



Bank Polski

PKO Bank Polski SA Directors' Report for the year 2013



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1. INTRODUCTION¹

1.1 PKO Bank Polski SA – 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 School Savings Unions (Szkolne 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 into 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 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 included a modified name of Powszechna Kasa Oszczędności - Bank Państwowy (a state bank); PKO BP in the short form. The first Supervisory Board of PKO BP was appointed. 3. IT departmental system ZORBA3000, which automated all banking operations performed in a branch was implemented 4. the first Internet information portal of the Bank and the first e-PKO Internet branch were launched 5. a package of housing loans 'Własny Kąt' for individual clients, and a loan 'Nowy Dom' for corporate clients appeared in the offer of PKO Bank Polski SA 6. the Bank was transformed into a wholly-owned subsidiary of the State Treasury under the name of PKO Bank Polski Spółka Akcyjna
2004-2009	1. successful Bank's IPO 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 2. rollout of Integrated IT System O-ZSI in the Bank's network was completed 3. successful rights issue of 250 000 000 D series shares was conducted within public offering, which resulted in the Bank's share capital increase from PLN 1 000 000 000 to PLN 1 250 000 000 (2009)
2010-2012	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. 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 of EUR 800 million and bonds to the American market in the amount of USD 1.0 billion, which became benchmark securities not only for Polish entities but also for issuers from the financial institutions sector in Central and Eastern Europe 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. the SKO Project was an actively developing programme with innovative solutions (i.a. online trading platform) 6. 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 7. PKO Bank Polski SA reached in 2011 a record net profit of PLN 3 953.6 million
2013	1. strategy for the years 2013-2015 'PKO Bank Polski. Daily the best', which assumptions will help to strengthen the position as a leader in all key market segments 2. PKO Bank Polski SA has set a new standard for mobile payments - IKO - the innovative solution for the mobile payments market 3. PKO Bank Polski SA has signed with EVO Payments International Acquisition GmbH an agreement for twenty-year strategic alliance in the electronic payment market and therefore sold a significant portion of shares in Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. 4. PKO Bank Polski SA has implemented the PKO Junior offer - one of the world's first online banking services for children, which at the same time is a comprehensive financial education programme 5. PKO Bank Polski SA has signed with Nordea Bank AB an agreement concerning the acquisition of entities: Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA, Nordea Finance Polska SA and the corporate loan portfolio serviced directly by the seller

¹ Financial data for 2012, presented in the PKO Bank Polski SA Directors' Report have been brought to comparability with 2013 (detailed information is included in the Standalone financial statements for 2013).



1.2 PKO Bank Polski SA in years 2010-2013

In the financial statements of PKO Bank Polski SA for the year 2013 changes on recognition of income and expenses due to bancassurance have been implemented. In accordance with IAS 8.22 the change was applied retrospectively, i.e. the result for the year 2012 and the statement of financial position as at 31 December 2012 and 1 January 2012 have been restated and brought to comparability including changes applied in 2013. A detailed description of the changes has been provided in note 2.23. to the financial statements of PKO Bank Polski SA for the year 2013. Financial data for the year 2011 and all previous years have not been restated and are derived from the published financial statements for the year. This should be taken into account while performing a comparative analysis.

	2013	2012 restated	2011	2010
Statement of financial position (in PLN million)				
Total assets*	196 280	190 689	188 373	167 239
Equity*	25 111	24 375	22 802	21 202
Loans and advances to customers*	147 372	141 692	140 059	128 933
Amounts due to customers*	159 958	154 741	150 031	135 289
Income statement (in PLN million)				
Net profit*	3 234	3 583	3 954	3 311
Net interest income*	6 580	7 979	7 505	6 384
Net fee and commission income*	2 655	2 650	2 873	2 938
Result on business activities*	10 268	11 166	10 785	9 792
Net impairment allowance and write-downs*	(2 088)	(2 459)	(1 812)	(1 767)
Administrative expenses*	(4 221)	(4 257)	(4 058)	(3 902)
Financial indicators				
ROE net	13,3%	15,3%	18,3%	15,5%
ROA net	1,7%	1,9%	2,2%	2,1%
Interest margin	3,7%	4,7%	4,6%	4,3%
Capital adequacy ratio*	13,4%	12,7%	11,9%	12,0%
C/I*	41,1%	38,1%	37,6%	39,8%
Operational data				
Number of branches (in number of units)	1 186	1 198	1 199	1 208
Number of employees (in number of full-time equivalents)	24 437	25 399	25 908	26 770
Number of current accounts (in thousand of units)	6 318	6 220	6 146	6 150
Number of clients (in thousand)	8 451	8 173	8 234	8 117
Retail clients**	8 024	7 761	7 822	7 711
Small and medium enterprises**	362	352	356	356
Housing market	53	49	44	38
Corporate clients	12	12	11	12
Data on shares				
Capitalisation of the stock exchange (in PLN million)	49 275	46 125	40 150	54 188
Number of shares (in million of units)	1 250	1 250	1 250	1 250
Dividend per share (in PLN) (paid in the particular year from the profit for the previous year)	1.80	1.27	1.98	1.90
Share price (in PLN)	39.42	36.90	32.12	43.35

* Data based on standalone financial statements for the particular year, excluding data for 2012, which were presented comparable with data for 2013.

** Data include Inteligo clients.

1.3 Characteristic of PKO Bank Polski SA activity

PKO Bank Polski SA 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. It is also among the oldest, operating financial institutions in the country. During the whole period of activity, the Bank had been consistently developing the prestige of its brand and providing services to many generations of Poles. The long tradition and clients' confidence are the source of an obligation. Therefore, PKO Bank Polski SA consistently takes measures in order to consolidate perception of the Bank 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.

The year 2013 was the first year of implementation of the 'PKO Bank Polski. Daily the best' Strategy for the years 2013-2015. Total assets amounted to PLN 196.3 billion, which accounted for 13.9%² of the assets of the entire banking sector in Poland as at the end of 2013.

The equity increased by 3.0% to the level of PLN 25.1 billion as at the end of 2013 (16.3% of the equity of the whole sector). As a result, the Bank was able to achieve the capital adequacy ratio of 13.38%, which guaranteed safety of the Bank's operations. Due to the trust of customers resulting from the Bank's stable financial position, the balance of amounts due to customers increased to PLN 160.0 billion, and the Bank's share in the sector's deposits amounted to 16.3%.

² Source: data from Polish Financial Supervision Authority (PFSA).



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Despite the keen market competition, PKO Bank Polski SA effectively develops its operations not only in its traditional area of operations – serving retail clients. It is also a leading bank for corporate clients and small and medium enterprises in Poland – especially with regard to financing their operations. PKO Bank Polski SA provides funding to all branches of the Polish economy, it is also a leading lender for local governments. The basis of development of the corporate business in PKO Bank Polski SA is the highest level offer of loan and transaction products. Client service standards and effective credit risk assessment procedures enabled the Bank to increase its gross loan portfolio by PLN 5.8 billion to the level of PLN 153.8 billion in 2013, which translated into high market share of the Bank in loans at the level of 16.1%.

In 2013, the Bank continued its activities as regards increasing the efficiency of the expenditure and costs incurred, which manifested in a selective approach towards development of distribution network. As at the end of 2013, the largest network of branches in Poland comprised 1 186 branches and 1 074 agencies. The Bank's clients can use the systematically developed e-banking services offered under the iPKO brand and as a part of Inteligo account. They also have an increasing number of ATMs at their disposal – as at the end of 2013, there were 2 992 ATMs. The Bank's services are used by 8.4 million clients in the retail sector and 12.4 thousand clients in the corporate sector. PKO Bank Polski SA is one of the largest employers in Poland. As at the end of 2013, the Bank employed 24.4 thousand people. The initiatives undertaken by the Bank in 2013 created favourable conditions for building a modern and change-embracing corporate culture, using the tools designed for enhancing the effectiveness and improving the qualifications of the employees of PKO Bank Polski SA as well as increasing the effectiveness of internal cooperation (amongst others, assessing the employees' qualifications, initiatives aimed at sharing experience and knowledge internally, and supporting the process of adaptation of the Bank's new employees within the organisation).

Apart from the strictly banking operations, PKO Bank Polski SA also conducts brokerage activities and via its subsidiaries, provides specialist financial services relating to leasing, factoring, investment funds, pension funds. Moreover, the PKO Bank Polski SA Group conducts investment, real estate development and debt collection activities. In 2013 the Group also conducted activities relating to servicing and settlement of card transactions.

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 PKO Bank Polski SA

	2013	2012 restated	Change 2013/2012
Net profit	3 233.8 PLN million	3 582.6 PLN million	-9.7%
Result on business activities*	10 268.2 PLN million	11 166.0 PLN million	-8.0%
Administrative expenses	(4 220.8) PLN million	(4 256.9) PLN million	-0.8%
Net impairment allowance and write-downs	(2 087.6) PLN million	(2 458.6) PLN million	-15.1 %
C/I	41.1%	38.1%	3 pp.
ROE net	13.3%	15.3%	-2 pp.
ROA net	1.7%	1.9%	-0.2 pp.

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

The financial results achieved by PKO Bank Polski SA in 2013 shaped up on a high level, and PKO Bank Polski SA's loan and deposit volumes were the highest among institutions in the Polish banking sector. As at the end of 2012 and at the beginning of 2013 there were observed the unfavourable trends in business activities in Poland. In the second half of 2013 there was a considerable increase in the growth rate, although it still remained relatively low. The changing economic situation and decreasing interest rates translated into a deterioration in the net profit of the Polish banking sector. The drop in the net profit of the banking sector resulted from the lower result on banking activities which was the consequence of the deterioration in the net interest income, accompanied by a reduction in administrative expenses and an improvement in the net impairment allowance and write-downs.

The purpose of PKO Bank Polski SA in 2013 was the development of the business activity on the basis of a stable financing structure. This purpose was carried out by taking care of the effectiveness of operation, including effective costs control and limitation of risk costs. The net profit generated by PKO Bank Polski SA in 2013 amounted to PLN 3 233.8 million, which represents a decrease of approx. PLN 348.9 million, i.e. by 9.7% comparing to the previous year profit. The achieved level of net profit was determined by:

- result on business activities, which reached the level of PLN 10 268.2 million (a decrease of 8.0% y/y), mainly as a result of:
 - o a decrease in net interest income by 17.5% y/y, due to strong reduction in market interest rates,
 - o an increase in net other operating income and expense (+44.1x y/y), due to sale of some assets, mainly shares in Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.,
- stable growth rate of administrative expenses as a result of maintaining cost discipline, which was reflected in the high efficiency of cost management; C/I ratio amounted to 41.1% and was significantly better than the average for the Polish banking sector, which amounted to 53.1%,
- net impairment allowance and write-downs, which increased by PLN 371.0 million than achieved in 2012, mainly due to a decrease in impairment allowances on consumer and housing loans,
- secure and effective structure of the statement of financial position – a strong deposit base and a high level of equity of PKO Bank Polski SA, enabled the dynamic growth of business activities; as at the end of 2013, the loan to deposit ratio (amounts due to customers) amounted to 92.1% (the loan to the stable sources of financing³ ratio amounted to 89.9%).

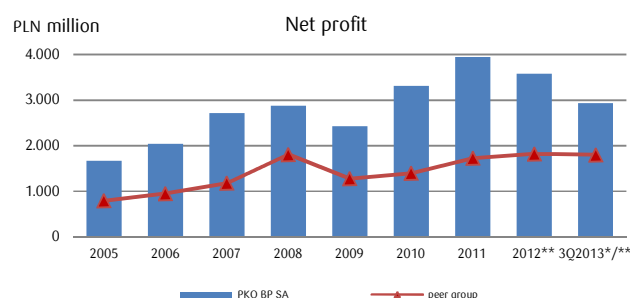
³ Stable sources of financing include amounts due to customers (including funds from the issue of Eurobonds) and external financing in the form of: subordinated liabilities, issue of own debt securities and amounts due to financial institutions.



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1.5 PKO Bank Polski SA against its peer group⁴

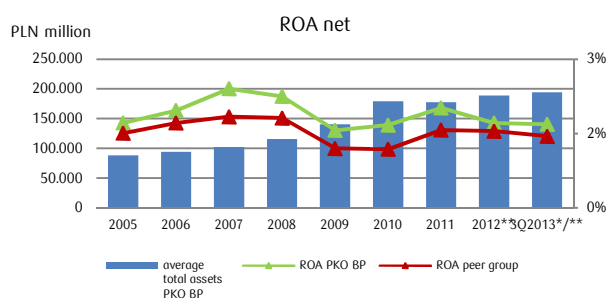
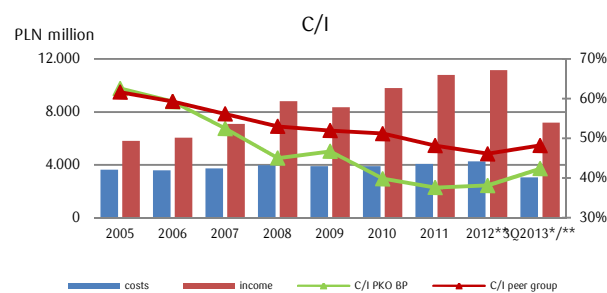


The low economic growth rate and record low market interest rates in 2013 were reflected in the decrease in financial results of banks. In 2013, PKO Bank Polski SA achieved very high financial results.

* The value of net profit for 3Q2013 for particular banks was adopted as a sum of net profit recognised for 3Q2013 and for 4Q2012.,

** Data restated

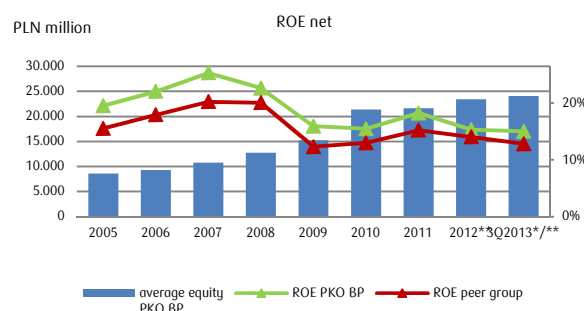
In 2013, Polish banking sector maintained strict cost control, including i.a. maintaining by banks a selective approach towards the development of the branch network and an intensive growth of mobile banking. In 2013, PKO Bank Polski SA maintained the relation of costs to income at a low level – lower than the value realised by the peer group.



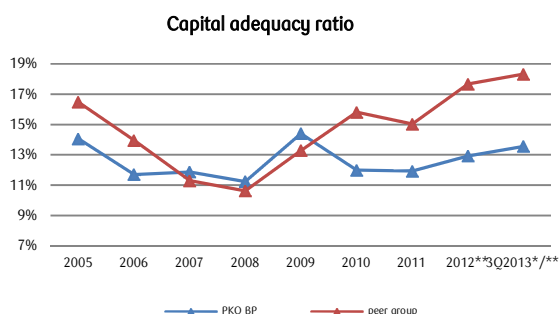
In 2013, financial results of banking sector were influenced by low interest rates, accompanied by positive influence of cost discipline and lower costs of credit risk.

At the same time, active policy of PKO Bank Polski SA contributed to maintain a high return on assets.

The macroeconomic situation in 2013 contributed to decrease in financial results, which led to the lower return on equity. In 2013, PKO Bank Polski SA maintained high profitability.



⁴ Peer group includes: Pekao SA, mBank SA (BRE Bank SA), ING Bank Śląski SA, BZ WBK SA. Ratio calculations are based on the data available in annual reports of the particular banks (data for the years 2005-2012), and due to lack of publications of some of the banks from the peer group annual reports for 2013 before publication date of annual report of PKO Bank Polski SA, data for 3 quarters of 2013 of these banks, as data representing trends in 2013, was adopted. All data is weighted by total assets.



The capital adequacy of the banking sector in 2013 remained stable and as a result, capital adequacy ratio remained on a high level in the whole sector.

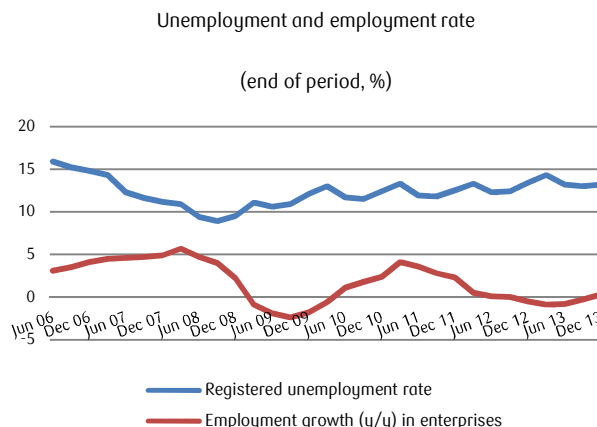
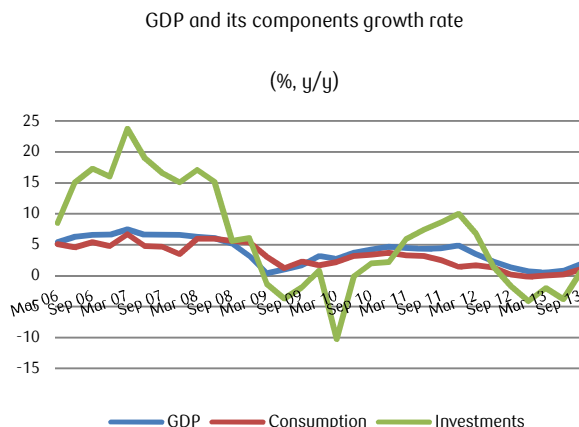
The level of capital adequacy ratio of PKO Bank Polski SA remained also at a safe and stable level – significantly above the minimum level set by the Banking Law.

2. EXTERNAL BUSINESS ENVIRONMENT

2.1 Macroeconomic factors

After reaching a cyclical 'low point' in the first quarter of 2013 (GDP growth by 0.5% y/y) and a slight acceleration in the second quarter (to 0.8% y/y), as expected, in the second half of the year, the economy entered the path of recovery (growth in the third quarter by 1.9% y/y and in fourth quarter by 2.5-3% y/y). Together with the improvement in activity in the second half of the year, the change of the economic growth factors had been continued. In the second half of the year the role of domestic demand increased, as a result of a gradual improvement in consumer and investment demand. Despite an increase in the import-intensive component of the domestic sale, sustained (throughout the year) strong export favored positive contribution of net export to growth. The total GDP growth rate amounted to 1.6% in 2013 compared with 1.9% in 2012.

Given the slower GDP growth rate in 2013, the decrease in the employment rate in the corporate sector by 1.0% y/y, compared with the increase by 0.1% in 2012 was recorded, whereas the registered unemployment rate has not changed and amounted to 13.4% in December 2013. The increase in wages and salaries in the corporate sector decreased to 2.9% in 2013, compared with 3.4% in 2012.



In 2013, the average annual inflation rate, measured with the consumer price index, decreased to 0.9% y/y from 3.7% y/y in 2012.

The downward trend was particularly strong in the first half of the year and led to a drop in inflation to a historically low level of 0.2% y/y in June 2013. After the increase in July due to one-off factors (waste disposal prices, changes in the methodology of the Central Statistical Office) inflation reached the level of 1.1% y/y in July and began falling again, amounting to 0.7% y/y in December.

In accordance with the 'Monetary Policy Guidelines for 2013', the objective of the monetary policy was to maintain inflation at the level of 2.5% with a symmetrical tolerance range for deviations of +/-1 pp. Due to inflation remaining below the lower limit of the range, the Monetary Policy Council (RPP – Rada Polityki Pieniężnej) decided to extend the cycle of easing the monetary policy, to finally end it in July 2013 with decreases totalling -225 b.p. (including a -175 b.p. decrease in rates in 2013). Currently, the reference rate amounts to 2.50%. RPP announced that this situation would continue at least until the end of the first half of 2014.

2.2 Stock market

The year 2013 was a good year for stock markets. Stock exchange indices were on the increase thanks to the signs of the approaching recovery in the global economy and continued high liquidity on the financial markets thanks to the expansive monetary policy of the main central banks. The volatility on the markets increased due to suggestions of the U.S. Federal Reserve concerning the imminent commencement of withdrawal from the quantitative easing programme. They particularly harmed the emerging markets which are heavily dependent on international portfolio capital, whereas their impact on the developed markets was small. The stock exchanges in the USA (the S&P index increased by 30%, breaking the historical record) and in Europe (StoxxEurope600 increased by 17%) enjoyed an excellent level of activity. The Warsaw Stock Exchange continued last year's positive trend, generating an 8% profit. This occurred in spite of the significant deterioration in companies' financial results. The WSE



was backed by historically low interest rates which made bank deposits and bonds less attractive than shares, as well as the positive outlook for the Polish economy for the years 2014-2015.

2.3 Interest rate market

On the interest rate market in 2013, we observed increased volatility in the prices of instruments with longer maturities and a tendency on the yield curve to slope sharply. For the major part of the year the profitability of 2-year Treasury bonds remained at a level close to 3%. In this case, the relatively stable quotations were largely the result of the Monetary Policy Council assuring that interest rates would remain unchanged in the mid term. On the other hand, in the case of the longer end of the curve, pressure for an increase in the profitability of bonds was created by the increasingly strong expectations of a global economic recovery, as well as the prospect of the U.S. Fed withdrawing from its expansive monetary policy. As a result, in 2013 the yield on Polish 2-year bonds dropped slightly by 9 b.p. to 3.03%, and the yield on 5- and 10-year bonds increased by 43-62 b.p. to 3.65% and 4.35% respectively. On the bond market, the spread between the 10- and 2-year sectors in December of the previous year reached a historical high level of 165 b.p.

2.4 Foreign exchange market

In 2013, the main factors which determined changes on the foreign exchange market were as follows:

- quantitative expansion of the U.S. central bank (the Fed) and the signals sent by the Fed regarding the prospects of its discontinuation from this policy;
- the ECB decreasing the basic interest rate from 0.75% to 0.25%;
- the drop in the basic interest rate in Poland from 4.25% to 2.50%.

The market was characterised by high volatility, which was particularly noticeable after 19 June of the previous year, when the Fed Chairman suggested departing from the so-called quantitative easing policy. However, the nervous response of the financial markets to this announcement along with the growing uncertainty as to the prospects of the budget consensus in the U.S. Congress encouraged the Fed to soften its position regarding the schedule for withdrawing from the quantitative expansion. This helped to ease the situation on the financial markets significantly, thanks to which the December decision to reduce the scale of the quantitative expansion by USD 10 billion a month from January 2014 did not cause any major perturbations in the financial markets. Finally, the year 2013 brought an appreciation of the euro against the dollar (from 1.32 as at the end of 2012 to 1.37 as at the end of 2013) and a slight depreciation in the Polish zloty against the euro (from 4.08 as at the end of 2012 to 4.15 as at the end of 2013) and the Swiss franc (from 3.38 as at the end of 2012 to 3.39 as at the end of 2013).

2.5 The situation in the Polish banking sector

In 2013 the low economic growth rate and historically low basic interest rates influenced the financial results of the banking sector in Poland. As at the end of 2013, the net profit of the banking sector amounted to PLN 15.4 billion and was just a little lower than in the previous year (-0.3% y/y). The drop in the net profit was mainly due lower result on banking activities (-5.6% y/y), including net interest income (-3.8% y/y). Lower net impairment allowance (-8.2% y/y) and maintaining the control of administrative expenses (-0.6% y/y) positively influenced financial results in 2013.

In 2013, the operating efficiency of the banking sector deteriorated slightly: as at the end of 2013 the C/I ratio amounted to 53.1% compared with 50.9% in the previous year. The capital adequacy ratio remained high: it amounted to 15.8% and was higher than in the previous year (+1.0 pp.); the Tier1 ratio amounted to 14.2%.

The impaired receivables decreased by 0.7% y/y as at the end of 2013, and the share of such receivables in total receivables decreased to 8.5% from 8.9% as at the end of 2012. The drop in the value of non-performing consumer loans (-12.9% y/y) and non-performing loans to small and medium enterprises (-0.9% y/y) was recorded. As at the end of 2013, the ratio of non-performing loans to total loans granted to enterprises amounted to 11.5%, for housing loans it amounted to 3.1%, and for consumer loans it amounted to 14.6%.

As at the end of 2013, the banking sector's total assets increased to PLN 1 407 billion (+4.2% y/y). The banking market was still characterised by low lending activity and a relatively stable growth rate of deposits. The change in the loan volumes was affected by changes in the exchange rate of PLN (in 2013, the PLN/CHF exchange rate increased by 0.6% and the PLN/EUR exchange rate increased by 2.6%, and the PLN/USD exchange rate decreased by 0.1%).

In 2013, total loans increased by PLN 34.8 billion i.e. 3.8% y/y as compared with 1.5% y/y as at the end of 2012. After an adjustment for changes in the exchange rates, the rate of growth in total loans decreased and amounted to 4.2% y/y compared with 4.7% y/y as at the end of 2012, and the increase in total loans was approx. 8% smaller than in the previous year.

In 2013, a low level of lending activity addressed to enterprises was recorded; the amount of loans in this segment increased by PLN 4.6 billion, with approx. 52% of the increase being the effect of the depreciation of the PLN; after eliminating foreign exchange rate changes, the growth rate decreased to 1% y/y from 3.1% y/y as at the end of 2012. The increase in loans related mainly to loans for large enterprises. The market for loans to small and medium enterprises showed a tendency to stagnation in spite of the launch of the government programme titled 'Portfolio de Minimis Guarantee Facility'. The lending activity addressed to enterprises was limited by the low demand which accompanied the slowdown in economic growth and the maintenance of stricter lending policies by the banks.

The housing loans market grew steadily, but the increase in these loans was the lowest in the last few years. In 2013, housing loans increased by PLN 14.3 billion (4.5% y/y). After eliminating changes in the exchange rates, the increase amounted to PLN 17.1 billion. In spite of the fact that the growth of lending activity in this segment was backed by low interest rates and the stabilisation of prices on the housing market, demand was also adversely affected by a lack of support from the State after liquidation of the 'Rodzina na swoim' programme, the prospect of introducing stricter lending policies arising from the new Recommendation S and the prospective borrowers' fears about their financial position in the future.

After two years of decrease, in 2013 the value of consumer loans increased by PLN 2.8 billion (2.3% y/y), and after an adjustment for changes in the exchange rates this increase amounted to PLN 3.2 billion (2.7% y/y). Significant impact on this situation had one-off transactions made in the third quarter of 2013, which resulted in the transfer of loans from non-banking companies to the banking system, and the liberalisation of lending



policies arising from the new Recommendation T and the easing of lending policies by the banks as a result of an improvement in the quality of consumer loans.

In 2013, the total balance of deposits increased by PLN 47.3 billion (5.6% y/y) compared with PLN 47.1 billion in 2012 (5.9% y/y). The main source of this growth were the deposits of households which recorded an increase of PLN 32.4 billion (PLN 36.1 billion in the previous year) and the deposits of enterprises which increased by approx. PLN 19 billion (a drop of PLN 14.2 billion in the previous year). A drop of PLN 5.1 billion was recorded in the deposits of government and local government institutions. The increase in the deposits was due to low interest rates, as well as competitive rates of return realised on the investment fund market.

As at the end of 2013, the gap between loans and deposits amounted to approx. PLN 54 billion; it was lower by approx. PLN 13 billion than as at the end of 2012. In consequence, the loans to deposits ratio improved and amounted to 106% compared with 107.9% as at the end of 2012.

2.6 Regulatory environment

In 2013, there were significant changes in the regulatory environment of the banking sector, which affected financial and organisational situation of PKO Bank Polski SA, including:

- Resolutions of the Monetary Policy Council of January, February, March, May, June and July 2013 decreasing by a total of 1.75 pp.: the reference rate (to 2.5%), interest rate on refinancing loan secured with a pledge on securities (to 4.0%), the interest rate of fixed-term deposits placed by banks with the National Bank of Poland (to 1.0%) and the rediscount rate for bills of exchange accepted from banks for rediscounting by the National Bank of Poland (to 2.75%);
- Resolution of the Bank Guarantee Fund (BGF) Council of 21 November 2012 increasing the interest rate for determining the required annual fee paid by banks in 2013;
- Resolution of the PFSA 53/2013 on Recommendation T concerning management of credit risk arising from exposures to households (Official Journal of the PFSA of 2013 item 11), liberalising principles of risk management, which influenced on the level of consumer loans;
- Resolution of the PFSA 148/2013 on Recommendation S concerning management of mortgage-secured loan exposures (Official Journal of the PFSA of 2013 item 23), that introduces from 1 January 2014 stricter requirements for borrowers, which affected the level of lending activity in 2013;
- the Decree of the Minister of Finance of 18 February 2013 concerning Bank Gospodarstwa Krajowego granting de minimis aid in the form of a guarantee of loan repayment (Journal of Laws, item 239), which affected the level of lending activity to small and medium enterprises;
- decisions by payment organisations: Visa and MasterCard to lower, from 1 January 2013, interchange fees for card payments which had an impact on fee and commission income of banks and clearing agents;
- executive regulations (Regulatory Technical Standards) to the Regulation of the European Parliament and European Union Council dated 4 July 2012 on OTC derivatives, central counterparties and trade repositories – EMIR (Official Journal L 52 of the European Union), the specific scope of which became binding on 10 January and 15 March 2013;
- Resolution No. 333/2013 of the WSE Management Board concerning the amendment of the new UTP Detailed Exchange Trading Rules from 15 April 2013, which required adjustment of brokerage activities;
- the Act of 23 November 2012 implementing from 1 February 2013 amendments to the Act on investment funds and the Act on supervision over the investment fund market (Journal of Laws, item 70), which constitutes the implementation of the UCITS IV Directive; the Act introduced 4 transitional periods for implementing UCITS IV, including until 1 August 2013;
- three Decrees of the Minister of Finance of 30 April 2013 obliging the investment fund companies to implement by the end of July 2013 changes in the methods, procedures and terms of conducting operations and changes in making investments through closed and open investment funds (Journal of Laws, item 536, 537 and 538);
- the Act of 26 July 2013 amending the Act on the Bank Guarantee Fund (Journal of Laws No. 1012) introducing, from 2013, additional burden on banks in the form of prudential fees paid to the Bank Guarantee Fund;
- the Decree of the Minister of Finance of 1 July 2013 amending the level of fees paid i.a. by investment fund companies to the Polish Financial Supervision Authority (Journal of Laws No. 57, item. 364).

Discontinuation of the 'Rodzina na Swoim' programme on financial support to families purchasing their own houses (Journal of Laws No. 168, item 1006) as of 31 December 2012 had a negative impact on the level of lending activity on the mortgage loan market in 2013, although transactions related to this programme were finalising in the first quarter of 2013.

3. FINANCIAL RESULTS OF PKO BANK POLSKI SA⁵

PKO Bank Polski SA did not release financial results forecasts for 2013.

3.1 Factors influencing results of PKO Bank Polski SA

In 2013 the low economic growth rate and historically low market interest rates influenced the financial results of the banking sector in Poland. The financial position of the banking sector in Poland remained relatively stable. However, a deterioration was recorded in the financial results compared with 2012. The financial result was influenced by strong easing of the monetary policy and significant fluctuations in the profitability of securities. The deterioration in the financial results led to the deterioration in the operating efficiency of the banking sector measured by reference to the C/I ratio.

⁵ 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.



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Actions undertaken by PKO Bank Polski SA in 2013 allowed generating net profit amounting to PLN 3 233.8 million. The profitability of PKO Bank Polski SA shaped up on high level – as at the end of 2013, the ROE ratio amounted to 13.2%. An increase in amounts due to customers and the high level of equity of PKO Bank Polski SA 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 2013, the capital adequacy ratio amounted to 13.38%, while its minimum level, determined by the Banking Act, amounted to 8%.

3.2 Key financial indicators

The summary of results, achieved by PKO Bank Polski SA in 2013, is represented by the following key financial efficiency indicators, which are shown in the table below.

Table 1. *Financial indicators of PKO Bank Polski SA*

	31.12.2013	31.12.2012 restated	Change 2013-2012
ROA net (net profit/average total assets)*	1.7%	1.9%	-0.2 pp.
ROE net (net profit/average total equity)*	13.3%	15.3%	-2 pp.
C/I (cost to income ratio)*	41.1%	38.1%	3 pp.
Interest margin (net interest income/average interest-bearing assets)*	3.7%	4.7%	-1 pp.
The share of impaired loans**	8.0%	8.3%	-0.3 pp.
The coverage ratio of impaired loans***	52.0%	50.7%	1.3 pp.

* Income statement items used in calculating indicators capture the period of the last four quarters (annual recognition), while the statement of financial position items capture the average of the last five quarterly values of the respective assets and liabilities.

** 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 Income statement

In 2013, PKO Bank Polski SA recorded net profit of PLN 3 233.8 million (-9.7% y/y).

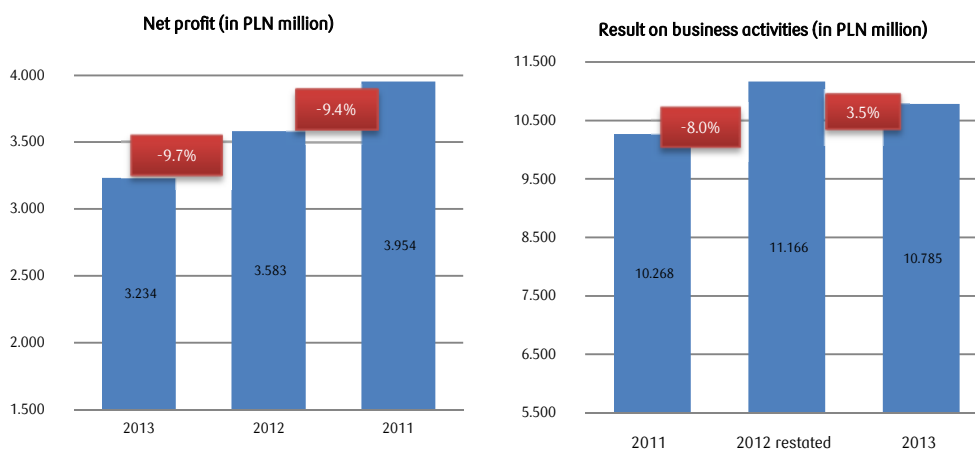


Table 2. *Income statement of PKO Bank Polski SA (in PLN million)*

	2013	2012 restated	Change (in PLN million)	Change (in %)
Interest and similar income	10 487.3	12 960.4	(2 473.2)	-19.1%
Interest expense and similar charges	(3 906.8)	(4 981.5)	1 074.7	-21.6%
Net interest income	6 580.5	7 978.9	(1 398.5)	-17.5%
Fee and commission income	3 650.8	3 430.6	220.2	6.4%
Fee and commission expense	(995.3)	(780.6)	(214.6)	27.5%
Net fee and commission income	2 655.5	2 649.9	5.6	0.2%
Dividend income	96.0	93.2	2.8	3.1%
Net income from financial instruments measured at fair value	54.4	95.1	(40.7)	-42.8%
Gains less losses from investment securities	66.9	81.6	(14.7)	-18.0%
Net foreign exchange gains	237.6	254.2	(16.5)	-6.5%
Net other operating income and expense	577.3	13.1	564.2	44.1x
Net impairment allowance and write-downs	(2 087.6)	(2 458.6)	371.0	-15.1%
Administrative expenses	(4 220.8)	(4 256.9)	36.1	-0.8%
Operating profit	3 959.8	4 450.5	(490.6)	-11.0%
Profit (loss) before income tax	3 959.8	4 450.5	(490.6)	-11.0%
Income tax expense	(726.1)	(867.8)	141.8	-16.3%
Net profit (loss)	3 233.8	3 582.6	(348.9)	-9.7%



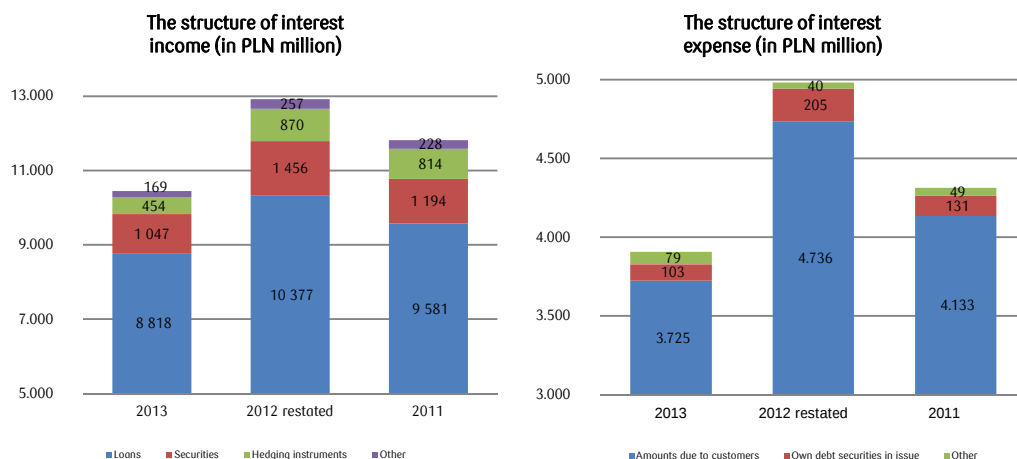
Bank Polski

PKO BANK POLSKI SA DIRECTORS' REPORT FOR THE YEAR 2013

In PKO Bank Polski SA's income statement for the year 2013, the sum of revenue positions amounted to PLN 10 268.2 million and was lower by PLN 897.8 million, i.e. 8.0% than in 2012, mainly due to decrease of net interest income by 17.5% y/y, partially compensated by higher net other operating income and expense.

Net interest income

The net interest income generated in 2013 was lower by PLN 1 398.5 million than in the previous year, mainly due to a decrease in interest income by PLN 2 473.2 million, determined by the fall in market interest rates, which for WIBOR 1M and 3M on an annual basis was 1.60 pp. and 1.40 pp. respectively along with a decrease in interest expense by PLN 1 074.7 million.



In 2013, interest income amounted to PLN 10 487.3 million and in comparison with 2012 was lower by 19.1%, mainly as a result of a decrease in:

- income in respect of loans and advances to customers (- PLN 1 559.8 million y/y) – the effect of lower interest rates on loans as a result of revaluation of the portfolio due to the fall in market interest rates, partially compensated by increase of loans and advances to customers portfolio volume (+4.0% y/y),
- income from derivative hedging instruments (- PLN 416.2 million y/y), resulting from narrowing the spread between the PLN and foreign currency rates as a result of the drop in the WIBOR market rates and the drop in the average volume of CIRS transactions,
- income from securities - as a result of a drop in interest rates due to the fall in market interest rates and a change of the portfolio structure.

In 2013, interest expense amounted to PLN 3 906.8 million and was lower by 21.6% than in 2012 mainly due to a drop in the costs of amounts due to customers of PLN 1 011.4 million y/y. The drop in the costs of amounts due to customers resulted from a lower average interest rate on deposits – the effect of the drop in market interest rates and the adaptation of the price offer of deposit products. The change in the structure of deposits – an increase in the share of current deposits – had a positive effect on the level of the interest expense on amounts due to customers.

In 2013, the average interest rate on loans in PKO Bank Polski SA amounted to 6.1%, whereas the average interest rate on deposits in total amounted to 2.4%, as compared with 7.4% and 3.1% respectively in 2012.

In 2013, the Bank's interest margin amounted to 3.7%, which represents a drop of 1 pp. (y/y), mainly as a result of the decrease in net interest income. The drop in the net interest income is due to the drop in market interest rates which is the direct reason why the drop in interest rates on assets based mostly on market rates is faster than the drop in interest rates on the deposit offer, accompanied by an increase in the volume average of interest-bearing assets (mainly the portfolio of loans and advances to customers).

Moreover, in 2013, the Bank has changed accounting policies on recognition of income and expense related to sale of insurance products, which resulted in an increase of previously presented net interest income for the year 2012 by PLN 206.5 million. Detailed information on changes in accounting policies described in note 2 of the Financial Statements of PKO Bank Polski SA for the year 2013.



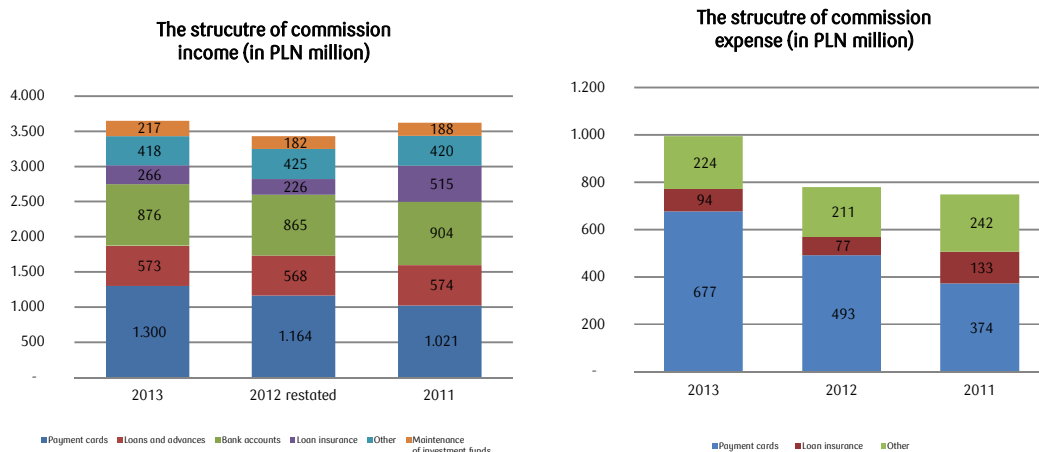
PKO BANK POLSKI SA DIRECTORS' REPORT
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Table 3. Interest income and expense of PKO Bank Polski SA (in PLN million)

	2013	Structure 2013	2012 restated	Structure 2012	Change 2013/2012
Interest income, of which:	10 487.3	100.0%	12 960.4	100.0%	-19.1%
Loans and advances to customers	8 817.6	84.1%	10 377.4	80.1%	-15.0%
Securities	1 046.6	10.0%	1 455.9	11.2%	-28.1%
Derivative hedging instruments	454.3	4.3%	870.5	6.7%	-47.8%
Placements with banks	165.1	1.6%	249.8	1.9%	-33.9%
Other	3.7	0.0%	6.9	0.1%	-46.1%
Interest expense, of which:	(3 906.8)	100.0%	(4 981.5)	100.0%	-21.6%
Amounts due to customers	(3 724.7)	95.3%	(4 736.1)	95.1%	-21.4%
Debt securities in issue	(103.0)	2.6%	(205.4)	4.1%	-49.9%
Deposits from other banks	(17.1)	0.4%	(27.0)	0.5%	-36.5%
Premium on debt securities available for sale	(38.7)	1.0%	(9.9)	0.2%	3.9x
Other	(23.3)	0.6%	(3.1)	0.1%	7.5x
Net interest income	6 580.5	x	7 978.9	x	-17.5%

Net fee and commission income

Net fee and commission income generated in 2013 amounted to PLN 2 655.5 million and noted the growth at a level (+)0.2% compared with the previous year.



Net fee and commission income in 2013 was mainly determined by the following:

- an increase in net commission income in respect of loan insurance (+15.0% y/y), due to the increase in insurance saturation of loans, additionally supported by an increase in sale of loans,
- an increase in commission income in respect of maintenance of investment funds (+19.2% y/y), due to more profitable sales structure of funds and the growth of their sale,
- a decrease in the result on payment cards (-7.1% y/y), mainly due to a decrease in commission related to interchange fee, in connection with a reduction of interchange fee rates by Visa and Mastercard payment organisation from the beginning of the year - lower commission related to interchange fee was accompanied by the increase in card transactions,
- a decrease in commission income in respect of performing the function of the Treasury bonds agent (-26.1% y/y),
- a decrease in commission income in respect of cash transactions (-7.9% y/y), due to the development of electronic banking in PKO Bank Polski SA.

Moreover, in 2013, the Bank has changed accounting policies on recognition of income and expense related to sale of insurance products, which resulted in a decrease of previously presented net fee and commission income for the year 2012 by PLN 154.7 million. Detailed information on changes in accounting policies described in note 2 of the Financial Statements of PKO Bank Polski SA for the year 2013.

The impact of described above changes in accounting policies on the Bank's results on a quarterly basis is presented in the table below.

Table 4. Change in accounting policies - impact on Bank's quarterly results

	1st quarter 2012	2nd quarter 2012	3rd quarter 2012	4th quarter 2012	2012	1st quarter 2013	2nd quarter 2013	3rd quarter 2013	4th quarter 2013	2013
Interest and similar income	54.1	62.1	46.1	44.2	206.5	58.8	55.5	49.2	60.3	223.8
Interest expense and similar charges	-	-	-	-	-	-	-	-	-	-
Net interest income	54.1	62.1	46.1	44.2	206.5	58.8	55.5	49.2	60.3	223.8
Fee and commission income	(47.6)	(55.8)	(43.0)	(42.7)	(189.1)	(61.6)	(67.2)	(63.4)	(72.5)	(264.7)
Fee and commission expense	8.1	10.1	7.9	8.3	34.4	9.0	11.7	11.5	12.7	44.9
Net fee and commission income	(39.5)	(45.8)	(35.0)	(34.4)	(154.7)	(52.6)	(55.5)	(51.9)	(59.8)	(219.8)
Profit before income tax	14.6	16.3	11.1	9.8	51.8	6.2	0.0	(2.7)	0.5	4.0

**PKO BANK POLSKI SA DIRECTORS' REPORT
FOR THE YEAR 2013**
Table 5. Fee and commission income and expense of PKO Bank Polski SA (in PLN million)

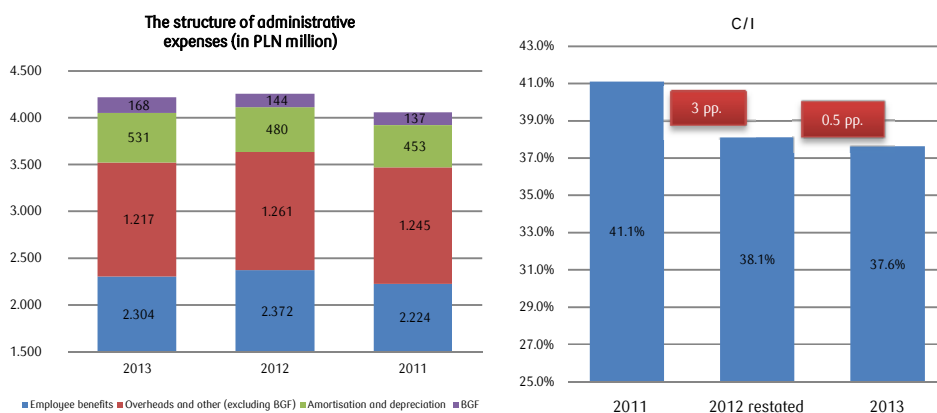
	2013	Structure 2013	2012 restated	Structure 2012	Change 2013/2012
Fee and commission income, of which:	3 650.8	100.0%	3 430.6	100.0%	6.4%
Payment cards	1 300.2	35.6%	1 163.9	33.9%	11.7%
Maintenance of bank accounts	875.6	24.0%	865.3	25.2%	1.2%
Loans and advances granted	573.5	15.7%	567.9	16.6%	1.0%
Loan insurance	266.2	7.3%	226.3	6.6%	17.7%
Maintenance of investment funds (including management fees)	217.3	6.0%	182.3	5.3%	19.2%
Cash transactions	113.2	3.1%	122.8	3.6%	-7.9%
Securities transactions	79.3	2.2%	82.8	2.4%	-4.2%
Servicing foreign mass transactions	52.3	1.4%	48.8	1.4%	7.2%
Performing the function of the Treasury bonds issue agent	29.0	0.8%	39.3	1.1%	-26.1%
Sale and distribution of court fee stamps	20.9	0.6%	25.6	0.7%	-18.3%
Fiduciary services	4.3	0.1%	3.7	0.1%	17.4%
Other*	118.9	3.3%	101.9	3.0%	16.7%
Fee and commissions expense, of which:	(995.3)	100.0%	(780.6)	100.0%	27.5%
Payment cards	(677.1)	68.0%	(492.9)	63.1%	37.4%
Loan insurance	(94.5)	9.5%	(76.9)	9.9%	22.9%
Acquisition services	(90.2)	9.1%	(94.6)	12.1%	-4.7%
Settlement services	(24.4)	2.4%	(24.1)	3.1%	1.4%
Commissions for operating services provided by banks	(11.0)	1.1%	(10.0)	1.3%	10.3%
Other**	(98.1)	9.9%	(82.1)	10.5%	19.5%
Net fee and commission income	2 655.5	x	2 649.9	x	0.2%

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

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

Administrative expenses

In 2013, administrative expenses amounted to PLN 4 220.8 million and decreased by 0.8% compared with the previous year.



In 2013 the level of administrative expenses was mainly determined by:

- decrease in employee benefits by 2.9% y/y,
- decrease in overheads and other expense by 1.4% y/y, i.a. as a result of a decrease in costs of maintenance and rental of non-current assets, i.a. as a result of a decrease in costs of maintenance and rental of non-current assets, the costs of promotion and advertising and the costs of PFSA, with an increase in the BGF expenses – mainly due to the implementation of prudential fee,
- increase in amortisation and depreciation by 10.7% y/y – mainly as a result of increase in amortisation of intangible assets.

Moreover, in 2013, the Bank changed accounting policies with regard to the presentation of actuarial gains and losses, which resulted in an increase of previously presented employee benefits for the year 2012 by PLN 64.1 million. Detailed information on changes in accounting policies described in note 2 of the Financial Statements of PKO Bank Polski SA for the year 2013.

Table 6. Administrative expenses of PKO Bank Polski SA (in PLN million)

	2013	Structure 2013	2012 restated	Structure 2012	Change 2013/2012
Employee benefits	(2 304.4)	54.6%	(2 372.2)	55.7%	-2.9%
Overheads and other, of which:	(1 385.0)	32.8%	(1 404.7)	33.0%	-1.4%
Contribution and payments to the Bank Guarantee Fund	(167.7)	4.0%	(144.0)	3.4%	16.5%
Amortisation and depreciation	(531.4)	12.6%	(480.0)	11.3%	10.7%
TOTAL	(4 220.8)	100.0%	(4 256.9)	100.0%	-0.8%



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The effective control of incurred administrative expenses resulted in maintaining high operating efficiency of the Bank, measured with the C/I ratio, which amounted to 41.1% as at the end of 2013, i.e. well below the average in the banking sector.

Net impairment allowance and write-downs

Net impairment allowance and write-downs is an effect of maintaining a conservative approach of PKO Bank Polski SA to measurement of credit risk and the growth of credit portfolio. The net impairment allowance and write-downs in 2013 amounted to (-) PLN 2 087.6 million and was (+) PLN 371.0 million better than in 2012.

Improvement of net impairment allowance and write-downs in 2013 was mainly due to an decrease in impairment allowances on consumer and housing loans, as a result of improvement of the quality of newly granted loans compared to the older generations.

Additionally, in order to reflect the present recoverable value of subsidiaries, impairment allowances of KREDOBANK SA shares of (-) PLN 172.0 million and the share in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. of (-) PLN 142.2 million. Impairment allowance of KREDOBANK SA shares was recognised due to adverse events, which took place in the Ukrainian market in 2013 (i.e.: economic stagnation in Ukraine, the increase in currency risk and the deterioration of the situation on Ukrainian financial market, related to the destabilisation of the political situation as at the end of the year, which as a consequence lead to the reduction of KREDOBANK SA's rating by Standard & Poor's). Value of a share in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. was determined at fair value as at the day of reclassification of the above mentioned share to non-current assets held for sale.

As at the end of 2013, the share of impaired loans and the coverage ratio of impaired loans respectively amounted to 8.0% (a decrease by 0.3 pp. in comparison to 2012) and 52.0% (an increase by 1.3 pp. in comparison to 2012).

As at the end of 2013 the cost of risk decreased by 0.2 pp. to the level of 1.2% compared to 1.4% as at the end of 2012, mainly due to an improvement of net impairment allowance on consumer and housing loans.

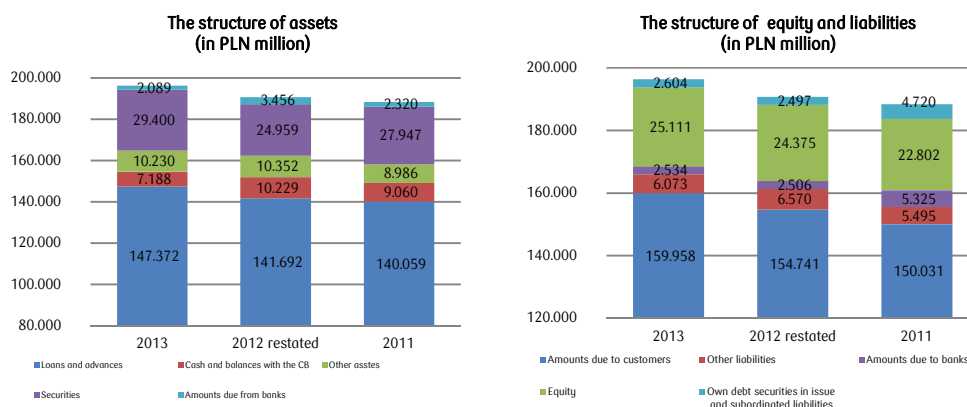
Table 7. Net impairment allowance and write-downs of PKO Bank Polski SA (in PLN million)

	2013	Structure 2013	2012 restated	Structure 2012	Change 2013/2012
Net impairment allowance and write-downs, of which:					
loans and advances to customers measured at amortised cost	(1 822.5)	87.3%	(2 108.8)	85.8%	-13.6%
non-financial sector	(1 874.0)	89.8%	(2 065.6)	84.0%	-9.3%
corporate loans	(1 194.5)	57.2%	(1 041.0)	42.3%	14.7%
housing loans	(246.4)	11.8%	(457.2)	18.6%	-46.1%
consumer loans	(407.8)	19.5%	(565.7)	23.0%	-27.9%
debt securities	(25.3)	1.2%	(1.8)	0.1%	1299.8%
financial sector	40.9	-2.0%	(37.5)	1.5%	X
public sector	10.7	-0.5%	(5.6)	0.2%	X
intangible assets	-	0.0%	(3.7)	0.2%	-100.0%
investments in subsidiaries, jointly controlled entities and associates	(177.9)	8.5%	(208.1)	8.5%	-14.5%
tangible fixed assets	0.3	0.0%	(3.3)	0.1%	X
other	(87.4)	4.2%	(134.7)	5.5%	-35.1%
Total	(2 087.6)	100%	(2 458.6)	100%	-15.1%

3.4 Statement of financial position

The main items of the statement of financial position

Total assets of PKO Bank Polski SA increased by PLN 5.6 billion (+2.9% y/y) as compared to 2012 and amounted as at the end of 2013 to PLN 196.3 billion. As a result, PKO Bank Polski SA maintained the position of the largest financial institution in the Polish banking sector.



In terms of assets, loans and advances to customers recorded a growth – they increased by PLN 5.7 billion per annum (+4.0% y/y). At the same time a growth of securities was recorded (+17.8% y/y), with the decrease in amounts due from banks (-39.6% y/y) and decrease in cash and balances with the Central Bank (-29.7% y/y) – the effect of the statement of financial position structure management.


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The increase in total assets was financed mainly by an increase in amounts due to customers by PLN 5.2 billion as compared with the year 2012 (+3.4% y/y) – an increase in a volume of deposits and additional funds obtained by the Bank from bonds issue on the domestic market.

Table 8. *Main items of the statement of financial position of PKO Bank Polski SA (in PLN million)*

	31.12.2013	Structure 2013	31.12.2012 restated	Structure 2012	Change 2013/2012
Cash and balances with the Central Bank	7 188.4	3.7%	10 229.2	5.4%	-29.7%
Amounts due from banks	2 089.1	1.1%	3 456.4	1.8%	-39.6%
Loans and advances to customers	147 372.3	75.1%	141 692.3	74.3%	4.0%
Securities	29 400.4	15.0%	24 958.6	13.1%	17.8%
Other assets	10 229.7	5.2%	10 352.3	5.4%	-1.2%
Total assets	196 279.9	100.0%	190 688.8	100.0%	2.9%
Amounts due to banks	2 533.7	1.3%	2 506.0	1.3%	1.1%
Amounts due to customers	159 957.7	81.5%	154 740.6	81.1%	3.4%
Own debt securities in issue and subordinated liabilities	2 604.0	1.3%	2 497.2	1.3%	4.3%
Other liabilities	6 073.4	3.1%	6 570.2	3.4%	-7.6%
Total liabilities	171 168.7	87.2%	166 313.9	87.2%	2.9%
Total equity	25 111.2	12.8%	24 374.8	12.8%	3.0%
Total liabilities and equity	196 279.9	100.0%	190 688.8	100.0%	2.9%
Loans/Deposits (amounts due to customers)	92.1%	x	91.6%	x	0.6 pp.
Loans/stable sources of funding*	89.9%	x	89.3%	x	0.6 pp.
Interest bearing assets/Assets	91.1%	x	89.2%	x	1.9 pp.
Interest paying liabilities/Liabilities	84.1%	x	83.8%	x	0.3 pp.

* Stable sources of financing include amounts due to customers (including funds from the issue of bonds), amounts due to financial institutions and external financing in the form of subordinated liabilities and issue of own debt securities.

The return on assets ratio (ROA) decreased by 0.2 pp. to 1.7% in effect of the negative growth rate in net profit (-9.7% y/y), with an increase in average assets of 3.2% y/y, whereas the return on equity ratio (ROE) decreased by 2 pp. to 13.3%, in effect of an increase in average equity by 4.5% y/y.

Loans and advances to customers

In the structure of the net loan portfolio by type, the main items were loans and advances to the non-financial sector (91.4% of the portfolio as at the end of 2013) whose share dropped by 1.1 pp. y/y in favour of loans and advances to the financial sector whose share increased by 1.7 pp. y/y. Housing loans (+6.4% y/y) were the main item of loans and advances to the non-financial sector (50.7% of the portfolio as at the end of 2013).

Table 9. *Loans and advances to customers of PKO Bank Polski SA – structure by type (in PLN million)*

	31.12.2013	Structure 2013	31.12.2012 restated	Structure 2012	Change 2013/2012
Loans and advances to the Bank's customers net*	147 372.3	100.0%	141 692.3	100.0%	4.0%
Financial sector (other than banks)	5 711.2	3.9%	3 132.8	2.2%	82.3%
Non-financial sector	134 637.5	91.4%	130 976.5	92.4%	2.8%
Housing Loans	74 778.4	50.7%	70 274.4	49.6%	6.4%
Corporate Loans	40 048.5	27.2%	39 617.1	28.0%	1.1%
Consumer Loans	18 998.8	12.9%	20 183.7	14.2%	-5.9%
Debt securities	811.8	0.6%	901.3	0.6%	-9.9%
Public sector	7 023.6	4.8%	7 583.0	5.4%	-7.4%
Corporate loans	6 046.5	4.1%	6 410.3	4.5%	-5.7%
Debt securities	977.2	0.7%	1 172.7	0.8%	-16.7%

* together with the repurchase agreements

Detailed information on loans and advances to customers of PKO Bank Polski SA is presented in financial statements of PKO Bank Polski SA for the year 2013.



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Table 10. Loans and advances to customers of PKO Bank Polski SA – term structure (in PLN million)

	31.12.2013	Structure 2013	31.12.2012 restated	Structure 2012	Change 2013/2012
Loans and advances to the Bank's customers (gross)	153 753.6	100.0%	147 920.9	100.0%	3.9%
Short-term	40 032.4	26.0%	38 549.9	26.1%	3.8%
Long-term	113 721.1	74.0%	109 371.0	73.9%	4.0%
Allowances - total	(6 381.2)	x	(6 228.6)	x	2.5%
Total	147 372.3	x	141 692.3	x	4.0%

Long-term loans prevail in the term structure of loans and advances to customers, which is mainly due to a high share of housing loans in the loan portfolio structure.

Securities

As at the end of 2013, the securities portfolio of PKO Bank Polski SA amounted to PLN 29.4 billion and recorded an increase of PLN 4.4 billion compared with the end of 2012. In the structure of the portfolio by type, the main items were debt securities issued by central banks, NBP money market bills and bills issued by the State Treasury.

Table 11. Securities portfolio of PKO Bank Polski SA (in PLN million)

	31.12.2013	Structure 2013	31.12.2012	Structure 2012	Change 2013/2012
Financial assets designated upon initial recognition at fair value through profit and loss	15 179.2	51.6%	12 614.9	50.5%	20.3%
Investment securities available for sale	13 736.7	46.7%	12 061.4	48.3%	13.9%
Trading assets	484.5	1.6%	282.2	1.1%	71.7%
Total	29 400.4	x	24 958.6	x	17.8%

Amounts due to customers

In 2013 amounts due to customers increased by 3.4%, i.e. by PLN 5.2 billion. A significant influence on that had an increase of retail clients current deposits (by PLN 5.6 billion y/y), loans received from non-monetary financial institutions (by PLN 0.9 billion) and corporate entities current deposits (by PLN 1.4 billion y/y).

In 2013 the structure of amounts due to customers by types didn't change significantly. In the structure of amounts due to customers by types, the main item were amounts due to retail clients whose share in the structure as compared to the previous year remained at the stable level and amounted to 72.4%.

Table 12. Amounts due to customers of PKO Bank Polski SA – structure by type (in PLN million)

	31.12.2013	Structure 2013	31.12.2012	Structure 2012	Change 2013/2012
Amounts due to retail clients	115 781.5	72.4%	110 127.4	71.2%	5.1%
Amounts due to corporate entities	40 702.7	25.4%	41 154.3	26.6%	-1.1%
of which loans and advances received	11 609.2	7.3%	10 709.2	6.9%	8.4%
Amounts due to State budget entities	3 473.5	2.2%	3 458.9	2.2%	0.4%
Total amounts due to customers	159 957.7	100.0%	154 740.6	100.0%	3.4%

In 2013, the term structure of amounts due to customers changed. The share of liabilities with maturity up to 1 month increased by 2.6 pp. y/y and represented 57.8% of all amounts due to customers as at 31.12.2013, which was the effect of an increase in funds accumulated in current and savings accounts. At the same time, there was a drop in the share of liabilities with maturity of over 3 months and up to 1 year inclusive, partially offset by an increase in the share of deposits with longer maturities (over 1 year up to 5 years inclusive).

Table 13. Amounts due to customers of PKO Bank Polski SA – term structure (in PLN million)

	31.12.2013	Structure 2013	31.12.2012	Structure 2012	Change 2013/2012
Up to 1 month inclusive	94 392.6	57.8%	86 795.9	55.2%	8.8%
Over 1 month up to 3 months inclusive	15 994.9	9.8%	16 219.6	10.3%	-1.4%
Over 3 months up to 1 year inclusive	26 010.8	15.9%	40 924.5	26.0%	-36.4%
Over 1 year up to 5 years inclusive	20 710.9	12.7%	7 827.6	5.0%	2.6x
Over 5 years	6 160.4	3.8%	5 392.6	3.4%	14.2%
Value adjustments and interest	(3 312.0)	x	(2 419.5)	x	36.9%
Total amounts due to customers	159 957.7	x	154 740.6	x	3.4%


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As at the end of 2013, the following regions had the largest share in the geographical structure of the deposit base⁶ (excluding interbank deposits): central region (32.6%), including Mazowiecki and Łódzki voivodeship and south region (19.4%), including Śląski and Małopolski voivodeship. Their overall share in total deposits of PKO Bank Polski SA amounted to 51.9%.

External financing

PKO Bank Polski SA is an active participant in the market of debt security issues, both local and international. These actions are intended to diversify the sources of financing of operations and to adapt them to regulatory requirements in terms of long-term financial stability. A supplementary source of financing of PKO Bank Polski SA's operations in relation to the deposit base are funds obtained from financial institutions. As at the end of 2013, such sources of funding included mainly loans received from non-monetary financial institutions, including primarily loans from a subsidiary PKO Finance AB, which deals with issues of securities on foreign markets. At the same time, the Bank's liabilities due to loans and advances received from non-monetary financial institutions increased in 2013 – mainly the result of withdrawal of funds from credit facilities with Council of Europe Development Bank (CEB) and the European Investment Bank (EIB).

Table 14. *External financing of PKO Bank Polski SA (in PLN million)*

	31.12.2013	Structure 2013	31.12.2012	Structure 2012	Change 2013/2012
Loans and advances received – non-monetary institutions*	11 609.2	74.4%	10 709.2	73.4%	8.4%
Debt securities in issue	983.1	6.3%	865.9	5.9%	13.5%
Subordinated liabilities	1 620.9	10.4%	1 631.3	11.2%	-0.6%
Loans and advances received – monetary institutions**	1 389.8	8.9%	1 393.0	9.5%	-0.2%
Total	15 603.0	x	14 599.4	x	6.9%

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

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

Equity and capital adequacy ratio

Equity of PKO Bank Polski SA increased by 3.0% per annum and accounted for 12.8% of total equity and liabilities as at the end of 2013. The share of equity in the structure of equity and liabilities remained at the same level compared with the previous year.

The capital adequacy ratio of PKO Bank Polski SA amounted to 13.38% as at the end of 2013 and increased by 0.64 pp. compared to the end of 2012, mainly due to an increase in equity, as the effect of the accumulation of net profit generated in 2012.

Capital adequacy measured with the capital adequacy ratio remained at a safe level.

Table 15. *Equity and capital adequacy ratio of PKO Bank Polski SA (in PLN million)*

	31.12.2013	Structure 2013	31.12.2012 restated	Structure 2012	Change 2013/2012
Equity, of which:	25 111.2	100.0%	24 374.8	100.0%	3.0%
Share capital	1 250.0	5.0%	1 250.0	5.1%	0.0%
Reserve capital	16 598.1	66.1%	15 198.1	62.4%	9.2%
Other reserves	3 416.9	13.6%	3 385.7	13.9%	0.9%
General banking risk fund	1 070.0	4.3%	1 070.0	4.4%	0.0%
Financial assets available for sale	(53.0)	-0.2%	9.2	0.0%	x
Unappropriated profits	(271.2)	-1.1%	(224.7)	-0.9%	20.7%
Cash flow hedges	(125.6)	-0.5%	51.9	0.2%	x
Actuarial gains and losses	(7.7)	0.0%	52.0	0.2%	x
Net profit for the period	3 233.8	12.9%	3 582.6	14.7%	-9.7%
Own funds	20 523.8	x	19 561.5	x	4.9%
Capital adequacy ratio	13.38%	x	12.74%	x	0.64 pp.

4. BUSINESS DEVELOPMENT

4.1 Directions of development of PKO Bank Polski SA – the Strategy for the years 2013-2015

The development directions of PKO Bank Polski SA are set out in the new strategy for the years 2013-2015, 'PKO Bank Polski. Daily the best', approved by the Supervisory Board on 27 March 2013.

⁶ The structure is based on the management data of PKO Bank Polski SA.



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PKO Bank Polski SA's vision for development is based on the assumption that its market position as the financial sector leader in Poland and a leading universal bank in Central Europe should be maintained. At the same time, the following goals should be achieved:

- efficiency, building sustainable values and conducting a stable dividend policy for the shareholders,
- customer satisfaction resulting from credibility, a product offer tailored to the customers' needs and professional service,
- the image of a reliable partner involved in long-term relationships with business partners and local communities,
- the position of the best employer in the Polish banking sector, which supports development and common values.

The strategy assumes strengthening the position of PKO Bank Polski SA brand as the most valuable brand in the Polish banking sector. Its strength results from such aspects as: its Polish character, the safety and long-term trust of its customers, as well as professional service, modern product offer, innovation and new technologies.

The implementation of the Bank's development vision is supported by the long-term strategic levers which are a part of the strategy, such as:

1. Customer satisfaction – using the whole potential of the Bank's largest customer base through a segment-tailored product offer;
2. Distribution excellence – increasing effectiveness and the quality of customer service in the biggest network of locations, and the development of remote channels;
3. Innovation and technology – increasing the competitiveness of products and services, enhancing customer relations and diversification of revenues through improving technologies and implementing innovation;
4. Organisational effectiveness – maintaining competitiveness by introducing intelligent management information, optimising risk management and maintaining cost discipline;
5. Development of competencies – strengthening the organisational culture based on common values and human capital, aimed at cooperation, commitment and skills development;
6. Acquisitions and alliances – active search for possibilities of development in Poland and in Central Europe through acquisitions or strategic alliances.

Long-term strategic levers contribute to the leverage of the following areas of business:

- I. Strategic levers in Retail Banking:
 1. Customer-centric approach (using the information about the customer to provide a better service).
 2. Distribution excellence (improved distribution effectiveness, network modernisation and optimisation, development of direct channels, improvement in selling skills and sales effectiveness).
 3. Innovation and diversification of revenues (implementation of the innovation portfolio management model and development of non-interest income streams).
- II. Strategic levers in Corporate Banking:
 1. Relationship banking and segment-based service model (implementation of an improved segment strategy, distribution structure and price policy and development of skills, as well as loan portfolio quality discipline and efficient capital allocation).
 2. Transaction banking (development of mass payment solutions, extending the product offer, improving customer service quality and improving of processes).
- III. Strategic levers in Investment Banking:
 1. Integrated sales model – capital markets and structured financing (implementing the cross-selling model and developing investment products).
 2. Optimisation of assets and equity and liabilities management (safe and effective management of the Bank's liquidity, improving the interest rate risk management, developing long-term financing, developing the Group).
- IV. Strategic levers of Supporting Areas:
 1. Risk management optimisation (decreasing credit risk costs, process enhancement, implementing price policies adjusted to the customer's risk profile, implementing IRB method and increasing the rate of return).
 2. Advanced, efficient and safe technologies and efficient operating processes (IT solutions supporting 'business' in the development of new products, creating conditions for the further, safe development of the Bank's business activities).
 3. Development through increased involvement and common values (increasing organisational efficiency and human capital value, enhancing corporate culture which is open to changes, attracting the best employees).
 4. Efficient financial management (increasing financial management efficiency through perfecting organisational intelligence, introducing new methods of the Bank's statement of financial position management and continuous cost optimisation).

Another strategic lever of development of PKO Bank Polski SA will involve acquisitions, comprising:

- domestic acquisitions, offering an opportunity to achieve synergies and strengthening the Bank's position on the domestic market in the period of slow-down of the market growth;
- international acquisitions, associated with seeking growth on faster-growing markets and the opportunities to use the Bank's international experience and competencies.

In accordance with the new development strategy, PKO Bank Polski SA will develop an integrated Group model. The Bank's subsidiaries, which play the role of product centres, supplement the basic offer of financial services provided by the Bank.

The key strategic initiatives comprise:

- integration of the selected Group companies with the Bank through, i.a. centralisation of support functions or transfer of all their activities to the Bank,
- sale of assets which are not associated with the Bank's core activity,
- ensuring security and careful development of KREDOBANK SA focused on providing services to retail customers and small and medium enterprises operating mainly in western Ukraine,
- establishment of a mortgage bank,
- implementation of a new bancassurance model,



- strengthening the Group's market position in selected market segments, also through alliances in the area of payments and acquisitions of companies.

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

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

1. Nordea Bank Polska SA

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

2. Nordea Polska Towarzystwo Ubezpieczeń na Życie SA

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

3. Nordea Finance Polska SA

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

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

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

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

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

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

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

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

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

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

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



- PKO Bank Polski SA submitted applications to the Competition and Consumer Protection Office (11 July 2013), the Polish Financial Supervision Authority (11 July 2013) and the Ukrainian Antimonopoly Committee (12 July 2013),
- on 8 August 2013, the Extraordinary General Shareholders' Meeting of Nordea Bank Polska SA passed a resolution i.a.:
 - o on the single issue of 20 million registered subscription warrants of A series entitling its holder to take up, on terms specified in the resolution, a total of not more than 20 million registered ordinary shares of N series of this Bank at total nominal value of PLN 100 million and a conditional increase of share capital of Nordea Bank Polska SA by an amount not higher than PLN 100 million through the issue of N series shares to grant rights to take up shares of this series for holders of subscription warrants that will be issued pursuant to this Resolution: entitled to take up subscription warrants of A series will be only the entity on whose demand to subscribe for sale of Nordea Bank Polska SA shares, shareholders of this Bank, holding not less than 99% of votes at the General Shareholders' Meeting (Resolution No. 3) will answer,
 - o on the conditional appointment to the Supervisory Board of Nordea Bank Polska SA of representatives of PKO Bank Polski SA Misters: Zbigniew Jagiełło, Jakub Papierski, Bartosz Drabikowski, Piotr Alicki, Paweł Borys and Jarosław Orlikowski, with effect at 12.00 AM on the last day call for subscribe for sale of shares of the above mentioned Bank, announced by PKO Bank Polski SA (Resolution No. 2),
- on 6 September 2013, PKO Bank Polski SA obtained a consent from the Ukrainian Antimonopoly Committee to take control over above mentioned Companies,
- on 15 October 2013, obtained a consent from the President of the Office of Competition and Consumer Protection to carry out a concentration involving the PKO Bank Polski SA's taking control over above mentioned Companies,
- On 21 November 2013, conditional increase of share capital of Nordea Bank Polska SA in the nominal amount of PLN 100 million, in accordance with Resolution No. 3 of the Extraordinary General Shareholders' Meeting of the Company dated 8 August 2013 was registered in the National Court Register.

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

The first public tender offer was submitted on 19 June 2013, and the repeated public tender offer – on 3 December 2013.

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

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

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

At the same time, in 2014 the following conditions were fulfilled suspending the determined closing of the transactions:

- a condition of ensuring undisturbed (significantly) to the Nordea Group (ie. Nordea IT Poland SP. z o.o.) services in the IT area for Nordea Bank Poland SA enabling safe functioning of the Nordea Bank Poland SA prior to migration to data bank systems, customer data, services and systems of Nordea Bank Poland SA,
- on 25 February 2014 issuing by the Polish Financial Supervision Authority decision that there were no grounds for objections against the acquisition by the Bank of shares of Nordea Polska Towarzystwo Ubezpieczeń na Życie SA in a number resulting in exceeding a 50% stake in the share capital and the total number of votes at the General Shareholders' Meeting of the Entity
- on 3 March 2014 issuing a decision by the Polish Financial Supervision Authority that there were no grounds for objections against the acquisition by the Bank of shares of Nordea Bank Polska in a number resulting in exceeding a 50% stake in the share capital and the total number of votes at the general meeting of the Entity

Market shares of PKO Bank Polski SA

In 2013, the Bank maintained its leading position in respect of its share in the deposit market, which amounted to 16.3%. The decrease in the market share in respect of deposits is connected with diversification of sources of funding in PKO Bank Polski SA.

As regards loans, market shares stabilised at the level of 16.1% along with an increase in shares in respect of retail clients (+0.1 pp.). Increase in shares in respect of retail client's loans was determined by the increase in housing loans (+0.6 pp.), along with the decrease of share of consumer loans (-1.2 pp.), mainly due to a significant increase in the consumer loan for individuals related to a one-off transaction which took place on the banking market in September 2013 – loans from a non-banking company belonging to one of the financial institutions were included in the volumes of the banking system.



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Table 16. Market shares of PKO Bank Polski SA (in %)*

	31.12.2013	31.12.2012	31.12.2011	Change 2013/2012
Loans for:	16.1	16.1	16.2	0 pp.
retail clients, of which:	19.1	19.0	19.2	0.1 pp.
housing	20.6	20.0	19.9	0.6 pp.
in Polish zloty	28.4	28.6	30.6	-0.2 pp.
in foreign currencies	12.8	12.9	13.2	-0.1 pp.
consumer and other	15.4	16.6	17.6	-1.2 pp.
corporate clients	13.1	13.2	13.1	-0.1 pp.
Deposits for:	16.3	16.8	17.8	-0.5 pp.
retail clients	21.7	21.8	22.3	-0.1 pp.
corporate clients	9.4	10.2	12.1	-0.8 pp.

* Data source: NBP reporting system – WEBIS.

4.4 Business segments⁷

4.4.1 Retail segment

In 2013, 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 retail segment PKO Bank Polski SA continued sustained development, focused on recognising and satisfying needs of customers with whom it wants to build strong, long-term relationships. Actions aimed to increase innovation in the new financial solutions, not only concerning products, but distribution channels as well, particularly in electronic banking and mobile payments were taken.

In 2013, solutions developed within the 'New Beat' project, which greatly raised the efficiency of the sales network and advisors activity were implemented in the retail network. The new motivation system and its clear assumptions and unified work organisation in every branch and at every position conducive to improve the quality of service and increase satisfaction of both customers and employees of the Bank.

The loan offer in the retail segment

PKO Bank Polski SA was consistently launching its new product offer in the retail segment and intensified cooperation with entrepreneurs, supporting the growth of the Polish economy. The Bank also implemented 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. As at the end of 2013, gross loans to the retail segment of PKO Bank Polski SA amounted to PLN 110.8 billion and have increased by PLN 4.5 billion (i.e. by 4.2%) since the beginning of the year. This was mainly due to an increase in the portfolio of mortgage banking loans (+7.8% since the beginning of the year) and loans to small and medium enterprises (+3.6% since the beginning of the year).

Retail segment loans structure
as at 31.12.2013

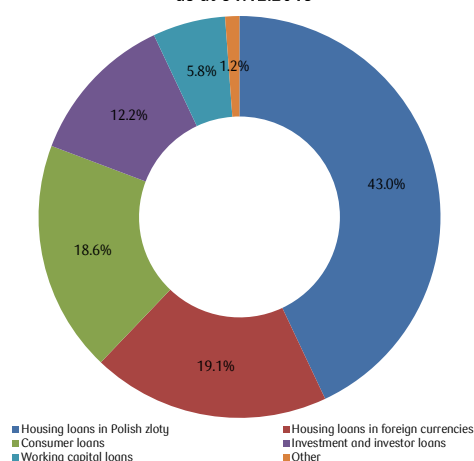


Table 17. Loans in the retail segment (in PLN million)

	31.12.2013	31.12.2012 restated	Change 2013/2012	Change (in PLN million)
Loans and advances granted, gross, of which:				
retail and private banking	20 399	21 601	-5.6%	(1 202)
small and medium enterprises	14 825	14 309	3.6%	516
mortgage banking	68 795	63 815	7.8%	4 980
housing market (including refinanced by the State budget)	6 807	6 621	2.8%	186
Total	110 827	106 347	4.2%	4 480

Housing loans

⁷ In this sub-chapter the Bank's management data are presented; any differences in total balances, shares and growth rates result from roundings.

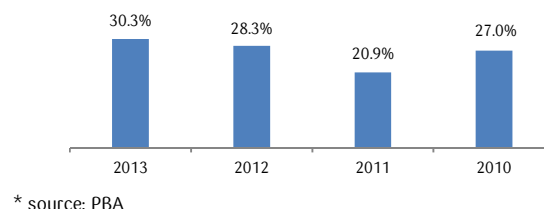


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In 2013, the Bank maintained a strong position on the housing loans market. According to the data presented by the Polish Bank Association ('PBA'), PKO Bank Polski SA ranked first on the market with its 30.3% share in sale of housing loans for individuals. In 2013 the Bank organised the 'Open doors' campaign for the 'WŁASNY KĄT hipoteczny' housing loan. Customers who have any current account with PKO Bank Polski SA, a credit card or life insurance and who signed the 4-year loss of job and hospital treatment insurance contract could avail themselves of the Bank's offer. Additionally, in entire 2013, the Bank introduced another special offers for customers buying real estate from selected developers, customers employed by certain firms or members of specific professions, as well as a special offer for the customers of the industry fair. Industrial Special Offer in terms of offering housing loan to persons employed in a bank or financial industry institutions has also been implemented.

The Bank's share in the new sale of housing loans for retail clients*



* source: PBA

Consumer loans

The PKO Bank Polski's offer includes a wide range of loan products. Retail customers can take advantage of both the standard Cash Loan, as well as the current financing available under the revolving loans and credit cards. A special offer of the Aurum and Platinum loans with available high amounts of loans and competitive pricing parameters, is available for the private banking clients.

In 2013, PKO Bank Polski SA continued the action of promoting sales of consumer loans. As part of the initiatives supporting the sales of such products, PKO Bank Polski SA carried out promotional activities, mainly focused on the Cash Loan and the Aurum/Platinum loan. The 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.

Loans for small and medium enterprises and the housing market

PKO Bank Polski SA consistently supports Polish entrepreneurship. It enables small and medium enterprises to finance both current and investment needs through an extensive and flexible lending offer. Due to the agreement signed between PKO Bank Polski SA and Bank Gospodarstwa Krajowego for a portfolio de minimis guarantee line 'Portfelowa Linia Gwarancyjna de minimis', under the government programme of support for small and medium enterprises, the entrepreneurs gain support in the form of BGK guarantee – de minimis, aimed at increasing the availability of lending facilities and launching additional funds for companies' on-going activities. In 2013, circa 16 950 customers, who concluded 17 699 agreements, benefited from access to easier financing. The value of loans granted amounted to PLN 3.7 billion. This means that PKO Bank Polski SA was the biggest lender among nineteen banks granting loans with de minimis guarantees and held 31% of the market share (according to data provided by the Warranties and Guarantees Centre of Bank Gospodarstwa Krajowego).

Due to the great interest in 'Portfelowa Linia Gwarancyjna de minimis' from customers in the fourth quarter of 2013 PKO Bank Polski SA signed annexes to the agreement with BGK associated with prolongation of provision of guarantees period to 30 June 2014, with the increase in the guarantee limit granted up to PLN 2.3 billion and coverage of the investment loans repayment with the guarantee.

The deposit offer in the retail segment

In 2013, PKO Bank Polski SA continued activities aimed at offering more attractive deposits for retail clients, taking into account current market conditions and competitive position.

As at 31 December 2013, deposits of the retail segment of PKO Bank Polski SA amounted to PLN 125.4 billion and since the beginning of the year their volume increased by PLN 6.2 billion (i.e. by 5.2%). The increase in the retail and private banking deposit level contributed to this, due to the increase in the volume of current deposits and saving accounts, with the stable level of the volume of term deposits.

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

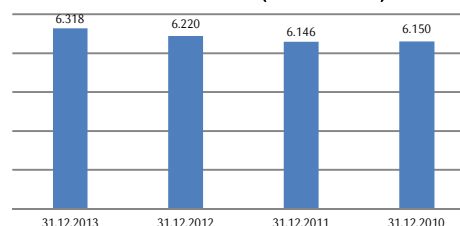
	31.12.2013	31.12.2012	Change 2013/2012	Change (in PLN million)
Client deposits, of which:				
retail and private banking	110 608	105 799	4.5%	4 808
small and medium enterprises	9 516	8 766	8.6%	750
housing market clients	5 241	4 646	12.8%	594
Total	125 365	119 212	5.2%	6 153

Current and savings accounts

PKO Bank Polski SA remains market leader in terms of the number of current accounts maintained, which amounted to 6.3 million as at the end of 2013. The increase in the number of accounts resulted from the diversified offer in terms of customer preferences as part of which i.a. the following products can be distinguished: PKO Konto bez Granic, SUPERKONTO Oszczędne, PKO Konto za Zero, PKO Konto dla Młodych, PKO Konto Pogodne, PKO Konto Pierwsze and PKO Junior.

The offer is supplemented by savings accounts giving clients the ability to combine the interest dependent on the level of invested funds with the possibility of its flexible management. PKO Bank Polski SA has been involved in projects aimed at financial education for years. The next step in the financial education of the youngest, in addition to the Economic Education Programme for the Youngest (Programu Edukacji Ekonomicznej Najmłodszych) supporting School Savings Unions (Szkolne Kasy Oszczędności), was the introduction to the Bank's offer the PKO Junior account.

Number of current accounts (in thousand of units)





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PKO Junior, one of the first online banking offers for children in the world, which at the same time is a comprehensive financial education programme. A child under the supervision of a parent acquires practical skills to manage its finances. The 'PKO Junior oferta dla segmentu wiekowego 0-12' project (PKO Junior offer for the segment aged 0-12) offers two new types of accounts: PKO Konto Dziecko (child account) and PKO Konto Rodzica (parent account), which enable purchasing long-term deposits and investment products for children under one consistent offer. PKO Konto Dziecka, after reaching the age of 13 by its owner, is automatically converted into PKO Konto Pierwsze, and after reaching the age of 18 the account is automatically converted into PKO Konto dla Młodych. In 2013 above 75 thousand of PKO Konto Dziecka accounts were sold. In 2013, the offer of packages for small and medium enterprises as well as housing market clients was restructured. The changes were mainly aimed at better tailoring the product offer to the needs of entrepreneurs at each stage of a firm's development. As part of the offer entrepreneurs may choose one of the following packages: Biznes Debiut 18, Biznes Rozwój, Biznes Komfort Plus, and Biznes Sukces Plus. As part of the products addressed to small and medium enterprises, PKO Bank Polski SA made available special industry sets, namely 'Trade and services', 'Transport and logistics', 'Foreign Exchange' and 'Manager', which guarantee free-of-charge and preferential terms of use for selected products or services, amongst others, debit cards, supporting accounts, virtual accounts, a currency exchange platform, and they make it possible to receive transaction bonuses for accepting payments in POS terminals.

As part of the new Biznes Komfort Plus and Biznes Sukces Plus packages, the Bank offered its customers 'SuperAssistance Biznes' insurance. This insurance enables customers whose firms are in a difficult position with regards to their operations to receive assistance in a swift and reliable manner or to obtain important information. The insurance cover includes, amongst others, medical assistance, post-hospitalisation assistance, assistance in organizing return travel to the firm, continuation of travel, replacement on a business trip and the Concierge – personal assistant service.

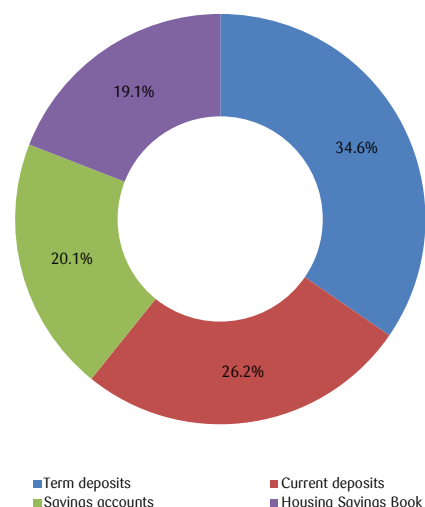
Term deposits and structured products

As at 31 December 2013, the value of retail market deposits amounted to PLN 125.4 billion, in which retail and private banking deposits prevailed. The retail segment customers invested their funds mainly in term deposits. Their share in the segment's deposits is still the largest in spite of an increase in the balance of funds of a current nature in the structure of deposits as a result of, amongst others, the decrease in interest rates and, consequently, term deposits becoming less attractive. The share of term deposits in the segment's deposits amounted to 34.6% as at the end of 2013.

The Bank continued offering its customers, amongst others, deposits with progressive and standard interest rates (an Even and an Odd deposit, a 3M deposit, a 24M deposit) tailored to the current market situation. The offer comprised products tailored to various preferences of the customers and funds could be deposited for different periods. Supplement of the Bank's standard offer addressed to retail customers are structured instruments sold in the form of structured deposits or Structured Bank Securities. The sales of such products are growing in terms of value from year to year. In 2013, the Bank launched active sales of 18 new structured products based on, amongst others, a basket of company shares, currency exchange rates and stock exchange indices.

In 2013, the first long-term saving product was included in the Bank's product offer, namely the PKO Pierwszy Kapitał deposit, which was very well received by customers. This product is addressed to the parents of children aged 0 to 12 years. The long 12-year term of the agreement, the possibility of choosing from among five saving programmes, and an attractive interest rate give parents a guarantee of financial security for their children. By the end of 2013, 76.5 thousand deposits had been made.

**Retail segment deposit structure
as at 31.12.2013**



SKO's offer

In 2013, the Bank continued developing the school-operated savings account programme (Szkolna Kasa Oszczędności – SKO). As at the end of 2013, more than 4.5 thousand schools participated in this Programme (every third primary school in Poland), and over 150 thousand children were learning how to manage their finances on the SKO online banking service.

Other investment products

In 2013, PKO Bank Polski SA was systematically developing its investment fund offer. Apart from the fixed offer which comprises over 20 open investment subfunds, the Bank was also distributing 4 closed-end investment funds. By expanding its offer the Bank gave its customers access to new investment strategies.

The Bank also offered its retail segment customers State Treasury bonds with both fixed and variable interest rates. In 2013, over 29 million bonds were sold, including nearly 9 million of highly popular short-term bonds (KOS1214).

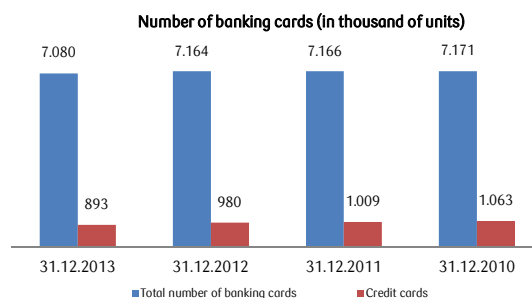


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Banking cards

As at the end of 2013 a number of banking cards of PKO Bank Polski SA remained at the level of 7.1 million.

In 2013 another new functions were made available to holders of credit and debit cards. A new service which enables making a transfer from a credit card PKO Bank Polski SA's account was introduced. With the new service it is possible to i.a. pay bills and make money transfers to bank account. There were also introduced changes in the prestigious products, i.a. allowing for exemption from the annual card fee when transactions for specific value are concluded.



In order to make its offer more attractive, the Bank introduced debit cards for foreign currency accounts and a Clear PKO Visa Credit Card. Foreign currency cards are addressed to holders of accounts in USD, EUR or GBP and are equipped with a function which is unique on the market, making it possible to conduct transactions in accounts maintained in different currencies using a single card. By using such cards the Bank's customers may, without any additional currency conversions, make payments abroad, withdraw cash from ATMs and pay in foreign currencies for online transactions.

Apart from the functionalities available so far, the Clear Card Holder may manage it via the iPKO electronic banking platform and the telephone service. The card carries a package of free text messages thanks to which the customer is informed on a current basis of, amongst others, a card being dispatched, cancelled, a transaction being made, the balance of available funds, payment due date, default or service fee due date.

Mobile banking IKO

In 2013, the Bank set a new standard for mobile payments by implementing the proprietary IKO application which enables making payments by using the phone. It is a mobile banking service – combining in one application banking functions (checking account balances and history, transfers) with payment functions (paying for purchases in traditional stores and on-line, ATM withdrawals, transfers to the phone number, generating checks for off-line use). The system is based on free of charge IKO application installed on the user's mobile phone and transactions are authorised by one-off codes generated.

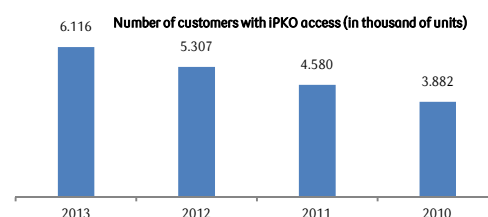
In the second half of 2013, the IKO application was made available to Inteligo customers, persons who do not have an account with PKO Bank Polski SA based on the IKO wallet – a special application for persons who are not the Bank's customers, as well as corporate customers who are sole traders or freelancers. The latter may combine the IKO with their corporate accounts.

After implementing the IKO application the Bank took measures to develop a network of online stores and points of sale accepting IKO payments. As at the end of December 2013, there were approx. 65 000 terminals accepting IKO payments, and the number of active IKO applications was more than 100 thousand.

In the second half of 2013, the Bank took measures to establish a company called Polski Standard Płatności (Polish Payment Standard). Apart from PKO Bank Polski SA the company's shareholders are: Alior Bank, Bank Millennium, Bank Zachodni WBK, ING Bank Śląski and mBank. Polski Standard Płatności will be supporting the development, promotion and popularisation of the mobile payment standard. In the newly-created system, transactions will be authorised using one-off passwords presented by means of a mobile application installed on the user's telephone. Thanks to the participation of as many as six banks in this project Poland has joined the elite group of countries which have the chance to build a local mobile payment standard. Thanks to the implementation of Polski Standard Płatności customers will have easy access to telephone payments within a broad acceptance network. The system users will be able to pay by telephone both in traditional and online stores, use ATMs and transfer funds to the called party's telephone number irrespective of which bank they have an account with.

iPKO transaction service

At the end of 2013, ca. 6.1 million retail segment clients had access to electronic banking. In 2013, the possibility to activate mobile application IKO under the iPKO service has been implemented. In addition, to increase the attractiveness of the iPKO transaction service, the Bank introduced changes to the product offer and implemented new functionalities. The Bank released one of the world's first online banking services for children under age of 13 – PKO Junior, tailored to the age of target audience. All functionalities of PKO Junior are linked to the Parent Application in the iPKO internet banking service, through which the parent has a full view of the PKO Konto Dziecka account and accepts operations initiated by the child. Moreover, as part of the new functionalities the Bank enabled its customers to make deposits on terms negotiated via an outdealing platform – iPKOdealer. On the iPKO service platform, credit card and charge card holders were given the possibility, amongst others, of activating their card, changing the correspondence address, cancelling their card, ordering a new card, changing their PIN and paying off debt without an authorisation code. As part of the loan offer for small and medium enterprises, a new iPKO functionality was implemented, relating to the borrower's passive access to credit accounts, which makes it possible to obtain information about the disbursed loan balance/the outstanding balance.



Distribution network

As at the end of 2013, the network of PKO Bank Polski SA consisted of 1 130 branches and 6 retail banking offices. Compared with the end of 2012 the total number of branches increased by 10.

In 2013, the measures aimed at modernizing the distribution network with regard to adapting the appearance of the branches to the highest market standards, both in terms of the equipment and the quality of customer service, were continued. Measures were mainly aimed at increasing market competitiveness, improving customer service conditions and optimizing the space occupied by the branches. In 2013, 105 locations were



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modernised. In the modernised offices, comfortable customer service conditions were created using modern solutions such as a cash dispenser with a closed cash cycle (cash recycler).

The large branches were optimised by reallocating them and dividing into smaller locations, which made it possible to reach a greater number of customers. These measures have resulted in an evenly spread network of small and medium branches, a structure tailored to the potential of a given micromarket and releasing unnecessary space.

A network of agencies constitutes an important supplement to the network of the branches and ATMs. As at 31 December 2013, the Bank cooperated with 1 074 agencies compared with 1 208 agencies as at 31 December 2012. The drop in the number of agencies was the effect of planned measures aimed at increasing the effectiveness of the network, increasing sales and increasing the importance of the agency network as a channel for distributing the Bank's products and services.

In 2013, the number of the Bank's own ATMs increased by 189 compared with 31 December 2012 and reached 2 992 as at the end of December 2013. By 31 December 2013, there were 265 ATMs with a cash deposit module. ATMs with a cash deposit module relieve the Bank's branches of the burden of deposit transactions conducted at the cash desks, which is demonstrated by a continued increase in the number of transactions in cash deposit machines, accompanied by a drop in the number of such transactions in the branches.

Table 19. Operational data in retail segment

	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009	Change 2013/2012	Change 2013-2012
Total number of branches	1 186	1 198	1 199	1 208	1 228	-1.0%	(12)
in the retail segment:	1 147	1 134	1 132	1 140	1 160	1.1%	13
retail branches	1 130	1 120	1 119	1 128	1 148	0.9%	10
regional retail branches	11	11	12	12	12	0.0%	0
private banking branches	6	3	1	0	0	100.0%	3
Number of ATMs	2 992	2 803	2 457	2 419	2 388	6.7%	189
Number of agencies	1 074	1 208	1 400	1 942	2 175	-11.1%	(134)

4.4.2 Corporate segment

In 2013, PKO Bank Polski SA enhanced the image of a partner of Polish entrepreneurship by financing both the firms' current operations (via working capital loans) and their future projects (via investment loans). The focus was mainly on building long-term relationships with the customers by supporting their current operations and offering a broad range of loans and other products.

At the same time, the Bank actively supported the implementation of investment and optimisation projects in the local government sector. In 2013, Szczecin joined the group of the local government authorities served by PKO Bank Polski SA. The Bank also won a tender for providing services to manage the budget of the Office of the Marshal for the Mazovian Voivodeship, which means the continuation of long-term cooperation.

The Bank analysed market expectations systematically and, in order to meet customer expectations, tailored its current product and service offer so as to cope with increasing competitive pressure. As a result, a broad range of transaction products and products mitigating financial risks (liquidity, settlement, interest rate, currency, and commodity price risks) were being developed consistently, and financing structure needs were addressed in a flexible manner.

As part of technological innovation, solutions were made available to corporate market customers for the automatic integration of their financial and accounting systems with the bank cash management system as regards sealed cash collection.

In 2013, the corporate sales network was reorganised and new working standards for consultants and specialists were implemented in order to improve customer service and to offer clients more satisfaction from cooperating with the Bank.

Lending activity and structural financing

In 2013, the volume of gross loans granted to corporate customers remained at a stable level of approx. PLN 39 billion, and the total amount of financing provided to corporate customers, including bonds issued, exceeded PLN 45 billion.

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

	31.12.2013	31.12.2012	Change 2013/2012	Change (in PLN million)
Corporate loans, gross	38 947	39 273	-0.8%	(326)
Debt securities*	6 292	6 330	-0.6%	(38)
municipal	4 419	3 955	11.7%	464
corporate	1 873	2 375	-21.1%	(502)
Total financing	45 238	45 603	-0.8%	(365)

* Data presented together with securities classified for loans and advances to customers.

The highest loan transactions concluded by the Bank in 2013 included financing in the form of investment and working capital loans granted to entities from the financial, fuel, chemical, and telecommunications sectors and public finance sector entities. The unit values of the highest transactions were between PLN 600 million to PLN 1 200 million. Moreover, the Bank granted significant loans (with unit values of more than PLN 200 million) to enterprises from the power, pharmaceutical and mining sectors and local government authorities.

Products associated with the financing of large investment projects such as loans or issues of non-Treasury securities are a standard element of PKO Bank Polski's offer addressed to corporate customers. The Bank is the market leader in organizing municipal bond issues – as at the end of 2013, the Bank's share in this market amounted to 28%⁸. The Bank also had a strong position in respect of corporate bond issues – the Bank's share was nearly 14%⁹.

⁸ Based on a report by Rating&Rynek Fich Polska organisers of municipal bond issues (with maturities over 365 days).

⁹ Based on a report by Rating&Rynek Fich Polska organisers of municipal bond issues (with maturities over 365 days).


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In 2013, PKO Bank Polski SA signed ten loan agreements in the form of a bank consortium totalling PLN 13.6 billion, of which the Bank's share amounted to nearly PLN 3 billion, and two bilateral loan agreements totalling PLN 1.5 billion. Additionally, the Bank participated in granting a guarantee line in the form of a consortium where the value of the agreement amounted to EUR 96 million (the Bank's share amounted to EUR 28 million) and concluded three agreements for granting a bank guarantee to an entity directly related to the Bank and operating in the banking sector, totalling PLN 2.41 million (these transactions were concluded on an arm's length basis).

In the area of organizing issues, the Bank concluded 113 municipal bond issue agreements totalling PLN 0.8 billion and five corporate bond issue agreements, including two in the form of a bank consortium with a guarantee to close the issue, in the amount of PLN 1.9 billion (the Bank's share amounted to PLN 0.26 billion) and three corporate bond issue agreements without the guarantee to close the issue, totalling PLN 1.6 billion.

Deposit activities and transaction banking

As at the end of 2013, the volume of deposits in the corporate segment amounted to PLN 21.3 billion and was PLN 2.6 billion lower than in the corresponding period of the previous year. This was the result of the Bank's consistent liquidity policy regarding negotiated term deposits and obtaining long-term financing from the wholesale market. At the same time, by expanding its offer of transaction products the Bank systematically increased its current deposit base.

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

	31.12.2013	31.12.2012	Change 2013/2012	Change (in PLN million)
Corporate deposits	21 336	23 968	-11.0%	(2 632)

PKO Bank Polski SA continues to improve the quality of the services provided in respect of transaction banking. In 2013, the Bank introduced new services addressed to entities with a complex organisational structure (e.g. groups of companies), enabling its customers to use various kinds of products and services which make it easier to settle transactions with foreign partners. In implementing a number of system improvements, the Bank launched the first payment machines with the possibility of making payments using payment cards, which is unique on the market. PKO Bank Polski SA as the first bank on the market, have given its customers the possibility of integrating the financial and accounting system with the bank cash management system (PKO Cash), which makes it much easier to transfer cash to the Bank and offers quick access to the funds. This is a modern solution for cash deposits, intended especially for large retail networks which, due to the nature of their operations, transfer large amounts of cash on a regular basis. In 2013, while implementing new solutions for the provision of mass disbursement services, the Bank also enabled its corporate customers to make such disbursements in its agencies.

At the same time, the leading product of the corporate banking segment of PKO Bank Polski SA is the electronic banking system – iPKO Biznes. In 2013, the iPKO Biznes application was expanded to include new functionalities which make it more convenient to use, including, amongst others, the expansion of the possibilities to service the order authorisation process. At present, the iPKO Biznes application allows customers to monitor and manage accounts, payment cards and loans, and to place orders for all types of transfers.

Sales network

In 2013, a new organisational structure of the sales network was implemented in the corporate segment – seven Corporate Macroregions were established, comprising 32 Regional Corporate Centres. Units dedicated to developing relationships with the key customers in a given Macroregion were introduced. These changes are linked to the implementation of a broader project which is aimed at deepening relationships and remaining as close as possible to the needs of the Bank's customers and, thanks to this, increasing the effectiveness of cooperation in the corporate customer segment and the public sector, as well as further consolidating the position of PKO Bank Polski SA as the market leader.

By adjusting in 2013 the organisation of its sales network and the model of its functioning to the existing market needs, 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, which was over 12 thousand as at the end of 2013.

Table 22. *Operational data in the corporate segment*

	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009	Change 2013/2012	Change 2013-2012
Total number of branches	1 186	1 198	1 199	1 208	1 228	-1.0%	(12)
in the corporate segment:	39	64	67	68	68	-39.1%	(25)
regional corporate branches	7	13	13	13	13	-46.2%	(6)
corporate centres	32	51	54	55	55	-37.3%	(19)

4.4.3 Investment segment

As part of the investment segment activities, the Bank performs operations on the money and the capital market and trades on the interbank interest rate and foreign exchange markets manages financial risk. 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. Cooperation among financial institutions such as investment fund companies, pension and insurance companies is a growing part of this segment. In the investment segment, corporate governance is exercised over the Group entities. The organising of the Bank's own issues on the Polish market and on international markets (amongst others, through bond issues) and obtaining funds from monetary and non-monetary financial institutions form an important part of the segment's operations.



Interbank market

PKO Bank Polski SA cooperates in the international settlement system with financial institutions in 109 countries throughout the world. As at the end of 2013, the Bank had 34 Nostro accounts and 49 Loro accounts.

The Bank is the Treasury Securities Dealer and the Money Market Dealer, it acts as the market maker on the domestic interest rate and foreign exchange markets. The Bank was ranked sixth in the Treasury Securities Dealer of the Year 2014 competition and also second in the Money Market Dealer ranking.

The Bank has an investment securities portfolio financed with surpluses which are not used for the purposes of its lending activity.

Treasury Securities denominated in PLN have the largest share in the portfolio.

The Bank continued the programme of issuing its own bonds on the domestic market. Last year two issues were organised: on 22 May for PLN 0.5 billion and on 22 November for PLN 0.7 billion. The funds raised through the issues were earmarked for the general purposes of financing of the Bank.

The Bank continued working on the implementation of the European Market Infrastructure Regulation (EMIR) imposing – mainly on financial institutions – an obligation to settle OTC derivative transactions using central counterparties – CCP. At the present stage of the work, the Bank has selected clearing chambers houses via which derivatives will be cleared and has chosen the repository to which it will report derivatives.

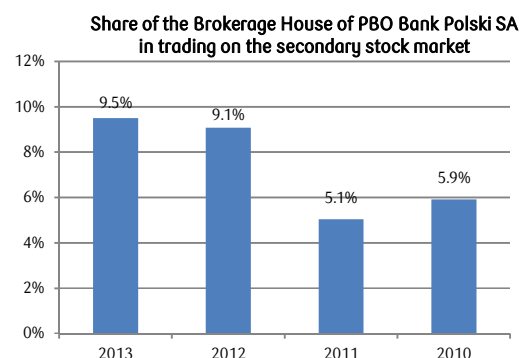
Activities of the Brokerage House of PKO Bank Polski SA

The Brokerage House of PKO Bank Polski SA is one of the leading brokerage houses operating on the domestic financial market. It has the largest sales network among the financial institutions operating in Poland, located in over 1 000 customer service points and brokerage service points in the Bank's branches.

In 2013, the level of trading on the secondary stock market exceeded PLN 49 billion and was nearly 30% higher than in 2012. As a result, the Brokerage House's market share increased to 9.5%, and it retained 3rd place in the ranking of brokerage houses.

It is worth noting the Brokerage House's high place as the market maker on the *NewConnect* market – as at the end of last year, the Brokerage House of PKO Bank Polski SA performed this function for 53 companies, which puts it in 2nd place on the market, as well as the high level of its activity in the segment of trading in Treasury bonds – a 22.7% market share puts the Brokerage House in 2nd place. In 2013, the Brokerage House of PKO Bank Polski SA was an indisputable leader in terms of the value of transactions on the Initial Public Offering market. The value of issues in which it acted as an intermediary amounted to PLN 4.1 billion, which constituted nearly 80% of the total market. The value of the Brokerage House's transactions on the Secondary Public Offer market exceeded PLN 1.54 billion.

As at the end of 2013, the Brokerage House maintained 167.8 thousand securities and cash accounts and had 169.6 thousand active registration accounts, which puts it in 4th place among 43 participants.



Treasury products

The Bank has a wide offer of forex, interest rate and commodity market instruments, which effectively support customers in their day-to-day operations and allow them to prepare effective financial risk management strategies. SPOT forex transactions have the largest share in sales of treasury products, good results are achieved by the Bank as regards sales of derivative instruments, such as forwards, options, IRS, CIRS or commodity. The Bank expands and modernises its sales channel network, introducing next to traditional channels, the possibility of concluding transactions via the Internet platform. In 2013, the number of SPOT transactions in the corporate clients segment increased by nearly 30% and a number of these transactions concluded via the Internet increased twice.

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 depository 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 Depository Banks and the Non-Treasury Debt Securities Council of the Polish Banks Association.

As at the end of 2013, the amount of assets held by clients on fiduciary accounts amounted to PLN 59.4 billion and was ca. 7% higher compared to the end of 2012. At the same time, the number of securities accounts served amounted to 1.5 thousand of units.

4.5 International cooperation

In PKO Bank Polski SA, funds to cover the needs arising from the development of business operations, including the financing of projects relating to the small and medium enterprises segment, are also raised via international cooperation. The Bank raises funds on foreign financial markets, amongst others, through loans from international financial institutions (amongst others, the Council of Europe Development Bank and the European Investment Bank). As at the end of 2013, the total financing of the Bank in the form of loans received from financial institutions amounted to approx. PLN 3.9 billion and comprised funds denominated in EUR and CHF.

At the same time PKO Bank Polski SA participates in 'The 2020 European Fund for Energy, Climate Change and Infrastructure' (the 'Marguerite Fund') project, where increased its capital involvement in the above mentioned fund from EUR 25 250 thousand as at the end of 2012 to EUR 35 650 thousand as at the end of December 2013. PKO Bank Polski SA takes part 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 currently implements investment projects such as green-field and brown-field in the energy and the road sector in Poland and other European Union countries.

4.6 Sponsorship activities of PKO Bank Polski SA

Sponsorship activities realised in 2013 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. Every year, the Bank sponsors several hundred events in culture, education and sport areas. In addition to large, nationwide sponsorship programmes, the Bank participates in small projects of great importance to local communities.

Sponsorship of culture and arts

Sponsoring culture and arts is one of the most important areas of PKO Bank Polski SA's sponsorship activities. In the support of national culture, the Bank engages in important cultural events and takes care of the activities of cultural institutions.

PKO Bank Polski SA has unwaveringly supported the National Museum in Warsaw for many years. In 2013, the Bank patronised the renewed and modernised Medieval Arts Gallery which exhibits the richest collection from this period in Poland. Moreover, the Bank actively participated in an exceptional cultural event – the Night of Museums in Warsaw.

The cooperation with the Warsaw Philharmonic is also long standing. In 2013, the Bank acting as Strategic Sponsor of the Warsaw Philharmonic for 2013, was a sponsor of the ceremonial inauguration of the Lutosławski Year, celebrated to commemorate the centenary of the composer's birth. The Bank's leading sponsorship initiatives include the patronage of Teatr Polski in Warsaw, which celebrated its centenary in 2013.

Other institutions that can count on the Bank's support include museums, opera theatres and philharmonic orchestras operating in various regions of Poland whose planned exhibitions or programmes attract large audiences and have an impact outside the region's boundaries. Such cultural institutions include: the Wrocław Opera, the Opera Nova in Bydgoszcz, the Łódź Philharmonic, the Jaracza Theatre in Łódź, the Warmia and Mazury Philharmonic Orchestra.

Other spectacular musical events in which the Bank had the privilege to participate again included the International Wroclaw Cantans Festival – one of the most important classical music festivals in Poland and the Poznań Nightingales concerts.

PKO Bank Polski SA as a cultural patron was involved in the preservation and popularisation of Polish cinematographic works by becoming involved in the programme for the digital reconstruction of Polish film classics. Thanks to financial support, the younger generation of Poles will be able to watch works by Polish film classics in excellent sound and image quality. In 2013, the second stage of the digitalisation of selected Polish classical movies, begun in 2011, was completed.

In 2013, the Bank for the second time took patronage of the Film Festival in Gdynia. During the event, guests of the festival participated in the premiere of the digitally reconstructed 'Man of Marble' (Człowiek z marmuru) directed by Andrzej Wajda.

For many years now, the Bank has supported initiatives whose purpose is to protect the national heritage and Polish cultural legacy. As part of this mission, for the fourth time the Bank was the Exclusive Partner of the 'Lech Wałęsa Award' (Nagroda Lecha Wałęsy) granted to people ready to make sacrifices for democratic values, and whose attitude creates opportunities for introducing political and social changes. Cooperation with the 'Lech Wałęsa Institute' (Instytut Lecha Wałęsy) Foundation which symbolises solidarity with persons or organisations acting for agreement and joint cooperation of the nations, freedom and respect of basic human rights – is of particular importance to the Bank.

As evidence of the care for the Polish cultural achievements, PKO Bank Polski SA has been for several years a strategic partner of the 'Kisiel Awards' (Nagrody Kisiele) the granting of which was initiated by Stefan Kisielewski, a writer and columnist.

Science and education

Science and education are the natural directions of the Bank's sponsorship activities as an employer, an institution open to young people, a learning organisation which develops its employees' competences. For many years now, the Bank has cooperated with universities in organizing conferences and symposia which are important from an academic, economic and social perspective. The Bank also addresses its activities to children. A project worth noticing in this group of undertakings is cooperation with the Planetarium 'Copernicus' Skies' (Niebo Kopernika) at the Copernicus Science Centre in Warsaw carried out since the end of 2010. The projects carried out jointly with the Planetarium are addressed mainly to children for whom the Bank dedicated the offer of School Savings Unions programme and PKO Junior.

For years now, PKO Bank Polski SA has been a partner of the Knowledge of Poland and Modern World Contest and a sponsor of scholarships for the best participants. Participation in the Contest is an opportunity for high school pupils with extensive knowledge to be admitted to a university and win prizes.

The Bank again supported Poland's Championship in Team Programming and participation of the University of Warsaw team in European University Contest and World University Contest in Team Programming – the most prestigious IT contest in the world, which promotes able and ambitious students. The team of IT specialists from the University of Warsaw won the silver medal in the last Contest, which took place in St. Petersburg. This is the best result of all the Polish teams that participated in the contest.

Sports events

In 2013, the Bank initiated a running programme called 'Let's run together' ('Biegajmy razem') as part of which the Bank provided sponsorship for: 40 mass runs throughout Poland, a running training programme BiegamBoLubię carried out in the stadiums of more than 60 cities and towns, and a project called 'Korona Maratonów PKO Banku Polskiego' with the participation of bank runners. The most important running events include: the Cracovia Marathon, Poznań Marathon, Wrocław Marathon, Running Triada 'Zabiegaj o pamięć' composed of the following runs: 3 May Constitution Run, Warsaw Uprising Run and Independence Run. As part of the runs, charity campaigns were carried out as a result of which the PKO Bank Polski Foundation gave more than PLN 400 thousand and 4 440 contestants, including 333 employees of the Bank, ran for the needy.



Apart from the running events which definitely dominated in the sports sponsorship category, the Bank also supported other prestigious sports events, such as the Piast Race (Bieg Piastów), Cavaliada or the Finals of the Large Sailing Ships Regatta.

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 is to present the Bank as the financial market leader.

The examples of such initiatives include i.a. sponsorship of contests: the Entrepreneur of the Year organised by EY, and Young Business Brands executed by the publisher of Rzeczpospolita. Other examples of sector initiatives are: the 9th Economists Congress, the CEE IPO SUMMIT conference in Warsaw, the 3rd European Financial Congress, the 5th Retail Banking Congress, the Listed Company of the Year Gala, the 2nd Congress of CFOs of SEG Listed Companies.

4.7 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 organisations operated in the third sector and opinion-setting circles. The charity activities of the Bank are carried out through the established in 2010 PKO Bank Polski SA's Foundation. 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 in the banking sector.

The strategic objectives of the PKO Bank Polski SA's Foundation are defined as:

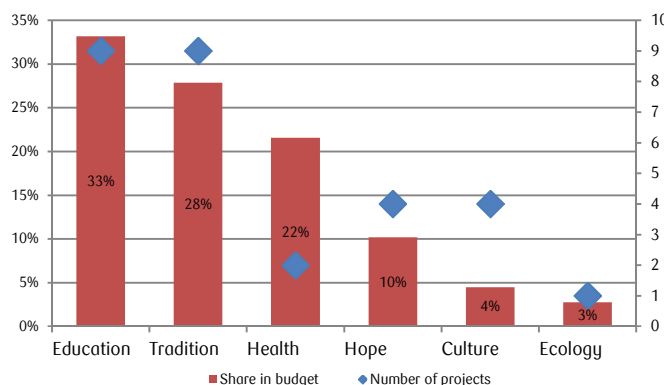
- supporting people and organisations involved in charity through co-financing of projects aimed at building social solidarity in several programme areas and promoting employee volunteerism among employees of the Bank and the Group,
- strengthening the common bond of stakeholders - employees, customers, cooperating companies, shareholders, representatives of state and local government - with the brand of its Founder,
- promoting a new operating model of the non-governmental organisation associated with the corporate brand.

The execution of these tasks builds strong relations between the Bank and the community and improves mutual trust.

The main source of financing of tasks of the Foundation is a grant from the Founder (PLN 9.8 million). Additional funds for grants came from the profit generated during the non-cash transactions made by customers of Inteligo associated with two affinity cards: PSS (PLN 1.64 million) and 'Dobro procentuje' (PLN 0.24 million). In addition, the Foundation used a part of funds from provisions from previous years.

In 2013, the PKO Bank Polski SA's Foundation allocated approx. PLN 11.26 million, for programme-related activities, including PLN 9.75 million for strategic projects and over PLN 1.51 million for local and Individual projects. The Foundation carries out tasks mainly through the establishment of strategic partnerships with selected social organisations, which are the innovator and driving force of the development of civil society in Poland.

Chart 1. *Main areas of charity activities*



The involvement of the Foundation in 2013 included 29 strategic projects, mainly:

1. In the area of EDUCATION, strengthening of substantive and financial cooperation with SIEMACHA Association, in promoting programmes of social solidarity-building with children and youth at risk of exclusion, taking on new tasks related to the development of talent in this social group, and improving the functionality of the objects used in the educational process took place in 2013. A support given to Jagiellonian Cultural and Educational Society 'Jagiellonian Club' (Klub Jagielloński) for realisation of the project 'Academy of Modern Patriotism' (Akademia Nowoczesnego Patriotyzmu), addressed to secondary school students, was a new task.
2. In the area of TRADITION, the Foundation established a strategic partnership with three organisations concerned with the education of children and youth in patriotic spirit (Polish Scouting and Guiding Association - 'ZHP' received additional financing for competition 'Niezwyyczajni 2013' for the best scouts of 'ZHP', Scouts of the Republic of Poland Association for carrying out the urban game 'Zakonspiruj Poznań' and the establishment and granting Maciej Frankiewicz award, while the Society of Friends of the Rifle Association 'Shooter' (Strzelec) for supporting some of the statutory activities, focused on the formation of civil and pro-social attitude among the young generation). Two grants: for prizes for the winners of the 'Sprzączki i guziczki z orzełkiem ze rdzy...' contest, conducted by the Public Education Office of the Institute of National Remembrance and the 'Intergenerational Dialogue' (Dialog Międzypokoleniowy) programme for the people who have contributed to the life democratisation in Poland, were provided in collaboration with the 'Wspólnota Pokoleń' Foundation. In addition, the Foundation is the patron of the Jan Rodowicz Anoda award, granted by the Warsaw Rising Museum.



3. In the area of HEALTH, the Banking Honourable Blood Donation was organised. The aim is to educate a new generation of honourable blood donors recruited from both employees of PKO Bank Polski SA and the Group, as well as circles of other socially sensitive environments.
4. In the area of HOPE, cooperation with the Disabled Drivers Help Association 'SPiNKA' in the 'Mobilność osób niepełnosprawnych' project, was continued. Similarly, cooperation with the WIOSNA Association was continued, through supporting the volunteer training system of 13th edition of the nationwide assistance campaign 'Szlachetna Paczka'. Cooperation with the Center for Missing People ITAKA is a new task.
5. In the area of CULTURE, grant was used to support the Independence Day Concert 2013, organised this year by the Dziedzictwo Rzeczypospolitej Foundation.
6. In the area of ECOLOGY, at the strategic level, the Foundation has been cooperating for two years with the Ecological and Cultural Association Klub Gaja, realising together an educational project 'Adopt a river' (Zaadoptuj rzekę), directed both to children, youth and adults. Local and individual projects are another important area of activity of the Foundation. The purpose of realisation of these tasks is solving problems by local communities, including the involvement of both legal entities, operating in the area: non-governmental organisations (e.g. foundations, associations), local government units or public utility institutions (e.g. schools), and (in selected projects) employees of PKO Bank Polski SA. In all, in this category, more than 232 Local and Individual Projects all over Poland were covered by grants. As part of the assistance, provided to individuals within the banking programme 'Let's run together' (Biegajmy razem...), the initiative to organise Charitable Running Actions for people in need was made.

In addition, in 2013 PKO Bank Polski SA was awarded in the 'Philanthropy Leaders 2013' (Liderzy Filantropii 2013) in the category of companies that have transferred in the past year, the largest amount of funds for social purposes. Philanthropy Leaders Contest is organised by Forum Darczyńców in Poland cyclically from seven years. Its purpose is to honor companies that have the greatest engage in social activities, and thereby contribute to the promotion of the idea of corporate social involvement.

4.8 Prizes and awards granted to PKO Bank Polski SA

In 2013, PKO Bank Polski SA was granted numerous prizes and awards, including the following:

Products and services

IKO among the prize winners of the Effective Mobile Marketing Awards 2013

IKO mobile payments – an innovative solution created by PKO Bank Polski SA became a prize winner of an international Effective Mobile Marketing Awards 2013 competition organised by Mobile Marketing Magazine. The IKO application was awarded in the category: Most Effective Mobile Payment Solution. The competition's organisers appreciated IKO for its attractive looks and usefulness to customers.

IKO awarded in the competition of the Electronic Economy Congress (Kongres Gospodarki Elektronicznej)

The Chapter of the 8th Electronic Economy Congress organised under the aegis of the Association of Polish Banks granted IKO a prize in the category Project of the Year. Wojciech Bolanowski, Director of the Electronic Banking Division of PKO Bank Polski SA, was awarded the title of Ambassador of Electronic Economy in the Competition.

Gold Banker of 2012 (Złoty Bankier 2012)

In the fourth edition of the competition PKO Bank Polski SA received the most positive opinions in the category best mortgage loan, coming first with 37% votes. For the third time in the history of the plebiscite, Internet users appreciated mortgage loan 'Własny Kąt Hipoteczny'. Voters from January to banking services and products also distinguished PKO Konto za Zero (Account at no Charge) in the category Best Personal Account for Internet users, the Internet Inteligo account in the category Best Company Account for Businesses and mobile banking. The Chapter of the contest also awarded PKO Bank Polski SA in special categories. The project of School Saving Unions was awarded in the category Most Innovative Product for 2012 as was the advertising spot 'Poznaj Moc Oszczędzania' (Know the Power of Saving) with the participation of Szymon Majewski, promoting savings lessons in SKO for the youngest.

Most interesting banking card

Two cards issued by the Bank won in the competition for the Most Interesting Banking Card 2012. Internet users participating in the poll organised on the Banking-Magazine.pl portal decided that PKO Visa Ekspres and PKO Visa Gold distinguish themselves by their unique graphic design. The title of the most interesting card for personal account was won by the card which was the most popular with the Bank's customers – PKO Visa Ekspres 'Czarny Kot'. Debit Card issued to current accounts is one of the 18 thematically different images of PKO Visa Ekspres. In the category Most Interesting Gold Card the Internet users chose PKO Visa Gold. In addition to the prestige, it offers many practical solutions that guarantee the holder the convenience and comfort.

Brokerage activities

The Brokerage House awarded by WSE

The Brokerage House of PKO Bank Polski SA received a prize in the category of bond market for the highest turnover realised by a market maker on the Catalyst market in 2013 and in the category of market shares for the largest offering value of the companies placed in the Main Market in 2013 and for the largest number of companies introduced on the Main Market in 2013.

The prizes were awarded to leaders of the Polish capital market by the Warsaw Stock Exchange. Issuers, Members of the Stock Exchange and Authorised Advisors, who particularly contributed to the development of the Polish stock exchange market in the previous year, were awarded.

The Brokerage House of PKO Bank Polski SA, leader in the Forbes rankings

The Brokerage House of PKO Bank Polski SA was the winner in the Forbes' ranking of brokerage houses according to institutional investors, advancing from 5th position. It also maintained a high 3rd position in the Ranking of the best brokerage houses in the opinion of individual investors. It's professional and individual approach, the quality of recommendations and analyses, the quality of services on the primary and secondary markets, as well as its ability to build relationships were the key to this year's success of The Brokerage House of PKO Bank Polski SA.



Bulls and Bears (Byki i niedźwiedzie)

During the 19th edition of the 'Bulls and Bears' competition organised by the journal of the Stock Exchange Parkiet, the Brokerage House of PKO Bank Polski SA was awarded the title of the "Brokerage House of the year 2012" ('Dom maklerski roku 2012') for changes and effectively aspiring to consolidate its position.

In 2012 the Brokerage House of PKO Bank Polski SA significantly strengthened its position and ranked third on the shares market among the brokerage houses on the WSE. It increased by leaps its share in trading on the secondary market shares (including package transactions). PKO Bank Polski SA was nominated in the category 'the Company of the year with WIG20'. Awards of the journal of the Stock Exchange Parkiet are granted to companies, institutions and people who most stand out in the capital market, contribute to the development, popularising and expansion of the capital market in Poland.

Financial results

The 50 largest banks in Poland

Once again PKO Bank Polski SA won the ranking of '50 largest banks in Poland' prepared by the editors of 'Miesięcznik Finansowy Bank'. Among others capital adequacy ratio, the growth rate of lending activity and an increase in deposits, as well as the level of bad debts were taken into account in the appraisal. The final appraisal was also affected by ratios such as profitability, the sum of the accumulated equity and number of employees.

This year the Chapter of the Ranking and the editors of 'Miesięcznik Finansowy Bank' also awarded two equivalent special prizes – 'Innovator Rynku Bankowego 2012 Roku' (Innovator of the Banking Market in 2012) and 'Wizjoner Rynku Bankowego 2012 roku' (Visionary of the Banking Market in 2012). The 'Innovator' title was granted to Zbigniew Jagiełło, president of the Management Board of PKO Bank Polski SA.

Bank appreciated in Forbes rankings

In the Forbes ranking of the most dynamically developing public companies, PKO Bank Polski SA ranked second in the 'Banks' category. These distinctions are granted to the best, fastest and most dynamically developing public companies, selected on the basis of the rate of growth in sales, assets, equity, profitability ratios and results achieved during the last three years.

Awards for the Management Board of the Bank

Visionaries 2013

Zbigniew Jagiełło, President of the Management Board of PKO Bank Polski SA was awarded the title of 'Visionary 2013'. Mr Jagiełło was appreciated for his contribution to the development of the financial sector, in reinforcing the Bank's position as market leader and determination in changing the Bank's image.

'Visionaries' is a prize awarded by Dziennik Gazeta Prawna for leading personalities in Polish business. It honours top managers, who implement new projects by raising the value of the company with the vision, despite unfavourable market environment.

Man of the Year 2013

Zbigniew Jagiełło was selected Man of the Year. The *Brief* magazine grants this title to people that distinguished themselves especially during the last year for the development of their sector and the entire Polish economy. Zbigniew Jagiełło was appreciated for the way in which he manages PKO Bank Polski SA, first of all for initiating the development of the local mobile payments standard based on the innovative IKO solution.

Platinum Antenna

The President of PKO Bank Polski SA received a special award, the Platinum Antenna awarded by the Chapter of the Gold and Crystal Antennas of the Media (Konkurs Złotych i Kryształowych Anten Świata Mediów) 'For effective building of convergence between the financial and telecommunications sector'.

The purpose of the competition organised by MM Conferences Polska is to distinguish those who contribute to the telecommunications and media market development in Poland, popularisation of the most interesting products and solutions and promotion of Polish technical thought.

The event accompanies the Telecommunications and Media World Symposium. Each year, it gathers persons having a significant impact on the development of the telecommunications sector: presidents of the leading firms operating on the market, representatives of institutions, offices and chambers. The symposium is an excellent platform for dialogue on the development of media and telecommunications on various planes - the participants' debate on the most significant changes occurring on the market, analyse trends and look for business models enabling the execution of adopted strategies.

Finance Director of the Year

The Chapter of the competition honoured Bartosz Drabikowski, Vice President of the Management Board of PKO Bank Polski SA, responsible for the Area of Finance and Accounting, for expansive understanding of the duties of a Finance Director and for his input in supporting business and implementing innovation.

The objective of the competition 'Finance Director of the Year' (Dyrektor Finansowy Roku) is to award and promote those persons who manage the finances of businesses, and in particular those who effectively operate in a changing market environment, are professionals and business visionaries who build shareholder value. Appraising candidates, the Chapter analysed their professional achievements, qualifications, professional career, contribution in building the company's competitive position in the market, the ability to overcome difficulties and crises, professional reliability and ethics, experience in procuring funds and economic performance of companies.

Prof. Remigiusz Kaszubski Award

Piotr Alicki, Vice President of the Bank's Management Board was honoured with the Prof. Remigiusz Kaszubski Award granted for innovative banking solutions.

The Chapter of the competition awarded Vice President Piotr Alicki for managing innovative projects in the area of electronic banking. He is responsible for implementing application and infrastructure solutions which allow the Bank to offer increasingly modern products and services to its customers. The Bank's latest achievement is implementing the proprietary IKO application.



The Prof. Remigiusz Kaszubski Award was established by the Management Board of the Association of Polish Banks to commemorate the tragically deceased prof. Remigiusz Kaszubski, creator of innovative solutions in these areas.

The brand

The Polish President's Business Prize (Nagroda Gospodarcza Prezydenta RP)

PKO Bank Polski SA was honoured with the Polish President's Business Prize for compliance with corporate governance principles and activity in corporate social responsibility.

It was the only laureate to receive two nominations. The Chapter of the Competition awarded them in the categories of Corporate Governance and Corporate Social Responsibility (The Bank also received the award in this category last year), and Innovation. The nominations and prize called the 'Polish Business Nobel' are a sign of recognition of the Bank's input to the country's business development and to building a positive image of the Polish economy.

The Bank leading the Top Marka ranking

PKO Bank Polski SA is the most frequently and best described in media banking sector institution, as shown by the 6th Top Marka ranking. On average, four thousand bits of information about the Bank appear each month in the media and web portals and 7 thousand appear on forums, blogs and social services. In the analysed period July 2012-June 2013, media and internet users appreciated, among others, the introduction of the Bank's innovative products on the market, primarily the new mobile payment system IKO. They also acknowledged the increasing quality of services provided by the Bank.

The most popular financial institution in the Web

The report 'Banki w Internecie' ('Banks in the Internet') prepared by Newspoint and MintMedia indicates that PKO Bank Polski SA is the most popular financial institution in the Web. In the 8 months analysed (1 January – 31 August 2013) nearly 30 thousand publications concerning the Bank were published in the Internet.

Innovator 2013

For the second year in a row, PKO Bank Polski SA was elected the most innovative firm in the banking sector in the third edition of the Wprost weekly's ranking. The Bank was rewarded for regular investments in modern processes aimed at introducing innovative services and technological solutions on the market in all market segments. The competition rewarded firms which contribute to the development of innovations and increase the competitiveness of the Polish economy.

The weekly's list has been prepared based on the TOP500 List of the Most Innovative Companies in Poland prepared by the team of scientists from the Institute of Economic Studies at the Polish Academy of Sciences. On its basis the editorial section chose the firms considered as innovation leaders in selected and most promising sectors of the economy.

Quality Recognition Award

JP Morgan is the main correspondent bank of PKO Bank Polski SA in respect of US dollars. This award is proof of the professional handling of transactions performed by PKO Bank Polski SA. The Award is given to very few banks worldwide which handle high volumes transactions directed to JP Morgan Chase Bank New York that do not require any manual intervention. In 2012, PKO Bank Polski SA achieved 96.73% for MT103 messages and 99.64% for MT202 messages.

PKO Bank Polski SA appreciated for the quality of its services

PKO Bank Polski SA was the unbeatable winner of the 'Internetowy Ranking Jakości Obsługi w Bankach 2013' ('Internet Ranking of Service Quality in Banks for 2013'). This was influenced by the average result of three sub-rankings: the rank of service quality, positive assessment ranking and response rate on Facebook.

When creating the ranking prepared by IRCenter, SentiOne and Napoleon, the opinions of internet users and the activity of banks on their Facebook profiles were taken into account. The ranking took into account 17.8 thousand spontaneous posts about 23 banks posted in the Web from 1 September 2012 to 31 August 2013, which were related to one of the four aspects: using the bank facilities, online transactional system, call centers and mobile banking.

Bank Quality (Jakość na Bank) 2013

PKO Bank Polski SA was one of the best and took third place in the ranking prepared by TNS Polska and 'Puls Biznesu'. The pollsters especially appreciated the Bank's employees for their active salesmanship, commitment and diligent analysis of the needs and expectations of customers. Such a high score in the ranking - the Bank achieved a score 71.4% and improved by four places compared to last year - is a result of the implemented system activities in improving the quality of service and the service offered to customers.

In a study conducted by TNS following areas were taken into account: presentation of the offer, customer needs analysis, the beginning of the visit, the atmosphere of the conversation, end of the meeting and the appearance of the employee and the workplace.

Private Equity Diamonds

PKO Bank Polski SA was honoured with a golden statuette in the competition Private Equity Diamonds in the Best Bank of the Year category. The objective of the competition is to promote people and firms related to the private equity sector who have contributed through their activity to the value growth of Polish enterprises, and who stand out due to their high specialist knowledge standards, economic effectiveness and innovativeness. The Chapter of the competition nominated 40 Private Equity sector leaders in eight categories: best fund of the year, best launch of the year, best bank of the year, corporate finance advisor of the year, legal advisor of the year, transaction of the year, personality of the year and best portfolio company of the year.

Lamparty Award

PKO Bank Polski SA was a winner of the 'Lampart 2013' Award in the competition for the most admirable creation of a bank brand conducted among financial institution employees by TNS Polska.

In rewarding the Bank with the 'Lampart 2013' Award, the banking community appreciated a change in the brand's perception and positioning, innovativeness, a constant and consistent media campaign and an attractive product offer. In the survey conducted, the participants were not allowed to disclose the banks in which they were employed.

Reliable Brand (Marka Godna Zaufania)



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For the ninth time, PKO Bank Polski SA received the Golden Statuette in the European Trusted Brands survey. The award is granted to those brands which gained the highest consumers' confidence. It was awarded the Golden Statuette of Reliable Brand in the 'Bank' category.

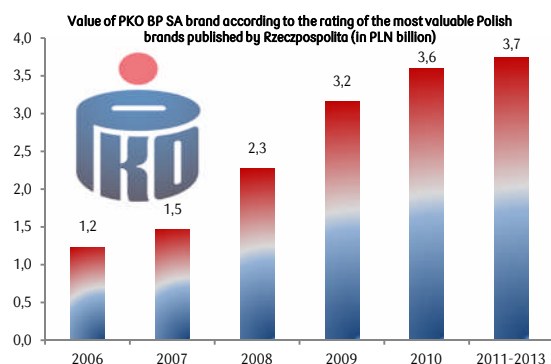
The Bank was selected by 27% of participants in the Reader's Digest Magazin, which aim is to identify brands most trusted by European consumers.

Banking World Leader

The Chapter of the Banking World Leader Competition (Konkurs Liderów Świata Bankowości) awarded prizes to PKO Bank Polski SA in the following categories: Best Bank (with equity over PLN 1.5 billion) and Most Innovative Bank in 2012 for a new offer of the School Savings Unions (Szkolne Kasy Oszczędności). This was the second edition of the competition which was held as part of the Polish Business Congress. Its chapter is formed by renowned experts in finance, members of the government and economic journalists. Awards are granted to people and firms who contributed the most to the development of the Polish financial sector in the past year.

PKO Bank Polski SA again awarded the most valuable brand title

1st place in the finance category and 2nd place in the general classification of the Polish brands ranking. The brand of the banking sector leader was valued at PLN 3.7 billion. Since 2006, being the first edition of the ranking taking into account the financial sector companies, PKO Bank Polski SA has been the most valuable and strongest brand. Since that time, its value has tripled and increased by PLN 2.5 billion. In this year's edition of the Rzeczpospolita ranking, the total value of the 330 most valuable Polish brands increased to almost PLN 60 billion. Participation in the Most Valuable Brands Ranking is open only to those brands which were formed in Poland, regardless of the country of origin of their current owner.



For the purposes of the ranking, a worldwide used method relief from royalty was adopted. It is based on hypothetical 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

PKO Bank Polski SA among the most wanted employers

The results of the 4th edition of 'The most wanted employers in 2013 in the opinion of specialists and managers' survey have shown that PKO Bank Polski SA is among the five most wanted employers in the 'Banking, insurance, financial institutions' category.

The assessment covered the style of management and organisational culture in the firm, innovativeness, stability of employment, training opportunities, salary level, promotion possibilities, location, work-life balance, and benefits such as health care and life insurance.

The survey carried out by Antal International under the patronage of the Business Centre Club was attended by 3 085 specialists and managers from Poland representing 9 disciplines.

Employer Branding Excellence Awards 2013

PKO Bank Polski SA won the first prize for the image and recruitment campaign entitled 'One Bank. Many Passions' (Jeden Bank. Wiele Pasji) in the Excellent Employer Branding Strategy category in the Employer Branding Excellence Awards 2013 competition organised by HRM Institute and Markline. The award in this category is granted to institutions which have successfully developed and implemented such a strategy in their organisation. A well-defined and implemented strategy has a significant influence on attracting, employment and retention of talents.

Solid Employer of the Decade

PKO Bank Polski SA was awarded the 'Solid Employer of the Decade' (Solidny Pracodawca Dekady) title in the 10th jubilee edition of the nationwide competition organised by the 'Solid Employer of the Year Programme' (Program Solidny Pracodawca Roku). The title is evidence that the Bank is among the Polish companies which offer the best and most stable conditions of employment and development to their staff.

The competition 'Solid Employer' is one of the most prestigious Polish HR projects, selecting companies which distinguish themselves with the most interesting HR policy solutions; the competition is conducted under the aegis of 'Rzeczpospolita' supplement 'Rzecz o Biznesie'.

The Ideal Employer

PKO Bank Polski SA found itself among the most desired employers in the rankings prepared based on students' opinions. The high position of the Bank is confirmed by research of the international company Universum Global, and the students' association AIESEC conducted among students of the best universities in Poland.

PKO Bank Polski SA ranked third in the Business category receiving the title of Ideal Employer 2013 in one of the most prestigious employer rankings among students – the Universum Student Survey. It was the only bank among the first ten in the ranking.

Employer of the year 2012

PKO Bank Polski SA was awarded in the ranking of most desired employers in this year's edition of the Employer of the Year 2012 poll organised by the international students' organisation AIESEC. Students from economic departments participating in the poll ranked sixth the Bank; thus advancing it from 10th place in the prior year. PKO Bank Polski SA is the only Polish company among the first ten companies in the ranking and is the most desired employer in the banking sector. It is among such firms as: Ernst & Young, PwC, Google and Deloitte.



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Other

The Best of the Best for the Bank's Annual Report

The Annual Report of PKO Bank Polski SA for 2012 has been awarded a special prize: 'The Best of the Best'. The prize is awarded to enterprises and banks which won the main prize in 'The Best Annual Report' competition three times in the last years.

The award is proof of the highest user value of our Bank's annual reports for shareholders and investors. The Chapter of the competition appreciated not only the quality of our financial statements but also the image-related value of the annual report. Completeness and consistency as well as clear and logical presentation of data (i.a. strategy and forecasts taking account of risks, application of corporate governance principles) were acknowledged. The objective of The Best Annual Report competition is to create recognised standards for the preparation of IFRS/IAS annual reports and best practices in this scope. It is organised by Instytut Rachunkowości i Podatków (Accounting and Tax Institute).

Lider Informatyki (IT Leader)

In the 11th edition of the IT Leader in Financial Institutions 2012 (Lider Informatyki Instytucji Finansowych 2012) by *Gazeta Bankowa* PKO Bank Polski SA won the prize in the 'Transaction Systems' category for the 'Mass Products and Services Handling' (Obsługa masowych świadczeń) project. The chapter of the competition rewarded the Bank in the 'Electronic Banking and e-Finance' (Bankowość elektroniczna i e-finance) category for implementing a new offer of School Savings Unions, which was tailored to the requirements of the market and the new generation which uses new technologies and the Internet on a daily basis.

The best implementations of IT systems in financial institutions were rewarded for the eleventh time during the Technological Gala. Forty-nine of last year's IT solutions entered the competition. This was a record number of applications in the 11-year history of the competition.

Best Contact Center

For the fourth time, PKO Bank Polski SA outclassed its rivals in a cyclical survey carried out by ARC Rynek i Opinia. In the final ranking including telephone and e-mail contacts, the Bank obtained nearly 98 points out of the maximum 100.

The pollsters evaluated the consultants' work very highly: politeness, involvement and professionalism as well as knowledge of the products. The time of waiting for a connection is also the shortest – 2 seconds on average. Whereas the average for all the banks participating in the survey is 16 seconds. The availability of the hotline and the connection's quality were also very well evaluated.

Columns of the Year (Szpalty Roku)

PKO Bank Polski SA's projects were rewarded in this year's edition of the 'Columns of the Year' competition. In the external magazine category, the Silver Column title was awarded to an economic guide for the youngest readers 'Bravo Bank' (Brawo Bank). This is the second reward for this title (a supplement to 'Banking Guide' (Poradnik Bankowy)) in this competition. The Brown Column title in the electronic medium category was awarded to the SKO website (www.sko.pkobp.pl) created in April 2012. 'Our Bank' (Nasz Bank), PKO Bank Polski SA employees' magazine was also rewarded.

The Columns of the Year is a competition for editors and authors of the corporate press organised since 2008 by Stowarzyszenie Prasy Firmowej (Corporate Press Association) as part of which professionals chaired by a renowned critic and columnist Tomasz Raczek reward the best corporate magazines.

Local Government-Friendly Bank (Bank przyjazny samorządom)

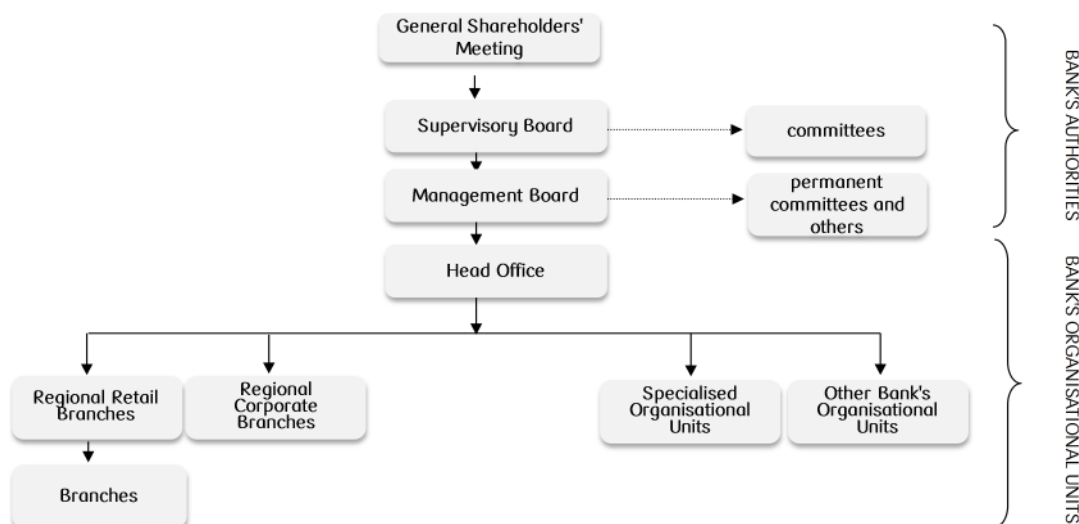
During the 11th Local Government Capital and Finance Forum (Samorządowe Forum Kapitału i Finansów), PKO Bank Polski SA was awarded the Kazimierz Wielki Statuette. It was received, among other things, for the attractive offer based on knowledge of the market and openness to the needs of local authorities.

According to NBP data as of June 2013, the Bank's share in the financing of local governments with loans exceeded 17%. The Bank is also a leader in issuing municipal bonds and its share in the market is close to 30%. The Bank handles the budgets of the following voivodeships: Mazowieckie, Wielkopolskie, Zachodniopomorskie, Lubelskie and Kujawsko-Pomorskie, and a number of cities and towns, including: Wrocław, Szczecin, Zamość, Grudziądz, Zielona Góra, Płock and Włocławek.

5. INTERNAL ENVIRONMENT

5.1 Organisation of PKO Bank Polski SA

Chart 2. Organisational structure of PKO Bank Polski SA



The most significant activities in the area of the Bank's organisational structure carried out in 2013 were particularly related to the following:

- changes in the sales network structure in the corporate segment:
 - creating corporate macroregions and regional corporate centres,
 - centralizing the responsibility for the mobilisation of sales of treasury products and trade financing as well as financial resource management products in new organisational unit at Head Office,
- increasing the independence of the structures responsible for the risk model validation,
- creating a Customer Spokesman function and separating out the structures supporting its operations, including those responsible for the handling of all customer appeals,
- centralizing within one structure the responsibility for handling the housing market customers whose loan repayment was aided by the state budget (the so-called 'old portfolio' housing loans),
- changes in the segregation of duties between the individual structures at the Bank in the areas of:
 - planning and controlling in the retail segment;
 - real estate management for the needs of branches and self-service devices;
 - monitoring the quality and increasing the effectiveness of services performed by IT services;
 - cooperation with the network of agents and intermediaries.

5.2 Principles of risk management

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

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

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

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



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 PKO Bank Polski SA and the most important activities taken in the area of risk management.

The Bank's Management Board is responsible for the risk management, including supervising and monitoring of activities taken by the Bank in the area of risk management. The Bank's Management Board takes the most important decisions affecting the risk level of the Bank and enacts internal regulations regarding the risk management.

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 mechanisms and compliance of the activities with the generally applicable laws,
- the second line of defence, which is the risk management system, including methods, tools, process and organisation of risk management,
- the third line of defence, which is an internal audit.

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

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

The top priority of PKO Bank Polski SA is to maintain its strong capital position and to increase its stable sources of financing underlying the stable development of business activity, while maintaining the priorities of efficiency and effective cost control and appropriate risk assessment. For this purpose, in 2013 the Bank has taken i.a. the following activities:

- rolled forward short-term bonds in the amount from PLN 500 to 850 million, while extending the maturity date of the securities from three to six months,
- transferred a part of the Bank's profit for 2012 to own funds,
- acquired in September 2013, financing in the form of a loan in the amount of EUR 75 million and in November circa CHF 185 million.

On 12 June 2013, the Bank signed an agreement to acquire Nordea Bank Polska, Nordea Finance Polska, Nordea Polska TUnŻ, and the corporate loan portfolio serviced directly by the seller – the Scandinavian financial Group Nordea. The above mentioned acquisition will have no impact on the change in the risks identified in the business of PKO Bank Polski SA or Nordea Bank Polska SA.

In the first half of 2013 in respect of operational risk, the Bank endeavoured to adapt to the requirements of Recommendation M of the Polish Financial Supervision Authority amended in January 2013 relating to operational risk management in banks. The Bank complied with all the recommendations by 30 June 2013, and complied with the recommendation relating to disclosure of information on operational losses – in accordance with Recommendation M – in the third quarter of 2013.

In the second half of 2013, the Bank implemented the process of incorporating counterparty credit risk in the valuation of financial instruments in accordance with the best practices in the market and internal conditions.

5.2.1 Credit risk

Credit risk is defined as a risk of occurrence of losses due to 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 client's ability to repay amounts due to the Bank.

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

The Bank applies the following principles of credit risk management:

- each loan transaction is a subject to 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 loan request review and on a cyclical basis during the monitoring process, taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures which are significant due to their risk levels or 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 level generated by the contract,
- loan granting decisions are made only by authorised persons within their authority,
- credit risk is diversified particularly by geographical location, by industry, by product and by clients,
- expected credit risk level is mitigated by collaterals received by the Bank, credit margins collected from clients and impairment allowances on loan exposures.

The above mentioned policies are executed by the Bank through the use of more 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 developed to ensure compliance with the internal rating based method (IRB) requirements, 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 dimensions: 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 internal records of the Bank and external databases. The evaluation of credit risk related to financing institutional clients is performed in two dimensions: in respect of the client and of the transaction. The assessment measures comprise ratings of clients and transactions. The comprehensive measure of credit risk which reflects both risk factors is the cumulative rating.

In 2013 the Bank implemented new rating models for corporate clients, including entrepreneurs keeping books of account in accordance with the Accounting Act or in accordance with IAS and keeping tax book of revenues and expenses, and entrepreneurs credited in the formula of specialist financing. The implementation of the evaluation model of entrepreneurs credited in the formula of specialist financing will particularly allow adequate assessment of the credit risk of large projects involving the financing of real estate held for rental or sale (e.g. office space, retail areas,


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industrial areas) and infrastructure projects (e.g. telecommunications; industrial; public utility infrastructure).

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

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

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: clients' borrowing capacity and creditworthiness. The borrowing capacity assessment involves examination of the client's economic and financial situation, whereas the creditworthiness assessment involves scoring and evaluation of the client's credit history obtained from internal records of the Bank and external databases.

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

With regard to institutional clients and the small and medium enterprises segment, the Bank implemented a number of improvements in respect of the ongoing portfolio monitoring, which allows for faster response to changes in the existing portfolio of the Bank and the use of an adequate policy and tools for new customers. In June 2013, the Bank implemented a new methodology for the estimation of portfolio parameters used in the calculation of impairment allowances on credit exposure and provisions for off-balance sheet credit exposures. This methodology uses elements of the modelling portfolio parameters for determining capital requirements with the IRB method. Provides tracking the reaction of the loan portfolio in a more homogeneous groups, and more precise information on the ongoing recoveries.

Table 23. *The structure of loan portfolio and impairment allowances of PKO Bank Polski SA (in PLN million)*

	31.12.2013	31.12.2012 restated	Change 2013/2012
Loans and advances to customers			
Assessed on an individual basis	6 830.1	7 098.9	-3.8%
impaired	5 091.4	5 551.0	-8.3%
not impaired	1 738.7	1 547.9	12.3%
Assessed on a portfolio basis	7 173.8	6 737.0	6.5%
Assessed on a group basis (IBNR)	139 749.7	134 085.0	4.2%
Loans and advances to customers - gross	153 753.6	147 920.9	3.9%
Allowances on exposures assessed on an individual basis	(2 133.2)	(2 261.7)	-5.7%
impaired	(2 116.1)	(2 165.2)	-2.3%
Allowances on exposures assessed on a portfolio basis	(3 677.5)	(3 424.4)	7.4%
Allowances on exposures assessed on a group basis (IBNR)	(570.5)	(542.6)	5.1%
Allowances - total	(6 381.2)	(6 228.6)	2.5%
Loans and advances to customers - net	147 372.3	141 692.3	4.0%

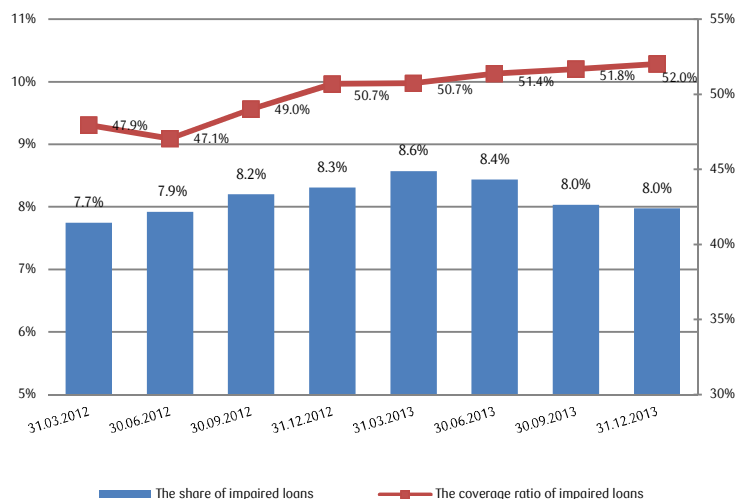


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The chart below presents the share of impaired loans and their coverage ratio.

Chart 3. *The share of impaired loans and advances in PKO Bank Polski SA and the coverage ratio to total allowances*



The share of impaired loans as at the end of 2013 amounted to 8.0%, which means a decrease by 0.3 pp. compared to the end of 2012, mainly due to the improvement of quality of consumer loans.

The coverage ratio of impaired loans for PKO Bank Polski SA as at 31 December 2013 amounted to 52.0%, compared with 50.7 % as at 31 December 2012.

In order to take account of the counterparty's credit risk in the valuation of derivatives measured at fair value, in December 2013 the Bank implemented the principles for calculating valuation adjustments on derivatives in respect of credit valuation adjustment (CVA) and debt valuation adjustment (DVA).

5.2.2 Interest rate risk

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

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

As at 31 December 2013, the Bank was mainly exposed to PLN interest rate risk, which represents ca. 67% of the Value at Risk (VaR). Interest rate risk was determined mainly by the risk of a mismatch of the dates of revaluation of interest rates in respect of of the Bank's assets and liabilities. VaR of the Bank and stress tests analysis of the Bank's exposure to the interest rate risk are presented in the following table.

Table 24. VaR and stress test analysis of PKO Bank Polski SA exposure to interest rate risk (in PLN thousand)

Name of sensitivity measure	31.12.2013	31.12.2012 restated
VaR for a 10-day time horizon*	54 930	64 451
Parallel movement of interest rate curves by 200 b.p. (stress-test)	523 130	299 015

*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 2013, the Bank's interest rate VaR for a 10-day time horizon (10-day VaR) amounted to PLN 54 930 thousand, which accounted for approximately 0.27% of the Bank's own funds. As at 31 December 2012, VaR for the Bank amounted to PLN 64 451 thousand, which accounted for approximately 0.33% of the Bank's own funds¹⁰.

5.2.3 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 management 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.

PKO Bank Polski SA measures currency risk using the Value at Risk (VaR) model and stress tests. Value at Risk (VaR) of the Bank and stress-tests analysis of the Bank's exposure to currency risk are stated cumulatively for all currencies in the table below.

¹⁰Own funds calculated in accordance with regulations concerning calculation of the capital adequacy ratio.

Table 25. *VaR and stress tests of PKO Bank Polski SA exposure to currency risk (in PLN thousand)*

Name of sensitivity measure	31.12.2013	31.12.2012 restated
VaR for a 10-day time horizon (with a confidence level of 99% threshold)	2 443	628
Change in FX rates by 20% (stress test)*	21 428	3 869

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

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

Table 26. *PKO Bank Polski SA's currency position for particular currencies (in PLN thousand)*

Currencies	31.12.2013	31.12.2012 restated
EUR	13 010	(11 933)
USD	79 507	(8 277)
CHF	6 526	(20 127)
GBP	3 673	4 611
Other (global net)	6 020	12 395

5.2.4 Liquidity risk

The liquidity risk is a risk of the lack of possibility to pay the debts on time due to the lack of liquid assets. Lack of liquidity may arise from an inadequate structure of 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.

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

To ensure an adequate liquidity level in PKO Bank Polski SA, limits and thresholds for short, medium and long-term liquidity risk were accepted. The table below presents liquidity reserve of PKO Bank Polski SA as at 31 December 2013 and as at 31 December 2012.

Table 27. *Liquidity reserve of PKO Bank Polski SA (in PLN million)*

	31.12.2013	31.12.2012 restated
Liquidity reserve up to 1 month*	17 816	13 568

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

As at 31 December 2013 the level of permanent balances on deposits constituted approx. 95.9% of all deposits in the Bank (excluding interbank market), which means an increase by approximately 2.6 pp. as compared to the end of 2012.

5.2.5 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 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 shaping the structure of statement of financial position and off-balance sheet commodity items.

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

The effect of commodity price risk on the Bank's financial position is immaterial. As at 31 December 2013 the capital requirement of this respect did not exceed PLN one thousand.

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

Risk management is carried out by imposing limits on the activities 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 the Bank does not expect them to increase significantly.



5.2.7 Derivative instruments risk

The risk of derivative instruments is a risk arising from taking up a position 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 derivative risk management in the Bank is integrated with 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.

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

Risk management is carried out by imposing limits on derivative instruments divided into banking and trading portfolios, monitoring to 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 Bank Association (domestic banks) and ISDA (foreign banks and credit institutions), which allow offsetting mutual liabilities, both due (mitigation of settlement risk) and not yet due (mitigation of pre-settlement risk), are particularly important for mitigating the risk associated with derivative instruments.

Additional collateral for exposures, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreement (Credit Support Annex).

5.2.8 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 Bank 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.

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.

The Bank uses various solutions to limit its exposure to operational risk, including the following:

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

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 elevated or high, the Bank applies the following approach:

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

In the first half of 2013 in respect of operational risk, the Bank endeavoured to adapt to the requirements of Recommendation M of the Polish Financial Supervision Authority amended in January 2013 relating to operational risk management in banks. The Bank complied with all the recommendations by 30 June 2013, and complied with the recommendation relating to disclosure of information on operational losses – in accordance with Recommendation M – in the third quarter of 2013.

5.2.9 Compliance risk

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of PKO Bank Polski SA, its employees 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 prevent the occurrence of cases of non-compliance, as well as losing reputation or credibility and to strengthen, among shareholders, customers, employees, business partners and other market participants, the Bank's image as an institution acting in accordance with the law and adopted standards of conduct, reliable, fair and honest.

Compliance risk management involves in particular the following:

- preventing involvement of the Bank in illegal activities,
- conflict of interest management,
- preventing situations where the Bank's employees could be perceived as pursuing their own interest in the professional context,



- promoting ethical standards and monitoring their functioning,
- fair, transparent and not misleading formulation of product offers, advertising and marketing messages,
- ensuring data protection,
- prompt, fair and professional consideration of complaints, requests and quality claims of clients.

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

5.2.10 Business risk

Business risk is understood as the 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.

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

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

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

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

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

5.2.11 Reputation risk

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

Reputation risk management in the Bank includes mainly:

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

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

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

5.2.12 Model risk

Model risk is the risk of incurring negative financial or reputation effects as a result of making incorrect business decisions on the basis of the models operating within the Bank.

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

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

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

The aim of management actions is to shape a model risk management process and a level of this risk in the Bank.

Management actions related to model risk in particular consist of:

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

5.2.13 Risk of macroeconomic changes

Risk of macroeconomic changes is the risk of deterioration of the Bank's financial position as a result of an unfavourable impact of changes in macroeconomic conditions.

The objective of risk of macroeconomic changes management is identification of macroeconomic factors with a significant impact on the Bank's operations and taking actions aimed at mitigating the unfavourable impact of potential changes in macroeconomic conditions on the Bank's financial position.



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

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

Management activities related to the risk of macroeconomic changes consist specifically of:

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

5.2.14 Comprehensive stress-tests

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

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

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

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

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

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

5.3 Capital adequacy¹¹

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

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

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

- identifying and monitoring of all of significant risks,
- assessing internal capital to cover the particular risk types and total internal capital,
- monitoring, reporting, forecasting and limiting of capital adequacy,
- performing internal capital allocations to business areas, client segments and the Group entities in connection with profitability analyses,
- using tools affecting the capital adequacy level (including: tools affecting the level of own funds, the scale of own funds 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 of common equity Tier 1 (Common Equity Tier 1 Ratio).

The level of capital adequacy of the Bank as at 31 December 2013 remained at a safe level, significantly above the statutory limits.

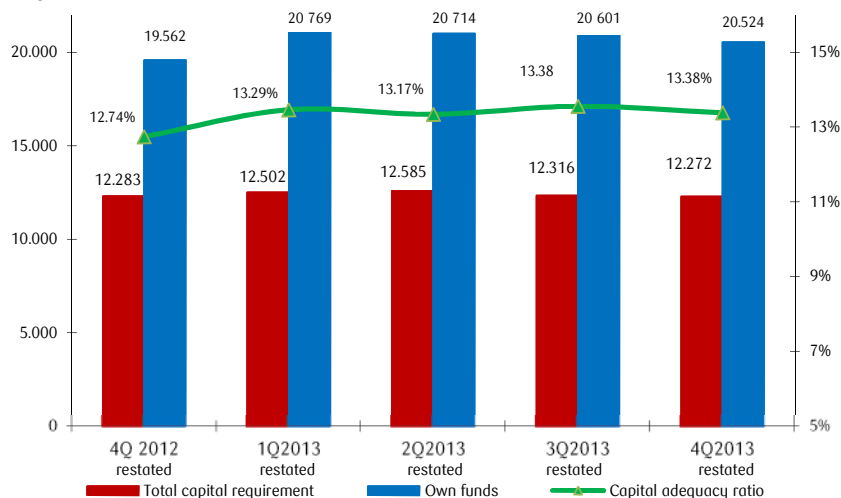
¹¹ Own funds for the purposes of capital adequacy are calculated in accordance with the provisions of the Banking Act and Resolution of the Polish Financial Supervision Authority No. 325/2011 of 20 December 2011 on deductions from own funds, their amount, scope and conditions of their deduction from a bank's own funds, other statement of financial position items included in supplementary funds, their amount, scope and conditions of their inclusion in bank's supplementary funds, deductions from supplementary funds, their amount, 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)



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Chart 4. *Capital adequacy of PKO Bank Polski SA*

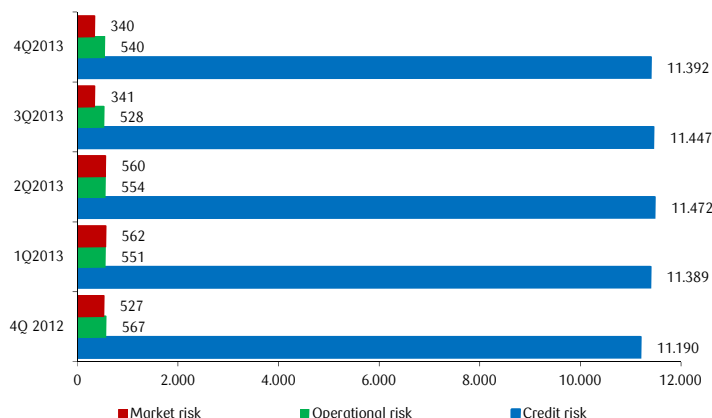


As at 31 December 2013 compared with 31 December 2012, the Bank's capital adequacy ratio increased by 0.6 pp. to the level of 13.38%. It was mainly due to an increase of the Bank's own funds for the capital adequacy purposes.

As at 31 December 2013 the Bank's own funds, calculated for capital adequacy purposes, increased by PLN 1.0 billion to the level of PLN 20 524 million.

PKO Bank Polski SA calculates capital requirements in accordance with the Resolution No. 76/2010 of Polish Financial Supervision Authority of 10 March 2010 on the scope and detailed procedures of 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 – using the standardised approach, in respect of the operational risk – using the advanced measurement approach (AMA) and in respect of market risk – the basic methods.

Chart 5. *Capital requirements of PKO Bank Polski SA (in PLN million)*



An increase in the capital requirement in respect of credit risk by PLN 202 million to the level of PLN 11 392 million was mainly a consequence of the loan portfolio increase in 2013 (in statement of financial position and off-balance sheet exposure by approx. 3.6%).

A decrease in the capital requirement in respect of market risk by 35% to the level of PLN 340 million includes mainly guaranteeing of corporate bonds issue and the corporate bonds portfolio (total decrease of the above mentioned bonds' requirement amounts to ca. 57%).

5.4 Organisational and capital structure

Investment activities

PKO Bank Polski SA holds stocks and shares in other financial and non-financial entities. The main direct and indirect exposures of the Bank are presented below.


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Table 28. Subsidiaries, jointly controlled entities and associates of PKO Bank Polski SA

No.	Entity name	Head Office	Main activity	The share in the share capital	Consolidation method
				(%)	
Direct subsidiaries					
1.	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	investment fund management	100	full method
2.	PKO BP BANKOWY PTE SA	Warsaw	pension fund management	100	full method
3.	PKO Leasing SA ¹	Łódź	leasing services	100	full method
4.	Inteligo Financial Services SA	Warsaw	information system development and maintance	100	full method
5.	PKO BP Finat Sp. z o.o.	Warsaw	transfer agent services	100	full method
6.	Bankowe Towarzystwo Kapitałowe SA	Warsaw	services	100	full method
7.	KREDOBANK SA	Lviv, Ukraine	banking activities	99.5655	full method
8.	PKO Finance AB	Stockholm, Sweden	financial services	100	full method
9.	Qualia Development Sp. z o.o.	Warsaw	real estate development	100	full method
10.	Merkury – fiz an ²	Warsaw	placement of funds collected from fund members	100	full method
Direct subsidiaries – presented as assets held for sale					
11.	Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. ³	Kiev, Ukraine	factoring	91.8766	full method
12.	'Inter-Risk Ukraina' Additional Liability Company	Kiev, Ukraine	debt collection services	100	full method
Jointly controlled entities					
13.	Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. ⁴	Warsaw	servicing and settlement of card transactions	34.00	equity method
14.	Centrum Obsługi Biznesu Sp. z o.o.	Poznań	hotel management	41.44	equity method
15.	CENTRUM HAFFNERA Sp. z o.o.	Sopot	subsidiaries' real estate management	49.43	equity method
Associates					
16.	Bank Pocztowy SA	Bydgoszcz	banking activities	25.0001	equity method
17.	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznań	guarantees	33.33	equity method

1) Formerly Bankowy Fundusz Leasingowy SA.

2) The Fund was included in this statement as PKO Bank Polski SA owes investment certificates in the above mentioned Fund, which allows, according to IFRS, to exercise control over the Fund; share of owned Fund's investment certificates is presented within the share in the share capital item.

3) The second shareholder of the Entity is 'Inter-Risk Ukraina' Sp. z o.o.; until 9 September 2013 the Entity was a subsidiary of 'Inter-Risk Ukraina' Sp. z o.o.

4) The Entity was direct subsidiary of PKO Bank Polski SA until 30 December 2013.

Subordinated entities of the Bank were established with an aim to support the basic business activities of PKO Bank Polski SA within sales' goals through complementation of the offer as well as providing services to the Bank and increase of the Bank's share in the international financial markets.



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Table 29. Indirect subsidiaries of PKO Bank Polski SA

No.	Entity name	Head Office	Main activity	The share in the share capital (%)	Consolidation method
Subsidiaries of Qualia Development Sp. z o.o. ¹					
1.	Qualia Sp. z o.o.	Warsaw	general partner in limited partnerships of the QDE Group entities	100	full method
2.	Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k.	Warsaw	real estate development	99.9975	full method
3.	Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	Warsaw	real estate development	99.9787	full method
4.	Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	Warsaw	real estate development	99.9750	full method
5.	Qualia spółka z ograniczoną odpowiedzialnością - Jurata Sp. k.	Warsaw	real estate development	99.9608	full method
6.	Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k.	Warsaw	real estate development	99.9123	full method
7.	Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	Warsaw	real estate development	99.8951	full method
8.	Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k.	Warsaw	real estate development	50	full method
9.	Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Sp. k.	Warsaw	real estate development	50	full method
10.	Qualia Hotel Management Sp. z o.o.	Warsaw	real estate development	100	full method
11.	Qualia - Residence Sp. z o.o.	Warsaw	real estate development	100	full method
12.	Qualia - Rezydencja Flotylla Sp. z o.o.	Warsaw	real estate development	100	full method
13.	Fort Mokotów Inwestycje Sp. z o.o. ²	Warsaw	real estate development	100	full method
14.	Sarnia Dolina Sp. z o.o.	Warsaw	real estate development	100	full method
15.	Giełda Nieruchomości Wartościowych Sp. z o.o.	Warsaw	intermediation in the sale of real estate	100	full method
16.	Fort Mokotów Sp. z o.o. - in liquidation	Warsaw	in liquidation	51	full method
Subsidiaries of PKO Leasing SA					
17.	PKO Bankowy Leasing Sp. z o.o. ³	Łódź	leasing services	100	full method
18.	PKO Leasing Sverige AB ⁴	Stockholm, Sweden	leasing services	100	full method
Subsidiary of Bankowe Towarzystwo Kapitałowe SA					
19.	PKO BP Faktoring SA ⁵	Warsaw	factoring	99.9889	full method
Subsidiary of KREDOBANK SA					
20.	Finansowa Kompania 'Idea Kapitał' Sp. z o.o.	Kiev, Ukraine	financial services	100	full method
Subsidiaries of CENTRUM HAFFNERA Sp. z o.o.					
21.	Sopot Zdrój Sp. z o.o.	Sopot	hotel management	100	equity method
22.	Promenada Sopocka Sp. z o.o.	Sopot	rental services and real estate management	100	equity method
23.	Centrum Majkowskiego Sp. z o.o. in liquidation	Sopot	in liquidation	100	equity method
24.	Kamienica Morska Sp. z o.o. in liquidation ⁶	Sopot	in liquidation	100	equity method
Subsidiaries of Bank Pocztowy SA					
25.	Centrum Operacyjne Sp. z o.o.	Bydgoszcz	activities supporting financial services	100	equity method
26.	Spółka Dystrybucyjna Banku Poczтового Sp. z o.o.	Warsaw	intermediary financial services	100	equity method

1) In limited partnerships of the Qualia Development Group in the position of share capital, the total contributions made by the limited partner – the Entity Qualia Development Sp. z o.o. is presented.

2) The Entity was direct subsidiary of PKO Bank Polski SA until 30 December 2013.

3) Formerly Bankowy Fundusz Leasingowy Sp. z o.o.

4) The Entity was registered in Sweden on 18 September 2013

5) The second shareholder of the Entity is PKO Bank Polski SA.

6) On 24 January 2014 the Entity was removed from the National Court Register.

Fundusz Merkury – fiz an operates through 8 subsidiaries, which are not shown in the table above.

More information relating to the selected subordinated entities of the Bank are included in the Directors' Report of the PKO Bank Polski SA Group.

Changes to the organisation of subordinated entities

In 2013, the structure of the PKO Bank Polski SA Group, its subsidiaries and associates was affected by the following events:

1. Changes in PKO Leasing SA Group

In March 2013 Bankowy Fundusz Leasingowy SA changed its name to PKO Leasing SA, and Bankowy Leasing Sp. z o.o. changed its name to PKO Bankowy Leasing Sp. z o.o.

In March 2013 PKO Bank Polski SA acquired shares in the increased share capital of PKO Leasing SA with the nominal value of PLN 20 000 thousand. As a result of the above mentioned transactions PKO Bank Polski SA still remains the sole shareholder of PKO Leasing SA. In September 2013, the new company, PKO Leasing Sverige AB with registered office in Stockholm with a share capital in the amount of EUR 6 thousand, was established.

In December 2013, PKO Leasing SA made an additional contribution to PKO Leasing Sverige AB in the amount of EUR 994 thousand.



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

An increase in the share capital of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. of UAH 484 000 thousand, carried out by increasing the nominal value of the Company's share and acquired by PKO Bank Polski SA, was registered with the Ukrainian Register of Businesses in September 2013.

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

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

In December 2013 the Bank received a decision of the European Commission in which the EC decided not to oppose to the exercise of the joint control over CEUP eService SA by the PKO Bank Polski SA and by EVO and CEUP eService SA was transformed into limited liability company (sp. z o.o.). On 31 December 2013 shares representing 66% of the share capital of the Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. and giving right to 66% of the votes at the Shareholders Meeting of the Company, were transferred to the Investor.

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

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

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

4. Capital contribution to KREDOBANK SA by providing financial donation

In November 2013 PKO Bank Polski SA has made a capital contribution to KREDOBANK SA by providing financial donation in the amount of USD 20 681 thousand (i.e. PLN 63 793 thousand according to the average NBP exchange rate as of the date of funds transfer). Above mentioned donation increases the purchase price in the statement of financial position of the PKO Bank Polski SA.

5. Acquisition of the investment certificates

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

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

As at 31 December 2013, the Fund is an entity controlled by PKO Bank Polski SA.

6. Changes in Qualia Development Sp. z o.o. Group

- concerning Qualia Development Sp. z o.o.
 - o In September 2013, PKO Bank Polski SA acquired shares in the increased share capital of Qualia Development Sp. z o.o. with the nominal value of PLN 20 348 thousand, which were covered by a cash contribution.
 - o In December 2013, PKO Bank Polski SA acquired shares in the increased share capital of Qualia Development Sp. z o.o. with a nominal value PLN 215 460 thousand. Shares were paid in cash contributed by offsetting amounts due from PKO Bank Polski SA to Qualia Development Sp. z o.o. for the reimbursement of capital contribution made in the Company by the Bank in the total amount of PLN 215 460 thousand.
 - o In December 2013, a resolution on share capital increase of Qualia Development Sp. z o.o. of PLN 106 800 thousand, by issuing new shares, was adopted. Shares in the increased capital were fully covered by contribution in kind in the form of 77 474 shares of Fort Mokotów Inwestycje Sp. z o.o. owned by PKO Bank Polski SA. The above mentioned increase requires registration with the National Court Register.
- concerning Fort Mokotów Inwestycje Sp. z o.o.
 - o In April 2013, the existing shareholders have taken up shares in the increased share capital of Fort Mokotów Inwestycje Sp. z o.o. at nominal value of PLN 4 194 thousand, in which PKO Bank Polski SA acquired shares with the nominal value of PLN 4 193 thousand, and Qualia Development Sp. z o.o. acquired the remaining 1 share.
 - o In December 2013 Qualia Development Sp. z o.o. concluded an agreement with PKO Bank Polski SA, according to which all shares of Fort Mokotów Inwestycje Sp. z o.o. held by the Bank were transferred, with the effect from 31 December 2013, to the Qualia Development Sp. z o.o. in exchange for taking up shares in the increased share capital of Qualia Development Sp. z o.o. The transfer of shares ownership was effective on 31 December 2013. As a result of the above mentioned transaction, since 31 December 2013 Qualia Development Sp. z o.o. is the sole shareholder of Fort Mokotów Inwestycje Sp. z o.o.
- concerning other entities of Qualia Development Sp. z o.o. Group
 - o The amount of limited partner's (Qualia Development Sp. z o.o.) contribution and the limited partnership amount in Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k. was increased from PLN 1 thousand to PLN 1 139 thousand.
 - o The amount of limited partner's (Qualia Development Sp. z o.o.) contribution and the limited partnership amount in Qualia spółka z ograniczoną odpowiedzialnością - Jurata Sp. k. was increased from PLN 1 thousand to PLN 2 551 thousand.
 - o In April 2013, all the terms and conditions of the agreement relating to the purchase of 44% of shares in the share capital of Sarnia Dolina Sp. z o.o. by Qualia Development Sp. z o.o. from Przedsiębiorstwo Robót Inżynieryjnych 'Pol-Aqua' SA were met; thus Qualia Development Sp. z o.o. became the sole shareholder of Sarnia Dolina Sp. z o.o.
 - o In May 2013, Qualia Development Sp. z o.o. acquired shares in the increased share capital of Sarnia Dolina Sp. z o.o. with a nominal value of PLN 6 924 thousand.
 - o In April 2013, the new company - Giełda Nieruchomości Wartościowych Sp. z o.o. with a share capital amounting to PLN 5 thousand, was established. On the day of establishment, shares in the Company with a nominal value of



PLN 4 950 thousand were taken up by Qualia Development Sp. z o.o., and remaining 1 share was taken up by Qualia Sp. z o.o. Since October 2013 the sole shareholder of the Company is Qualia Development Sp. z o.o., which bought 1 share with a price equal to the nominal value of the share.

- o In September 2013, Qualia Development Sp. z o.o. have taken up shares, with a nominal value of PLN 9 026 thousand, in the increased share capital of Qualia – Rezydencja Floty Sp. z o.o.
- o In 2013 Qualia Development Sp. z o.o. made an additional contribution to Qualia – Residence Sp. z o.o. in the total amount of PLN 3 127 thousand and made an additional contribution to Sarnia Dolina Sp. z o.o. in the total amount of PLN 18 750 thousand.

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

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

8. Changes to CENTRUM HAFNERA Sp. z o.o. Group

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

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

9. The sale of shares of Kolej Gondolowa Jaworzyna Krynicka SA

In September 2013, PKO Bank Polski SA sold the entire block of shares of Kolej Gondolowa Jaworzyna Krynicka SA (an associate of the Bank) to Polskie Koleje Górskie SA.

10. The sale of shares of Agencja Inwestycyjna CORP-SA SA

In October 2013, PKO Bank Polski SA sold its entire block of shares of Agencja Inwestycyjna CORP-SA SA (the associate of the Bank).

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

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

Detailed information regarding above mentioned agreement is included in point 4.2 of the Financial Statements.

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

Related party transactions

In 2013, PKO Bank Polski SA provided on an arm's length basis the following services to related (subordinated) entities. The services regarding maintaining bank accounts, accepting deposits, granting loans, issuing debt securities, granting guarantees, concluding foreign exchange transactions and offering participation units in funds, lease products, factoring products, rental of terminals and clearing services in respect of payment transactions offered by the PKO Bank Polski SA Group entities. At the same time, it leased space in the building of Centrum Finansowe Puławska Sp. z o.o to selected entities 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 2013 was presented in the Financial Statements of PKO Bank Polski SA for the year 2013.

5.5 Human resources management

5.5.1 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.

Four 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.



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III Pillar, the so-called Sales Bonus System, is aimed to positions in retail branches, which sale the banking products.

IV Pillar, the so-called Support Bonus System (SBS), includes other employees not covered by the system MbO, IBS and Sales Bonus System. In the SBS pillar there is a possibility to define targets for the whole unit or for the separate team (for an internal organisational unit).

Regardless of the bonus system is a system of rewarding employees, under which the Bank creates a prize fund for the purpose of:

- individual discretionary awards to employees of the Bank, deriving outstanding results in their work or for achievements, which led results important for the Bank, and
- awards in competitions relating to performance and other competitions organised by the Bank.

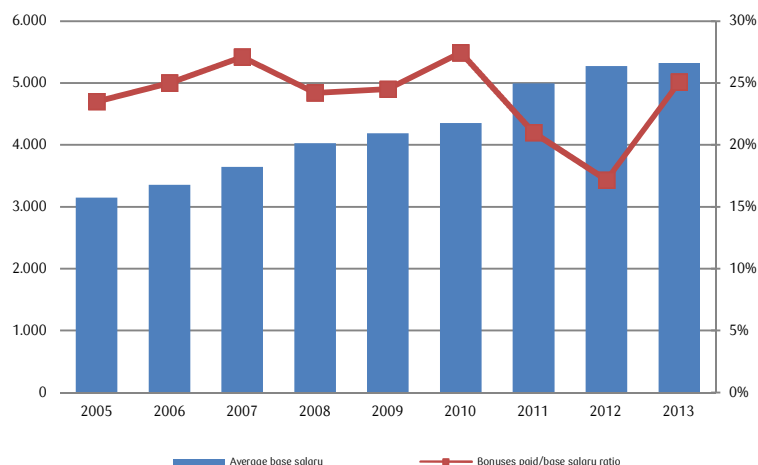
5.5.2 Remuneration policy

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,

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.

Chart 6. *Average base salary and bonuses paid/base salary ratio (in PLN)*



5.5.3 Benefits for employees

Employee Pension Programme

In 2013, the Employee Pension Programme (EPP) was created at the Bank. The EPP was introduced in the form of a contract on the Bank making basic and additional contributions on behalf of the employees to investment funds managed by PKO Towarzystwo Funduszy Inwestycyjnych SA. Under the chosen form of the EPP, the Bank designates own funds for additional pension cover for employees and regularly finances the basic contributions (3% of the salary constituting the basis for pension and disability pension contributions of the participant). Apart from accumulating funds from the basic contributions, the employees are offered a possibility of saving on their own by making payments to the additional contributions programme. As at 31 December 2013, more than two thirds of the Bank's employees joined the EPP.

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 enable employees to have unlimited number of doctors' consultations in all areas of specialisation and to diagnostic tests ordered by them.

Since 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.



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Social benefits

Table 30. *Benefits granted by Company Social Benefits Fund in 2013 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 amount granted (in PLN million)
PKO Bank Polski SA	Refundable benefits*	3 556	50.7
	Non-refundable benefits**	61 928	20.7
Total		65 484	71.4

* Housing loans

** Including aids, organised and non-organised holidays subsidies, promotion of education, cultural and sport activities, writing off loans, aid in kind and other non-refundable aid.

Number of employees

As at 31 December 2013, PKO Bank Polski SA employed 24 641 persons (24 437 full-time equivalents).

Table 31. *Number of employees in PKO Bank Polski SA in years 2010-2013 (in full-time equivalents)*

Entity	Employment as at the end of December (in full-time equivalents)			
	2013	2012	2011	2010
Retail branches	15 179	16 086	16 245	16 896
Corporate branches	517	559	556	568
Head Office	3 144	3 261	3 119	3 122
Specialised Organisational Units	5 597	5 493	5 988	6 184
The Bank – total	24 437	25 399	25 908	26 770
employment reduction	962	509	862	1 076

In 2013, redundancies for reasons unrelated to the employees affected 1 124 people. Collective redundancies conducted in 2013 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

PKO Bank Polski SA offers its employees various forms to raise professional qualifications. The Bank carries out development projects of hard and soft skills. The team of 60 internal trainers conducts group's and position's trainings. In the key strategic training projects, group trainings and workshops are conducted by external companies. E-learning platform, mainly for training on product knowledge, processes and IT applications service, is actively used by the Bank.

All actions taken as a part of the training policy support the execution of the Bank's strategy and are adapted to the current needs of the employees and the possibilities of the organisation.

Objectives of the training projects executed in 2013:

- 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.

Selected training projects conducted in 2013:

1. New Rhythm

Conducting a cycle of comprehensive training during which all employees of the retail sales network gained knowledge on the new working model for the branches and tools implemented as part of the largest project in the history of PKO Bank Polski SA – the New Rhythm project. Training was organised and conducted for nearly 14 thousand people (777 groups) during 10 weeks, thus enabling the Bank to enter the New Rhythm as of 1 April 2013.

2. Customer Retention Programme

Starting a cycle of comprehensive training during which all employees of the retail sales network gain knowledge about the standardised retention process, tools implemented as part of the project and negotiation skills as well as an ability to tailor the offer to a customer's needs. In 2013, all employees in two regions were trained. The training will continue in 2014.



3. The Bank's Day

A programme for the key managers at PKO Bank Polski SA to enable active implementation of the strategy entitled: 2013-2015 'PKO Bank Polski. Daily the best' by sharing experience between people providing new solutions and their direct users. The objective of the programme was to better understand the situation and business context of the mutual activities, thus enabling active execution of 'Daily the best' strategy.

4. Service Quality Growth Programme

The programme was launched in May 2013. The objective of the programme is to improve customer service quality in those branches of the Bank which obtained weak results in the Mystery Shopper. As part of the programme training was conducted on the subject of 'Managing through quality' – dedicated to managers from selected branches and 'Quality coaching' – dedicated to sales directors who oversee the work of the branches in the regions. The training will continue in 2014.

5. Counteracting robberies and procedures to be followed in dangerous situations

Conducting a cycle of comprehensive training aimed at showing the branch and agency employees' potential threats and the most frequent mistakes or instances of negligence which increase the risk of robbery or other threats which may occur during work. During such training the employees gain knowledge about the principles of safe conduct when coming into contact with a criminal or an aggressive customer. The training will continue in 2014.

6. Manager's Academy

The comprehensive soft competencies development programme was continued for the Bank's managers in the form of workshops and training co-financed by the European Union as part of the European Social Fund. The project value was nearly PLN 12 million and covered over 4 thousand people. The training and advisory activities as part of the Manager's Academy were closed in April 2013.

6. CORPORATE GOVERNANCE

6.1 Information for investors

6.1.1 Share capital and shareholding structure of PKO Bank Polski SA

As at 31 December 2013, the share capital of PKO Bank Polski SA amounted to PLN 1 250 000 thousand and consisted of 1 250 000 thousand shares with a nominal value of PLN 1 each – shares are fully paid. In relation to the end of 2012 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 32. Share capital structure of PKO Bank Polski SA

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

To the best knowledge of PKO Bank Polski SA, as at 31 December 2013 the shareholders holding, directly or indirectly, considerable block of shares (at least 5%) were three entities: the State Treasury, Aviva Otwarty Fundusz Emerytalny and ING Otwarty Fundusz Emerytalny.

Table 33. Shareholding structure of PKO Bank Polski SA

Shareholders	As at 31.12.2013		As at 31.12.2012		Change of the share in the number of votes at GSM (pp.)
	Number of shares	Share in the number of votes at GSM	Number of shares	Share in the number of votes at 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 ¹⁾	83 952 447	6.72%	-	x	x
ING Otwarty Fundusz Emerytalny ²⁾	64 594 448	5.17%	64 594 448	5.17%	0.00
Other shareholders ³⁾	709 046 828	56.72%	639 896 544	51.19%	5.53
Total	1 250 000 000	100.00%	1 250 000 000	100.00%	0.00

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

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

3) As at 31 December 2012 Aviva OFE was included.

Changes in shareholding structure

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



and the total number of votes at the Bank's General Shareholders' Meeting. After conclusion and settlement of the above mentioned transactions, as at 29 January 2013 Aviva OFE held 83 952 447 Bank's shares representing 6.72% of share capital and the total number of votes at the Bank's General Shareholders' Meeting.

6.1.2 Information concerning dividend

Dividend policy

In 2013, PKO Bank Polski SA implemented the dividend policy, adopted on 4 April 2012. 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 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%, and the necessary capital buffer will be maintained,
- the common equity Tier 1 ratio of the Bank and the Group will be above 9%, 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 2012

On 17 April 2013 the Bank's Management Board passed a resolution and decided to submit to the Ordinary General Shareholders' Meeting of the Bank its recommendation for the payment of dividend for 2012 in the amount of PLN 2 250.0 million (i.e. 61.12% of the total net profit for 2012 and retained earnings of PLN 88 533 thousand), i.e. PLN 1.80 per share. The dividend recommended by the Management Board is payable in cash.

The Management Board has proposed to set the dividend day at 19 September 2013 and the dividend payment date at 4 October 2013. The decision on the recommended appropriation of profit for 2012 was complied with the dividend policy adopted by the Bank. A dividend payment in the recommended amount was to ensure maintaining the capital adequacy ratio above 12% and the Tier 1 ratio above 9%, with an appropriate capital buffer. Dividend payment in the recommended amount allowed 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, and the Bank met all the above mentioned criteria so that the Management Board was able to recommend payment of dividend. The Management Board recommendation to pay dividend was considered and obtained a positive opinion by the Bank's Supervisory Board, and presented to the General Shareholders' Meeting of the Bank convened as at 20 June 2013 for approval. On 20 June 2013, the Ordinary General Shareholders' Meeting of PKO Bank Polski SA, as a result of the distribution of net profit of PKO Bank Polski SA for the year 2012, allocated for dividends to shareholders amount of PLN 2 250.0 million (i.e. 61.12% of profit), which is PLN 1.80 per share.

The General Shareholders' Meeting set:

- dividend date (the date of acquisition of the rights to dividend) on 19 September 2013,
- the dividend payment on the 4 October 2013.

Dividend concerns all shares of PKO Bank Polski SA.

The dividend from the profit of PKO Bank Polski SA for the year 2012 was paid on 4 October 2013.



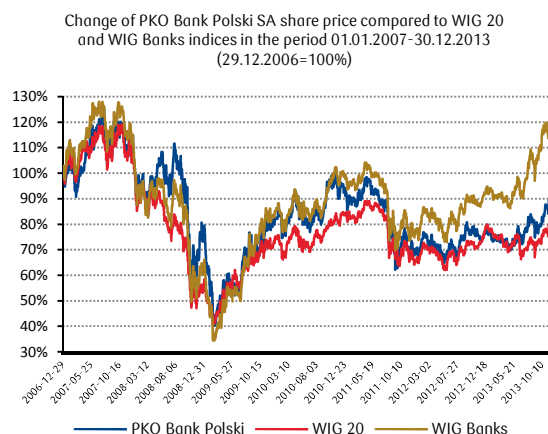
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6.1.3 Share price of PKO Bank Polski SA at the Warsaw Stock Exchange

Share price of PKO Bank Polski SA

In 2013, the share price of PKO Bank Polski SA was mainly determined by the situation on the WSE.



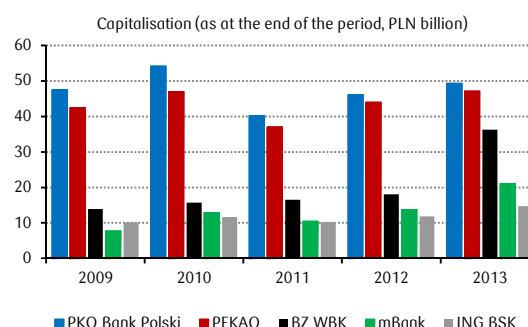
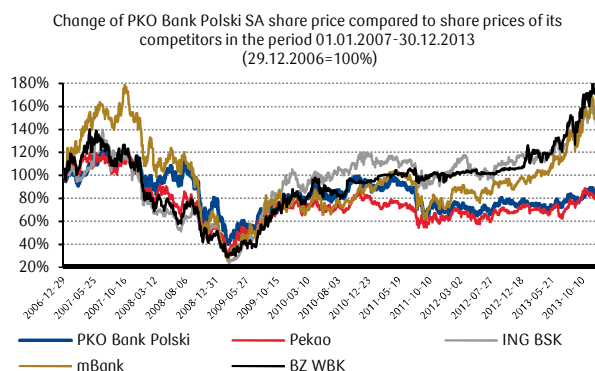
In 2013:

- the price of PKO Bank Polski SA shares increased by 6.8% (PLN + 2.52) from PLN 36.90 at the end of 2012 to PLN 39.42 at the end of 2013, including an increase in share price amounted to 6.3% (PLN +2.32) in the fourth quarter,
- the average price of the Bank's shares amounted to PLN 36.59 per share and was higher by 6.8% (PLN +2.33) than in 2012,
- the share price fluctuated in the range from PLN 32.72 (26.04.2013) to PLN 42.00 (18.11.2013), simultaneously the highest level since 26 July 2011,
- the daily average volume of trading in the Bank's shares amounted to 3 499 thousand of shares while the lowest level (498 thousand of shares) was recorded on 29.07.2013 and the highest (23 654 thousand of units) on 23.01.2013, i.e. on completion of accelerated bookbuilding for 153.1 million sold shares of the Bank by MSP and BGK.

In 2013, stock prices on the WSE increased. The increases started only in the second half of year, after 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, with connection to gradually acceleration of economies of the European Union countries and the USA. Their optimism was largely associated with an improvement in the economic situation resulting from actions taken by the central banks, such as i.a. due to still noticeable effects of the Outright Monetary Transactions (OMT) programme to buy bonds of indebted euro zone countries, and the QE programme continued by the Fed, i.e. the quantitative easing programme for buying bonds. Such actions helped ease tension on the financial markets.

The share prices on the WSE in 2013 were additionally affected by the macroeconomic situation in Poland, including in particular the economic growth slowdown in the first half of the year and a noticeable improvement in the second half. Moreover, the increase in share prices on the WSE in the second half of 2013 might have been due to gradual interest rate reductions by the Monetary Policy Council over the year (the total decrease of 175 b.p. y/y), which increased the interest in purchasing TFI units (which invest part of the funds on the WSE) and investing in shares. The share prices of PKO Bank Polski SA in 2013 fluctuated similarly to the share prices of PEKAO. Large batches of shares of these two largest Polish banks are held in the portfolios of foreign institutional investors, which significantly affects their prices.

Share prices of PKO Bank Polski SA and capitalisation of competitors



6.1.4 Assessment of financial credibility of PKO Bank Polski SA

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

- rating agencies Moody's Investors Service ('Moody's') and Standard & Poor's ('S&P's') assign a rating to the Bank at a charge, in accordance with its own bank assessment procedure,



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- 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 2013:

- On 14 June 2013 S&P's awarded the 'A-' rating for the Bank's long term credit rating on the watch list with the possibility of its reduction. In the opinion of S&P's this was necessary in order to analyse the impact of share purchase agreements for Nordea Group companies on the Bank's equity position. In accordance with the information from S&P's the Bank's 'A-' long-term credit rating is unlikely to be decreased by more than one level as a result of this analysis. The potential reduction in the rating, in accordance with S&P's criteria, may be effected if the Bank's forecast of risk-adjusted capital adequacy ratio will drop below 10% in a 12 - 24 month perspective. The Bank will be placed on the watch list for 3 months.
- On 21 June 2013 Moody's, after PKO Bank Polski SA has published information on concluding the agreement for the purchase of Nordea Group companies' shares, upheld the long- and short-term bank deposit rating at 'A2' and 'Prime-1' respectively, and the Bank's financial strength at 'C-'. Negative outlook was maintained in respect of the long-term deposit rating and the financial strength rating of PKO Bank Polski SA. In Moody's opinion, the above mentioned transaction is unlikely to change the overall credit profile of PKO Bank Polski SA and the factors which have an impact on the current ratings of the Bank, despite the negative impact of the transaction on capital and possible integration challenges. Moody's anticipates that in consequence of the transaction the initial impact on the capital of PKO Bank Polski SA will be reduced due to stable profitability and high risk-adjusted profits, as it is the Bank's intention to reduce the anticipated level of dividend after the conclusion of the Nordea Group companies' acquisition transaction.
- On 20 September 2013, the rating agency Standard & Poor's Ratings Services ('S&P's') sustained Bank's 'A-' long term credit rating removing it from Credit Watch list with a possibility of its decreasing. The outlook for this rating is negative. As a consequences of S&P's analysis, in its view the conclusion of the agreement concerning the acquisition of Nordea Group entities' shares - entirely financed by the Bank's funds - will initially weaken Bank's capital position, but the effect will be partially offset by the Bank's high earning generation capacity. The Agency informed that the negative outlook reflects the one-in-three chance that S&P's would lower the long-term rating on the Bank if the less favorable economic situation in Poland and Bank's operating environment is likely to weaken the Bank's financial performance and capital position by more than S&P's currently anticipates.

Table 34. *Ratings as at 31 December 2013*

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 negative 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

6.1.5 Investor relations

In 2013, 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 potential 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. 70 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 2013, there were ca. 90 meetings on the Bank's premises, (including two extraordinary: in relations to publication of the Bank Strategy for 2013-2015 and to acquisition of Nordea Group entities), ca. 130 meetings during 10 investor conferences and one roadshow project and over 100 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 publish all information relevant to investors and the Bank's shareholders on the website of the Investor Relations Office: <http://www.pkobp.pl/pkobpppl-en/investor-relations/>,
- in March 2013, the Bank launched for a second time its annual on-line report, this time for 2012, in the form of an dedicated online service in two language versions: Polish and English (<http://www.pkobp.pl/raportroczny2012/index.html>). The annual report published as a separate service 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 friendly use the key financial and business information on the PKO Bank Polski SA Group.

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 2013, the Annual Report of PKO Bank Polski SA for 2012 was awarded a special prize: 'The Best of the Best'. The prize is awarded to enterprises and banks which has won the main prize in The Best Annual Report competition three times over the last years and is a proof of the highest user value of the Bank's annual reports for shareholders and investors. The Chapter of the Competition appreciated not only the quality of the financial statements but also the image-related value of the annual report. Completeness and consistency as well as clear and logical presentation of data (i.a. strategy and forecasts taking account of risks, application of corporate governance principles) were acknowledged. PKO Bank Polski SA regularly receives 'The Best Annual Report' prizes. 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, and the 2011 report - the Bank also won the first prize in the category of banks and financial institutions for accumulating the largest number of points in total for the three evaluated areas.

6.2 Compliance with the rules for corporate governance

6.2.1 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 Giełda Papierów Wartościowych w Warszawie SA. In 2013, 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'.

On 24 May 2013 the Management Board of PKO Bank Polski SA informed of its decision not to apply the rule included in Chapter IV.10 of the Code of Best Practice for WSE listed companies, in accordance with which the Bank should ensure to its shareholders the option of participating in the General Shareholders' Meeting using means of electronic communication.

The decision not to abide by that rule in accordance with which the Bank should, i.a. ensure bilateral real time communication to its shareholders in order for them to communicate during the General Shareholders' Meeting from a place other than the location of the Meeting was taken due to legal, organisational and technical risks which could threaten the proper conduct of the General Shareholders' Meeting if such a communication option was given to all shareholders.

In the Bank's opinion, the rules currently binding at the Bank ensure that all shareholders may effectively exercise all rights vested in them and secure the interests of all shareholders.

The Bank does not eliminate the possibility of using this rule in the future, based on market standards developed by public companies.

6.2.2 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 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:



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- 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 work concerning the scope of activities 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 available data.

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, commodity and equity securities prices and derivatives risks),
- operational risk,
- compliance risk,
- business 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 2013' 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 2015-2017, 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.

Principles set up by the Supervisory Board in 2010 will be applied for the choice of the entity authorised to audit financial statements for the year 2014, with the exception of certain provisions relating to the modalities for the appointment of the entity authorised to audit financial statements, including limitations to six years maximum period of uninterrupted cooperation with this entity.

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 3 211.0 thousand net for the financial year of 2013 compared to PLN 4 373.0 thousand net for the financial year of 2012.

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

No.	Title	2013	2012
1.	Audit of standalone and consolidated financial statements	1 140.0	1 440.0
2.	Authenticating services, including a review of financial statements	1 731.0	2 795.0
3.	Tax consulting services	106.0	216.0
4.	Other services	235.0	222.0
	TOTAL	3 211.0	4 373.0

6.2.3 Shares and shareholders of PKO Bank Polski SA

To the best knowledge of PKO Bank Polski SA, as at 31 December 2013 there were three shareholders that hold, directly or indirectly, significant shareholding (at least 5%): the State Treasury, Aviva Otwarty Fundusz Emerytalny and ING Otwarty Fundusz Emerytalny, holding respectively: 392 406 277, 83 952 447 (as at 29 January 2013, reported by Aviva OFE after exceeding the threshold of 5% share in shareholding structure) and 64 594 448 (as at 24 July 2012, reported by ING OFE after exceeding the threshold of 5% share in shareholding structure) of PKO Bank Polski SA's shares.

The percentage share of the State Treasury, Aviva Otwarty Fundusz Emerytalny and ING Otwarty Fundusz Emerytalny in the share capital of PKO Bank Polski SA as at 31 December 2013 and to the best knowledge of the Bank amounted to 31.39%, 6.72% 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.

6.2.4 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 the above mentioned approval, results in the expiry of the above mentioned restrictions in respect of shares subject to conversion into bearer shares or transfer, to the extent to which this approval was given.

6.2.5 The Memorandum of Association 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 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 redemption 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 2013, there were no changes implemented to the Memorandum of Association of PKO Bank Polski SA.

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

The 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 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 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 General Shareholders' Meeting, the entity maintaining their securities accounts for registered certificate on the right to participate in the General Shareholders' Meeting.

The shareholder who is a natural person may participate in the 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 General Shareholders' Meeting and exercise his voting right by a person 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 a natural person should be specified in the original or copy of 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 a 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 General Shareholders' Meeting of PKO Bank Polski SA.

Projects of resolutions proposed by the Management Board are accepted 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 acquainting with them and evaluating them.

The Bank makes available on the website 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 receiving them.

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 General Shareholders' Meeting agenda requires that the General Shareholders' Meeting resolution is adopted by the majority of three-quarters votes, after prior consent of all those shareholders present at the General Shareholders' Meeting who applied for including the matter in the agenda.

Resolutions of the 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 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 General Shareholders' Meeting,
- in other cases defined in binding law regulations.

A shareholder may not, either personally or by proxy, or while acting as 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 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.

6.2.7 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. As at 31 December 2013, the Supervisory Board of the Bank consisted of 8 people.

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.


**PKO BANK POLSKI SA DIRECTORS' REPORT
FOR THE YEAR 2013**
Table 36. Composition of the Supervisory Board of PKO Bank Polski SA as at 31 December 2013

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. Since 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. Since 2006 to 2007 he was a member of the Coordination Commission for Financial Conglomerates. Since 2005 to 2006 he was a member of the Securities and Exchange Commission and the Insurance and Pension Fund Supervisory Commission. Since 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'. Since 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. Since 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, i.a. 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, since 2009 as a director in the Ministry of the State Treasury responsible for capital market and financial institutions. Until June 2009, President of TRITON DEVELOPMENT SA, a development company listed on the stock exchange. Before that, he was i.a. the 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. He has taken part in numerous projects implemented by business entities operating in various sectors by cooperating i.a. with commercial and investment banks, brokerage houses and other players on the capital markets. He was 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 of PZU SA. He graduated as an engineer, and also completed MBA postgraduate studies.
Mirosław Czekał – Secretary of the 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. Registered 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. Since 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.
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 Programmes 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 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.



Bank Polski

**PKO BANK POLSKI SA DIRECTORS' REPORT
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Piotr Marczał – 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 foreign currency, consolidation of liquidity of the entities of the public finance sector. He is the author of several dozen 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 PKP Intercity S.A., and previously he was a member of the Supervisory Boards i.a. of Bank Gospodarstwa Krajowego, Huta Będzin S.A., Huta Stalowa Wola S.A., Stomil Poznań S.A.
Elżbieta Mączyńska-Ziemacka – Member of the Supervisory Board On 20 June 2013 appointed for the current term of the Supervisory Board.	Graduated from the University of Warsaw (Political Economy Department, specialisation: econometrics). Prof. PhD in economic sciences, employed at the Institute of Economic Sciences of the Polish Academy of Sciences (since 1990) and the Warsaw School of Economics (since 1998) at the position of the Head of the Department of Research of Enterprise Bankruptcy at the Institute of Corporate Finance and Investments at the Collegium of Business Administration of the Warsaw School of Economics (since 2008) and the Head of the Postgraduate Studies: 'Property Valuation'. Chairman of the Economic Strategic Thinking Committee of the Ministry of Economy (since 14 June 2013), President of the Polish Economic Society (since 2005), and member of the Presidium of the 'Poland 2000 Plus' Forecast Committee and the Committee of Economic Sciences of the Polish Academy of Sciences (since 2011). In 1994-2005, scientific secretary and member of the Presidium of the Social and Economic Strategy Council of the Council of Ministers. In 2005-2007, independent member of the Supervisory Board of BGŻ, in 1996-1998 independent member of the Supervisory Board of Polski Bank Rozwoju, in 1990-1991 advisor and consultant to the Polish-Swedish limited liability company SWEA SYSTEM. She has completed scientific and research internships i.a. in Germany (University of Mannheim) and Austria (WUW, Wirtschaftsuniversität Wien). Three-time recipient of a DAAD scholarship. Author, co-author and editor of around 200 publications and expert opinions in the area of economic analysis, finance and enterprise appraisal, as well as in the area of economic systems and strategies of social and economic development. Member of the Editorial Committee of the bi-monthly 'Ekonomista' published by the Polish Economic Society and the Committee of Economic Sciences of the Polish Academy of Sciences, member of the Editorial Board of the quarterly 'Kwartalnik Nauk o Przedsiębiorstwie' published by the Collegium of Business Administration of the Warsaw School of Economics, member of the editorial team of the quarterly International Journal of Sustainable Economy (IJSE), Inderscience Publishers Editorial Office, UK.
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 MAŻEIKU 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 the 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 since 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 Wierzb – 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 Department 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 in the years 1982-1991, associate professor in the years 1991-1999, and full professor 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 2013

On 20 June 2013, the Ordinary General Shareholders Meeting of PKO Bank Polski SA:

- dismissed the member of the Supervisory Board - Mr Jan Bossak from the Supervisory Board of PKO Bank Polski SA,
- appointed Mrs Elżbieta Mączyńska-Ziemacka to the Supervisory Board of PKO Bank Polski SA.

On 21 November 2013 Mr Krzysztof Kilian – a Member of the Supervisory Board of the Bank – resigned from the position of the member of the Supervisory Board of the Bank as of 21 November 2013.

The Supervisory Board manner of functioning

The Supervisory Board acts based on the by-laws passed by the Supervisory Board and approved by the 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:
 - o the Supervisory Board, defining the rules of granting loans, advances, bank's guarantees and warranties to a member of the Management Board, the Supervisory Board, to a person holding a managerial position in the Bank and to entities related in terms of capital and organisation,
 - o using other provisions,
- 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 appoint two Members of the Management Board, including the President of the Management Board.

Changes in the Internal Regulations of the Supervisory Board

In 2013 there were no changes in the Internal Regulations of the Supervisory Board.

Committees of the Supervisory Board

According to the Internal Regulations of the Supervisory Board, it 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 appoints particularly Permanent Committees:

1. The Remuneration Committee, which is responsible in particular for executing the following tasks:
 - providing 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, which is responsible in particular for executing the following tasks:
 - monitoring the process of the financial reporting, including the review of interim and annual financial statements of the Bank and the Group (standalone and consolidated),
 - monitoring the level of remuneration of the director and employees of the Internal Audit Department,
 - monitoring efficiency of the systems of internal control, internal audit and risk management, in particular:
 - o an assessment of the Bank's activities related to the implementation of the management system, including 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,
 - o cooperation with an internal auditor, of which:
 - consulting 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 the available resources,
 - presenting an opinion to the Supervisory Board as regards appointing and dismissal the head of the Internal Audit Department,
- monitoring the execution of financial audit activities, in particular by means of:
 - o 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,
 - o examining written information submitted by the registered audit company about 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:
 - o statements confirming the independence of a registered audit company and the independence of the registered auditors conducting the financial audit activities,
 - o information 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, provided to the Bank.

As at 31 December 2013, the Remuneration Committee consisted of 5 members:

- Tomasz Zganiacz (President of the Committee since 11 December 2013),
- Zofia Dzik (Member of the Committee since 11 December 2013, Vice-President of the Committee since 18 December 2013),
- Cezary Banasiński (Member of the Committee),
- Elżbieta Mączyńska-Ziemacka (Member of the Committee since 28 August 2013),
- Marek Mroczkowski (Member of the Committee).

As at 31 December 2013, the Audit Committee of the Supervisory Board consisted of 5 members:

- Mirosław Czekaj (President of the Committee),
- Ryszard Wierzbą (Vice-President of the Committee since 2 October 2013),
- Zofia Dzik (Member of the Committee since 28 August 2013),
- Piotr Marczak (Member of the Committee),
- Tomasz Zganiacz (Member of the Committee since 28 August 2013).

To the best knowledge of the Bank 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 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 PKO Bank Polski SA Memorandum of Association, a member of the Management Board may only be dismissed for important reasons.

The Management Board is composed of 3 to 9 members appointed by the Supervisory Board for a joint term of office of three years. Appointment of two members of the Management Board, including the President of the Management Board, requires approval of the Polish Financial Supervision Authority. As at 31 December 2013, the Management Board of the Bank was composed of 7 members.

Current joint term of office of the Bank's Management Board began on 30 June 2011.

On 8 January 2014 the Supervisory Board of PKO Bank Polski SA passed resolutions reappointing all Members of the Management Board of the Bank to positions previously held. According to the adopted resolutions the above mentioned persons are appointed for the indicated positions in PKO Bank Polski SA, for a joint term of office of the Bank's Management Board which will commence upon the expiry of the current joint term of office of the Bank's Management Board.


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Table 37. *The Management Board of PKO Bank Polski SA as at 31 December 2013*

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 President for nearly 9 years. Also, within the global structure of Pioneer Investments he was responsible for the CEE region distribution. In the second half of '90s of the last century 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 ratios 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. He 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 Institute 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 decorated 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 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 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. In 2013 he was honoured by Bank – financial monthly – with the title of 'The Innovator of Banking Sector 2012'. He also received the special award of 'Man of the Year 2013' form Brief monthly and 'Visionary 2013' from Gazeta Prawna daily in appreciation of contribution to financial sector development, consequence in strengthening the Bank's market leader position and determination in changing its image.
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 Poznań. 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 – since 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, he 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 was a member of the Supervisory Board 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 Supervisory Board of the Inteligo Financial Services SA, where he performs the function of Deputy Chairman of the Company's Supervisory Board since 30 May 2011. He is a Chairman of Electronic Banking Council functioning in the Polish Bank Association since 11 October 2011. Since May 2011 is the member of Visa Europe Board where he represents PKO Bank Polski SA, other 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 Bundesbank, 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 i.a. by the European Commission and the International Monetary Fund. 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 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 Chamber Ltd., 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 i.a. 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 the Chairman of the Supervisory Board of Association of Stock Exchange Issuers.



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Piotr Mazur Vice-President of the Bank's Management Board in charge of Risk Management On 8 January 2013 appointed for the current term of the Bank's Management Board.	Graduated from Academy of Economics in Wrocław, on the field of Organisation and Management. He has over twenty-year-long experience in banking area, including 14 years on managerial positions – mainly in risk, restructuring and credit areas. He is experienced in the work in the international financial groups operating in Europe, USA and South America. The member of supervisory boards, committees of creditors, member and a president of crucial credit risk committees. He was involved in building the strategy of Bank Zachodni WBK SA, he was directly responsible for credit risk management, optimisation of debt collection and restructuring, he cooperated with supervision authorities in Poland and abroad. After studies he started his professional career in credit area at Bank BPH. Since 1992 associated with Bank Zachodni SA and next – after the merger – with Bank Zachodni WBK SA he worked in Capital Investments Department, next as a Director of Credit Quality Controlling Department. In the years 2005–2008 he was the Director of Business Intelligence and Risk Management Area, and in the years 2008–2010 was the Deputy Chief Risk Officer. Since January 2011 he was the Chief Credit Officer and since March 2012 also Deputy Chief Risk Officer. He was the President of Loan Committee in BZ WBK SA. He was also the Deputy President of Credit Risk Forum and Deputy President of Risk Model Forum.
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 the Faculty of English Philology (American Studies) (1978) and 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 & LeBoeuf, 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 twenty years of experience in shareholder supervision. In 1998–2004 he was also the Chairman 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 PKO Leasing 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 Navarra – 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 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 Supervisory Board of KredytBank Ukraina. Since 2013 – Deputy-Chairman of the Supervisory Board of KREDOBANK SA. Since 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 Loan 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 since 2009 to 2011, 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.


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Jakub Papierski – Vice-President of the Bank's Management Board in charge of Investment 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 SA 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. From June 2011 he is Vice-President of the Supervisory Board of Bank Pocztowy SA. Between 2005 and 2009, Jakub Papierski was a Chairman in the Programme Council of Akademia Liderów Rynku Kapitałowego established at the Lesław Paga Foundation; and then, he was a member of the Programme Council.
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Table 38. Other functions performed by the Management Board Members of PKO Bank Polski SA in 2013

No.	Member of the Bank's Management Board	Function
1.	Zbigniew Jagiełło President of the Management Board	President of the Assets and Liabilities Management Committee President of the IT Security Committee President of the mortgage bank organisation Committee President of the Integration Committee President of the Risk Committee President of the Strategy Committee
2.	Piotr Alicki Vice-President of the Management Board	President of the IT Architecture of PKO Bank Polski SA Committee President of the Committee for the Bank's adaptation to the requirements of Recommendation D of Polish Financial Supervision Authority Vice-President of IT Security Committee Member of the Strategy Committee 1st Vice-President of the Operational Risk Committee Member of the Integration Committee Member of the Risk Committee
3.	Bartosz Drabikowski Vice-President of the Management Board	President of the Expenses Committee 1st Vice-President of the Assets and Liabilities Management Committee Vice-President of the Integration Committee Member of the Strategy Committee 2nd Vice-President of the Operational Risk Committee Member of the Risk Committee Vice-President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of IAS 39
4.	Piotr Mazur Vice-President of the Management Board	President of the Bank's Loan Committee President of the Operational Risk Committee Vice-President of the Risk Committee 2nd Vice-President of the Assets and Liabilities Management Committee Member of the IT Security Committee Member of the Strategy Committee President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of IAS 39
5.	Jarosław Myjak Vice-President of the Management Board	Vice-President of the Bank's Loan Committee Member of the Strategy Committee Member of the Risk Committee
6.	Jacek Obłękowski Vice-President of the Management Board	President of the mortgage bank organisation Committee Member of the Risk Committee Member of the Strategy Committee
7.	Jakub Papierski Vice-President of the Management Board	Vice-President of the mortgage bank organisation Committee Member of the Risk Committee Member of the Strategy Committee

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

Changes in the composition of the Management Board

On 8 January 2013 the Polish Financial Supervision Authority granted its approval for appointment of Mr Piotr Mazur as a Member of the Management Board of PKO Bank Polski SA, who is responsible for the Risk and Debt Collection Area for the joint term of the Management Board of the Bank. 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 Internal Regulation 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 plans of internal audits,
- 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 2013, there were the following committees in which Members of the Bank's 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 Committee supports the Management Board in the following areas of the Bank's operations:

- shaping the structure of the Bank's statement of financial position,
- capital adequacy management,
- managing profitability, taking into account the specific nature of the individual areas of activity and respective risks,
- managing market and liquidity risks as well as the settlement and pre-settlement transaction risks on the wholesale market.

In particular, the Committee makes decisions concerning:

- limits related to the following risks: market, liquidity, settlement and pre-settlement,
- investment limits of the Bank,
- the list of approved insurance companies,
- limits specifying the appetite for portfolio credit risk,
- the ratios adjusting the transfer prices, including individual rates for specific product types, and the method of their application,
- transfer prices for items classified in the investment bank portfolio in the Treasury Department,
- liquidity profile for the purpose of establishing transfer prices and replicated interest rate risk profiles,
- portfolio models and parameters, used for establishing impairment allowances and write-downs on loan exposures, used for establishing the scoring and loan exposure limits as well as credit risk rating, in accordance with the internal ratings method,
- other significant risk models and their parameters, excluding operational risk models.

The Committee issues recommendations to the Management Board or the Management Board Members, especially related to:

- shaping the structure of the Bank's statement of financial position,
- managing market risk, liquidity risk, settlement and pre-settlement risks,
- launching of capital-related emergency activities and the Bank's capital needs,
- managing credit risk, in particular within the scope of threshold values on which granting of financing to the Bank's customers depends, as well as credit risk conditions related to lending transactions,
- pricing policy in the individual business areas and interest rate levels and minimum lending margins,



- the Bank's financial model, including the principles for determining the management results and the transfer pricing system,
 - hedging strategies as part of hedge accounting.
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 debt 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, client limits, specifying list of industries covered by the limits of non-performing loans management, equity exposure in the Group entity.
 4. The Operational Risk Committee, whose purpose is to effectively manage operational risk, including minimizing exposure of the Bank and the Group to the operational risk and monitoring of areas in which this minimisation is not effective by decision-making, issuing recommendations and opinions and by examination of the information and reports related to operational risk. The Committee's tasks include:
 - determining the directions of operational risk management development,
 - supervising the operation of the operational risk management,
 - coordinating operational risk management,
 - determining measures to be taken in case of an emergency which exposes the Bank to reputational risk and results in operating losses.
 5. The Expenses Committee of PKO Bank Polski SA, whose tasks include specifically:
 - granting approval, expressing opinions on overheads and administrative expenses of on-going operations, arising from new agreements or annexes to existing agreements, and granting approval to exceed the budget of overheads and other administrative expenses 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 i.a. 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 Strategy Committee (formed on 7 May 2013) the objective of which is to supervise the strategic planning process and managing the Bank's strategy referred to in the Bank's Memorandum of Association (§22 clause 5 item 1). The tasks of the Committee include in particular:
 - managing the activities related to strategy development and implementation;
 - approving the strategy development schedule and strategy implementation schedule;
 - making key decisions necessary to ensuring the strategy's execution, including implementation of strategic programmes;
 - resolving any disputes arising during the work on individual strategic programmes.
 7. 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.
 8. The Committee for IT Safety (formed on 23 December 2013), the objective of which is to increase the effectiveness of supervision and control over the information system's safety in PKO Bank Polski SA. The Committee's tasks include issuing recommendations on the SIB safety, in particular related to:
 - coordinating and monitoring work related to the SIB safety,
 - setting the directions for the Bank's activities within the scope of SIB safety;
 - specifying the desirable activities, which in the Committee's opinion should be undertaken in the event of emergency situations which put the Bank's image at risk and cause operating or financial losses in the area of SIB safety;
 - monitoring the risk related to SIB safety.



II. Non-permanent committees

1. The Integration Committee (formed on 21 June 2013) the objective of which is to ensure efficient and effective integration of the Group with Nordea Bank Polska SA, Nordea Finance Polska SA and Nordea Polska Towarzystwo Ubezpieczeń na Życie SA ('Nordea Polska TUnŻ'), here and after 'Integration'. The tasks of the Committee include:
 - making decisions in the scope related to Integration,
 - ensuring coordination and monitoring of the works related to Integration,
 - setting the directions for the Bank's activities within the scope of Integration,
 - establishing actions to be taken in the event of an emergency situation which puts the Bank's image at risk and causes operating or financial losses,
 - monitoring the risk related to Integration.
2. The Committee responsible for the programme of adapting the Bank to the requirements of Recommendation D of the Polish Financial Supervision Authority (formed on 21 June 2013) the tasks of which include:
 - monitoring the Programme's execution;
 - making key decisions necessary to ensure the Programme's execution;
 - resolving any disputes arising in the course of the Programme's execution.
3. The Committee for the organisation of the mortgage bank (formed on 20 August 2013), the objective of which is to launch the operating activities of the mortgage bank within the Group. The tasks of the Committee include:
 - making decisions related to the organisation and launching of the mortgage bank's operating activities;
 - ensuring coordination and monitoring of the works related to launching of the mortgage bank's operating activities;
 - setting the directions for the Bank's activities within the scope of launching of the mortgage bank's operating activities;
 - establishing actions to be taken in the event of an emergency situation which puts the Bank's image at risk and causes operating or financial losses;
 - monitoring the risk related to launching of the mortgage bank's operating activities;
 - supervising the work of the Task force responsible for the organisation of the mortgage bank.
4. 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.

The Steering Committee for 'the Implementation of the Development Strategy of PKO Bank Polski SA for 2010-2012', whose objective was effectively implementation of the strategy by overseeing the implementation of strategic activities and the execution of the Bank's strategic objectives has been terminated in 2013.

Moreover, in addition to those mentioned above, members of the Bank's Management Board also participated in the steering committees set up as a part of realised projects.

6.3 Additional information about managers and supervisors

6.3.1 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 2013 are presented in the table below. The nominal value of each share is PLN 1.


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

No.	Name	Number of shares as at 31.12.2013	Purchase	Disposal	Number of shares as at 31.12.2012
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.	Piotr Mazur, Vice-President of the Bank's Management Board*	4500	x	x	x
5.	Jarosław Myjak, Vice-President of the Bank's Management Board	0	0	0	0
6.	Jacek Obłękowski Vice-President of the Bank's Management Board	512	0	0	512
7.	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.	Zofia Dzik, Member of the Bank's Supervisory Board	0	0	0	0
5.	Elżbieta Mączyńska-Ziemacka, Member of the Bank's Supervisory Board*	0	x	x	X
6.	Piotr Marczak, Member of the Bank's Supervisory Board	0	0	0	0
7.	Marek Mroczkowski, Member of the Bank's Supervisory Board	0	0	0	0
8.	Ryszard Wierzbą, Member of the Bank's Supervisory Board	2570	0	0	2570

*Members of the authorities of PKO Bank Polski SA, which started to hold the positions after 31.12.2012

As at 31 December 2013, 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.

6.3.2 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 2013, two agreements were signed with each of the members of the Management Board of PKO Bank Polski SA, 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 of 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 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.

6.3.3 Benefits for supervisors and managers

Principles of remuneration of the Bank's Management Board members

According to principles of remuneration of the Bank's Management Board members, which came into force on 7 November 2012 and take into consideration provisions of the Resolution No. 258/2011 of PFSA, members of the Bank's 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 Works Collective Agreements – Zakładowe Układy Zbiorowe Pracy – ZUZP):
 - o under the common binding laws,
 - o 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 Bank's 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,
- insurance financed by the Bank, in particular in respect of death and serious illness, permanent disability, permanent or prolonged impairment of health, inability to work (the detailed scope of the insurance will arise from the insurer's offer and from the terms negotiated by the Bank); the principles of the insurance and its terms and conditions shall not violate the remuneration principles set out in the 'Rules and regulations for variable remuneration components of the Management Board Members'.



Principles of the remuneration of Supervisory Board members

Ordinary General Shareholders' Meeting of PKO Bank Polski SA by the 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, due or potentially due from PKO Bank Polski SA	Remuneration received, due or potentially due from related entities*
The Bank's Management Board		
Remuneration of Members who were entrusted with the duties as at 31.12.2013	15 321	40
Remuneration of Members who ceased to be entrusted with the duties in the course of 2013	-	-
Total remuneration in 2013	15 321	40
Remuneration of Members who were entrusted with the duties as at 31.12.2012	10 819	39
Remuneration of Members who ceased to be entrusted with the duties in the course of 2012	876	-
Total remuneration in 2012	11 692	39
The Bank's Supervisory Board		
Remuneration of Members who were entrusted with the duties as at 31.12.2013	1 154	-
Remuneration of Members who ceased to be entrusted with the duties in the course of 2013	67	-
Total remuneration in 2013	1 221	-
Remuneration of Members who were entrusted with the duties as at 31.12.2012	1 163	-
Remuneration of Members who ceased to be entrusted with the duties in the course of 2012	62	-
Total remuneration in 2012	1 225	-

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

Full information regarding the remuneration and other benefits on behalf of the members of the Management Board of PKO Bank Polski SA and the Supervisory Board in the reporting period has been presented in the Financial Statements of PKO Bank Polski SA for the year ended 31 December 2013.

7. OTHER INFORMATION

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 2013, 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 2013, the Bank did not conclude any significant agreements with the central bank or supervisory authorities.

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.

Guarantees and loan commitments granted

As at 31 December 2013, the total value of guarantees and loan commitments granted amounted to PLN 45.5 billion with loan commitments making up 75.1% of this amount. Total rate of growth of guarantees and loan commitments granted amounted to (+) 3.4% (y/y).

Table 41. *Off-balance sheet liabilities granted (in PLN million)*

Items	31.12.2013	31.12.2012	Change (in PLN million)	Change (%)
Loan commitments granted	34 197.5	32 476.9	1 720.5	5.3%
financial entities	1 160.6	1 401.6	(241.0)	-17.2%
non-financial entities	29 767.3	28 612.6	1 154.7	4.0%
State budget entities	3 269.6	2 462.7	806.9	32.8%
of which: irrevocable	8 157.6	8 397.7	(240.1)	-2.9%
Guarantees issued	11 316.8	11 552.6	(235.8)	-2.0%
financial entities	1 120.2	1 222.8	102.6	-8.4%
non-financial entities	10 100.8	10 193.9	93.0	-0.9%
State budget entities	95.7	135.9	40.2	-29.6%
Total	45 514.2	44 029.5	1 484.8	3.4%

Off-balance sheet liabilities granted to related parties

At the end of 2013, guarantees and other financial off-balance sheet liabilities granted with respect to related parties of PKO Bank Polski SA amounted to PLN 1 691.7 million and decreased by PLN 316.0 million as compared to the end of 2012.

The largest off-balance sheet liabilities granted are related to the following entities:

- PKO Leasing SA – PLN 1 097.8 million,
- PKO BP Faktoring SA – PLN 286.5 million,
- PKO Bankowy Leasing Sp. z o.o. – PLN 269.3 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 2013.

Loans and advances taken, guarantees and warranties agreements

In 2013, 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.

Underwriting agreements and guarantees granted to subsidiaries

As at 31 December 2013 issues of PKO Leasing SA (the Bank's subsidiary) bonds were regulated by the Underwriting Agreement for the Organisation, Conducting and Servicing of the Bond Issuance Programme as at 10 November 2011, in accordance with which the maximum value of the programme was PLN 600 million.

As at 31 December 2013 PKO Leasing SA issued bonds for a total of PLN 475 million, including bonds with a value of PLN 441 million sold on the secondary market and bonds with a value of PLN 34 million held in the portfolio of PKO Bank Polski SA.

In 2013 PKO Bank Polski SA:

- granted a guarantee of up to PLN 100 thousand to Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. (until 30 December 2013 a subsidiary of the Bank) to secure obligations following from the distribution agreement; the guarantee is valid until 30 September 2014,
- prolonged until 31 December 2013 the period of validity of the guarantee granted to PKO Leasing SA in respect of rental of office premises up to PLN 342 thousand,
- increased the value of the guarantee granted to Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. (until 30 December 2013 a subsidiary of the Bank) to the amount of PLN 540 thousand in respect of rental of office premises and prolonged until 30 September 2016 the period of validity of the guarantee (above is effective as of 1 January 2014).

Enforceable titles issued by the Bank

In 2013, PKO Bank Polski SA issued 50 143 banking enforceable titles for a total amount of PLN 3 668 053 497, CHF 26 268 228, USD 3 467 976 and EUR 10 670 118.

Debt write-offs

In 2013, decrease of impairment allowances due to derecognition of loans and advances to customers in PKO Bank Polski SA amounted to PLN 1 674.5 million.

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

As at 31 December 2013, the total value of court proceedings against the Bank amounted to PLN 308 677 thousand, while the total value of proceedings initiated by the Bank amounted to PLN 266 595 thousand.

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

In 2013 one new proxy was appointed and no proxy was dismissed. As at 31 December 2013 there were 7 proxies of the Bank.

In 2013, the Bank's Management Board held 58 meetings and adopted 878 resolutions.

At the meeting on 20 June 2013 the General Shareholders' Meeting adopted 27 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 PKO Bank Polski SA

In the near future, the results of PKO Bank Polski SA will be affected by economic processes which will take place in Poland and in the global economy as well as by reactions of the financial markets. 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.

In addition, the future financial results of PKO Bank Polski SA will be affected by the agreement concerning the acquisition of shares of: Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA and Nordea Finance Polska SA by PKO Bank Polski SA.

The results of PKO Bank Polski SA will be impacted also by the political and economic situation in Ukraine where operate the Group entities: KREDOBANK SA and factoring and debt collection company. PKO Bank Polski SA is continuing activities to ensure the safe operation of its entities in Ukraine in terms of the current political and macroeconomic situation, covering the strengthening of supervisory activities, including i.e. monitoring the funds transferred to those Entities by the Bank and development in the regulatory requirements of the National Bank of Ukraine. PKO Bank Polski SA is continuously analysing macroeconomic risks for KREDOBANK SA activities.

Information on warranties on loan and advance granted by the issuer or by the issuer's subsidiary or an 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 equity

In 2013 PKO Bank Polski SA did not grant any warranties on loan or advance or a guarantee to a single entity or its subsidiary that the total amount would constitute at least 10% of the Bank's equity.

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

In 2013, the subsidiaries of PKO Bank Polski SA did not conclude significant transactions with related parties not on arms' length.

Post balance sheet significant events

1. On 13 January 2014, a new company – Polski Standard Płatności Sp. z o.o. was registered with the National Court Register. The share capital of the Company amounts to PLN 2 271 thousand. All shares of the Company were acquired by PKO Bank Polski SA. The Company was established as part of the project for building a new mobile payments standard in Poland.
2. On 16 January 2014, PKO Bank Polski, carried out, through PKO Finance AB, as a part of the opened in 2008 EMTN programme, another issue of Eurobonds in the amount of EUR 500 million with 5- year maturity, with a fix coupon – 2.324%.
3. On 20 January 2014, the decrease of the share capital of CENTRUM HAFNERA Sp. z o.o. through redemption of shares owned by the Shareholder - the City of Sopot was registered with the National Court Register and as of 20 January 2014 CENTRUM HAFNERA Sp. z o.o. became a subsidiary of PKO Bank Polski SA.
4. On 5 February 2014, PKO Bank Polski SA make a capitalisation to KREDOBANK SA through a financial donation in the amount of USD 6 020 thousand (i.e. PLN 18 656 thousand at the average NBP exchange rate as at the date of funds transfer).
5. In February 2014, there was a fulfillment of the following suspensive conditions, relating to the completion of the acquisition transaction of the Nordea Group entities:
 - a condition involving the uninterrupted (significantly) provision, by the entity from the Nordea Group (i.e. Nordea IT Polska Sp. z o.o.) in favour of Nordea Bank Polska SA, within the contractual period, of IT services defined in the outsourcing agreement, enabling the safe operation of Nordea Bank Polska SA prior to migration of data, customer data, services and systems of Nordea Bank Polska SA to the Bank systems,
 - issuing by the Polish Financial Supervisory Authority a decision declaring no grounds for objections against acquisition by PKO Bank Polski SA of Nordea Polska Towarzystwo Ubezpieczeń na Życie SA's shares in a number resulting in exceeding a 50% share in the share capital and in the total number of votes at the general meeting of this Company.
6. On 3 March 2014 the Polish Financial Supervision Authority issued a decision stating that there were no grounds for objections against the acquisition by the Bank of shares of Nordea Bank Polska ("Nordea Bank Polska Decision") in a number resulting in exceeding a 50% stake in the share capital and the total number of votes at the general meeting of Nordea Bank Polska. Obtaining the Nordea Bank Polska Decision satisfies the last condition precedent for the closing of the Transaction set out in the Agreement. Additionally, obtaining the Nordea Bank Polska Decision satisfies the condition determined in item 24 of the tender offer for the sale of shares of Nordea Bank Polska announced by the Bank on 3 December 2013 (the "Tender Offer").

Subject to technical capability, the Bank will take actions aimed at settling the transaction of acquisition of shares of Nordea Bank Polska under the Tender Offer on 4 April 2014. If technical considerations prevent the settlement of this transaction on 4 April 2014, it will be settled on 9 April at the latest.



Bank Polski

PKO BANK POLSKI SA DIRECTORS' REPORT
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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 PKO Bank Polski SA,
- the annual PKO Bank Polski SA Directors' Report presents a true and fair view of the development and achievements as well as condition of PKO Bank Polski SA, 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 PKO Bank SA Directors' Report for the year 2013 consists of 73 subsequently numbered pages.

Signatures of all Members of the Management Board

04.03.2014	Zbigniew Jagiełło	President of the Management Board	 (signature)
04.03.2014	Piotr Alicki	Vice-President of the Management Board	 (signature)
04.03.2014	Bartosz Drabikowski	Vice-President of the Management Board	 (signature)
04.03.2014	Piotr Mazur	Vice-President of the Management Board	 (signature)
04.03.2014	Jarosław Myjak	Vice-President of the Management Board	 (signature)
04.03.2014	Jacek Obłękowski	Vice-President of the Management Board	 (signature)
04.03.2014	Jakub Papierski	Vice-President of the Management Board	 (signature)