory Board of Szczecińskie Centrum Renowacji Sp. z o.o., Chairman of the Supervisory Board of MPT Sp. z o.o. in Warsaw. He was also a Supervisory Board Member of Pomorski Bank Kredytowy S.A. in Szczecin. He is the author and co-author of finance-related publications.
Jan Bossak – Member of the Supervisory Board On 26 February 2008 appointed for the term, which has terminated on 19 May 2008 and for the term prior to the current term of the Supervisory Board On 30 June 2011 reappointed for the current term of the Supervisory Board	Professor at the Warsaw School of Economics (SGH), Department of International Comparative Studies. He specialises in international economic relations, institutional economics and economic systems, corporate finance and value management, international competitiveness as well as European integration. Holder of a grant from the Japanese government, PhD student at the Osaka Imperial University (1972-74). Visiting professor at universities in the United States (Seton Hall University), Japan (Kyoto Imperial University - 1980-81 and Ryukoku University - 1985-86), Great Britain (Buckinghamshire-College - 1977) and Belgium (the University of Brussels - 1978). Research fellowship at the Vienna Institute for International Economic Studies (1983). He completed the Executive Corporate Finance course at the University of Minnesota (1991) and the International Finance course at LSE (1995). In the years 1991-1992, he was the President of the Polish-American Enterprise Fund, in the years 1995-1997 he was the President of the Second National Investment Fund, and from 1999 to 2003 he was the President of the Erste Securities Polska SA investment bank. In the years 1990-93, he was the director of the World Economy Research Institute at the Warsaw School of Economics. He is a co-founder (in 2000) and Vice-Chairman of the Poland-Japan Economic Committee. He was the chairman of supervisory boards of Pierwszy Polsko-Amerykański Bank w Krakowie, Stilon SA, Famur SA, Tarbud SA, Milmet SA. He acted as adviser to a number of companies, including Petrochemia Płock SA, Techmex SA, Jelfa SA, NSK Polska SA, Sumitomo Polska SA, Mitsui Polska SA and Nichimen Trading SA. An author of over 25 books which were published in Poland and abroad, also by the World Bank, the Japanese government agency APO and the Silk Road Institute of the Jiatong University in Xi'an in China.
Zofia Dzik – Member of the Supervisory Board On 6 June 2012 appointed for the current term of the Supervisory Board	She is a graduate of the University of Economics in Cracow, University of Illinois in Chicago, University of Social Sciences and Humanities in Warsaw and Executive Programs at INSEAD Business School and holds a MBA from Manchester Business School and is a certified member of the Association for Project Management (APMP). In 1995-2003 she worked as a consultant at Andersen Business Consulting. Since 2003, she was associated with Intouch Insurance Group (now RSA), where in 2004-2007 she performed a function of the Management Board's President of TU Link4 S.A., and in 2007-2009 the Management Board's member of Intouch Insurance BV in the Netherlands and CEO for Central and Eastern Europe of the Intouch Insurance Group. Within this function she was responsible for new markets development; she was a chairman of the supervisory boards of: TU Link4 S.A. and Direct Insurance and Shared Services Centre in Poland, Intouch Strachowanie in Russia and Direct Pojistovna in the Czech Republic and a deputy-chairman of the supervisory board of the TU na Życie Link4 Life S.A. In 2006-2008, the Management Board's member of the Polish Insurance Association. In 2007-2010, member of the supervisory board of the Insurance Guarantee Fund. Currently, she is the Management Board's President of the Humanites – Sztuka Wychowania Foundation and a member of the supervisory boards of: TU Link4 SA, ERBUD SA and KOPEX SA.

Krzysztof Kilian – **Member of the Supervisory Board** On 30 June 2011 appointed for the current term of the Supervisory Board	He graduated from the Gdansk University of Technology where he obtained a higher technical education and a degree of MSc in mechanics. He started his professional career in the 'Wisła' Shipyard in Gdansk. In 1991, he held position of the Head of the Minister's Office in the Ministry of Privatisation, and later he was a General Director at the Office of the Prime Minister and the Minster of Telecommunications. Later, he was an Advisor to the Chairman in Bank Handlowy and a Senior Adviser in Morgan Stanley (in London). In the years 1999 - 2008 he worked in his own consulting company cooperating with TDA Capital, Prokom Software, Asseco. From 2008 till 31 December 2011 he occupied a position of the 1st Vice-President of the Management Board, the Director of Marketing and Customer Relations Department in Polkomtel SA. From 5 March 2012 he is a President of the Management Board in PGE Polska Grupa Energetyczna SA. He has experience in the field of supervisory bodies' activities - he was a member of the supervisory boards in the following entities: PI 2012, PKO Bank Polski SA, TFI PZU S.A., PGF S.A., Polish Post, Foundation for Banking Education, KGHM S.A., and BPH S.A.
Piotr Marczak – **Member of the Supervisory Board** On 25 June 2010 appointed until the end of the previous term of the Supervisory Board On 30 June 2011 reappointed for the current term of the Supervisory Board	He graduated from Warsaw School of Economics (earlier the Main School of Planning and Statistics). He has worked for the Ministry of Finance since 1992, now he is the director of the Public Debt Department and his main tasks include, for instance, preparation of public debt management strategies, the State Treasury risk and debt management, management of the state budget liquidity, consolidation of liquidity of the entities of the public finance sector. He is the author of several papers and articles on the public debt and the market of treasury securities in Poland, and he was also a lecturer in Dolnośląska Szkoła Bankowa (Banking School of Lower Silesia). At the moment he is a member of the Supervisory Board of Polskie Koleje Linowe S.A., and previously he was a member of the Supervision Boards of, for instance, Bank Gospodarstwa Krajowego, Huta Będzin S.A., Huta Stalowa Wola S.A., Stomil Poznań S.A.
Marek Mroczkowski – **Member of the Supervisory Board** On 30 June 2011 appointed for the current term of the Supervisory Board	He graduated from the Warsaw School of Economics (earlier the Main School of Planning and Statistics). He completed postgraduate studies on the Faculty of Law and Administration at the University of Wrocław, as well as postgraduate studies - Advanced Management Programme in INSEAD Fontainebleau, France. Since 2009, he has been providing services in the field of consultancy and management in MRM Finance. In the years 2007-2009 he was a President of the Management Board and General Director of MAŻEIKIU NAFTA AB in Lithuania. In the years 2005 - 2006 he was a Vice-President of the Management Board and Financial Director of UNIPETROL A.S. in Czech Republic (from September 2005 to April 2006 he was also a President of the Management Board and General Director). In the years 2003-2004 he was a President of the Management Board and General Director of ELANA S.A. in Toruń, Poland. In the years 2001-2002 he was a President of the Management Board and General Director of POLKOMTEL S.A., and from 1994 to 2001 he was a Vice-President of the Management Board and Financial Director of PKN ORLEN S.A. Also, he was a Member of the Management Board and Financial Director of Eda Poniatowa S.A. (1986-1994). He has experience in the field of supervisory bodies' activities - he was a member of the supervisory boards of the following companies: ZCH POLICE SA, IMPEXMETAL S.A., ENERGOMONTAŻ PÓŁNOC S.A., POLKOMTEL S.A., ANWIL S.A., MOSTOSTAL Kraków S.A. Currently, he is a member of the Supervisory Board of AZOTY TARNÓW.
Ryszard Wierzba – **Member of the Supervisory Board** On 30 June 2011 appointed for the current term of the Supervisory Board	Professor of the Gdańsk University, employee of Deapartment of Banking. He graduated from the Faculty of Finance and Statistics at the Main School of Planning and Statistics (currently Warsaw School of Economics). In 1973, he got a PhD in economics at the Department of Production Economics at the University of Gdańsk, and in 1981 a PhD in economics at the Faculty of Finance and Statistics at the Main School of Planning and Statistics. In 1991, he became a professor of economics. He started his professional career in 1966 in Bank Inwestycyjny (Branch in Gdańsk), where he worked until 1969 as an Inspector. In 1970-1972 he pursued doctoral studies at the University of Gdańsk and since 1972 he has been working as a research fellow at that university, where he completed consecutive stages of scientific career: from senior assistant in the years 1972-1973, through adjunct in the years 1973-1982, docent (academic appointment below that of a professor) in the years 1982-1991, associate professor in the years 1991-1999, and full professor and employee of Department of Banking since 1999 until now. Moreover, since 1993 he is a Deputy Director of Gdańsk Academy of Banking at the Institute of Market Economy Research in Gdańsk. He is an author of more than 180 scientific publications, member of the Finance Science Committee of the Polish Academy of Sciences and other scientific organisations, as well as he completed numerous international traineeships. Since 1991 he has been a member of the supervisory boards of several big companies, including Bank Gdański S.A. (1991-1996), Bank Handlowy w Warszawie S.A. (1998-2002), Polskie Sieci Elektro - Energetyczne S.A. in Warsaw (2005-2007), and PKO Bank Polski SA (2008-2009).

Changes in the composition of the Supervisory Board in 2012

On 6 June 2012 the General Shareholders Meeting of PKO Bank Polski SA:

- dismissed the member of the Supervisory Board – Mrs Ewa Miklaszewska from the Supervisory Board of PKO Bank Polski SA as at 6 June 2012;
- appointed Mrs Zofia Dzik to the Supervisory Board of PKO Bank Polski SA.

The Supervisory Board manner of functioning

The Supervisory Board acts based on the by-laws passed by the Supervisory Board and approved by the Annual General Shareholders' Meeting. Meetings of the Supervisory Board are convened at least once a quarter.

The Supervisory Board adopts resolutions by an absolute majority of votes with the presence of at least half of the Supervisory Board Members, including the Chairman or Deputy-Chairman of the Supervisory Board, except for resolutions indicated in the Bank's Memorandum of Association concerning those matters that are required to be accepted by, apart from the quorum indicated, the qualified majority of 2/3 of total votes. Excluded from the vote are those members of the Supervisory Board to whom the given voted matter relates.

The Supervisory Board competencies

The competencies of the Supervisory Board, apart from the rights and obligations stipulated in generally binding legal regulations and the provisions of the Memorandum of Association of PKO Bank Polski SA, include passing resolutions relating specifically to:

- approving the strategy of PKO Bank Polski SA and the annual financial plan passed by the Management Board,
- accepting the Bank's general level of risk,
- appointing the entity to conduct the audit or review of the financial statements and giving consent to concluding contracts with such entity or its related entities,
- passing the Internal Regulations in regard of:
    - the Supervisory Board,

- defining the rules of granting loans, advances, bank's guarantees and warranties to a member of the Management Board, of the Supervisory Board, to a person holding a managerial position in the Bank and to entities related in terms of capital and organisation,
- using other reserves,

– appointing and dismissing the President of the Management Board and, at the request of the President of the Management Board, also the Vice-Presidents and other Management Board Members, and suspending Members of the Management Board from performing their duties, as well as delegating Members of the Supervisory Board to temporarily perform the duties of Members of the Management Board,
– approving the Internal Regulations passed by the Management Board: of the Management Board, Management of special funds set up from the net profit, the Organisational Regulations of the Bank,
– expressing prior consent to actions which meet specific criteria, including, among other things, purchasing and selling fixed assets and real estate, establishing a company, taking up or acquiring shares, concluding transactions between PKO Bank Polski SA and a related entity,
– applying to the Polish Financial Supervision Authority for granting consent to appointing two Members of the Management Board, including the President of the Management Board.

Changes in the Internal Regulations of the Supervisory Board

On 6 June 2012 the Ordinary General Shareholders' Meeting approved changes in the Regulations of the Supervisory Board. The amendments related particularly to the following matters:

– changes in regulations of committees of the Supervisory Board (The Remuneration Committee and The Audit Committee) by reference in this area to the content of the relevant regulations adopted by the Supervisory Board;
– regulation the manner of using services of external consultants by the Supervisory Board;
– specification the manner of adopting resolutions by the Supervisory Board in a written form (circulatory) and by using means of direct communication at the distance.

Committees of the Supervisory Board

According to the Regulations of the Supervisory Board, the latter is entitled to appoint, and in cases, when the provisions of the law require, appoint Permanent Committees whose members perform functions as members of the Supervisory Board delegated to fulfil selected supervisory activities in the Bank. The Supervisory Board appoint particularly Permanent Committees:

1. The Remuneration Committee, which is responsible in particular for executing the following tasks:
   – giving opinions on general rules approved by the Supervisory Board on the variable salary components policy for persons holding managerial positions, as defined in § 28 clause 1 of the Resolution No. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles for the functioning of the risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital, and the principles for determining the variable salary components policy for persons holding managerial positions at the bank, including the amount and components of the salaries, based on prudent and stable risk management, capital and liquidity and special care about the long-term interests of the Bank and the interests of shareholders, the Bank's investors,
   – making a periodical review of general principles of the variable salary components policy for persons holding managerial positions in the Bank and presentation results of the review to the Supervisory Board,
   – presentation to the Supervisory Board proposals of principles for remunerating, the variable salary components policy and remuneration of the Management Board members,
   – presentation to the Supervisory Board proposals related to appropriate forms of contracts with the Management Board members of the Bank,
   – giving opinions on motions for approval for a member of the Management Board to become involved in competitive business activities or participate in a competitive company as a shareholder of a civil law company, a partnership or as a member of a body in a corporation, or participate in another competitive legal person as a member of its body,
   – giving opinions on a review report concerning the implementation of the variable salary components policy carried out by the Internal Audit Department.
2. The Audit Committee of the Supervisory Board whose tasks include, in particular:
   – monitoring the process of the financial reporting, including the review of interim and annual financial statements of the Bank and the Group (stand-alone and consolidated),
   – monitoring efficiency of the systems of internal control, internal audit and risk management, in particular:
     - an assessment of the Bank's activities related to the implementation of the management system, of which risk management and internal control and assessment of its adequacy and efficiency, among other by means of:
       - consulting resolutions of the Management Board of the Bank to be approved by the Supervisory Board on the prudent and stable management of the Bank and on the acceptable level of risk in particular areas of the Bank's operations,
       - consulting resolutions of the Management Board of the Bank to be approved by the Supervisory Board on risk management, capital adequacy and the internal control system,
       - consulting reports on risk management, capital adequacy and the internal control system submitted periodically to the Supervisory Board,
       - assessing the Bank's activities aimed at risk mitigation through Bank's property insurance and civil liability insurance for members of the Bank's bodies and its proxies,
     - cooperation with an internal auditor, of which:
       - evaluating the plan of internal audits in the Bank and an internal regulations of the Internal Audit Department,

- performing a periodic review of the execution of the internal audit plan, ad-hoc audits and evaluating activities of the Internal Audit Department within resources at its disposal,
- presenting an opinion to the Supervisory Board as regards appointing and revoking the head of the Internal Audit Department,

– monitoring the execution of financial audit activities, in particular by means of:
  - recommending to the Supervisory Board a registered audit company entitled to perform a financial audit of the Bank together with its evaluation level of fee and supervision of work performed,
  - examining written information submitted by the registered audit company concerning relevant issues concerning financial audit, of which in particular information concerning material irregularities in the Bank's internal control system as regards financial reporting,
– monitoring the independence of a registered auditor and a registered audit company and on the services referred to in art. 48, clause 2 of the Act of 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision, in particular through obtaining:
  - statements confirming the independence of a registered audit company and the independence of the registered auditors conducting the financial audit activities,
  - information on the services referred to in § 48, clause 2 of the Act of 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision, provided to the Bank.

As at 31 December 2012, the Remuneration Committee consisted of 5 members:
– Krzysztof Kilian (President of the Committee),
– Tomasz Zganiacz (Vice-President of the Committee since 4 April 2012),
– Cezary Banasiński (Member of the Committee),
– Jan Bossak (Member of the Committee),
– Marek Mroczkowski (Member of the Committee).

As at 31 December 2012, the Audit Committee of the Supervisory Board consisted of 4 members:
– Mirosław Czekaj (President of the Committee),
– Jan Bossak (Vice-President of the Committee),
– Piotr Marczak (Member of the Committee since 19 December 2012),
– Ryszard Wierzba (Member of the Committee since 18 June 2012).

All the members of the Audit Committee of the Supervisory Board fulfilled the independence requirements in accordance with art. 86 clause 4 of the Act on Registered Auditors. Additionally, the Chairman of the Audit Committee of the Supervisory Board Mirosław Czekaj has qualifications in accounting and financial auditing.

The Management Board of PKO Bank Polski SA

Pursuant to § 19 clause 1 and 2 of the PKO Bank Polski SA Memorandum of Association, members of the Management Board are appointed by the Supervisory Board for a joint term of office of three years. Pursuant to § 19 clause 4 of the PKO Bank Polski SA Memorandum of Association, a member of the Management Board may only be revoked for important reasons.
The Management Board of the Bank is composed of 3 to 9 members appointed by the Supervisory Board of the Bank for a joint term of office of three years. Appointment of two members of the Management Board, including President of the Management Board, requires approval of the Polish Financial Supervision Authority. As at 31 December 2012, the Management Board of the Bank was composed of 6 members.
Current joint term of office of the Bank's Management Board began on 30 June 2011. The mandates of all current Management Board members shall expire at the latest on the date of holding the General Shareholders' Meeting to approve the financial statements for the financial year ended 31 December 2013.

Table 37. The Management Board of PKO Bank Polski SA as at 31 December 2012

Functions	Competences
Zbigniew Jagiełło – President of the Bank's Management Board On 1 October 2009 appointed until the end of the previous term of the Bank's Management Board On 30 June 2011 reappointed for the current term of the Bank's Management Board	The President of the Management Board of PKO Bank Polski SA since October 2009, with appointment for a new term in 2011. Prior to this he was the Pioneer Pekao TFI S.A. Management Board's President for nearly nine years. Also, within the global structure of Pioneer Investments he was responsible for the CEE region distribution. In the late 1990s he was, among others, active in establishing PKO/Credit Suisse TFI S.A. investment funds company, in the function of its first Vice-President. In his more than ten-year long career in the financial markets he can be credited, among other things, with: successfully steering PKO Bank Polski SA through the critical period of turmoil in the international financial markets, while strengthening the Bank's position of leadership in terms of assets, equity funds and earnings in Poland and the CEE region; development and implementation of the PKO Bank Polski SA's strategy for the years 2010-2012, which resulted in strong efficiency gains as measured in terms of ROE, ROA and C/I ratio as well as in increased interest in the company among domestic and international investors (PKO Bank Polski SA continues to lead the market in terms of the value of its free float and as a major corporate debt issuer); adjustment of PKO Bank Polski SA to the requirements of the ever more competitive financial market through increased attractiveness of its product offer and quality of its customer service; refocusing of the PKO Bank Polski SA Group's operational model toward its core activity of providing financial services. Zbigniew Jagiełło is actively involved in development and promotion of the most demanding financial market standards in Poland. He is a member of the Council of the Polish Bank Association and of the prestigious Institut International D'Etudes Bancaires, which brings together the international banking community. His previous functions included, among others, that of the Chairman of the Chamber of Fund and Asset Management. A graduate of the Wrocław Technical University, School of Computer Science and Management, he also completed Postgraduate Management Studies at the Gdańsk Foundation for Management Development and the University of Gdańsk, with Executive MBA certified by the Rotterdam School of Management, Erasmus University. The President of the Republic of Poland awarded him with the Officer's Cross of the Order of the Rebirth of Poland and he was awarded the Social Solidarity Medal for promoting the idea of corporate social responsibility. He is also the Deputy-Chairman of the Programme Council of the PKO Bank Polski SA's Foundation, an entity formed at his initiative in the year 2010. Chosen the CEO of the Year 2011 by Parkiet daily; the recipient of the Wektor 2011 granted by the Polish Employers' Chapter and of the Golden Banker award in the Personality of the Year 2011 category; he was also lauded the Manager of the Year 2011 in a competition ran by Gazeta Bankowa. In the year 2012, Bloomberg Businessweek Polska singled him out as one of the Top 20 Managers in Crisis.
Piotr Stanisław Alicki – Vice-President of the Bank's Management Board in charge of IT and Services On 2 November 2010 appointed until the end of the previous term of the Bank's Management Board On 30 June 2011 reappointed for the current term of the Bank's Management Board	A graduate of the Mathematics and Physics Department of Adam Mickiewicz University in Poznan. He has a many years' experience in IT projects management in the banking area. In 1990-98 he worked for Pomorski Bank Kredytowy SA in Szczecin in the Information Science Department - from 1997 as its Director, where he was responsible for designing, development, implementation and operation of the Bank's transaction systems. In the period 1999-2010 he worked for Bank Pekao SA - at first as the Assistant Manager and then the Manager of the IT Systems Maintenance and Development Department, and during the last four years he managed the Information Technology Division. He was responsible, among other things, for the execution of the IT merger of four banks (Pekao SA, PBKS SA, BDK SA, PBG SA), he implemented the Integrated Information System and managed the IT business analyses area in that bank. He also managed the IT integration and migration from BPH SA systems to Pekao SA systems and participated in the work of the team responsible for the preparation of the whole integration process. In 1999-2010, Piotr Alicki took part in the work of the Polish Banks' Association: in its Steering Committee for the Development of Bank Infrastructure, the Payments System Committee, the Problem Committee for Banking and Bank Financial Services, and the Electronic Banking Council. Since 2000 he has been a member of the Supervisory Council of the Krajowa Izba Rozliczeniowa SA (National Clearing Chamber Ltd.), and since 2005 until 2010 he was its President. In 2002-2010 he represented Bank Pekao SA in the Payments System Council functioning under the auspices of the National Bank of Poland (NBP), since 2010 until now he represents PKO Bank Polski SA. He also sat on the Supervisory Boards of companies belonging to the Bank Pekao SA Group. He has been awarded by President of the National Bank of Poland with a honour distinction 'for the merits for Polish Banking'. He is also the winner of the 'IT Leader 1997', 'IT Leader 2010' and 'IT Leader 2012' competition. On 10 December 2010 he was appointed to the Management Board of the Inteligo Financial Services SA, where he performs the function of Vice-President since 30 May 2011. He is a Chairman of Electronic Banking Council functioning in the Polish Bank Association since 11 October 2011. On 2 November 2010, he assumed function of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Management Board, commenced on 20 May 2008. Since 1st May 2011 is the member of Visa Europe Limited Board where he represents PKO Bank Polski SA, another banks from Poland and seven countries of the Subregion.
Bartosz Drabikowski – Vice-President of the Bank's Management Board in charge of Finance and Accounting On 20 May 2008 appointed until the end of the previous term of the Bank's Management Board On 30 June 2011 reappointed for the current term of the Bank's Management Board	A graduate of the Technical University of Łódź, the Polish National School of Public Administration, Warsaw School of Economics, the Polish Institute of International Affairs and the Executive MBA Programme at the University of Illinois at Urbana - Champaign. He attended numerous academic trainings: at Deutsche Bank, Deutsche Börse AG, Deutsche Ausgleichsbank and Rheinische Hypothekenbank. He received scholarship from the German Marshall Fund of the United States and participated in many trainings organised by the European Commission and the International Monetary Fund among others. He started his professional career at the Ministry of Finance, where he was responsible among others for regulation of and supervision over financial market institutions, the banking sector and the capital market in the particular. He also prepared development strategies for the financial services sector both for Poland and the European Union common market. At the Ministry of Finance he was subsequently employed as Advisor to the Minister, Deputy Director and Financial Institutions Department Director. In the years 2006-2008 he served as Member of the Management Board of the National Clearing House, where he was responsible for finance, new electronic payment products, security and risk management as well as analysis and administration. For several years he served as member of the Commission for Banking Supervision, member of the Polish Securities and Exchange Commission and deputy member of the Payment System Board at the National Bank of Poland. He also served as member of many institutions of the European Union, including the Financial Services Committee (European Council), the European Banking Committee and the European Securities Committee (European Commission). He has a wealth of experience in managing financial institutions. He served as member of the Supervisory Board of the National Depository for Securities, member of the Bank Guarantee Fund Council and member of the Supervisory Board of the Polish Security Printing Works. Currently he acts as Chairman of the Supervisory Board of Inteligo Financial Services S.A. and Member of the Supervisory Board of Polish Association of Stock Exchange Issuers.

Jarosław Myjak – **Vice-President of the Bank's Management Board in charge of corporate market** On 15 December 2008 appointed until the end of the previous term of the Bank's Management Board On 30 June 2011 reappointed for the current term of the Bank's Management Board	Master of Arts at the Faculty of English Philology (American Studies) (1978) and at the Faculty of Law and Administration (1981) at Adam Mickiewicz University in Poznań. Moreover, he studied at the Faculty of Economy at Toronto University (economic programme - 1976-1977). He is a graduate also, for instance, of Columbia Business School New York (Leadership for the Future), INSEAD/CEDEP Fontainebleau, France - General Management Programme (1998-1999), Sundridge Park, Great Britain - Management Development Programme. He completed a judge training programme at the Regional Court in Poznań. He is barrister and legal adviser, a member of the Warsaw Bar Council and the Warsaw Chamber of Legal Advisers. He worked as a legal adviser for law offices Altheimer & Gray and Dewey & LeBouef, where he participated in privatisation and restructuring proceedings, investment and insurance consulting, while representing both the State Treasury and foreign investors. Moreover, he was also a lecturer at the Faculty of Law and Administration at Adam Mickiewicz University in Poznań. Being one of the leaders and strategists of the Polish market of insurance and long-term savings, he was responsible for establishing and developing one of the biggest financial services groups - Commercial Union (now Aviva) in Poland and Lithuania and establishment (in 1998-2004) a cooperation model of CU Group with bank WBK SA, later BZWBK SA that included capital and distribution participation of the Bank in CU Insurance Companies and the pension fund company, and bancassurance development. In order to enhance the offer for customers, being among pioneers who promoted the pension reform in Poland, he was responsible for the strategic vision, founding and market success of PTE Commercial Union BPH WBK, that became the market leader. His strategy of defending customer portfolio, ensuring appropriate services for customers and attracting new market segments resulted in an establishment of asset management company, investment fund company, sector of personal - property insurance, a transfer agent and a distribution company. While managing the financial group, he restructured it through introducing full holding management that used synergy effects. He participated in the merger of Commercial Union and Norwich Union (CU Europe). In 2000-2004 the President of Commercial Union Group (now AVIVA) in Poland and Lithuania. In Commercial Union Polska Ubezpieczenia na Życie he was a member of the Management Board (1995), first Vice President of the Management Board (1996 - 1997) and then the President of the Management Board (1998 - 2004). He has 20 years of experience in shareholder supervision. In 1998-2004 he was also the chairperson of the Supervisory Council of Commercial Union companies in Poland and Lithuania, that is CU PTE, CU TFI, CU Ogólne, CU Asset Management, CU Sp. z o.o. (Transfer Agent) and CU Lithuania (Lietuvos Draudimas). Moreover, he served as a member of the Supervisory Council and the Strategic Committee of Citibank Handlowy SA, the Supervisory Council and the Steering Committee of BGŻ SA, he was responsible - on behalf of the Ministry of the State Treasury - for the bank's privatisation project and he was a member of the Supervisory Council of Polski Holding Farmaceutyczny SA, Chairman of the Supervisory Board of PKO BP Finat Sp z o.o. and Deputy-Chairman of the Supervisory Board of PZU Życie SA. At the moment he is the Chairman of the Supervisory Boards of Bankowy Fundusz Leasingowy SA and PKO BP Faktoring SA. In 2006 and from 2008 he has served as the Vice-President of the Management Board of PKO Bank Polski SA in charge of corporate banking. For a few terms of office Mr Jarosław Myjak was a member of the Polish Business Roundtable, the vice president and member of the Management Board of the Polish Chamber of Insurance, the vice president of the Polish Confederation of Private Employers 'Lewiatan', president of the Association of Insurance Capital Group in the Polish Confederation of Private Employers 'Lewiatan' and a member of the Association of Managers in Poland. As a member of such industry associations as the Polish Chamber of Insurance and the Polish Confederation of Private Employers 'Lewiatan' he participated in the works of parliamentary committees aimed at amending the insurance law and working out the law on pension funds, investment funds and in the health system reform project teams supporting the Minister of Health, Minister of Labour and Minister of Economy. Manager of the Year 2002, he was granted the award 'For Contribution to the Polish Insurance Market' and 'Golden Cross of Merit of the Republic of Poland'.
Jacek Obłękowski – **Vice-President of the Bank's Management Board in charge of Retail Market** On 30 June 2011 appointed for the current term of the Bank's Management Board	He is a graduate of the Higher School of Pedagogy (Wyższa Szkoła Pedagogiczna) in Olsztyn, speciality - history and diplomacy. He completed broker course. He is also graduated from the University of Navara - AMP. He started his professional career at Powszechny Bank Gospodarczy S.A. in 1991, where he worked until 1998, initially as a trainee and, following several promotions, as a director of the Network Management Department. In September 1998, he started working at the PKO Bank Polski SA's as director of the Retail Banking Division, director of the Marketing and Sales Department, acting director of the Office for Servicing Compensation Payments and managing director of the Network Division. Between December 2000 and June 2002, he acted as the director responsible for supervision of the business aspects of implementing the central IT platform at the Bank. Until 2004 was the Chairman of the Supervisory Board of Inteligo Financial Services. He was also the Chairman of the Supervisory Board of KredytBank Ukraina. From 2002 to 2007 was a Vice-President of the Bank's Management Board responsible for the retail market area and marketing. At this time he was i.a. a Chairman of the Bank's Credit Committee, the Member of the Council of Directors of VISA EUROPE and was responsible for the acquisition of Inteligo. Since 2007 was the President of the Management Board of Dominet Bank SA and from 2009 to 2011, after merger, in BNP Paribas/Fortis Bank Polska SA was at the position of Vice-President of the Management Board responsible for the Division of Servicing Small Enterprises and Individual Clients.
Jakub Papierski – **Vice-President of the Bank's Management Board in charge of Investing Banking** On 22 March 2010 appointed until the end of the previous term of the Bank's Management Board On 30 June 2011 reappointed for the current term of the Bank's Management Board	He is a graduate of Warsaw School of Economics and a holder of a Chartered Financial Analyst (CFA) license. He commenced his professional career in 1993 in Pro-Invest International, a consulting company. Between 1995 and 1996, he worked for ProCapital Brokerage House and subsequently for Creditanstalt Investment Bank. In March 1996, he started working for Deutsche Morgan Grenfell/Deutsche Bank Research dealing with the banking sector in Central and Eastern Europe. Between November 2001 and September 2003, he worked for Bank Pekao S.A. as executive Director of the Financial Division, directly supervising financial and fiscal policy of the bank, managerial information systems, as well as the treasury and management of investment portfolios; moreover, he was a member of the Asset and Liability Management Committee in the Bank. He accepted the position of the president of the Management Board for Centralny Dom Maklerski Pekao S.A. in October 2003. In September 2006, he also took up the position of a Deputy-Chairman of the Supervisory Board of Pioneer Pekao TFI S.A. From May 2009, Mr. Papierski served as the president of the Management Board of Allianz Bank Polska S.A. and in October 2009 he became the Management Board's president. Between 2005 and 2009, Jakub Papierski was a deputy chairman in the Programme Council of Akademia Liderów Rynku Kapitałowego established at the Lesław Paga Foundation; at the present moment, he is a member of the Programme Council.

Table 38. Other functions performed by the Management Board Members of PKO Bank Polski SA in 2012

No.	Member of the Bank's Management Board	Function
1.	Zbigniew Jagiełło President of the Management Board	President of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012'
		President of the Risk Committee
		President of the Assets and Liabilities Management Committee
2.	Piotr Alicki Vice-President of the Management Board	Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012'
		President of the PKO Bank Polski SA's IT Architecture Committee
		1st Vice-President of the Operational Risk Committee
		Member of the Risk Committee
		Vice-President of the Steering Committee for the Project 'New Operational Model of Retail Sales Support' (NeMO)
3.	Bartosz Drabikowski Vice-President of the Management Board	President of the Expenses Committee
		President of the Bank's Credit Committee
		President of the Operational Risk Committee
		Vice-President of the Risk Committee
		1st Vice-President of the Assets and Liabilities Management Committee
		President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of IAS 39
		Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012'
		President of the Steering Committee for the Project 'New Operational Model of Retail Sales Support' (NeMO)
		President of the Steering Committee for the Project of implementation of Internal Ratings-Based Approach (IRB)
4.	Jarosław Myjak Vice-President of the Management Board	Member of the Risk Committee
		Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012'
		Vice-President of the Bank's Credit Committee
5.	Jacek Obłękowski Vice-President of the Management Board	Member of the Risk Committee
		Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012'
		Member of the Steering Committee for the Project 'New Operational Model of Retail Sales Support' (NeMO)
6.	Jakub Papierski Vice-President of the Management Board	Member of the Risk Committee
		Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012'

Changes in the composition of the Management Board in 2012

On 13 July 2012 Mr Andrzej Kołatkowski resigned from performing the function of Vice-President of the Management Board of PKO Bank Polski SA effective from 13 July 2012.

On 26 September 2012 the Supervisory Board of PKO Bank Polski SA appointed Mr Piotr Mazur to the position of the Vice-President of the Management Board of the Bank who will be responsible for the Risk and Debt Collection Area for the joint term of the Management Board of the Bank which commenced on 30 June 2011; the appointment should have been effective as of the 1 January 2013 under the condition that the consent of the Polish Financial Supervision Authority granted no later than on that day, if the PFSA's consent is not granted until 1 January 2013 the appointment shall be effective as of the date of gaining the consent.

On 8 January 2013 the Polish Financial Supervision Authority granted its approval for appointment the Member of the Management Board of PKO Bank Polski SA - Mr Piotr Mazur. As a result Mr Piotr Mazur commenced function of the Vice-President of the Management Board of PKO Bank Polski SA on 8 January 2013.

Rules of operations of the Bank's Management Board

The manner of functioning of the Management Board is defined in the by-laws decided by the Management Board and approved by the Supervisory Board.

Management Board makes decisions as resolutions. The resolutions of the Management Board are passed by an absolute majority of the votes of those present at the meeting of the Management Board. In the case of a voting tie, the President of the Management Board has the casting vote.

Statements on behalf of the Bank are made by:

- President of the Management Board independently,
- two members of the Management Board together or one member of the Management Board together with a proxy or
- proxies acting independently or jointly within the limits of granted authorisation.

The Bank's Management Board competencies

In accordance with § 20 clause 1 of the Memorandum of Association of PKO Bank Polski SA, the competences of the Management Board include all matters associated with the running of PKO Bank Polski SA's business, with the exception of those restricted for the competence of the General Shareholders' Meeting or the Supervisory Board based on generally applicable law or the provisions of the Memorandum of Association of PKO Bank Polski SA, including purchasing and disposing of real properties, shares in real properties or the perpetual usufruct of land not requiring the approval of the General Shareholders' Meeting based on § 9 clause 1 item 5 of the Memorandum of Association of PKO Bank Polski SA.

In accordance with § 20 clause 2 of the Memorandum of Association of PKO Bank Polski SA, the competences of the Management Board include making decisions on incurring liabilities or disposing of assets whose total value, in relation to one entity, exceeds 5% of own funds, without prejudice to the competences of the General Shareholders' Meeting specified in § 9 of the Memorandum of Association of PKO Bank Polski SA or the competences of the Supervisory Board specified in § 15 of the Memorandum of Association of PKO Bank Polski SA.
The Management Board passes specifically the following in the form of resolutions:

- it determines the strategy of PKO Bank Polski SA,
- it determines the annual financial plan, including the terms of its execution,
- it passes the organisational regulations and the principles for segregation of duties,
- it establishes and dissolves permanent committees of the Bank and determines their competences,
- it passes the Internal Regulations of the Management Board,
- it determines the internal regulations for managing the special funds set up from the net profit,
- it determines the dividend payment dates in periods specified by the General Shareholders' Meeting,
- it appoints proxies,
- it determines bank products and other banking and financial services,
- it determines the principles for participation of PKO Bank Polski SA in other companies and organisations,
- it determines the principles of operation of the internal controls and annual control plans,
- it establishes, transforms and liquidates organisational entities of PKO Bank Polski SA in Poland and abroad,
- it defines the system of efficient risk management, internal control and internal capital estimate.

Committees of the Bank's Management Board

In 2012, there were the following committees in which Members of the Management Board operated:
I. Permanent committees

1. The Assets and Liabilities Committee of PKO Bank Polski SA, whose purpose is managing assets and equity and liabilities by influencing the structure of PKO Bank Polski SA statement of financial position and its off-balance sheet items in a manner conducive to achieving the optimum financial result. The competences of the Committee include specifically:
   - taking decisions on risk limits (market, liquidity, settlement and pre-settlement) and investment limits, as well as the values of the coefficients adjusting the transfer prices,
   - issuing recommendations in respect of:
     - forming the statement of financial position structure, the financial model and the assumptions for the financial plan of PKO Bank Polski SA and the capital requirements in the light of prudence standards,
     - the principles of risk management (market, liquidity, settlement and pre-settlement) and real and economic capital of the Bank,
     - the value of the cut-off points and minimum scores used in assessing credit risk,
     - the principles of the pricing policy in particular business areas and the level of interest rates and minimum credit margins.
2. The Risk Committee, the objective of which is to design strategic directions and tasks in the scope of banking risk in the context of the Bank's strategy and conditions arising from the macroeconomic situation and the regulatory environment, analysing periodic reports related to the banking risks and developing appropriate guidance on their basis, as well as preparing the banking risk management strategy and its periodic verification. The tasks of the Committee include, in particular:
   - monitoring the integrity, adequacy and effectiveness of the banking risk management system, capital adequacy and allocation of internal capital to individual business lines and implementing the risk management policy executed as part of the Bank's adopted Strategy,
   - analysing and evaluating the utilisation of strategic risk limits set in the Banking Risk Management Strategy,
   - giving opinions on cyclical risk reports submitted for approval to the Supervisory Board and taking into account the information from the reports when issuing opinions.
3. The Loan Committee of the Bank, whose objective is to mitigate credit risk when making lending decisions or decisions concerning the non-performing loans management in PKO Bank Polski SA. The competencies of the Loan Committee include, in particular:
   - making decisions in matters relating to the segregation of competencies for making lending and selling decisions, managing non-performing loans, industry and client limits, and securing the liabilities of PKO Bank Polski SA,
   - issuing recommendations for the Management Board of PKO Bank Polski SA in matters relating to making decisions about lending transactions and changes in the material terms and conditions of these transactions, industry and client limits, specifying list of industries covered by the limits of non-performing loans management, equity exposure in the PKO Bank Polski SA Group entity.
4. The Operational Risk Committee, whose purpose is to ensure coordination and consistency of decisions made by the Bank as regards managing operational risk, by performing the following tasks:
   - determining the directions of operational risk management development,
   - supervising the operation of the operational risk management,
   - coordinating operational risk management within the Bank and in other entities of the PKO Bank Polski SA Group,
   - determining measures to be taken in case of an emergency which exposes the Bank to reputational risk and results in financial losses.
5. The Expenses Committee of PKO Bank Polski SA, whose tasks include specifically:
   - granting approval, expressing opinions on non-personnel expenses and other costs of on-going operations, arising from new agreements or annexes to existing agreements, and granting approval to exceed the budget of non-personnel expenses and other costs of on-going operations, in accordance with the Bank's internal cost management regulations;

- granting approval for further actions relating to areas identified as empty and refusing approval for new locations, in accordance with the Bank's internal real estate management regulations;
- making decisions concerning projects, including the approval of project applications, approval and recommendation of project plans, approval of significant changes in projects, making decisions to suspend project execution or close projects, approval of assessments of the objectives achieved and effects of projects, in accordance with the Bank's internal regulations on project and investment management;
- transfers of funds between the costs of on-going operations and the costs of projects or investments;
- approval of capital expenditure relating to the execution of tasks which do not meet the criteria of projects or investments.

6. The IT Architecture Committee of PKO Bank Polski SA, whose objective is to develop an IT architecture ensuring the implementation of the Bank's Strategy by performing the following tasks:
   - developing the key assumptions of the IT architecture of the Bank (the principles),
   - evaluating the IT architecture functioning in the Bank on a periodical basis,
   - developing a target architecture model,
   - initiating measures aimed at achieving the target architecture model.

II. Non-permanent committees

1. The Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39, whose purpose is supervising the execution of adaptation measures of PKO Bank Polski SA to the requirements of the directive on capital requirements and to the regulations of International Accounting Standard 39. The Committee's tasks include specifically:
   - taking key decisions, and supervising and monitoring the progress of work related to PKO Bank Polski SA's adaptation to the requirements of the directive on capital requirements and to the regulations of International Accounting Standard 39,
   - recommending changes relating to the schedule of adaptation activities,
   - ensuring cooperation of appropriate entities and organisational units in respect of executing the work,
   - preparing regulations relating to investment projects consisting of modifying PKO Bank Polski SA's IT system to ensure implementation of the above mentioned requirements in the IT systems.
2. The Steering Committee for 'the Implementation of The Development Strategy of PKO Bank Polski SA for 2010-2012', whose objective is to effectively implement the strategy by overseeing the implementation of strategic activities and the execution of the Bank's strategic objectives. The Committee's tasks include in particular:
   - managing the activities associated with Strategy implementation,
   - accepting the timetable of Strategy implementation,
   - evaluating the budget for strategic initiatives (based on an opinion of the Expenditure Committee),
   - adopting decisions on the implementation of particular strategic initiatives, including an approval of expenditure relating to their execution,
   - monitoring the execution of strategic initiatives,
   - adopting key decisions necessary to ensure implementation of the Strategy,
   - solving any disputes arising in the course of work on implementing particular strategic initiatives.

In 2012, 2 committees have been terminated:

1. The Steering Committee for the Integrated IT System Project (terminated on 14 May 2012), whose purpose was to supervise actions related to the development of the Integrated IT System in PKO Bank Polski SA and to take decisions necessary to ensure proper and efficient implementation of new ZSI versions.
2. The Private Banking Model Steering Committee (terminated on 22 August 2012), whose objective was to ensure the development and implementation of the private banking model in the Bank for the most affluent customers of the Bank.

Moreover, in addition to those mentioned above, members of the Management Board also participated in the Steering Committees set up as a part of realised projects.

7.3 Additional information about managers and supervisors

7.3.1 Shares of PKO Bank Polski SA held by the Bank's authorities

The Bank's shares held by the members of the Management Board and the Supervisory Board of PKO Bank Polski SA as at 31 December 2012 are presented in the table below. The nominal value of each share is PLN 1.

Table 39. Shares of PKO Bank Polski SA held by the Bank's authorities

No.	Name	Number of shares as at 31.12.2012	Purchase	Disposal	Number of shares as at 31.12.2011
I.	**The Management Board of the Bank**				
1.	Zbigniew Jagiełło, President of the Bank's Management Board	9000	0	0	9000
2.	Piotr Alicki, Vice-President of the Bank's Management Board	2627	0	0	2627
3.	Bartosz Drabikowski, Vice-President of the Bank's Management Board	0	0	0	0
4.	Jarosław Myjak, Vice-President of the Bank's Management Board	0	0	0	0
5.	Jacek Obłękowski, Vice-President of the Bank's Management Board	512	0	0	512
6.	Jakub Papierski, Vice-President of the Bank's Management Board	3000	0	0	3000
II.	**The Supervisory Board of the Bank**				
1.	Cezary Banasiński, Chairman of the Bank's Supervisory Board	0	0	0	0
2.	Tomasz Zganiacz, Deputy-Chairman of the Bank's Supervisory Board	0	0	0	0
3.	Mirosław Czekaj, Secretary of the Bank's Supervisory Board	0	0	0	0
4.	Jan Bossak, Member of the Bank's Supervisory Board	0	0	0	0
5.	Zofia Dzik*, Member of the Bank's Supervisory Board	0	x	x	x
6.	Krzysztof Kilian, Member of the Bank's Supervisory Board	0	0	0	0
7.	Piotr Marczak, Member of the Bank's Supervisory Board	0	0	0	0
8.	Marek Mroczkowski, Member of the Bank's Supervisory Board	0	0	0	0
9.	Ryszard Wierzba, Member of the Bank's Supervisory Board	2570	0	0	2570

* Holds the position since 30 June 2012

As at 31 December 2012, Members of the Supervisory Board and the Management Board of PKO Bank Polski SA did not hold shares in companies related to PKO Bank Polski SA defined as subsidiaries, jointly controlled entities and associates.

7.3.2 Agreements concluded between the issuer and managing persons

Within the meaning of § 2 clause 1 item 30a of the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33, item 259 with subsequent amendments), members of the Management Board are persons managing the Bank.
In 2012, two agreements were signed with each of the Management Board's members, providing for compensation in the case of their resignation or dismissal:

- an employment contract providing for severance pay of three monthly basic salaries,
- a non-competition agreement, providing for damages for failure to comply with the noncompetition requirement during 6 months after termination of the employment relation, amounting to 100% of the monthly basic salary received before termination of the employment relation, to be paid monthly in arrears during the non-competition period.

As at 7 November 2012 – due to the necessity of adaptation of the principles for remunerating Management Board members to the provisions of the Resolution No. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles for the functioning of the risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital and the principles for determining the variable salary components policy for persons holding managerial positions at the bank (further: the Resolution No. 258/2011 of the PFSA) - the principles for remunerating Management Board members of the PKO Bank Polski SA were changed in the area of additional benefits and the variable salary components. A consequence of this was appropriate change in employment contracts, which was made in December 2012. Amended principles for remunerating Management Board members will be applicable starting from the payment of salaries for the year 2012.

7.3.3 Benefits for supervisors and managers

Principles of remuneration of the Management Board members

In 2012, members of the Bank's Management Board until the introduction amendments in principles of remuneration related to the Resolution No. 258/2011 of PFSA were paid according to the principles implemented by the Supervisory Board starting from 1 February 2010. In accordance with the new rules, members of the Management Board of the Bank are entitled to remuneration as determined by the Bank's Supervisory Board and to additional benefits specified in the Bank's internal regulations. In addition, members of the Management Board might be granted:

- an annual bonus, at an amount determined by the Supervisory Board of the Bank, conditional on the financial performance or the degree of completion of other tasks,
- in justified cases – an additional bonus at an amount determined by the Supervisory Board of the Bank.

Principles of remuneration of the Management Board members which take into consideration provisions of the Resolution No. 258/2011 of PFSA, provide that members of the Management Board are entitled to:

- monthly remuneration at an amount determined by the Bank's Supervisory Board,
- benefits payable to employees of the Bank (excluding benefits payable to employees under ZUZP):
  - under the common binding laws,

- under the Bank's internal regulations, with standardised or exceptional character, for which the grant basis is not an evaluation of the Member of the Management Board work effects or the result of the area supervised by him or by the Bank,

– variable salary components for the results of work, especially bonuses, awards for special achievements in work, severance payment related to termination of employment no higher than triple base remuneration, which detailed granting and payment rules are defined by the regulations adopted by the resolution of the Bank's Supervisory Board.

Principles of the remuneration of Supervisory Board members

Ordinary General Shareholders' Meeting of PKO Bank Polski SA Resolution No. 36/2010 of 25 June 2010 established the monthly salary for members of the Supervisory Board of:

– Chairman of the Supervisory Board – PLN 16 000,
– Deputy-Chairman of the Supervisory Board – PLN 14 000,
– Secretary of the Supervisory Board – PLN 12 000,
– member of the Supervisory Board – PLN 10 000.

Supervisory Board members are entitled to remuneration regardless of the frequency of meetings convened.
Regardless of the remuneration, the Members of the Supervisory Board are entitled to reimbursement of the costs incurred in connection with performing the function, and in particular travel costs from the place of residence to the location of the Supervisory Board's meeting and back, costs of accommodation and board.

Table 40. Remuneration received by managers and supervisors (in PLN thousand)

	Remuneration received from PKO Bank Polski SA	Remuneration received from related entities*
The Bank's Management Board		
Remuneration of Members who were entrusted with the duties as at 31.12.2012	10 816	39
Remuneration of Members who ceased to be entrusted with the duties in the course of 2012	876	0
Total remuneration in 2012	**11 692**	**39**
Remuneration of Members who were entrusted with the duties as at 31.12.2011	8 597	40
Remuneration of Members who ceased to be entrusted with the duties in the course of 2011	2 340	7
Total remuneration in 2011	**10 937**	**47**
The Bank's Supervisory Board		
Remuneration of Members who were entrusted with the duties as at 31.12.2012	1 163	0
Remuneration of Members who ceased to be entrusted with the duties in the course of 2012	62	0
Total remuneration in 2012	**1 225**	**0**
Remuneration of Members who were entrusted with the duties as at 31.12.2011	948	0
Remuneration of Members who ceased to be entrusted with the duties in the course of 2011	140	0
Total remuneration in 2011	**1 088**	**0**

* Other than the State Treasury and the State Treasury's related entities.

Full information concerning remuneration and other benefits provided to members of PKO Bank Polski SA's Management and Supervisory Boards during the reporting period has been presented in the Financial Statements of PKO Bank Polski SA for the year ended 31 December 2012.

8. OTHER INFORMATION

Off-balance sheet liabilities granted

At the end of 2012, guarantees and other financial off-balance sheet liabilities granted with respect to related parties amounted to PLN 2 009.2 million and increased by PLN 0.3 billion as compared to the end of 2011.
The largest off-balance sheet liabilities related to the following entities:

– Bankowy Fundusz Leasingowy SA – PLN 1 446.6 million,
– Bankowy Leasing Sp. z o.o. – PLN 254.2 million,
– PKO BP Faktoring SA – PLN 255.9 million.

All transactions with related parties were concluded on arm's length.
The details of related party transactions are presented in the financial statements of PKO Bank Polski SA for the year ended 31 December 2012.

Reacquisition of own shares

During the period covered by this Report, PKO Bank Polski SA did not re-acquire its shares on its own account.

Significant contracts and important agreements with the central bank or supervisory authorities

In 2012, PKO Bank Polski SA disclosed in its current reports all the agreements with clients for which the total value of services arising from long-term agreements with the given client met the criteria defined in the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33, item 259).
In 2012, the Bank did not conclude any significant agreements with the central bank or with the regulators.
As at the date of the financial statements, PKO Bank Polski SA is not aware of any agreements as a result of which changes may occur in the future in the proportions of shares held by the current shareholders.
On 1 August 2012 resulting from the decision of the National Bank of Ukraine (NBU) a two-year agreement, which was signed on 20 April 2011 by KREDOBANK SA and NBU, was terminated ahead of time.
The other PKO Bank Polski SA Group companies did not conclude any significant agreements with the Central Bank or with the regulators.
Neither did the PKO Bank Polski SA Group companies conclude any significant agreements in 2012.

Guarantees and financial commitments

As at 31 December 2012, the total value of guarantees and financial commitments granted amounted to PLN 42 890.6 million, with financial commitments making up 75.8% of this amount. Total rate of growth of guarantees and financial commitments granted amounted to 16.3% y/y mainly as a result of an increase of guarantees granted (+61.3% y/y).

Table 41. Off-balance sheet items (in PLN million)

Items	31.12.2012	31.12.2011	Change (in PLN million)	Change (%)
Granted loan commitments:	**32 513.4**	**30 455.7**	**2 057.8**	**6.8%**
financial entities	913.7	1 145.0	(231.3)	-20.2%
non-financial entities	29 137.0	28 486.8	650.3	2.3%
State budget entities	2 462.7	823.9	1 638.8	3x
of which: irrevocable	*7 871.6*	*5 946.1*	*1 925.6*	*32.4%*
Guarantees issued:	**10 377.1**	**6 434.7**	**3 942.4**	**61.3%**
financial entities	50.5	207.2	(156.7)	-75.6%
non-financial entities	10 190.7	6 053.1	4 137.6	68.4%
State budget entities	135.9	174.5	(38.5)	-22.1%
Total	**42 890.6**	**36 890.4**	**6 000.2**	**16.3%**

Loans and advances taken, guarantees and warranties agreements

In 2012, PKO Bank Polski SA did not take out any loans or advances or receive any guarantees or warranties that were not related to operating activity of PKO Bank Polski SA.
In 2012, KREDOBANK SA did not take out any loans or advances or receive any guarantees or warranties that were not related to its operating activity.

Underwriting agreements and guarantees issued to the subsidiaries

In 2012, bonds issues of Bankowy Fundusz Leasingowy SA (a subsidiary of the Bank) regulated Underwriting Agreement for Organisation, Conducting and Servicing of the Bond Issuance Program as at 10 November 2011, in accordance with the maximum value of the Program amounts to PLN 600 million.
As at 31 December 2012, Bankowy Fundusz Leasingowy SA issued bonds for a total amount of PLN 395 million, including bonds with a value of PLN 237 million which were sold on the secondary market, and bonds with a value of PLN 158 million were included in the portfolio of PKO Bank Polski SA.
In 2012, PKO Bank Polski SA granted:

- a guarantee to Bankowy Fundusz Leasingowy SA up to the amount of EUR 70 million in respect of a loan agreement; the guarantee was issued for the period to 31 January 2016,
- a guarantee to Bankowy Leasing Sp. z o.o. up to the amount of PLN 509 thousand in respect of delivery of leased out assets; the guarantee was issued for the period to 31 January 2014,
- a guarantee to Bankowy Leasing Sp. z o.o. up to the amount of PLN 218 thousand in respect of delivery of leased out assets; the guarantee was issued for the period to 31 January 2016,
- guarantee to Centrum Elektronicznych Usług Płatniczych 'eService' SA up to the amount of PLN 1 089 thousand in respect of service performance bond; the guarantee was granted for the period ended 30 September 2014,
- a guarantee to Qualia Spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k. up to the amount of PLN 1 035 thousand in respect of agreement regarding driveway construction; the guarantee was issued for the period to 30 June 2014

and increased the value of the guarantee granted to Bankowy Fundusz Leasingowy SA to the amount of PLN 453 thousand in respect of office space rental (the guarantee was issued for the period to 30 June 2015).

Enforceable titles issued by the Bank

In 2012, PKO Bank Polski SA issued 44 271 banking enforceable titles for a total amount of PLN 3 449 216 276.64 and CHF 115 935.98.

In the case of KREDOBANK SA, the Ukrainian law does not allow to issue enforceable titles as defined in the Polish Banking Law. In accordance with the Ukrainian law, bank liabilities are pursued in a court of law based on the provisions of the Code of Civil Procedure.

Debt write-offs

In 2012, decrease of impairment allowances due to derecognition of loans and advances to customers in the PKO Bank Polski SA Group amounted to PLN 934.3 million.

Proceedings pending before the court, arbitration tribunal or public administrative authority

As of 31 December 2012, the total value of court proceedings against the PKO Bank Polski SA Group entities (including the Bank) amounted to PLN 404 689 thousand, of which PLN 3 593 thousand concerned court proceedings in Ukraine (as at 31 December 2011 the total value of above mentioned court proceedings amounted to PLN 428 623 thousand), while the total value of court proceedings initiated by the PKO Bank Polski SA Group entities (including the Bank) amounted to PLN 360 205 thousand, of which PLN 154 257 thousand concerned court proceedings in Ukraine, related mainly to recovery of loans granted by KREDOBANK SA (as at 31 December 2011 the total value of above mentioned court proceedings amounted to PLN 698 971 thousand)[9].
Neither the Bank nor the other Group entities have conducted any proceedings pending before court, arbitration tribunal or public administration authority concerning liabilities or receivables, the value of which amounts to at least 10% of the own funds of PKO Bank Polski SA.

Proxies, Management Board meetings and execution of the resolutions of the General Shareholders' Meeting

As at 31 December 2012 there were 6 proxies. In 2012, no proxies were appointed and dismissed.
In 2012, the Bank's Management Board held 54 meetings and adopted 734 resolutions.
At the meeting on 6 June 2012 the General Shareholders' Meeting adopted 32 resolutions, which recommended undertaking specific actions, that were executed.
Major actions and decisions of the Management Board, which affected the Bank's financial position and operations, are presented in different parts of this Directors' Report.

Factors which will affect future financial performance of the PKO Bank Polski SA Group

In the near future, results of the PKO Bank Polski SA Group will be affected by economic processes which will occur in Poland and global economy and financial markets reactions to them. The interest rate policy applied by the Monetary Policy Council and by other largest central banks will also have a great impact on the future performance.
Additionally, the results of PKO Bank Polski SA will be impacted by the economic conditions in Ukraine where operate the KREDOBANK SA Group entities: KREDOBANK SA and factoring and debt collection company, which were acquired in order to finalise the loan portfolio restructuring of KREDOBANK SA. PKO Bank Polski SA is continuing activities to ensure the safe operation of its Entities in Ukraine, covering the strengthening of supervisory activities, monitoring the funds transferred to those Entities by the Bank and in respect of development in the regulatory requirements of the National Bank of Ukraine in KREDOBANK SA.

Seasonality or cyclical nature of activities in the reporting period

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

Results of changes in the entity's structure, including the effects of merger, takeover or disposal of the Group entities, long-term investments, division, restructuring and discontinuation of activities

The results of changes in the entity's structure, including the results of merger, takeover or disposal of the Group entities have been described in point 4 of this Directors' Report.

Information on warranties on loans and advances granted by the issuer or by the issuer's subsidiary or on a guarantee granted – cumulatively to a single entity or its subsidiary, if the total value of outstanding warranties and guaranties constitutes at least 10% of the issuer's own funds

In 2012 PKO Bank Polski SA did not grant any guarantees or warranties on loans or advances to a single entity or its subsidiary that would constitute at least 10% of the Bank's own funds.
In 2012, subsidiaries of PKO Bank Polski SA did not grant any guarantees or warranties on loans or advances to a single entity or its subsidiary that would constitute at least 10% of the Bank's own funds.

Information on any transaction or a number of transactions concluded by the issuer or its subsidiary with related parties, if they are significant and were concluded not on arm's length

In 2012, PKO Bank Polski SA provided services, on arm's length, to its related (subordinated) entities. The services comprised maintaining bank accounts, accepting deposits, granting loans and advances, issuing debt securities, granting guarantees and current foreign exchange transactions, as well as offering investment fund units, lease products, rental of terminals and payment transactions of billing services offered by the entities of

[9] The above mentioned value does not include the value of legal claimes of KREDOBANK SA concerning taxes described in the consolidated financial statements in the note on income tax.

the PKO Bank Polski SA Group. At the same time, in connection with the takeover, as at 1 March 2012, of real estate where the Bank's Head Office is located, as a result of the liquidation of Centrum Finansowe Puławska Sp. z o.o., PKO Bank Polski SA leased space in above mentioned building to selected Companies of the Group.
A list of major transactions concluded by PKO Bank Polski SA with subordinated entities, including their indebtedness in relation to the Bank as at 31 December 2012 was presented in the financial statements of PKO Bank Polski SA for the year ended 31 December 2012.
In 2012, PKO Bank Polski SA did not conclude any material transaction with related parties not on arm's length.
In 2012 the subsidiaries of PKO Bank Polski SA did not conclude any material transaction with related parties not on arm's length.

Post balance sheet significant events

1. On 17 January 2013, by the Partners' Resolution of Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k. (the company from the Qualia Development Sp. z o.o. Group) amount of limited partner's contribution and the limited partnership amount was increased to PLN 2 551 thousand.
2. On 17 January 2013, by the Partners' Resolution of Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k. (the entities from the Qualia Development Sp. z o.o. Group) amount of limited partner's contribution and the limited partnership amount was increased to PLN 441 thousand.
3. On 15 February 2013, PKO Bank Polski SA made additional payment to Qualia Development Sp. z o.o. in the amount of PLN 1 251 thousand.

Declaration of the Management Board

The Management Board of PKO Bank Polski SA certifies that, to the best of its knowledge:

- the annual financial statements and comparative data have been prepared in accordance with binding accounting and reporting standards and present a true and fair view of financial condition and results of the PKO Bank Polski SA Group,
- the annual PKO Bank Polski SA Group Directors' Report presents a true and fair view of the development and achievements as well as condition of the PKO Bank Polski SA Group, including a description of the basic risks and threats.

The Management Board of PKO Bank Polski SA certifies that the entity authorised to audit the financial statements and which is performing the audit of annual consolidated financial statements, has been elected in compliance with applicable laws. The entity as well as the certified auditors performing the audit fulfilled all criteria for providing unbiased and independent audit opinion in compliance with applicable laws and professional norms.

The Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group Directors' Report for the year 2012 consists of 75 subsequently numbered pages.

Signatures of all Members of the Management Board of the Bank

26.02.2013	Zbigniew Jagiełło	President of the Management Board	..... (signature)
26.02.2013	Piotr Alicki	Vice-President of the Management Board	..... (signature)
26.02.2013	Bartosz Drabikowski	Vice-President of the Management Board	..... (signature)
26.02.2013	Piotr Mazur	Vice-President of the Management Board	..... (signature)
26.02.2013	Jarosław Myjak	Vice-President of the Management Board	..... (signature)

26.02.2013	Jacek Obłękowski	Vice-President of the Management Board	..... (signature)
26.02.2013	Jakub Papierski	Vice-President of the Management Board	..... (signature)