This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2012

Warsaw, March 2013

Table of content

Consolidated income statement

(In PLN thousand)

	NOTE	2012			2011		
		CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Interest income	9	8 125 179	190 878	8 316 057	7 179 154	225 066	7 404 220
Interest expense	9	(3 446 849)	(63 789)	(3 510 638)	(2 752 670)	(93 692)	(2 846 362)
Net interest income		**4 678 330**	**127 089**	**4 805 419**	**4 426 484**	**131 374**	**4 557 858**
Fee and commission income	10	2 757 105	41 095	2 798 200	2 895 407	38 648	2 934 055
Fee and commission expense	10	(526 257)	(15 062)	(541 319)	(467 852)	(17 309)	(485 161)
Net fee and commission income		**2 230 848**	**26 033**	**2 256 881**	**2 427 555**	**21 339**	**2 448 894**
Dividend income	11	**8 759**	**-**	**8 759**	**10 352**	**-**	**10 352**
Result on financial assets and liabilities held for trading	12	**500 495**	**9 641**	**510 136**	**583 104**	**12 007**	**595 111**
Result on fair value hedge accounting	28	**(35 751)**	**-**	**(35 751)**	**(15 757)**	**-**	**(15 757)**
Gains (losses) on other financial instruments at fair value through profit or loss	13	**-**	**-**	**-**	**(501)**	**-**	**(501)**
Gains (losses) on disposal of:	14	**279 220**	**(21)**	**279 199**	**75 161**	**242**	**75 403**
loans and other financial receivables		758	-	758	(320)	289	(31)
available for sale financial assets and held to maturity investments		278 765	(21)	278 744	76 762	(47)	76 715
financial liabilities		(303)	-	(303)	(1 281)	-	(1 281)
Operating income		**7 661 901**	**162 742**	**7 824 643**	**7 506 398**	**164 962**	**7 671 360**
Net impairment losses on financial assets and off-balance sheet commitments:	17	**(635 474)**	**(33 980)**	**(669 454)**	**(533 407)**	**(4 532)**	**(537 939)**
loans and other financial receivables		(608 642)	(33 980)	(642 622)	(551 856)	(4 532)	(556 388)
available for sale financial assets and held to maturity investments		-	-	-	-	-	-
off-balance sheet commitments		(26 832)	-	(26 832)	18 449	-	18 449
Net result on financial activity		**7 026 427**	**128 762**	**7 155 189**	**6 972 991**	**160 430**	**7 133 421**
Administrative expenses	15	**(3 182 674)**	**(77 609)**	**(3 260 283)**	**(3 224 686)**	**(76 896)**	**(3 301 582)**
personnel expenses		(1 867 494)	(39 829)	(1 907 323)	(1 908 495)	(37 659)	(1 946 154)
other administrative expenses		(1 315 180)	(37 780)	(1 352 960)	(1 316 191)	(39 237)	(1 355 428)
Depreciation and amortization		**(362 378)**	**(6 460)**	**(368 838)**	**(368 467)**	**(9 026)**	**(377 493)**
Net result on other provisions		**(15 327)**	**-**	**(15 327)**	**(5 833)**	**-**	**(5 833)**
Net other operating income and expenses	16	**94 193**	**200**	**94 393**	**74 901**	**(836)**	**74 065**
Operating costs		**(3 466 186)**	**(83 869)**	**(3 550 055)**	**(3 524 085)**	**(86 758)**	**(3 610 843)**
Gain on sale of discontinued operations		**-**	**-**	**-**	**-**	**-**	**-**
Gains (losses) on associates and subsidiaries	18	**52 866**	**-**	**52 866**	**69 968**	**-**	**69 968**
Gains (losses) on disposal of property, plant and equipment, and intangible assets		**22 261**	**-**	**22 261**	**400**	**-**	**400**
Profit before income tax		**3 635 368**	**44 893**	**3 680 261**	**3 519 274**	**73 672**	**3 592 946**
Income tax expense	19	**(706 720)**	**(8 288)**	**(715 008)**	**(667 884)**	**(15 966)**	**(683 850)**
Income tax on gain on sale of discontinued operations		**-**	**-**	**-**	**-**	**-**	**-**
Net profit for the period		**2 928 648**	**36 605**	**2 965 253**	**2 851 390**	**57 706**	**2 909 096**
1.Attributable to equity holders of the Bank		2 919 097	36 605	2 955 702	2 841 708	57 706	2 899 414
2.Attributable to non-controlling interest		9 551	-	9 551	9 682	-	9 682
Earnings per share (in PLN per share)							
basic for the period	20	11.23	0.03	11.26	10.83	0.22	11.05
diluted for the period	20	11.23	0.03	11.26	10.83	0.22	11.05

Notes to the financial statements presented on pages 10 - 148 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

(In PLN thousand)

	NOTE	2012	2011
Net profit		**2 965 253**	**2 909 096**
1.Attributable to equity holders of the Bank		2 955 702	2 899 414
2.Attributable to non-controlling interest		9 551	9 682
Other comprehensive income			
Foreign currency translation differences		(46 619)	58 647
Change in fair value of available-for-sale financial assets		761 876	(58 841)
Change in fair value of cash flow hedges		(40 119)	(49 270)
Income tax expenses on other comprehensive income	19	(127 650)	9 187
Other comprehensive income (net)		**547 488**	**(40 277)**
Total comprehensive income		**3 512 741**	**2 868 819**
1.Attributable to equity holders of the Bank		3 503 190	**2 859 137**
2.Attributable to non-controlling interest		9 551	9 682

Notes to the financial statements presented on pages 10 - 148 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

Consolidated statement of financial position

(In PLN thousand)

	NOTE	31.12.2012	31.12.2011
ASSETS			
Cash and due from Central Bank	22	9 207 285	4 886 093
Debt securities eligible for rediscounting at Central Bank		159	100
Loans and advances to banks	23	4 053 848	5 586 057
Financial assets held for trading	24	600 543	849 711
Derivative financial instruments (held for trading)	25	2 649 097	2 156 274
Other financial instruments at fair value through profit or loss		-	-
Loans and advances to customers	26	95 081 492	92 816 389
Receivables from finance leases	27	2 717 931	2 862 760
Hedging instruments	28	367 890	408 906
Investments securities	29	28 735 442	29 119 637
1. Available for sale		25 887 659	25 324 803
2. Held to maturity		2 847 783	3 794 834
Assets held for sale	31	2 374 173	2 931 575
Investments in associates	32	168 436	186 252
Intangible assets	33	669 387	703 355
Property, plant and equipment	34	1 670 544	1 772 940
Investment properties	35	33 221	63 928
Income tax assets	19	828 566	889 952
1. Current tax receivable		8 481	1 950
2. Deferred tax assets		820 085	888 002
Other assets	36	1 791 816	1 356 177
TOTAL ASSETS		**150 949 830**	**146 590 106**
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	22	-	356 386
Amounts due to other banks	38	7 782 672	5 544 210
Financial liabilities held for trading	24	246 578	-
Derivative financial instruments (held for trading)	25	2 620 798	2 507 199
Amounts due to customers	39	107 992 608	108 436 964
Hedging instruments	28	1 226 781	1 738 549
Fair value hedge adjustments of hedged items due to interest rate risk	28	11 328	(17 475)
Debt securities issued	40	4 758 736	3 043 919
Liabilities associated with assets held for sale	31	891 007	999 985
Income tax liabilities	19	82 634	198 997
1. Current income tax payable		76 648	194 560
2. Deferred tax liabilities		5 986	4 437
Provisions	41	359 506	313 880
Other liabilities	42	1 518 400	2 110 562
TOTAL LIABILITIES		**127 491 048**	**125 233 176**
Equity			
Share capital	46	262 470	262 382
Other capital and reserves	47	20 023 141	18 035 191
Retained earnings and profit for the period	47	3 080 934	2 973 890
Equity attributable to equity holders of the Bank		**23 366 545**	**21 271 463**
Non - controlling interest		**92 237**	**85 467**
TOTAL EQUITY		**23 458 782**	**21 356 930**
TOTAL EQUITY AND LIABILITIES		**150 949 830**	**146 590 106**

Notes to the financial statements presented on pages 10 - 148 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

(In PLN thousand)

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										NON - CONTROLLING INTEREST	TOTAL EQUITY
		OTHER CAPITAL AND RESERVES										
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES FROM FINANCIAL INSTRUMENTS	FOREIGN CURRENCY EXCHANGE RATES TRANSLATION DIFFERENCES	OTHER	RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		
Note	46	47										
Equity as at 1.01.2012	**262 382**	**18 035 191**	**9 126 501**	**1 537 850**	**7 153 186**	**(65 432)**	**(98 976)**	**382 062**	**2 973 890**	**21 271 463**	**85 467**	**21 356 930**
Management options	**88**	**3 893**	**10 720**	**-**	**-**	**-**	**-**	**(6 827)**	**-**	**3 981**	**23**	**4 004**
Options exercised (share issue)	88	10 720	10 720	-	-	-	-	-	-	10 808	-	**10 808**
Revaluation of management share options	-	(6 827)	-	-	-	-	-	(6 827)	-	(6 827)	23	**(6 804)**
Comprehensive income	**-**	**554 832**	**-**	**-**	**-**	**584 624**	**(29 792)**	**-**	**2 948 358**	**3 503 190**	**9 551**	**3 512 741**
Revaluation of available-for-sale investments net of tax	-	617 120	-	-	-	617 120	-	-	-	617 120	-	**617 120**
Revaluation of hedging financial instruments net of tax	-	(32 496)	-	-	-	(32 496)	-	-	-	(32 496)	-	**(32 496)**
Foreign currency translation differences	-	(29 792)	-	-	-	-	(29 792)	-	(7 344)	(37 136)	-	**(37 136)**
Net profit for the period	-	-	-	-	-	-	-	-	2 955 702	2 955 702	9 551	**2 965 253**
Appropriation of retained earnings	**-**	**1 429 225**	**-**	**200 000**	**1 210 966**	**-**	**-**	**18 259**	**(2 841 314)**	**(1 412 089)**	**(2 804)**	**(1 414 893)**
Dividend paid	-	-	-	-	-	-	-	-	(1 412 089)	(1 412 089)	(2 804)	**(1 414 893)**
Profit appropriation	-	1 429 225	-	200 000	1 210 966	-	-	18 259	(1 429 225)	-	-	**-**
Equity as at 31.12.2012	**262 470**	**20 023 141**	**9 137 221**	**1 737 850**	**8 364 152**	**519 192**	**(128 768)**	**393 494**	**3 080 934**	**23 366 545**	**92 237**	**23 458 782**

Notes to the financial statements presented on pages 10 - 148 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(In PLN thousand)

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK											
		OTHER CAPITAL AND RESERVES										
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES FROM FINANCIAL INSTRUMENTS	FOREIGN CURRENCY EXCHANGE RATES TRANSLATION DIFFERENCES	OTHER	RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON - CONTROLLING INTEREST	TOTAL EQUITY
Note	46	47										
Equity as at 1.01.2011	**262 364**	**17 342 617**	**9 124 344**	**1 437 850**	**6 525 419**	**22 099**	**(136 072)**	**368 977**	**2 569 131**	**20 174 112**	**82 877**	**20 256 989**
Management options	**18**	**11 849**	**2 157**	**-**	**-**	**-**	**-**	**9 692**	**-**	**11 867**	**18**	**11 885**
Options exercised (share issue)	18	2 157	2 157	-	-	-	-	-	-	2 175	-	**2 175**
Revaluation of management share options	-	9 692	-	-	-	-	-	9 692	-	9 692	18	**9 710**
Comprehensive income	**-**	**(50 435)**	**-**	**-**	**-**	**(87 531)**	**37 096**	**-**	**2 909 572**	**2 859 137**	**9 682**	**2 868 819**
Revaluation of available-for-sale investments net of tax	-	(47 622)	-	-	-	(47 622)	-	-	-	(47 622)	-	**(47 622)**
Revaluation of hedging financial instruments net of tax	-	(39 909)	-	-	-	(39 909)	-	-	-	(39 909)	-	**(39 909)**
Foreign currency translation differences	-	37 096	-	-	-	-	37 096	-	10 158	47 254	-	**47 254**
Net profit for the period	-	-	-	-	-	-	-	-	2 899 414	2 899 414	9 682	**2 909 096**
Appropriation of retained earnings	**-**	**731 160**	**-**	**100 000**	**627 767**	**-**	**-**	**3 393**	**(2 504 813)**	**(1 773 653)**	**(7 110)**	**(1 780 763)**
Dividend paid	-	-	-	-	-	-	-	-	(1 784 640)	(1 784 640)	(7 110)	**(1 791 750)**
Profit appropriation	-	703 381	-	100 000	599 988	-	-	3 393	(703 381)	-	-	**-**
Other connected with first-time consolidation of subsidiaries	-	27 779	-	-	27 779	-	-	-	(16 792)	10 987	-	**10 987**
Equity as at 31.12.2011	**262 382**	**18 035 191**	**9 126 501**	**1 537 850**	**7 153 186**	**(65 432)**	**(98 976)**	**382 062**	**2 973 890**	**21 271 463**	**85 467**	**21 356 930**

Notes to the financial statements presented on pages 10 - 148 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement

(In PLN thousand)

	NOTE	2012	2011
Cash flow from operating activities – indirect method			
Net profit for the period		**2 955 702**	**2 899 414**
Adjustments:		**(2 856 963)**	**(6 557 083)**
Depreciation		360 932	375 602
Share of profit (losses) in associates		(53 263)	(69 968)
(Gains) losses on investing activities		(283 117)	(77 133)
Dividend received		-	-
Interests received		(7 202 439)	(6 410 712)
Interests expense		3 410 338	2 744 906
Income tax (from income statement)		715 008	680 604
Income tax expense		(893 970)	(646 779)
Change in loans and advances to banks		487 022	1 223 595
Change in financial assets held for trading and other financial instruments at fair value through profit or loss		286 673	147 613
Change in derivative financial instruments (assets)		(492 823)	(599 241)
Change in loans and advances to customers and debt securities eligible for rediscounting at Central Bank		3 593 403	(9 736 738)
Change in receivables from finance leases		144 829	176 215
Change in investment securities		(369 864)	(860 549)
Change in other assets		127 234	(135 197)
Change in amounts due to banks		1 635 779	(1 988 076)
Change in liabilities held for trading		246 578	(114 228)
Change in derivative financial instruments (liabilities) and other financial instruments at fair value		113 599	(914 754)
Change in amounts due to customers		(3 467 900)	6 177 662
Change in debt securities issued		(78 786)	(40 675)
Change in provisions		45 626	7 957
Change in other liabilities		(1 181 822)	1 673 305
Net cash flows from operating activities		**98 739**	**(3 657 669)**
Cash flow from investing activities			
Investing activity inflows		**284 325 762**	**315 784 256**
Sale of investment securities		283 594 901	315 063 900
Sale of intangible assets and property, plant and equipment		7 789	9 454
Other investing inflows		723 072	710 902
Investing activity outflows		**(282 017 073)**	**(313 181 226)**
Acquisition of investment securities		(281 768 420)	(312 873 289)
Acquisition of intangible assets and property, plant and equipment		(248 653)	(307 937)
Net cash flows from investing activities		**2 308 689**	**2 603 030**

Notes to the financial statements presented on pages 10 - 148 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement (cont.)

(In PLN thousand)

	NOTE	2012	2011
Cash flows from financing activities			
Financing activity inflows		**5 338 559**	**2 477 336**
Issue of debt securities		5 327 751	2 475 162
Issue of shares		10 808	2 174
Financing activity outflows		**(5 086 734)**	**(2 397 636)**
Redemption of debt securities		(3 674 645)	(612 996)
Dividends and other payments to shareholders		(1 412 089)	(1 784 640)
Net cash flows from financing activities		**251 825**	**79 700**
Total net cash flows		**2 659 253**	**(974 939)**
including: effect of exchange rate fluctuations on cash and cash equivalents held		(261 587)	359 535
Net change in cash and cash equivalents		**2 659 253**	**(974 939)**
Cash and cash equivalents at the beginning of the period		**10 155 537**	**11 130 476**
Cash and cash equivalents at the end of the period	48	**12 814 790**	**10 155 537**

Notes to the financial statements presented on pages 10 - 148 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

Notes to financial statements

(In PLN thousand)

The accompanying notes to the financial statement constitute an integral part of the consolidated financial statements.

1. General information

The parent company of the Bank Pekao S.A. Group (the 'Group') is Bank Pekao S.A. (hereinafter referred to as 'the Parent Company', 'the Bank'), with Head Office in Warsaw, at 53/57 Grzybowska Street, 00-950 Warsaw. Bank Pekao S.A. was incorporated on 29 October 1929 in the Commercial Register of the District Court in Warsaw and has been continuously in operation since its incorporation.

Bank Pekao S.A. is registered in the National Court Registry – Enterprise Registry of the Warsaw District Court XII Economic Division of the National Court Registry in Warsaw under the reference number KRS 0000014843.

The Bank's statistical REGON number is 000010205.

Both the Parent Company and the consolidating entities constituting the Capital Group has been estabilished for an indefinite period of time.

Bank Pekao S.A. Capital Group ('Group' or 'Bank Pekao S.A. Group') is part of the UniCredit S.p.A. Group with its seat in Roma, Italy.

The Bank's shares are quoted on the Warsaw Stock Exchange (WSE). Bank's securities, traded on regulated markets, are classified in the banking sector.

Bank Pekao S.A. is a universal commercial bank, offering a broad range of banking services on domestic and foreign financial markets, provided to retail and corporate clients, in compliance with the scope of services, set forth in the Bank's Articles of Association. The Bank runs both PLN and forex operations, and it actively participates in both domestic and foreign financial markets. Moreover, acting through its subsidiaries, the Group provides stockbroking, leasing, factoring operations and offering other financial services.

Notes to the financial statements (cont.)

(In PLN thousand)

2. Group structure

The Group consists of Bank Pekao S.A. as the parent entity and the following subsidiaries:

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
Public Joint Stock Company UniCredit Bank, including:	Lutsk, Ukraine	Banking	100.00	100.00
BDK Consulting Ltd.	*Lutsk, Ukraine*	*Consulting, hotel and transport services*	*99.99*	*99.99*
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Business consulting	100.00	100.00
Pekao Leasing Sp. z o.o. (*)	Warsaw	Leasing services	36.49	36.49
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	100.00	100.00
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension fund management	65.00	65.00
Pekao Telecentrum Sp. z o.o.	Warsaw	Services	100.00	100.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Financial services	100.00	100.00
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	100.00	100.00
Pekao Leasing Holding S.A., including (*):	Warsaw	Leasing services	80.10	80.10
Pekao Leasing Sp. z o.o.	*Warsaw*	*Leasing services*	*50.87*	*50.87*
Holding Sp. z o.o. /in liquidation/	Warsaw	Non-financial holding	-	100.00
Centrum Bankowości Bezpośredniej Sp. z o. o.	Cracow	Call-center services	100.00	100.00
Pekao Property S.A., including:	Warsaw	Real estate development	100.00	100.00
Metropolis Sp. z o.o.	Warsaw	*Real estate development*	*100.00*	*100.00*
Jana Kazimierza Development Sp. z o.o.	Warsaw	*Real estate development*	*100.00*	*100.00*
Property Sp. z o.o./in liquidation/, including:	Warsaw	Real estate management	100.00	100.00
FPB - Media Sp. z o.o.	Warsaw	*Real estate development*	*100.00*	*100.00*

(*)The total share of the Group in Pekao Leasing Sp. z o.o. equity is 87.36% (36.49% directly and 50.87% via Pekao Leasing Holding S.A.)

As at 31st December 2012, all of the subsidiaries have been consolidated.

Notes to the financial statements (cont.)

(In PLN thousand)

Associates

Bank Pekao S.A. Capital Group has an interest in the following associated entities:

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
			31.12.2012	31.12.2011
Central Poland Fund LLC (*)	Wilmington, Deleware USA	Mutual fund	-	53.19
Dom Inwestycyjny Xelion. Doradcy Finansowi Sp. z o.o. (*)	Warsaw	Financial intermediation	50.00	50.00
Pioneer Pekao Investment Management S.A.	Warsaw	Asset management	49.00	49.00
Pirelli Pekao Real Estate Sp. z o.o.	Warsaw	Real estate development	-	25.00
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing house	34.44	34.44
CPF Management	Tortola, British Virgin Islands	Financial brokerage – not operating	40.00	40.00
Polish Banking System S.A. /in liquidation/	Warsaw	Pending liquidation	48.90	48.90
PPU Budpress Sp. z o.o. /in liquidation/	Żyrardów	Pending liquidation	36.20	36.20

(*)The Group has no control over the entities due to provisions in the Company's Articles of Association.

As at 31 December 2012, the Group held no shares in entities under common control.

Changes in the Group structure
The structure of the Group has changed when compared to data presented as at 31 December 2011, in this:

- on 6 July 2012, the District Court for the City of Warsaw, XIII Economic Department of National Court Register decided on completing the liquidation proceedings and removing Holding Sp. z o.o. in liquidation from the National Court Register,
- on 15 November 2012, the Bank sold its shares in Pirelli Real Estate Sp. z o.o.,
- on 31 December 2012, the Bank has been informed that liquidation proceedings of Central Poland Fund LLC, an associated entity, were completed on 30 September 2012.

3. Approval of the Financial Statements

These Consolidated Financial Statements were approved for publication by the Bank's Management Board on 14 March 2013.

4. Significant accounting policies

4.1 Statement of compliance

The annual consolidated financial statements ('financial statements') of the Bank Pekao S.A. Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2009, No. 152, item 1223, as amended) and respective operating regulations, and in accordance with the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock exchange listing market.

Notes to the financial statements (cont.)

(In PLN thousand)

4.2 Basis of preparation of Consolidated Financial Statements

General information

These Consolidated Financial Statements of the Group, which have been prepared for the period from January 1 to December 31, 2012, contain the financial results of the Bank and of its subsidiaries, comprising the 'Group', as well as the results of associated entities, measured using the equity method.

The financial statements have been prepared in Polish zloty, and all data in the financial statements are presented in PLN thousand (PLN '000), unless indicated otherwise.

The financial statements have been prepared on a going concern basis on the assumption that the Group will continue its business operations substantially unchanged in scope for a period of at least one year from the balance sheet date.

The consolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations. Changes in published standards and interpretations, which became effective from 1 January 2012, had no impact on the Group's financial statements (Annex 1 to the financial statements).

The consolidated financial statements does not take into consideration interpretations and amendments to Standards, pending approval by the European Union or approved by the European Union which came into force or shall come into force after the balance sheet date (Annex 2 and Annex 3 to the financial statements).

In the Group's opinion, amendments to Standards and interpretations will not have a significant influence on the consolidated financial statement of the Group, with the exception of IFRS 9 'Financial Instrument'.

New regulations constitute a part of changes designed to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The main changes, introduced by the new standard, are as follows:

- elimination of available-for-sale and held-to-maturity financial assets categories,
- introduction of two categories of financial assets: measured at amortized cost and measured at fair value,
- new criteria of assets classification to the group of financial assets measured at amortized cost,
- new principles for recognition of changes in fair value measurement of capital investment in financial instruments,
- elimination of the necessity to separate embedded derivatives.

The major part of IAS 39 requirements relating to financial liabilities classification and valuation were transferred to IFRS 9 unchanged.
The standard will be extended by parts concerning principles of measurement at amortized cost as well as principles of hedge accounting application.

The Group is currently assessing the impact of the IFRS 9 implementation on its financial statement, due to the nature of the Group, it is expected that these changes will have a meaningful impact on the Group's financial instruments valuation and presentation.

The real impact of IFRS 9 first implementation will be possible to be estimated after the publication of the final, complete version of the standard.

During the period covered by the Financial Statements the Group did not introduce significant changes in the accounting policy concerning valuation of assets and liabilities and profit measurement in comparison with previous period.
Consolidated Financial Statements of the Group have been prepared based on the following valuation methods:

- at fair value for: derivatives, financial assets and liabilities held for trading, financial assets recognized initially at fair value through profit or loss and available-for-sale financial assets, except for those for which the fair value cannot be reliably measured,
- at amortized cost for other financial assets, including loans and advances and other financial liabilities,
- at historical cost for non-financial assets and liabilities,
- non-current assets (or disposal groups) classified as held for sale are measured at the lower of the carrying amount or the fair value less costs to sell.

The accounting principles as described below have been consistently applied for all the reporting periods.

The principles have been applied consistently by all the Group entities.

4.3 Consolidation

Principles for consolidation
The consolidated financial statements of Bank Pekao S.A. Group include the financial data of Bank Pekao S.A. and its subsidiaries as at 31 December 2012. Financial statements of the subsidiaries are prepared for the same reporting date as those of the parent entity, using consistent accounting policy within the Group in all important aspects.

All intra-group balances and transactions, including unrealized gains, have been eliminated. Unrealized losses are also eliminated, unless there is an objective evidence of impairment, which should be recognized in the consolidated financial statements.

Investments in subsidiaries
Subsidiaries are entities controlled - directly and indirectly by the Bank. Control is the power to govern the entity's financial and operating policies in order to obtain economic benefits. Control is typically demonstrated by holding the majority of voting rights at the governing body of the entity. The subsidiaries are consolidated from the date of obtaining control by the Group until the date that the control ceases.

At the acquisition date of a subsidiary (obtaining of control), the subsidiary's assets and liabilities are measured at fair value. The excess acquisition cost over the fair value of net assets purchased is recognized as goodwill. If the acquisition cost is lower than the fair value of net assets purchased (negative goodwill arises), the difference is recognized in the income statement.

The policy referred to above does not apply to the acquisition transactions of entities under common control, the assets and liabilities of which are recognized at book value.

Recognition of common control transactions at book value
Business combinations under common control are excluded from the scope of IFRS. As a consequence, following the recommendation included in IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', in the absence of any specific guidance within IFRS, Bank Pekao S.A. adopted the accounting policy consistently used in all business combinations under common control within the UniCredit Group, of which the Bank is a member, which recognizes those transactions using book value.

The adopted accounting policy is as follows:

The acquirer recognizes the assets and liabilities of the target entity at their existing book value adjusted only as a result of aligning the combining enterprises' accounting policies. Neither goodwill, nor negative goodwill is recognized.

The difference between the book value of the acquired net assets and the fair value of the amount paid is recognized in the Group's equity. In applying the book value method of accounting, the comparative periods are not restated.

If the transaction results in the acquisition of non-controlling interests, the acquisition of any non-controlling interest is accounted for separately.

There is no guidance in IFRS how to determine the percentage of non-controlling interests acquired from the perspective of a subsidiary. Accordingly Bank Pekao S.A. uses the same principles as the ultimate parent for estimating the value of non-controlling interests acquired.

Notes to the financial statements (cont.)

(In PLN thousand)

Investments in Associates
An associate is an entity over which the Group has significant influence, and that is neither a subsidiary nor a joint venture. The Group usually holds from 20% to 50% of the voting shares in an associate. The equity method is calculated using the financial statements of the associated entities. The balance sheet dates of the Group and its associates are usually the same.

The investment in associates is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the associate after the date of acquisition, net of possible permanent impairment charges. The associate's share of profit or loss is recognized in the Group's profit or loss. The changes recognized directly in the equity of an associate are recognized directly in the equity of the Group in its proportionate share, and is disclosed, whenever appropriate, in the statement of change in equity. Disbursements from profit reduce the carrying value of the investment.

If the Group's share in the losses of an associate equals or exceeds the Group's share in the associate, the Group ceases to recognize further losses, unless it assumed obligations or made a payment on behalf of the associate.

Unrealized profits or losses from transactions between the Group and associated entities are eliminated pro rata to the Group's share in the associates.

Investments in entities under common control
The Group's participation in entities under common control is recognized using the equity method in accordance with the principles described for investments in associated entities.

4.4 Accounting estimates

Preparation of financial statements in accordance with IFRS requires the Group to make certain estimates and to adopt certain assumptions, which affect the amounts of assetss and liabilities presented in the financial statements.

Estimates and assumptions are reviewed on an ongoing basis and rely on historic data and other factors including expectation of the future events which seems justified in given cirrcumstances. Although the estimates are based on the best knowledge of current conditions and activities which the Group will undertake, the actual results may differ from such estimates.

Estimates and underlying assumptions are subject to a regular review. Revisions to accounting estimates are recongised prospectively starting from the period in which the estimates are revised.

Information on the applied estimates and the underlying uncertainity related to significant risk of the material adjustments in the financial statements are presented below.

Impairment of loans and advances to customers
At each balance sheet date the Group considers the evidence of impairment of loans and advances to customers at both a specific asset and collective level. All individually significant assets are assessed for the impairment on an individual basis. All individually insignificant assets are assessed collectively for the impairment identification by grouping together assets of the similar risk group. The assessment concerns both reported and unreported impairment triggers at the balance sheet date.

For all exposures with identified impairment triggers, the Group values the loss amount based on the future expected cash flows. Expectations for assets assessed individually are based on expert knowledge. In assessing collective impairment, the Group uses historical trends of probability of default, the timing of recoveries and the amount of loss incurred. The estimates include the influence of the current market conditions.

The assessment methods together with the underlying estimates concerning the valuation of the loan portfolio are subject to ongoing reviews.

Impairment of non-current assets
At each balance sheet date the Group reviews its assets for indications of impairment. Where such indications exist, the Group makes a formal estimation of the recoverable value. If the carrying amount of a given asset is in excess of its recoverable value, impairment is defined and a write-down is recorded to adjust the carrying amount to the level of its recoverable value. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value-in-use.

Estimation of the value-in-use of an assets (or cash generating unit) requires assumptions to be made regarding, among other, future cash flows which the Group may obtain from the given asset (or cash generating unit), any changes in amount or timing of occurrence of these cash flows and other factors such as the lack of liquidity. The adoption of different measurement assumptions may affect the carrying amount of some of the Group's non-current assets.

Measurement of derivatives and unquoted debt securities available for sale
The fair value of non-option derivatives and debt securities available for sale that do not have a quoted market price on an active market is measured using valuation models based on discounted cash flows. Options are valued using option valuation models. Variables used for valuation purposes include, where possible, the data from observable markets. However, the Group also adopts assumptions concerning counterparty's credit risks which affect the valuation of instruments. The adoption of other measurement assumptions may affect the valuation of these financial instruments.

Calculation of provision for retirement and pension severance payments
The provision for severance payments is determined case-by-case, for each employee separately, in accordance with the projected individual eligibility forecast method.

The basis for the calculation of a provision for an employee is the expected amount of retirement or pension severance payment, depending upon:

- the base amount of retirement or pension severance payment and the percentage rate dependent upon the duration of employment according to the rules of Corporate Collective Labour Agreement,
- expected increase in the payment base until the retirement age.

The amount calculated as above is then actuarially discounted, taking into consideration the probability of an individual reaching retirement age and the financial discount rate.

The probability of a given person reaching retirement age includes the possibility of dismissal from work, the risk of complete inability to work and the risk of death.

The financial discount rate is based on the profitability of risk-free securities, denominated in the currency in which employee benefits are paid out.

Other
The Group performs an impairment test of goodwill on a yearly basis or more often if impairment triggers occur. The assessment of goodwill impairment requires an estimate of value in use of all cash-generating units to which the goodwill relates.

The assumptions used when calculating share-based payments are described in the Note 43 'Share – based payment'

4.5 Foreign currencies

- Functional and presentation currency
  The financial statements of individual Group entities, including the Bank's Branch in Paris, are presented in their functional currencies, i.e. in the currency of the primary economic environment in which the entity operates. The Consolidated Financial Statements are presented in Polish zloty. Polish zloty is the functional currency and the presentation currency of the Bank. The Group applies as the closing rate the average the National Bank of Poland ('NBP') exchange rate, valid as at the balance sheet date.

Notes to the financial statements (cont.)

(In PLN thousand)

- Transactions and balances
  Foreign currency transactions are calculated into the functional currency using the spot exchange rate from the date of the transaction. Gains and losses from foreign currency translation differences resulting from settlements of such transactions and from the statement of financial position valuation of monetary assets and liabilities expressed in foreign currencies are recognized in the income statement.

- Foreign currency translation differences arising from non-monetary items, such as equity instruments classified as financial assets measured at fair value through the profit or loss are recognized together with the changes in the fair value of that item in the income statement.

  Foreign currency translation differences arising from non-monetary items such as equity instruments classified as available for sale financial assets are recognized in the revaluation reserves.

- Companies of the Group
  The consolidation of assets and liabilities of foreign business entities are translated into Polish currency i.e. to the presentation currency as per the closing exchange rate for the balance sheet date. Revenues and expenses are translated at the average exchange rates calculated on the basis of the exchange rates of the reporting period except for situations where exchange rates fluctuate significantly such that the average exchange rate is not an acceptable approximation of the exchange rate from the transaction date. In such situations revenue and expenses are translated on the basis of the exchange rate from the date of the transaction.

  Financial statements of the Bank's Branch in Paris and the Group foreign subsidiaries are translated into Polish zloty using the following exchange rates:

  - to translate statement of financial position items as at 31 December 2012 and as at 31 December 2011, average exchange rates announced by the NBP on 31 December 2012 and on 31 December 2011, respectively, have been used:

	31.12.2012	31.12.2011
PLN for UAH 1	0.3825	0.4255
PLN for EUR 1	4.0882	4.4168

  - for translation of income statement items for the period from 1 January 2012 until 31 December 2012 and for the period from 1 January 2011 until 31 December 2011, arithmetic average values of exchange rates have been used, announced by the NBP as at the last date of each month during the period from 1 January 2012 until 31 December 2012 and during the period from 1 January 2011 until 31 December 2011, respectively, as follows:

	2012	2011
PLN for UAH	0.4001	0.3716
PLN for EUR	4.1736	4.1401

The foreign exchange rate differences from the valuation of foreign entities are accounted for as a separate component of equity.

Goodwill arising on acquisition of the entity operating abroad as well as any adjustments of the balance sheet value of assets and liabilities to fair value arising on the acquisition of the entity are treated as assets and liabilities of a foreign entity i.e. they are expressed in the functional currency of the overseas entity and translated at the closing exchange rate as described above.

(In PLN thousand)

4.6 Income statement

Interest income and expense
The Group recognizes in the income statement all interest income and expense related to financial instruments valued at amortized cost using the effective interest rate method, financial assets available for sale and financial assets at fair value through profit or loss.

The effective interest rate is the discount rate of estimated future cash inflows and payments made during the expected period until the expiry of the financial instruments, and in justified cases in a shorter time, to the net carrying amount of such financial assets or liabilities. The calculation of the effective interest rate includes all commissions paid and received by parties to the agreement, transaction costs and all other premiums and discounts, comprising an integral part of the effective interest rate.

Interest income includes interest and commission fees received or due from credits, interbank deposits and held to maturity securities, recognized in the calculation of effective interest rate, as well as from securities available for sale and measured at fair value through the income statement.

At the recognition of impairment of financial instruments measured at amortized cost and of available for sale financial assets, the interest income is accrued based on the carrying amount of the receivable (this is the new, lower value reduced by the impairment charge) using the interest rate used when discounting the future cash flows for impairment calculation.

Interest expense of the reporting period related to interest liabilities associated with client accounts and liabilities from the issue of treasury stock are recognized in the income statement using the effective interest rate.

Fee and commission income and expense
Fee and commission income is generated from financial services provided by the Group. Fee and commission income and expense is recognized in the profit or loss using the following methods:

- fees and commissions directly attributable to financial asset or liability origination (both income and expense) are recognized in the income statement using the effective interest rate method and are described above,
- fees and commissions relating to the loans and advances without a defined repayment schedule and without a defined interest rate schedule e.g. overdraft facilities and credit cards are amortized over the life of the product using the straight line method,
- other fees and commissions arising from the Group's financial services offering (customer account transaction charges, credit card servicing transactions, brokerage activity and canvassing) are recognized in the income statement up-front when the corresponding service is provided.

Result on financial assets and liabilities held for trading
Result on financial assets and liabilities held for trading include:

- Foreign exchange result
  The foreign exchange gains (losses) are calculated taking into account the positive and negative foreign currency translation differences, whether realized or unrealized from the daily valuation of assets and liabilities denominated in foreign currencies. The revaluation is perform using the average exchange announced by the NBP on the balance sheet date.

  The foreign exchange result includes the trade margins on foreign exchange transactions with the Group's clients, as well as swap points from derivative transactions, entered into by the Group for the purpose of managing the Group's liquidity in foreign currencies.

  Income from foreign exchange positions includes also foreign currency translation differences from valuation of investments in foreign operations arising on disposal thereof. Until the disposal, foreign currency translation differences from valuation of assets in foreign operations are recognized in 'Other capital and reserves'.

- Income from derivatives and securities held for trading
  The income referred to above includes gains and losses realized on a sale or a change in the fair value of assets and liabilities held for trading.
  The accrued interest and unwinding of a discount or a premium on securities held for trading is presented in the net interest income.

Gains (losses) on financial assets/liabilities at fair value through profit or loss
This includes gains and losses realized on a sale or a change in the fair value of assets and liabilities, designated at fair value through profit or loss.

The accrued interest and unwinding of a discount or a premium on financial assets/ liabilities designated at fair value through profit or loss are recognized in the interest result.

Other operating income/expense
Other operating income includes mainly amounts received for compensation, penalties and fines, revenues from operating leases and releases of provision for legal cases. Other operating expenses include mainly the costs of client claims, compensation paid and costs of provision for litigations.

4.7 Valuation of financial assets and liabilities, derivative financial instruments

Financial assets
Financial assets are classified into the following categories:

- Financial assets measured at fair value through profit or loss
  This category comprises two sub-categories: financial assets held for trading and financial assets designated at initial recognition as financial assets measured at fair value through profit or loss.

  Financial assets held for trading include: debt and equity securities, loans and receivables purchased or classified into this category for the purpose of disposal thereof on a short-term basis. The classification also includes derivative instruments (not used as hedging instruments).

  Financial assets classified at the moment of original recognition as financial assets measured at fair value through profit or loss include debt securities acquired by the Group for the purpose of elimination or considerable reduction of inconsistencies in the valuation between these securities and the derivatives, which are economically hedging the interest rate risk of such securities. Otherwise, such securities would have been classified into the available for sale portfolio, with the effect of valuation recognized in revaluation reserves, and valuation of derivatives economically hedging such securities reported in the income statement.

- Held to maturity
  These are non-derivative financial assets with fixed or determinable payments and fixed maturity, for which the entity has an intent and ability to hold to maturity, other than:
  a) those that the entity upon initial recognition designates as at fair value through profit or loss;
  b) those that the entity designates as available for sale; and
  c) those that meet the definition of loans and receivables.
  Financial assets classified into this category are measured at amortized cost using the effective interest rate method. The recognition of amortized cost with the use of effective interest rate is recognized in interest income.

- Loans and receivables
  Loans and receivables are non-derivative financial assets, with fixed or determinable payments, not quoted on active markets, other than:
  a) those that the entity intends to sell immediately or in the near term which are classified as held for trading and those that the entity designates as at fair value through profit or loss upon initial recognition;
  b) those that the Group upon initial recognition designates as available for sale; or

c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

This category also contains debt securities, purchased from the issuer, for which there is no active market, as well as credits, loans, receivables from reverse repo transactions and other receivables acquired and granted. Loans and receivables are measured at amortized cost using the effective interest rate method and with consideration of impairment.

- Available for sale
  This includes financial assets with an undefined holding period. The portfolio includes: debt and equity securities, as well as loans and receivables not classified into other categories. Interest on assets available for sale is calculated using the effective interest rate method, and recognized in the income statement.

  Available for sale financial assets are measured at fair value, whereas gains and losses resulting from changes in fair value against amortized cost are recognized in the revaluation reserves. Amounts in the revaluation reserves are recognized in the income statement either on the sale of an asset, or its impairment. In case of impairment of an asset, previous increases from revaluation to fair value will decrease the 'Revaluation reserves'. Should the amount of previously recognized increases be insufficient to cover the impairment, the difference will be recorded in the income statement as 'Net impairment losses on financial assets and off-balance sheet commitments'.

Dividends from equity instruments are recognized in the profit or loss at the moment the rights to receive such payments are established.

Standardized purchase and sale transactions of financial assets designated at fair value through profit or loss, designated as held for trading (except for derivatives), held to maturity, and available for sale, are recognized and derecognized by the Group on the settlement date of such transaction, i.e. as at the date of receipt or delivery of such assets.

Changes in the fair value of assets, which occur during the period from transaction date to transaction settlement date, shall be recognized similarly as in the case of the asset held.

Credits and loans are recognized on the date of cash disbursement to the debtor.

Derivative instruments are recognized and derecognized on transaction dates.

Reclassification of financial assets
The Group may reclassify the financial assets classified as available for sale, which meet the definition of loans and receivables, from the category of available for sale financial assets to the category of loans and receivables, if the Group has the intent and the ability to hold such financial assets in foreseeable future or until their maturity.

If the financial asset with a given maturity is reclassified, prior gains and losses associated with such asset, recognized in other comprehensive income, are amortized in the profit or loss throughout the remaining period until maturity, using the effective interest rate method. Any differences between such new amortized cost and embedded amount is amortized throughout the period remaining until the maturity of such asset using the effective interest rate method, similar to premium or discount amortization.

The Group allows the reclassification of financial assets classified as financial assets measured at fair value through profit or loss, if extraordinary circumstances occur.

Such financial assets are reclassified at fair value as at reclassification date. The gains or losses recognized in the profit or loss before such reclassification cannot be reversed. The fair value of financial assets, as at reclassification date, is recognized as its new cost or its new amortized cost.

Impairment of financial assets

Assets valued at amortized cost- loans and receivables

At each balance sheet date the Group assesses whether there is objective evidence of impairment of a given financial asset or of a group of assets. The impairment of a financial asset or a group of assets occurs exclusively when objective evidence of impairment caused by events that followed the initial recognition of a given asset ('the loss event') exists and when these loss events affect the expected cash flows and such cash flows may be reliably estimated.

Objective triggers for impairment of financial assets include, among others, the following loss events:

- substantial financial difficulties endured by the issuer or debtor,
- failure to meet the terms and conditions of contract, such as e.g. defaulting on a repayment or falling into arrears with interest, principal or commission fee payments by at least 90 days,
- debt restructuring caused by debtor's financial problems,
- filing for insolvency recovery proceedings,
- disappearance of active markets for given financial assets, caused by financial difficulties of the issuer,
- starting enforcement proceedings,
- observable data indicating a measurable decrease in estimated future cash flows, associated with a group of financial assets from initial recognition of such assets, even if a reduction for a single item of such group of financial assets may not be determined, including:
  - adverse changes in the payment status of borrowers in the Group, or
  - national or local economic situation, associated with the default on payment of assets within the Group.

The Group classifies its loan receivables into individual and collective portfolios based on the size criteria.

In the individual portfolio each loan exposure is reviewed for impairment triggers on an individual basis. In case of impairment, an impairment allowance is recorded.

In case of the collective portfolio, loans are grouped into homogeneous pools with similar credit risk characteristics and collectively tested for impairment.

When objective evidence of impairment of financial assets, classified as loans and receivables, receivables from finance lease or investments held to maturity, is identified, the amount of such impairment allowance recorded is equal to the difference between the carrying amount of such an asset and the present value of estimated future cash flows from repayments, collateral and other sources of repayment, discounted using the primary effective interest rate, set forth at the initial recognition of given financial asset. The carrying amount of such asset is then reduced by the accumulated impairment allowances, which is recorded in the profit or loss for the given period.

The calculation of the present value of estimated cash flows, related to collateralized financial assets also includes expected cash flows resulting from the repossession of collateral reduced by the costs of such repossession and disposal.

Expected future cash flows related to a group of financial assets, tested collectively for impairment, are estimated using the historical recovery parameters, generated from assets with similar risk characteristics.

Historical parameters of recoveries are adjusted to reflect the current circumstances, or to exclude observable historical data that is no longer relevant.

Notes to the financial statements (cont.)

(In PLN thousand)

When the impairment amount is reduced subsequently to its initial measurement (e.g. debtor's improved credit rating), the impairment allowance previously recorded is reversed. The amount of such reversal is recognized in the income statement.

For the portfolio of performing loans with no impairment triggers identified, the Group records a provision for losses incurred but not reported (IBNR). The IBNR impairment allowance reflects the loan impairment amount incurred as a result of impairment events that have already occurred, which the Group has not yet specifically identified at the balance-sheet date. This impairment allowance is determined using the historical pattern of losses on assets with similar risk features. The IBNR impairment allowance is calculated using statistical models for loan groups combined in homogeneous portfolios developed using historic observations data. The IBNR calculation takes into account the default emergence period concept for each type of homogeneous loan portfolio.

Financial assets available for sale

When a decline in the fair value of an available for sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that has been recognized directly in equity is removed from equity and recognized in the income statement. The amount of the cumulative loss transferred to the income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in the income statement.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Off-balance sheet liabilities

A provision for the impairment of off-balance sheet liabilities is calculated on the basis of the limit granted and the recoverable amount of the receivable, defined as the current amount of estimated future cash flows discounted with the effective interest rate. Future cash flows relating to the off-balance sheet liabilities are calculated on the basis of the limit granted as at maturity date of this liability and the probability of outflow of the funds from the Group.

Repo and reverse-repo agreements

Repo and reverse-repo transactions, as well as sell-buy back and buy-sell back transactions are classified as sales or purchase transactions of securities with the obligation of repurchase or resale at an agreed date and price.

Sales transactions of securities with the repurchase obligation granted (repo and sell-buy back) are recognized as at transaction date in amounts due to other banks or amounts due to customers from deposits depending upon the counterparty to the transaction. Securities purchased in reverse-repo and buy-sell back transactions are recognized as loans and receivables from banks or as loans and receivables from customers, depending upon the counterparty to the transaction.

The difference between the sale and repurchase price is recognized as interest income or expense, and amortized over the contractual life of the contract using the effective interest rate method.

Derivative financial instruments and hedge accounting
The Group acquires the derivative financial instruments: currency transactions (spot, forward, currency swap and currency options, CIRS), exchange rate transactions (FRA, IRS, CAP), derivative transactions based on security prices, indices of stocks and commodities. Derivative financial instruments are initially recorded at fair value as at the transaction date and subsequently re-measured at fair value at each balance sheet date. The fair value is established on the basis of market quotations for an instrument traded in an active market, as well as on the basis of valuation techniques, including models using discounted cash flows and options valuation models, depending on which valuation method is appropriate. Positive valuation of derivative financial instruments is presented in the caption 'Derivative financial instruments' as an asset, and as a liability if the change in the fair value is negative. For financial instruments with an embedded derivative component, if the whole or part of the cash flows related to such a financial instrument changes in a way similar to what would be the case with the embedded derivative instrument on its own, then the embedded derivative instrument is reported separately from the basic contract. This occurs under the following conditions:

- the financial instrument is not included in assets held for trading or in assets designated at fair value through the profit or loss the revaluation results of which are reflected in the financial income or expense of the reporting period,
- the nature of the embedded instrument and the related risks are not closely tied to the nature of the basic contract and to the risks resulting from it,
- a separate instrument characteristics of which correspond to the features of the embedded derivative instrument would meet the definition of the derivative instrument,
- it is possible to reliably establish the fair value of the embedded derivative instrument.

In case of contracts that are not financial instruments with a component of an instrument meeting the above conditions the built-in derivative instrument is classified in accordance with assets or liabilities of derivatives financial instruments with respect to the income statement in accordance with derivative financial instruments valuation principles.

The method of recognition of the changes in the fair value of an instrument depends on whether a derivative instrument is classified as held for trading or is designated as a hedging item under hedge accounting.

The changes in fair value of the derivative financial instruments held for trading are recognized in the income statement.

The Group designates some of its derivative instruments as hedging items in applying hedge accounting. The Group implemented fair value hedge accounting as well as cash flow hedge accounting, under the condition of meeting the criteria of IAS 39 'Financial Instruments: Recognition and Measurement'.

Fair value hedge accounting principles
Changes in the measurement to fair value of financial instruments indicated as hedged positions are recognized - in the part ensuing from hedged risk - in the income statement. In the remaining part, changes in the carrying amount are recognized in accordance with the principles applicable for the given class of financial instruments.

Changes in the fair market valuation of derivative financial instruments, indicated as hedging positions in fair value hedge accounting, are recognized in the profit or loss in the same caption, in which the gains/losses from change in the value of hedged positions are recognized.

Interest income on derivative instruments hedging interest positions hedged is presented as interest margin.

The Group ceases to apply hedge accounting, when the hedging instrument expires, is sold, dissolved or released (the replacement of one hedging instrument with another or extension of validity of given hedging instrument is not considered an expiration or release, providing such replacement or extension of validity is a part of a documented hedging strategy adopted by given unit), or does not meet the criteria of hedge accounting or the Group ceases the hedging relation.

An adjustment for the hedged risk on hedged interest position is amortized in the income statement at the point of ceasing to apply hedge accounting.

Notes to the financial statements (cont.)

(In PLN thousand)

Cash flow hedge accounting principles

Changes in the fair value of the derivative financial instruments indicated as cash flow hedging instruments are recognized:

- directly in the caption 'revaluation reserves' in the part constituting the effective hedge,
- in the income statement in the part representing ineffective hedge.

The amounts accumulated in the 'Revaluation reserves' are transferred to the income statement in the period, in which the hedge is reflected in the income statement and are presented in the same lines as individual components of the hedged position measurement, i.e. the interest income from hedging derivatives in cash flow hedge accounting is recognized in the interest result, whereas gains/losses from foreign exchange revaluation are presented in the foreign exchange gains (losses).

The Group ceases to apply hedge accounting when the hedging instrument expires or is sold. In such cases, the accumulated gains or losses related to such hedging item, initially recognized in revaluation reserves, if the hedge was effective, are still presented in equity until the planned transaction was closed and recognized in the income statement.

If the planned transaction is no longer probable, the cumulative gains or losses recognized in revaluation reserves are transferred to the income statement for the given period.

Financial liabilities

The Group's financial liabilities are classified to the following categories:

- financial liabilities held for trading, valued at fair value,
- financial liabilities not held for trading, valued at amounts payable, measured at amortized cost using the effective interest rate method.

Financial liabilities not held for trading consist of amounts due to banks and customers, loans from other banks, and own debt securities issued.

De-recognition of financial instruments from the statement of financial position

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the Group transfers the contractual rights to receive the cash flows in a transaction in which substantially all risk and rewards of ownership of the financial asset are transferred.

The Group derecognizes a credit or a loan receivable, or its part, when it is sold. Additionally, the Group writes-off a receivable against the corresponding impairment provision when the debt redemption process is completed and when no further cash flows from the given receivable are expected. Such cases are documented in compliance with the current tax regulations.

The Group derecognizes a financial liability, or its part, when the liability expires. The liability expires when the obligation stated in the agreement is settled, redeemed or the period for its collection expires.

(In PLN thousand)

4.8 Valuation of other items in the Group's consolidated statement of financial position

Intangible assets

Goodwill

Goodwill is defined as a surplus of the purchasing price over the fair value of the assets, liabilities and contingent liabilities of the acquired subsidiary, associate or a unit under joint control. Goodwill at initial recognition is carried at purchase price reduced by any accumulated impairment losses. Impairment is determined by estimating the recoverable value of the cash generating unit, to which given goodwill pertains. If the recoverable value of the cash generating unit is lower than the carrying amount an impairment charge is made. Impairment identified in the course of such tests is not subject to subsequent adjustments.

Goodwill on acquisition of subsidiaries is presented in intangible assets and goodwill on acquisition of associates is presented under the caption 'Investments in associates'.

Other intangible assets

Intangible assets are assets controlled by the Group which do not have a physical form which are identifiable and represent future economic benefits for the Group directly attributable to such assets.

These mainly include:

- computer software licenses,
- copyrights,
- costs of completed development works.

Intangible assets are initially carried at purchase price. Subsequently intangible assets are stated at cost less accumulated amortization and accumulated impairment losses.

Intangible assets with a definite useful life are amortized over their estimated useful life. Intangible assets with indefinite useful life are not amortized.

All intangible assets are reviewed on a periodical basis to verify if any significant impairment triggers occurred, which would require performing a test for impairment and a potential impairment charge.

As far as intangible assets with indefinite useful life and those still not put into service are concerned, impairment test is performed on a yearly basis and additionally when impairment triggers are identified.

Property, plant and equipment

Property, plant and equipment are defined as controlled non-current assets and assets under construction. Non-current assets include certain tangible assets with an expected useful life longer than one year, which are maintained for the purpose of own use or to be leased to other entities.

Property, plant and equipment are recognized at historical cost less accumulated depreciation and accumulated impairment write downs. Historical cost consists of purchase price or development cost and costs directly related to the purchase of a given asset.

Each component of property, plant and equipment, the purchase price or production cost of which is significant compared to the purchase price or production cost of the entire item is a subject to separate depreciation. The Group separates the initial value of property, plant and equipment into its significant parts.

Subsequent expenditures relating to property plant and equipment are capitalized only when it is probable that such expenditures will result in future economic benefits to the Group, and the cost of such expenses can be reliably measured.

Notes to the financial statements (cont.)

(In PLN thousand)

Service and maintenance costs of property, plant and equipment are expensed in the reporting period in which they have been incurred.

The cost of external financing for the purchase or construction of non-current assets is recognized by the Group as an expense in the period in which it is incurred.

Depreciation and amortization

Depreciation expense for property, plant and equipment and investment properties and the amortization expense for intangible assets are calculated using straight line method over the expected useful life of an asset. Depreciated value is defined as the purchase price or cost to develop a given asset, less residual value of the asset. Depreciation rates and residual values of assets, determined for balance-sheet purposes, are subject to regular reviews, with results of such reviews recognized in the same period.

The statement of financial position depreciation and amortization rates applied to property, plant and equipment, investment properties and intangible assets are as follows:

a) depreciation rates applied for non-current assets:

Buildings and structures and cooperative ownership rights to residential premises and cooperative ownership rights to commercial premises	1.5% – 10.0%
Technical equipment and machines	4.5% – 30.0%
Vehicles	12.5% – 30.0%

b) amortization rates for intangible assets:

Software licenses, copyrights	12.5% – 50.0%
Costs of completed development projects	33.3%
Other intangibles	33.0%

c) depreciation rates for investment properties:

Buildings and structures	1.5% – 10.0%

Land, non-current assets under development and intangible assets under development are not subject to depreciation and amortization.

Depreciation and impairment deductions are charged to the income statement in the item ‘Depreciation and amortization’.

Investment properties

Investment property assets are recognized initially at purchase cost, taking the transaction costs into consideration. Upon initial recognition, investment property assets are measured using the purchasing price model.

Investment property assets are derecognized from the statement of financial position when disposed of, or when such investment property is permanently decommissioned and no future benefits are expected from its sale. Any gains or losses resulting from de-recognition of an investment property are recognized in the income statement in the period when such de-recognition occurred.

Notes to the financial statements (cont.)

(In PLN thousand)

Non-current assets held for sale and discontinued operations
Non - current assets held for sale include assets, the carrying amount of which is to be recovered by way of resale and not from their continued use. The only assets classified as held for sale are those available for immediate sale in their present condition, and the sale of which is highly probable, i.e. when the decision has been made to sell a given asset, an active program to identify a buyer has been launched and the divestment plan is completed. Moreover, such assets are offered for sale at a price which approximates its present fair value, and it is expected that the sale will be recognized as completed within one year from the date of such asset is reclassified into this category.

Non-current assets held for sale are recognized at the carrying amount or at fair value reduced by the cost of such assets, whichever is lower. Assets classified in this category are not subject to depreciation.

A discontinued operation is a component of the Group's business which constitutes a separate line of business or a geographical area of operations, which was sold, made available for sale or to be disposed, or is a subsidiary acquired exclusively with a view to re-sale. Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as held for sale, the comparative figures in the income statement are represented as if the operation had been discontinued from the beginning of the comparative period.

Leases
The Group is a party to leasing contracts on the basis of which it grants a right to use a non-current asset or an intangible asset for an agreed period of time in return for payment.

The Group is also a party to leasing contracts under which it receives a right to use a non-asset or an intangible asset for an agreed period of time from another party in return for a payment.

Operating leases
In the case of leasing contracts entered into by the Group acting as lessor, the leased asset is presented in the Group's statement of financial position, since there is no transfer to the lessee of essentially all risks and benefits resulting from the asset.

In the case of lease agreements, entered into by the Group as lessee, the leased asset is not recognized in the Group's statement of financial position.

The entire amount of charges from operating leases is recognized in the profit or loss on a straight line basis, throughout the leasing period.

Finance leases
The Group as lessor
In the lease agreements, where essentially all risks and benefits relating to the ownership of an asset are transferred, the leased asset is no longer recognized in the statement of financial position of the Group. However, receivables are recognized in the amount equal to the present value of the minimum lease payments. Lease payments are split into the financial income and the reduction of receivables balance in order to maintain a fixed interest rate on the outstanding liability.

Lease payments from agreements, which do not meet the conditions of finance lease agreements are recognized as revenues in the income statement using the straight-line method over the life of the lease.

The Group as lessee
For lease agreements in which in principle all risks and benefits relating to ownership of the leased assets are transferred to the Group, the leased asset is recognized as a non-current asset and simultaneously a liability is recognized in the amount equal to the present value of minimum lease payments as at the date of commencement of the lease. Lease payments are split into costs of lease charges and a reduction of liabilities in order to maintain a fixed interest rate on the outstanding liability. Financial costs are recognized directly in the income statement.

Non-current assets subject to finance lease agreements are depreciated in the same way as other non-current assets. However, if it is uncertain whether the ownership of the asset subject of the contract will be transferred then the asset is depreciated over the shorter of the expected useful life or the initial period of lease.

Lease charges from agreements that do not fulfill the criteria for finance lease agreements are recognized as costs in the income statement on a straight line basis over the lease period.

Provisions
Provisions are recorded when the Group has an obligation (legal or constructive) resulting from the past events and where it is probable that the settlement of such obligation will result in an outflow of economic benefits from the Group and it is possible to reliably estimate the amount of such liability. If the time value of money is significant, the amount of provisions is established by discounting forecasted future cash flows to the present value, using a discount rate corresponding to current market estimates of money-over-time and the possible risk associated with such obligation.

Provisions also include provisions relating to long-term employee benefits, including subject to actuarial valuation. All provisions are charged to the income statements.

Employee benefits provisions
The provision for retirement and pension payments is calculated on the basis of an actuarial valuation performed by an independent actuary at least once a year.

The provision for restructuring costs is recorded when the general criteria for provision recognition as well as the specific criteria for an obligation to establish a restructuring provision under IAS 37 'Provisions, contingent liabilities and contingent assets' are met.

The amount of employment restructuring provision is calculated by the Group on the basis of the best available estimates of direct outlays resulting from restructuring activities, which are not connected with the Group's current activities.

Provisions are recognized in liabilities under the caption 'Provisions' and in the income statement as salary expense.

Deferred income and accrued expenses (liabilities)
This caption includes primarily commission income settled using the straight line method and other income charged in advance; that will be recognized in the income statement in the future periods.

Accrued expenses include accrued costs resulting from services provided for the Group by counterparties which will be settled in future periods, accrued payroll and other employee benefits (including annual and Christmas bonuses, other bonuses and awards and accrued holiday pay).

Deferred income and accrued expenses are presented in the statement of financial position under the caption 'Other liabilities'.

Equity of the Group
Equity is comprised of the capital and funds created by the companies of the Group in accordance with the binding legal regulations and the appropriate laws and Articles of Association. Equity also includes retained earnings. Subsidiaries' equity line items, other that share capital, are added to the relevant equity line items of the parent company, in the proportion of the Group's interest.

The equity of the Group includes only those parts of the subsidiaries' equity which were created after the date of purchase of shares or stocks by the parent entity.

Group equity consists of the following:
a) share capital - applies only to the capital of the Bank as the parent entity and is presented at nominal value specified in the Articles of Association and in the entry in the Enterprises Registry,
b) 'issue premium' - surplus generated during share issues over the nominal value of such issues, remaining after the issue costs are covered. Moreover, this item also includes a change in the value of minority shares, ensuing from an increase of the share of the Parent entity in Bank's share capital. This accounting principle is in accordance with the accounting principles applied by UniCredit Group,
c) the general banking risk fund is established at Bank Pekao S.A. in keeping with the Banking Act dated 29 August 1997 from profit after tax,
d) other reserve capital utilized for the purposes defined in the Statute is created from appropriations of profits,

e) revaluation reserve includes the impact of valuation of financial instruments available for sale, effects of valuation of derivative instruments hedging cash flows and the value of deferred tax for items classified as temporary differences, recognized as valuation allowance. In the statement of financial position, the valuation allowance is presented as net value,

f) exchange rate differences include differences arising from valuation of net assets in foreign entities and from the recalculation of the result of a foreign branch at the weighted average exchange rate at the balance sheet date in relation to the average NBP exchange rate,

g) other capital:
- other supplementary capital, established in keeping with provisions under the Articles of Association of companies from profit appropriations,
- capital components:
  - bonds convertible to shares - includes the fair value of financial instruments issued as part of transactions settled in equity instruments,
  - provision for purchase of parent entity stocks,
- brokerage activity fund for stock broking operations, carried out by Bank Pekao S.A.,
- retained earnings from prior periods includes undistributed profit and uncovered losses generated/incurred in prior periods by subsidiaries consolidated full method,
- net profit/loss which constitutes profit/loss presented in the income statement for the relevant period. Net profit is after accounting for income tax.

Non - controlling interests
Non - controlling interests are defined as the equity in a subsidiary not attributable, directly or indirectly, to the Bank.

Share-based payments
Employee participation programs are established by the Group under which key management staff is granted pre-emptive rights to buy shares of the Bank and shares of UniCredit S.p.A. (see Note 43).

Bank's Pekao S.A. equity-settled share-based payment transaction
The cost of transactions settled with employees in equity instruments is measured by reference to the fair value as at the grant date. The fair value is assessed on the basis of the Black-Scholes model for appraisal of dividend-yielding stock options according to expectations of the Management Board concerning the number of rights to be exercised. No efficiency/results data except those related to the price of shares ('market conditions') are taken into account in the assessment of transactions settled in equity instruments.

The cost of share-based payments is recognized together with the accompanying increase in the value of equity in the period in which effectiveness/performance conditions were fulfilled ending on the date when certain employees acquire full rights to the benefits ('vesting date'). The accumulated cost recognized for transactions settled in equity instruments for each balance sheet date until the vesting date reflects the extent of elapse of the vesting period and the number of rights to shares the rights to which – in the opinion of the Bank's Management Board for that date based on best available estimates of the number of equity instruments – will be eventually vested. In the event of modifications of conditions for granting remuneration settled in equities as a part of fulfillment of the minimum requirements costs are recognized as if such conditions have not changed. Also, costs are recognized resulting from each increase in the value of the transaction resulting from modifications measured from the date of change.

When a right is cancelled or settled earlier, it is treated in such way as if the rights were acquired on the date of cancellation and any unrecognized costs resulting from such rights are immediately recognized. In the case, however, where the cancelled share right is replaced by a new share right, the cancelled right and the new right are treated as if they are a modification of the original right.

The diluting effect of options issued is taken into account in the calculation of earnings per share as additional dilution of shares.

Notes to the financial statements (cont.)

(In PLN thousand)

Bank's Pekao S.A. phantom shares-settled share-based payment transaction

The cost of transactions settled with employees in phantom shares is measured by reference to the fair value of the liability as of the balance sheet date.

The fair value of the liability is estimated based upon the Bank's shares price on the (WSE) as of the balance sheet date and expected number of phantom shares to which full rights will be acquired.

The cost of phantom share-based payments is recognized in personnel expenses together with the accompanying increase in the value of liabilities towards employees presented in 'Provisions'.

The accumulated cost recognized for transactions settled in phantom shares for each balance sheet date until the vesting date reflects the extent of elapse of the vesting period and the number of rights to shares the rights to which – in the opinion of the Bank's Management Board for that date based on best available estimates of the number of phantom shares – will be eventually vested.

Stock options and stock of the UniCredit S.p.A.

The Group entities joined the UniCredit-wide long term incentive program. The aim of the program is to offer to selected key Group's employees share options and shares of UniCredit S.p.A.

The fair value of the instruments granted to the Group employees was established following the UCI Group-wide applied Hull and White model.

The expenses related to the rights granted are recognized in 'Personnel expenses' costs and respective increase is recognized in Bank's equity presented in 'Other capital and reserves'.

The Group is obliged to pay to UniCredit S.p.A. the fair value of the instruments vested at the time the instruments are exercised.

4.9 Income tax

Income tax expense comprises current and deferred tax. The income tax expense is recognized in the income statement excluding the situations when it is recognized directly in equity. The current tax is the tax payable of the Group entities on their taxable income for the period, calculated based on binding tax rates, and any adjustment to tax payable in respect of previous years.

Deferred income tax assets and liabilities are calculated, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tax asset or the deferred tax liability is settled.

A deferred tax asset is recognized for negative temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

A deferred tax liability is calculated using the balance sheet method based on identification of positive temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

4.10 Other

Contingent liabilities and commitments

The Group enters into transactions which are not recognized in the statement of financial position as assets or liabilities, but which result in contingent liabilities and commitments. Contingent liabilities are characterized as:

- a potential obligation the existence of which will be confirmed upon occurrence or non-occurrence of uncertain future events that are beyond the control of the Group (e.g. litigations),
- a current obligation which arises as a result of past events but is not recognized in the statement of financial position as it is improbable that it will result in an outflow of benefits to settle the obligation or the amount of the obligation cannot be reliably measured (mainly: unused credit lines and guarantees and letters of credit issued).

The issuer of the financial guarantee contract recognizes it at the higher of:

- the amount determined in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets'
- the amount initially recognized less, when appropriate, cumulative amortization charges recognized in accordance with IAS 18 'Revenue'.

Cash and cash equivalents
Cash and cash equivalents in the consolidated cash flow statement include 'Cash' and 'Due from the Central Bank' and loans and receivables from banks with maturities of up to three months.

5. Risks management

The risk management policy of the Group has a goal of optimizing the structure of the statement of financial position and off-balance sheet positions under the consideration of all risks in relation to income and other risk that the Group encounters in conducting its daily activity. Risks are monitored and controlled with reference to profitability and equity coverage and are regularly reported in accordance with rules briefly presented below.

All important risk types, occurring in the course of the Group's operations are described as follows.

5.1 Organizational structure of risk management

Supervisory Board
The Supervisory Board provides supervision over the risk management control system, assessing its adequacy and effectiveness. Moreover, the Supervisory Board also provides supervision of the compliance with Group policy with respect to risk management as it relates to Group's strategy and financial planning.

Management Board
The Management Board is responsible for the development, implementation and functioning of risk management processes by introduction of relevant, internal regulations, also taking into consideration the results of internal audit inspections.

The Bank's Management Board is responsible for the effectiveness of the risk management system, internal control system, internal capital computation process and the effectiveness of the review of the process of computing and monitoring of internal capital. Moreover, the Management Board also introduces the essential adjustments or improvements to those processes and systems whenever necessary. This need may be a consequence of changing risk levels of Group's operations, business environment factors or other irregularities in the functioning of processes or systems.

Periodically, the Bank Management Board submits to the Bank's Supervisory Board concise information on the types, scale and significance of risks the Group is exposed to, as well as on methods used in the management of such risks.

The Bank Management Board is responsible for assessing, whether activities such as identification, measurement, monitoring, reporting and control or mitigation are being carried out appropriately within the scope of the risk management process. Moreover, the Management Board examines whether the management at all levels is effectively managing the risks within the scope of their competence.

Assets, Liabilities and Risk Management Committee (ALCO)
The Committee is responsible for reviewing and controlling the risk management function. In particular, the tasks of ALCO include:

- supervision and control over risk management,
- setting guidelines for risk management, capital allocation and optimization of the risk/income ratio.

Risk Management Division

The Division is responsible for:

- building a system of credit risk management at the Bank, which provides the means for correct risk identification and management, establishing a risk management structure and developing the essential know-how at all levels of the organization,
- management and control of market risk and liquidity risk, generated in the course of commercial operations, as well as ensuing from the structure of assets and liabilities,
- identification and management of significant risks and assessment of aggregated economic capital,
- development and enhancement of operational risk system, and identification and management of operational risk.

5.2 Credit risk

Credit risk is one of the basic risks associated with activities of the Group. The percentage share of credits and loans in the Group's statement of financial position makes the maintenance of this risk at safe level essential to the Group's performance. The process of credit risk management is centralized and managed mainly by Risk Management Division units, situated at the Bank Head Office or in local units. The integration of various risks in the Risk Management Division, where apart from credit risk, market and operational risk are dealt with, facilitates effective management of all credit-related risks. This process covers all credit functions – credit analysis, making credit decisions, monitoring and loan administration, as well as restructuring and collection. These functions are conducted in compliance with the Bank's credit policy, adopted by the Bank's Management Board and the Bank's Supervisory Board for a given year and its related guidelines. The effectiveness and efficiency of credit functions are achieved using diverse credit methods and methodologies, supported by advanced IT tools, integrated into the Bank's general IT system. The Bank's procedures facilitate credit risk mitigation. In particular those related to transaction risk evaluation, establishing collateral, setting authorization limits for granting loans and limiting of exposure to some areas of business activity in line with current client's segmentation scheme in the Bank.

The Bank's lending activity is limited by the restrictions of the Banking Act as well as internal limits in order to increase safety. These refer in particular to concentration limits for specific sectors of the economy, share of large exposures in the loan portfolio of the Bank and exposure limits for particular foreign countries, banks and domestic financial institutions. Credit granting limits include not only credits, loans and guarantees, but also derivatives transactions and debt securities.

The Bank established the following portfolio limits:

- share of large exposures in the loan portfolio of the Bank – approved by the Management Board and the Supervisory Board of the Bank,
- customer segment limits – established in the Bank's credit policy,
- product limits (mortgage loans given to private individuals, financing commercial real estate) - established in the Bank's credit policy,
- concentration limits for specific sectors of the economy - approved by the Credit Committee of the Bank.

Since key limits are determined by decision-making bodies which simultaneously receive and analyze reports on credit risk (presenting also the Basel parameters of credit risk), limit-related decisions take into consideration the credit risk assessments supported by internal rating systems. Moreover, the Bank limits higher risk credit transactions, marked by excess risk by restricting the decision-making powers in such cases to higher-level decision-making bodies.

The management of the Bank's credit portfolio quality is further supported by regular reviews and continuous monitoring of timely loan repayments and the financial condition of the borrowers.

Rating models utilized in the credit risk management process
For credit risk management purposes, the Bank uses the internal rating models depending on the client's segment and/ or exposure type.

The rating process is a significant element of credit risk assessment in relation to clients and transactions, and constitutes a preliminary stage of the credit decision-making process of granting a new credit or changing the terms and conditions of an existing credit and of the credit portfolio quality monitoring process.

In the credit risk measurement the following three parameters are used: Probability of Default ('PD'), Loss Given Default ('LGD') and Exposure at Default ('EAD'). PD is the probability of a Client's failure to meet its obligations and hence the violation of contract terms and conditions by the borrower within the one year horizon; such default may be subject-matter or product-related. LGD indicates the estimated value of the loss to be incurred for any credit transaction from the date of occurrence of such default. EAD reflects the estimated value of credit exposure as at such date.

The risk parameters used in the rating models are designed for calculation of the expected losses resulted from credit risk.

The value of expected loss is one of the significant assessment criteria taken into consideration by the decision-making bodies in the course of the crediting process. In particular, this value is compared to the requested margin level.

The level of minimum margins for given products or client segments is determined based upon risk analysis, taking into consideration the value of risk parameters assessed and comprising an element of internal rating systems.

The Client and transaction rating, as well as other credit risk parameters hold a significant role in the Credit Risk Management Information System. For each rating model, the credit risk reports provide information on the comparison between the realized parameters and the theoretical values for each rating class.

Credit risk reports are generated on a monthly basis, with their scope varying depending upon the recipient of the report (the higher the management level, the more aggregated the information presented). Hence, the reports are being effectively used in the credit risk management process.

Rating models were built based on client segments and types of credit products.

1. For the retail clients, the Bank has developed three separate models applicable for:
- mortgage loans,
- consumer loans,
- non-installment loans (limits).

2. For the SME clients, the Bank uses models selected depending on the scope of information available. The models for SME are dedicated for:
- full accounting records SME,
- simplified accounting records SME,
- private entrepreneurs.

3. The Bank divides clients belonging to corporate segment (except for finacial institutions, municipalities and clients requiring specialist finansing) into the following groups:
- clients with income not exceeding PLN 30 million,
- clients with income exceeding PLN 30 million.

Rating scale
The rating scale is determined by the client segment and the exposure type.

The procees of assigning a client or an exposure to a given rating class depends on its probability of default (PD parameter).

The tables below present the loan portfolio quality depending on percentage distribution of rating classes for exposures encompassed by internal rating models.

Notes to the financial statements (cont.)

(In PLN thousand)

The distribution of rated portfolio for individual client segment (excluding impairment provisions)

RATING CLASS	MORTGAGE LOANS			CONSUMER LOANS			NON-INSTALLMENT LOANS		
	RANGE OF PD	NOMINAL VALUE		RANGE OF PD	NOMINAL VALUE		RANGE OF PD	NOMINAL VALUE	
		31.12.2012	31.12.2011		31.12.2012	31.12.2011		31.12.2012	31.12.2011
1	0.00% <= PD < 0.19%	4.5%	5.9%	0.00% <= PD < 0.30%	4.6%	6.7%	0.00% <= PD < 0.01%	0.6%	0.5%
2	0.19% <= PD < 0.24%	10.0%	12.8%	0.30% <= PD < 0.50%	6.9%	8.2%	0.01% <= PD < 0.03%	9.8%	14.9%
3	0.24% <= PD < 0.31%	26.9%	29.0%	0.50% <= PD < 0.60%	4.8%	5.4%	0.03% <= PD < 0.04%	2.7%	9.9%
4	0.31% <= PD < 0.40%	38.2%	34.8%	0.60% <= PD < 0.80%	12.1%	13.9%	0.04% <= PD < 0.07%	7.4%	3.1%
5	0.40% <= PD < 0.61%	6.5%	5.8%	0.80% <= PD < 1.30%	16.4%	17.2%	0.07% <= PD < 0.15%	16.5%	7.6%
6	0.61% <= PD < 1.02%	5.2%	1.8%	1.30% <= PD < 2.10%	19.7%	17.7%	0.15% <= PD < 0.25%	17.6%	16.3%
7	1.02% <= PD < 2.20%	2.9%	2.7%	2.10% <= PD < 3.70%	16.9%	13.9%	0.25% <= PD < 0.59%	10.0%	18.9%
8	2.20% <= PD < 6.81%	2.2%	2.9%	3.70% <= PD < 7.20%	7.6%	7.0%	0.59% <= PD < 1.20%	13.0%	10.4%
9	6.81% <= PD < 14.10%	1.1%	1.6%	7.20% <= PD < 15.40%	3.2%	3.1%	1.20% <= PD < 2.58%	5.1%	14.2%
10	14.10% <= PD < 100.00%	2.5%	2.7%	15.40% <= PD < 100.00%	7.8%	6.9%	2.58% <= PD < 100.00%	17.3%	4.2%
Total		**100.0%**	**100.0%**		**100.0%**	**100.0%**		**100.0%**	**100.0%**

The distribution of rated portfolio for the SME clients excluding impairment provisions)

RATING CLASS	RANGE OF PD	NOMINAL VALUE	
		31.12.2012	31.12.2011
1	0.00% <= PD < 0.11%	1.7%	1.5%
2	0.11% <= PD < 0.22%	4.3%	4.3%
3	0.22% <= PD < 0.45%	10.0%	8.6%
4	0.45% <= PD < 1.00%	16.8%	17.2%
5	1.00% <= PD < 2.10%	19.0%	18.3%
6	2.10% <= PD < 4.00%	15.1%	15.6%
7	4.00% <= PD < 7.00%	12.8%	12.7%
8	7.00% <= PD < 12.00%	8.5%	9.3%
9	12.00% <= PD < 22.00%	6.3%	8.0%
10	22.00% <= PD < 100.00%	5.5%	4.5%
Total		**100.0%**	**100.0%**

The distribution of rated portfolio for the corporate clients (excluding impairment provisions)

RATING CLASS	RANGE OF PD	NOMINAL VALUE	
		31.12.2012	31.12.2011
1	0.00% <= PD < 0.15%	7.5%	6.3%
2	0.15% <= PD < 0.27%	5.9%	3.8%
3	0.27% <= PD < 0.45%	8.3%	9.3%
4	0.45% <= PD < 0.75%	7.4%	13.7%
5	0.75% <= PD < 1.27%	9.8%	8.3%
6	1.27% <= PD < 2.25%	15.8%	17.7%
7	2.25% <= PD < 4.00%	14.1%	15.5%
8	4.00% <= PD < 8.50%	20.5%	16.4%
9	8.50% <= PD < 100.00%	10.7%	9.0%
Total		**100.0%**	**100.0%**

(In PLN thousand)

For special-purpose loans, the Bank adopts slotting criteria approach within internal rating method which uses supervisory categories in the process of assigning risk weigh category.
Percentage distribution for special-purpose loans portfolio exposure (excluding impairment provisions)

SUPERVISORY CATEGORY	NOMINAL VALUE	
	31.12.2012	31.12.2011
High	20.6%	25.6%
Good	73.0%	67.2%
Satisfactory	5.2%	6.9%
Low	1.2%	0.3%
Total	**100.0%**	**100.0%**

Client/transaction rating and credit risk decision-making level
The rating received by an applicant of a given transaction directly impacts the decision-making criteria, which is associated with an approval of a transaction.

Decision-making entitlement limits are associated with the position held, determined in accordance with the Bank's organizational structure. The limits are determined taking the following matters into consideration:

- the Bank's total exposure to a client, including the amount of the requested transaction,
- type of a client,
- commitments of persons and entities associated with the client.

Validation of rating models

The internal validation of models and risk parameter assessments is focused on the quality assessment of risk models and the accuracy and stability of parameter assessments, applied by the Bank. The validation covers risk models and parameters assessed locally, whereas the validation of central models is carried out within UniCredit Group. Validation is carried out at the level of each risk model, although the Bank may apply several models for each class of exposures.

Moreover, the internal audit unit is obligated to review the Bank's rating systems and their functionality at least once a year. In particular, the internal audit unit reviews the scope of operations of credit division and estimations of risk parameters. It also verifies compliance of rating systems and their functionality with all requirements of advanced methods.

Group's exposure to credit risk

The maximum credit risk exposure
The table below presents the maximum credit risk exposure for statement of financial position and off-balance sheet positions as at the reporting date, with no collateral and other factors which limit the credit risk.

	31.12.2012	31.12.2011
Due from Central Bank	6 978 878	2 649 856
Loans and advances from banks and from customers	99 135 498	98 402 546
Net investments in finance leases	2 717 931	2 862 760
Financial assets held for trading	600 543	849 711
Derivative financial instruments (held for trading)	2 649 097	2 156 274
Hedging instruments	367 890	408 906
Investment securities	28 735 442	29 119 637
Other assets	1 852 168	1 377 833
Balance sheet exposure	**143 037 447**	**137 827 523**
Obligations to grant loans	23 168 667	26 443 978
Other contingent liabilities	10 683 427	8 967 573
Off-balance sheet exposure	**33 852 094**	**35 411 551**
Total	**176 889 541**	**173 239 074**

Notes to the financial statements (cont.)

(In PLN thousand)

Credit risk mitigation methods

Bank Pekao S.A. Group has established specific policies with regard to collateral accepted to secure loans and guarantees. This policy is reflected under internal rules and regulations, which are based on supervision rules, specified in Enclosure No. 17 to Resolution No. 76/2010 of Polish Financial Supervision Authority (‘KNF’).

The most frequently used types of collateral for credits and loans, accepted in compliance with the relevant policy of Pekao Group, are as follows:

COLLATERAL	COLLATERAL VALUATION PRINCIPLES
MORTGAGES	
- commercial	Collateral value is defined as the fair market value endorsed by a real estate expert. Other evidenced sources of valuation are acceptable, e.g. binding purchase offer, value dependent on the stage of tendering procedure, etc.
- residential	
REGISTERED PLEDGE/ ASSIGNMENT	
- inventories	The value is defined basing on well evidenced sources e.g. amount derived from pledge agreement, amount disclosed in last financial statement, insurance policy, stock exchange quotations, the value disclosed through foreclosure procedure supported with evidence e.g. prepared by bailiff/receiver .
- machines and appliances	The value is defined as expert appraisal or present value determined based on other, sound sources, such as current purchase offer, register of debtor’s non-current assets, value evidenced by bailiff or court receiver, etc.
- vehicles	The value is defined based on available tables (e.g. from insurance companies) proving the car value depending on its producer, age, initial price, or other reliable sources e.g. value stated in the insurance policy.
- other	The value is defined upon individually. The valuation should result from reliable sources.
- securities and cash	The value is defined upon individually estimated fair market value. Recovery rate shall be assessed prudently reflecting the securities price volatility.
TRANSFER OF RECEIVABLES	
- from clients with investment rating assigned by independent rating agency or by internal rating system of the Bank	The value is defined upon individually assessed claims’ amount.
- from other counterparties	The value is defined upon individually assessed claim’s amount.
GUARANTIES/SURETIES (INCL. RAFTS)/ACCESSION TO DEBT	
- from banks and the State Treasury	Up to the guaranteed amount.
- from other counterparties enjoying good financial standing, particularly when confirmed by investment rating, assigned by an independent rating agency or by the internal rating system of the Bank	The value is defined upon individually assessed claim’s amount.
- from other counterparties	Individually assessed fair market value.

The financial effect of pledged collaterals for exposure portfolio with recognized impairment defined individually amounts to PLN 1 015 598 thousand as at the 31st December 2012 (894 032 thousand as of the 31st December 2011). The level of required impairment allowances for the portfolio would increase by this amount, if the discounted cash flows from collateral were not taken into account during estimation.

Notes to the financial statements (cont.)

(In PLN thousand)

Overall characteristics of monitoring process

The monitoring process is oriented at the identification of symptoms and threats, affecting the client, undertaking actions preventing the deterioration of credit portfolio quality for the purpose of maximizing the probability of recovery of assets made available to the client.

In particular, the monitoring of credit risk includes the control of timely debt service, analysis of client's financial standing, verification of meeting the terms of credit agreement and reviewing the collaterals.

Loans for large corporate clients are monitored using the rating system and data from both internal and external sources of information. In case of small and medium-size clients, the monitoring process is carried out using an internal tool, embedded into the statistical behavioral model. Process efficiency is further enhanced by regular reviews of the credit portfolio, carried out by representatives of the Risk Management Division and other Business Divisions for the purpose of determining the actual quality of individual exposures and of the entire credit portfolio.

The monitoring of individual clients is carried by IT systems and is based on the results of behavioral scoring.

Overall characteristics of provisioning model

The Group establishes loan loss provisions ('LLP') in line with International Financial Reporting Standards ('IFRS'). LLP reflects the loan impairment and whether the Group recognizes objective impairment triggers. Impairment of loans is recognized under an individual and collective approach.

The process of identifying impaired exposures covered by individual valuation is carried out with the use of an internal tool and consists of the following stages:

1. identification, whether the impairment trigger for given a credit exposure has been recognized and, upon such identification, determination of the type of such trigger and assignment of default status to the exposure,
2. assessment of future cash flows, discounted using the effective interest rate, generated both from collateral and client operations,
3. calculation and registration of loan loss provision in the IT system.

Exposures covered by the collective approach valuation are classified into the default class for overdue amounts exceeding 90 days. For such exposures, the loan loss provision is calculated using a statistical model.

If an impairment trigger is not recognized, the Group establishes provisions for incurred but not reported losses (IBNR) applying a statistical model of expected loss.

The applied statistical models are based on historical data for homogenous groups of exposure.

Both the models and parameters applied in the establishment of loan loss provision are subject to regular validation.

Notes to the financial statements (cont.)

(In PLN thousand)

The quality analysis of the Group's financial assets

The Group exposures to credit risk with impairment recognized, broken down by delays in repayment

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
- not past due	-	1 181	904 565	916 009
- up to 1 month	-	-	39 339	303 755
- between 1 month and 3 months	-	-	50 719	23 523
- between 3 months and 1 year	-	-	1 499 237	472 734
- between 1 year and 5 years	62 964	62 964	1 365 841	1 009 748
- above 5 years	-	-	881 377	946 989
Total gross carrying amount	**62 964**	**64 145**	**4 741 078**	**3 672 758**
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	(1 181)	(173 859)	(120 060)
- up to 1 month	-	-	(12 322)	(167 011)
- between 1 month and 3 months	-	-	(21 288)	(8 724)
- between 3 months and 1 year	-	-	(427 576)	(140 467)
- between 1 year and 5 years	(54 000)	(54 000)	(825 083)	(670 243)
- above 5 years	-	-	(755 556)	(787 883)
Total allowance for impairment	**(54 000)**	**(55 181)**	**(2 215 684)**	**(1 894 388)**
Net carrying amount of exposure individually impaired	**8 964**	**8 964**	**2 525 394**	**1 778 370**
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
- not past due	-	-	80 039	74 919
- up to 1 month	-	-	33 618	27 118
- between 1 month and 3 months	-	-	38 431	28 235
- between 3 months and 1 year	10	-	509 853	494 937
- between 1 year and 5 years	-	-	1 502 453	1 423 248
- above 5 years	15 833	16 632	589 327	626 405
Total gross carrying amount	**15 843**	**16 632**	**2 753 721**	**2 674 862**
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(42 471)	(43 533)
- up to 1 month	-	-	(16 826)	(16 776)
- between 1 month and 3 months	-	-	(18 373)	(17 293)
- between 3 months and 1 year	(10)	-	(281 900)	(307 941)
- between 1 year and 5 years	-	-	(1 180 032)	(1 185 341)
- above 5 years	(15 833)	(16 628)	(575 759)	(622 183)
Total allowance for impairment	**(15 843)**	**(16 628)**	**(2 115 361)**	**(2 193 067)**
Net carrying amount of exposure collectively impaired	**-**	**4**	**638 360**	**481 795**

(*) Receivables from banks and receivables from customers include net investments in finance leases.

Notes to the financial statements (cont.)

(In PLN thousand)

The Group exposures to credit risk with no impairment recognized, broken down by delays in repayment

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)			
			CORPORATE		RETAIL	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
- not past due	4 045 377	5 578 140	55 682 247	57 843 701	36 928 519	33 123 595
- up to 30 days	-	-	574 694	864 221	1 393 332	1 439 555
- between 30 days and 60 days	-	-	161 777	252 639	215 717	219 130
- above 60 days	-	-	88 140	94 158	117 871	117 329
Total gross carrying amount	**4 045 377**	**5 578 140**	**56 506 858**	**59 054 719**	**38 655 439**	**34 899 609**
IBNR PROVISION						
- not past due	(321)	(746)	(251 956)	(234 886)	(134 930)	(131 034)
- up to 30 days	-	-	(5 646)	(7 858)	(88 757)	(104 072)
- between 30 days and 60 days	-	-	(2 067)	(2 415)	(23 584)	(31 803)
- above 60 days	-	-	(816)	(1 442)	(18 885)	(22 039)
Total IBNR provision	**(321)**	**(746)**	**(260 485)**	**(246 601)**	**(266 156)**	**(288 948)**
Net carrying amount of exposure with no impairment	**4 045 056**	**5 577 394**	**56 246 373**	**58 808 118**	**38 389 283**	**34 610 661**

(*) Receivables from banks and receivables from customers include net investments in finance leases and debt securities eligible for rediscounting at Central Bank.

The Group exposures to credit risk, broken down by impairment triggers criteria

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
IMPAIRED EXPOSURE				
Gross carrying amount	78 807	80 777	7 494 799	6 347 620
Allowance for impairment	(69 843)	(71 809)	(4 331 045)	(4 087 455)
Total net carrying amount	**8 964**	**8 968**	**3 163 754**	**2 260 165**
EXPOSURES WITH IMPAIRMENT TRIGGERS FOR WHICH NO IMPAIRMENT HAS BEEN IDENTIFIED				
Gross carrying amount, in this:	-	-	134 037	114 298
Exposure with collateral value included in expected discounted cash flow, in this	-	-	*134 037*	*114 298*
Past due exposures	-	-	*4 300*	*15 576*
IBNR provision	-	-	(4 916)	(7 407)
Total net carrying amount	**-**	-	**129 121**	**106 891**
EXPOSURES WITH NO IMPAIRMENT TRIGGERS				
Gross carrying amount	4 045 377	5 578 140	95 028 260	93 840 030
IBNR provision	(321)	(746)	(521 725)	(528 142)
Total net carrying amount	**4 045 056**	**5 577 394**	**94 506 535**	**93 311 888**

(*)Receivables from banks and receivables from customers include net investments in finance leases and debt securities eligible for rediscounting at Central Bank.

Notes to the financial statements (cont.)

(In PLN thousand)

Classification of exposures to debt securities according to Standard & Poor's ratings as at 31 December 2012

RATING	DEBT SECURITIES					
	HELD FOR TRADING	DESIGNATED TO FAIR VALUE THROUGH PROFIT & LOSS	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS	TOTAL
A- to A+	293 566	-	15 600 595	2 173 002	2 887 530	20 954 693
BBB+ to BBB-		-	248 995	-	-	248 995
no rating	306 977	-	10 019 744 (*)	674 781 (**)	-	11 001 502
Total	**600 543**	**-**	**25 869 334**	**2 847 783**	**2 887 530**	**32 205 190**

(*) including NBP bills in an amount of PLN 9 320 660 thousand PLN
(**) including NBP bills in an amount of PLN 674 781 thousand PLN

Classification of exposures to debt securities according to Standard & Poor's ratings as at 31 December 2011

RATING	DEBT SECURITIES					
	HELD FOR TRADING	DESIGNATED TO FAIR VALUE THROUGH PROFIT & LOSS	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS	TOTAL
A- to A+	601 813	-	14 885 948	3 119 353	3 755 536	22 362 650
no rating	247 898	-	10 421 317 (*)	675 481 (**)	-	11 344 696
Total	**849 711**	**-**	**25 307 265**	**3 794 834**	**3 755 536**	**33 707 346**

(*) including NBP bills in an amount of PLN 9 718 216 thousand PLN
(**) including NBP bills in an amount of PLN 675 481 thousand PLN

Classification of exposures to derivative financial instruments according to Standard & Poor's ratings as at 31 December 2012

RATING	DERIVATIVES						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			TOTAL
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	16	-	-	-	-	-	16
AA- to AA+	86 386	-	-	36 970	-	-	123 356
A- to A+	1 686 769	-	-	116 102	-	-	1 802 871
BBB+ to BBB-	234 706	-	8 550	29 712	-	-	272 968
BB+ to BB-	-	-	2 131	-	-	-	2 131
no rating	266 939	25 464	338 136	5 064	-	180 042	815 645
Total	**2 274 816**	**25 464**	**348 817**	**187 848**	**-**	**180 042**	**3 016 987**

Notes to the financial statements (cont.)

(In PLN thousand)

Classification of exposures to derivative financial instruments according to Standard & Poor's ratings as at 31 December 2011

RATING	DERIVATIVES						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			TOTAL
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AA- to AA+	121 952	-	-	10 015	-	-	131 967
A- to A+	1 247 134	8 652		61 123	-	-	1 316 909
BBB+ to BBB-	136 187	-	57	22 275	-	-	158 519
BB+ to BB-	91 408	-	-	-	-	-	91 408
B+ to B-	-	-	1 578	-	-	-	1 578
no rating	168 299	13 690	367 317	2 182	-	313 311	864 799
Total	**1 764 980**	**22 342**	**368 952**	**95 595**	**-**	**313 311**	**2 565 180**

Credit risk concentration

According to the Banking Act the total exposure of a Bank to the risks associated with the single borrower or a group of borrowers in which entities are related by capital or management may not exceed 25% of a bank's equity. In 2012 the maximum exposure limits set forth in the Banking Act were not exceeded.

a) Breakdown by individual entities:

As at 31.12.2012

EXPOSURE TO 10 LARGEST CLIENTS OF THE GROUP	% SHARE OF PORTFOLIO
Client 1	2.2%
Client 2	1.1%
Client 3	0.9%
Client 4	0.7%
Client 5	0.7%
Client 6	0.7%
Client 7	0.7%
Client 8	0.7%
Client 9	0.7%
Client 10	0.6%
Total	**9.0%**

7.9% % of the exposure is accounted by the State Treasury, while 92.1% pertains to exposure to large corporate clients. None of the exposures mentioned above were classified as non-performing.

Notes to the financial statements (cont.)

(In PLN thousand)

b) Concentration by capital groups:

As at 31.12.2012

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE GROUP	% SHARE OF PORTFOLIO
Group 1	2.4%
Group 2	1.7%
Group 3	1.3%
Group 4	1.2%
Group 5	1.1%
Total	**7.7%**

c) Breakdown by industrial sectors:

In order to mitigate credit risk associated with excessive sector concentration the Bank employs a system for monitoring the sector structure of its credit exposure. The system involves setting concentration ratios for particular sectors, monitoring the loan portfolio and procedures for exchanging information. The system is based on the lending exposure in particular types of business activity according to the classification applied by the Polish Classification of Economic Activities (Polska Klasyfikacja Działalności – PKD).

Concentration ratios are determined on the basis of the Group's current lending exposure to the particular sector and risk assessment of each sector. Periodic comparison of the Group's exposure to particular sectors with the current concentration ratio allows timely identification of the sectors in which the concentration of sector risk may become excessive. If such situation arises an analysis of the economic situation of the sector is performed considering the current and predicted trends and the quality of the current exposure to that sector.These measures enable the Group to develop policies that reduce sector risk and allow for a timely reaction to a changing environment.

The table below presents the structure of exposures by industrial sectors (sectors with share of minimum 2%):

SECTOR DESCRIPTION	31.12.2012	31.12.2011
Services	14.5%	16.9%
Energy	13.8%	10.3%
Real estate	13,4%	12.4%
Public administration	13.0%	13.4%
Construction and timber industry	7.2%	8.4%
Financial intermediation	6.7%	5.7%
Manufacture of chemical and pharmaceutical products	5.9%	5.4%
Transport	5.0%	4.1%
Manufacture of basic metals and fabricated metal products	4.8%	6.1%
Manufacture of food products and beverages	3.6%	3.4%
Telecommunication and IT	2.6%	2.8%
Media and paper industry	2.5%	2.9%
Manufacture of vehicles	2.5%	2.8%
Other sectors	4.5%	5.4%
Total	**100.0%**	**100.0%**

Notes to the financial statements (cont.)

(In PLN thousand)

Credit risk management of Public Joint Stock Company UniCredit Bank

The process of credit risk management in Public Joint Stock Company UniCredit Bank (Ukraine) ('UCB') is consistent with the Credit Policy of Bank Pekao S.A. Group and adopted to local environment in Ukraine.

The credit policy has been annually approved by the statutory bodies of Public Joint Stock Company UniCredit Bank and issued in the form of internal regulation bounding within UCB.

Bank Pekao S.A. supervises and controls the underwriting process in UCB. All credit decisions are taken by the Management Board of the Public Joint Stock Company UniCredit Bank, however for credits or total exposures above USD 5 million (or its equivalent in other currencies), only upon approval by Bank Pekao S.A. The credit underwriting scheme is compliant with the standards of credit risk management that are currently enforced in Bank Pekao S.A.

The below tables presents loan portfolio of Public Joint Stock Company UniCredit Bank:

	31.12.2012		31.12.2011	
	CORPORATE	RETAIL	CORPORATE	RETAIL
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT				
- not past due	746 306	162 952	1 152 425	227 623
- up to 30 days	78 260	7 641	119 065	5 779
- between 30 days and 60 days	62 784	2 053	10 920	2 840
- over 60 days	-	74	-	2 392
Total gross carrying amount	**887 350**	**172 720**	**1 282 410**	**238 634**
IBNR	**(18 057)**	**(649)**	**(26 171)**	**(997)**
Net carrying amount of exposure with no impairment	**869 293**	**172 071**	**1 256 239**	**237 637**

Notes to the financial statements (cont.)

(In PLN thousand)

	31.12.2012	31.12.2011
	LOANS AND ADVANCES TO CUSTOMERS (CORPORATES AND RETAIL)	LOANS AND ADVANCES TO CUSTOMERS (CORPORATES AND RETAIL)
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED		
- not past due	41 368	-
- up to 1 month	-	-
- between 1 month and 3 months	-	32 170
- between 3 months and 1 year	60 510	-
- between 1 year and 5 years	127 799	184 768
- above 5 years	-	-
Total gross carrying amount	**229 677**	**216 938**
ALLOWANCE FOR IMPAIRMENT		
- not past due	(17 072)	-
- up to 1 month	-	-
- between 1 month and 3 months	-	(7 121)
- between 3 months and 1 year	(6 053)	-
- between 1 year and 5 years	(98 698)	(137 488)
- above 5 years	-	-
Total allowance for impairment	**(121 823)**	**(144 609)**
Net carrying amount of exposure individually impaired	**107 854**	**72 329**
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED		
- not past due	-	-
- up to 1 month	-	-
- between 1 month and 3 months	-	-
- between 3 months and 1 year	19 575	9 019
- between 1 year and 5 years	78 799	154 364
- above 5 years	-	-
Total gross carrying amount	**98 374**	**163 383**
ALLOWANCE FOR IMPAIRMENT		
- not past due	-	-
- up to 1 month	-	-
- between 1 month and 3 months	-	-
- between 3 months and 1 year	(8 741)	(4 709)
- between 1 year and 5 years	(33 467)	(89 208)
- above 5 years	-	-
Total allowance for impairment	**(42 208)**	**(93 917)**
Net carrying amount of exposure collectively impaired	**56 166**	**69 466**

The majority of UCB credit portfolio are corporate loans including receivables from the largest Ukrainian companies. 25 of the largest customers, belonging to the international groups, constitute 79.5% of the corporate loan portfolio and 37.9% of the total value of Bank's credit exposures. Loan granting activity in the field of financing corporate customers focuses on working capital loans and investment loans.

Notes to the financial statements (cont.)

(In PLN thousand)

5.3 Market risk

The Group is exposed in its operations to market risk and other types of risk caused by changing market risk parameters.

Market risk is the risk of deteriorating financial result or capital of the Group resulting from market changes. The main factors of market risk are as follows:

- interest rates,
- foreign exchange rates,
- stock prices,
- commodity prices.

The Group established a market risk management system, providing structural, organizational and methodological procedures for the purpose of shaping the structure of statement of financial position and off-balance items to assure the achievement of strategic goals.

The main objective of market risk management is to optimize financial results and the influence on the worth of economic capital assuring the implementation of financial goals of the Group, while keeping the exposure to market risk within the risk appetite defined by risk limits approved by the Management Board and the Supervisory Board.

The organization of the market risk management process is based on a three-tier control system, established in compliance with the best international banking practices and recommendations from banking supervision. The process of market risk management has been formalized by the introduction of numerous internal procedures. The procedures have been developed taking into consideration the split into the trading and banking books.

Market risk of the trading book
The Group management of market risk of the trading book aims at optimizing the financial results and assuring the highest possible quality of customer service in reference to the market accessability (market making) while staying within the limits of risk approved by the Management Board and the Supervisory Board.

The main tool for market risk of the trading book measurement is Value at Risk model (VaR). Under normal market conditions, this value corresponds to the level of a one-day loss, which will not be incurred with the probability of 1%. VaR value is calculated with historical simulation method based on 2 years of historical observations of market risk factors. The set of factors used when calculating VaR consists of all significant market factors that are taken into account for valuation of financial instruments, excluding specific credit risk of an issuer and counterparty. Estimating the impact of changes in market factors on the present value of a given portfolio is performed under the full revaluation (which is a difference between the value of the portfolio after the adjustments in market parameters' levels by historically observed changes of the parameters and the present value of the portfolio). The set of probable changes in the portfolio value (distribution), VaR is defined to be equal to 1% quantile. It is calculated on the assumption of the linear interpolation of the distribution function between its set points and without any further assumptions to its functional form.

The model is subject to continuous, statistical verification by comparing the VaR values to actual performance figures. Results of analyses carried out in 2012 and 2011 confirmed the adequacy of the applied model.

(In PLN thousand)

The tables below presents the market risk exposure of the trading portfolio of the Group measured by Value at Risk in 2012 and 2011:

	31.12.2012	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	55	17	590	2 080
interest rate risk	1 527	797	1 766	5 710
Trading portfolio	1 487	736	1 906	5 701

	31.12.2011	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	38	10	325	2 641
interest rate risk	4 302	3 686	4 962	6 811
Trading portfolio	4 327	3 426	4 979	6 942

Interest rate risk of the banking book

In managing the interest rate risk of the banking book the Group aims to hedge the economic value of capital and achieve the planned interest result within the accepted limits. The financial position of the Group in relation to changing interest rates is monitored through the interest rate gap (repricing gap), duration analysis, sensitivity analysis, simulation analysis, stress testing and VaR.

In the first half of the year, the Group introduced improvements in the capital economic value sensitivity valuation method. Full revaluation method was implemented. According to this method, sensitivity is computed on the basis of assets and liabilities valuation (using appropriate models) at the baseline scenario and after 200 b.p. shift in interest rates. As for the trading book, Stressed VaR was introduced.

The table below presents the sensitivity levels of the interest income (NII) to interest rate change by 100 b.p. and sensitivity levels of economic value of the Group's equity (EVE) to interest rate change by 200 b.p. assuming perfect elasticity of the Group's administrated rates to the markets rates changes (excluding current accounts priced in PLN, for which the Group applies the model adjusting the profile of product's revaluation) as at the end of December 2012 and 2011.

SENSITIVITY IN %	31.12.2012	31.12.2011
NII	(8,77)	(7.56)
EVE	(0,47)	(2.67)

Currency risk

Currency risk management is performed simultaneously for the trading and the banking book. The objective of currency risk management is to maintain the currency profile of statement of financial position and off-balance items within the internal limits. For internal needs, the Group's exposure to currency risk is measured daily using the VaR model, as well as stress testing analysis, which serves as a supplement to the VaR method.

The table below presents the Group's foreign currency risk profile by major foreign currencies measured at Value at Risk:

CURRENCY	31.12.2012	31.12.2011
USD	505	674
EUR	1 417	1 686
CHF	40	120
Other	72	54
Currencies total (*)	**1 903**	**2 196**

(*) VaR presented in 'Currencies total' is VaR for the whole portfolio, and includes correlations among currencies.

5.4 Liquidity risk

The objective of liquidity risk management is to:

- ensure and maintain the Group's solvency with respect to current and future payables taking into account the cost of acquiring liquidity and return on the Group's equity,
- prevent the occurrance of crisis situations, and
- provide solutions necessary to survive a crisis situation when such circumstances occur.

The Group invests primarily in treasury securities of the Government of the Republic of Poland with high levels of liquidity. Due to their liquidity characteristics, regularly monitored, these financial instruments would assist the Group to overcome crisis situations.

The Group is also monitoring daily the short-term (operating) liquidity, including financial market operations and the size of available stocks of liquid and marketable securities, which may also serve as collateral offered to Central Banks. Moreover, the Group is also monitoring the structural liquidity on a monthly basis, which includes a whole spectrum of the Group financial position, including long-term liquidity.

Financial liquidity management also includes the monitoring, limiting, controlling and reporting to the Bank Management of a number of liquidity ratios, broken down by PLN and main foreign currencies and presented as aggregate values. In accordance with the banking supervisory recommendations, the Group introduced internal liquidity indicators, defined as the ratio of adjusted maturing assets to adjusted maturing liabilities due in 1 month and 1 year, as well as covering ratios showing relation of adjusted maturing liabilities to adjusted maturing assets due in more than 1, 2, 3, 4 or 5 years.

The Group implemented emergency procedures 'Liquidity management policy in emergency situation', approved by the Management Board of the Bank, defining the action in case of a liquidity risk increase and any substantial deterioration of the Group's financial liquidity.

This policy, referring to the situation of the Group's deteriorating financial liquidity, includes daily monitoring of warning signals of systemic and specific nature for the Group, including four degrees of threats to liquidity, depending upon the level of warning signals, the Group situation and market conditions. The policy also identifies the sources of coverage of such foreseen outflow of cash and cash equivalents from the Group. Apart from the above, the document describes also liquidity monitoring procedures, contingency procedures and organizational structures of task teams responsible for restoring the Group's liquidity, as well as the scope of liability of Bank's management for taking the necessary decisions, associated with the restoration of the necessary financial liquidity levels of the Group. Both the mentioned policy and the capacity to raise cash from sources specified in this plan are subject to periodic verification.

Scenario-based stress analyses, conducted on a weekly and monthly basis, constitute an integral part of the Group's liquidity monitoring process, launched under the conditions of crisis affected by financial markets or caused by internal factors, specific to the Group.

Monitoring the liquidity, the Group pays special attention to the liquidity in foreign currencies through monitoring, limiting and controlling the liquidity individually for each currency (according to the description above) as well as monitoring demand for the current and future currency liquidity and in case of identification of a such need the Bank hedges using FX-swaps and CIRS. The Group monitors also the potential influence of placing required margin deposits on the liquidity in case of PLN depreciation.

The adjusted liquidity gaps described below present, inter alia, the adjustments concerning the stability of core deposits and their maturities, and adjustments of flows due to off-balance sheet commitments for financial liabilities granted and guarantees liabilities granted. The Group includes as well the adjusted flows stemming from Bank security portfolio and flows resulting from earlier repayment of mortgage loans portfolio. These are the main elements differentiating adjusted gaps from unadjusted ones. The maturity tables below present financial liabilities arranged according to contractual maturities.

Moreover the gaps are of static nature, i.e. they do not take into consideration the impact of volume changes (i.e. new deposits) upon the liquidity profile of the Group statement of financial position and off-balance items, as well as of non-equity related cash flows.

Notes to the financial statements (cont.)

(In PLN thousand)

Adjusted liquidity gap

31.12.2012	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Assets	49 235 105	5 139 367	22 541 209	39 191 740	34 842 409	150 949 830
Liabilities	32 480 744	10 925 999	13 974 793	21 156 713	72 411 581	150 949 830
Net off-balance sheet items	(6 631 008)	(56 613)	2 996 631	2 359 460	754 425	(577 105)
Periodic gap	**10 123 353**	**(5 843 245)**	**11 563 047**	**20 394 487**	**(36 814 747)**	**(577 105)**
Cumulated gap		**4 280 108**	**15 843 155**	**36 237 642**	**(577 105)**	

31.12.2011	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Assets	45 526 280	5 614 045	23 308 493	38 030 544	34 110 744	146 590 106
Liabilities	30 663 738	9 405 829	14 643 212	23 503 301	68 374 026	146 590 106
Net off-balance sheet items	(7 156 418)	(565 340)	3 918 985	1 997 968	739 875	(1 064 930)
Periodic gap	**7 706 124**	**(4 357 124)**	**12 584 266**	**16 525 211**	**(33 523 407)**	**(1 064 930)**
Cumulated gap		**3 349 000**	**15 933 266**	**32 458 477**	**(1 064 930)**	

Structure of financial liabilities by contractual maturities

31.12.2012	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks	3 615 495	1 579 290	541 994	487 203	1 558 690	7 782 672
Amounts due to customers	82 397 304	12 550 198	12 662 812	328 340	53 954	107 992 608
Debt securities issued	-	805 335	2 826 292	484 572	642 537	4 758 736
Financial liabilities held for trading	-	-	37 496	131 160	77 922	246 578
Total	**86 012 799**	**14 934 823**	**16 068 594**	**1 431 275**	**2 333 103**	**120 780 594**
OFF-BALANCE SHEET COMMITMENTS (**)						
Off- balance sheet commitments Financial liabilities granted	23 602 150	-	-	-	-	23 602 150
Off- balance sheet commitments Guarantees liabilities granted	10 318 308	-	-	-	-	10 318 308
Total	**33 920 458**	**-**	**-**	**-**	**-**	**33 920 458**

31.12.2011	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	2 346 613	53 846	585 092	1 176 093	1 738 952	5 900 596
Amounts due to customers	83 537 474	12 475 470	11 744 056	621 711	58 253	108 436 964
Debt securities issued	102 372	421 968	1 540 198	582 323	397 058	3 043 919
Financial liabilities held for trading	-	-	-	-	-	-
Total	**85 986 459**	**12 951 284**	**13 869 346**	**2 380 127**	**2 194 263**	**117 381 479**
OFF-BALANCE SHEET COMMITMENTS (**)						
Off- balance sheet commitments Financial liabilities granted	26 812 064	-	-	-	-	26 812 064
Off- balance sheet commitments Guarantees liabilities granted	8 478 540	-	-	-	-	8 478 540
Total	**35 290 604**	**-**	**-**	**-**	**-**	**35 290 604**

(*) Including Central Bank
(**)Exposure amounts from financing-related off-balance sheet commitments granted and guarantee liabilities granted have been allocated to earliest tenors, for which an outflow of assets from the Group is possible based on contracts entered into by the Group. However, the expected by the Group flows from off-balance exposures are actually significantly lower and are differently distributed in time than those indicated from the specification presented above. The above is a consequence of considerable diversification of amounts due to customers and stages of life of individual contracts. Risk monitoring and management in relation to the outflow of assets from off-balance exposures are provided by the Group on continuous basis. The Group estimates also more probable flows that are presented in Tables 'Adjusted liquidity gap'.

Notes to the financial statements (cont.)

(In PLN thousand)

The tables below present the financial flows associated with off-balance derivative transactions.

According to Group's policy, off-balance derivative transactions settled in net amounts include:

- Interest Rate Swaps (IRS),
- Forward Rate Agreements (FRA),
- Foreign currency options and for gold,
- Interest rate options (Cap/Floor),
- Options based on commodities and equity securities.

Off-balance derivative transactions settled by the Group in gross amounts include:

- Cross-Currency Interest Rate Swaps (CIRS),
- Foreign currency forward contracts,
- Foreign currency swaps,
- Securities forwards.

Liabilities from off-balance transactions on derivatives recognized in net amounts

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2012	25 853	123 149	246 296	1 522 062	878 871	**2 796 231**
31.12.2011	101 434	71 431	173 666	1 205 451	620 792	**2 172 774**

Flows related to off-balance derivative transactions settled in gross amounts

UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL	UP TO 1 MONTH
31.12.2012						
inflows	7 805 246	5 111 905	7 984 591	6 262 355	2 382 595	**29 546 692**
outflows	7 660 879	5 077 752	7 924 649	6 494 243	2 814 431	**29 971 954**
31.12.2011						
inflows	18 727 936	6 060 237	7 314 767	8 905 958	2 305 670	**43 314 568**
outflows	18 762 803	6 175 994	7 511 198	9 217 329	3 055 606	**44 722 930**

5.5 Operational risk

Qualitative information
Operational risk is defined as the risk of losses resulting from inadequacy or failure of internal processes, people, systems or external events. It includes law risk, whereas strategic risk, business risk and reputation risk are separate risk categories.

Operational risk management is based on internal procedures which are in compliance with the Banking Act, the Polish Financial Supervision Authority Resolution No. 76/2010 (with amendments) and 258/2011, 'Recommendation M' and also UniCredit Group standards. Operational risk management embraces identification, assessment, monitoring, prevention and reporting. The risk identification and assessment is performed with the analysis of internal and external factors, which could have significant influence on the achievements of the Bank. The main tools used in identification and assessment of operational risk are internal operational events, external operational events, key risk indicators, scenario analysis and self-assessment. Monitoring actions are carried out on three control levels: operational control (all employees), risk management control (Operational Risk Management Department) and internal audit (Internal Audit Department). Operational risk mitigation includes i.a. internal control system, mitigation actions, business continuity plans, contingency plans as well as insurance policies.

Organizational structure
The Supervisory Board, the Management Board and the Operational Risk Committee are involved in operational risk management. The Department of Financial and Operational Risk Management coordinates the process of operational risk management. All employees of the Bank and selected specialized units are responsible in their areas for operational risk management, due to diversified character of this risk which requires professional knowledge.

The Supervisory Board i.a. supervises the system of the operational risk management of the Bank and its compatibility with the strategy of the Bank taking into account records of the operational risk management strategy.

The Management Board is responsible for, inter alia, designing, implementing and proper performance of the operational risk management system. Also, it ensures the effectiveness of operational risk management system, internal control system and the process of capital adequacy calculation and it reviews the process of its estimation and maintaining and supervises the effectiveness of the processes.

The Operational Risk Committee supports and acts as an advisor to the Management Board in creating a proper operational risk management process through the application of principles included in the strategy of operational risk management.

The Department of Financial and Operational Risk Management exercises the second level of control within the scope of the Bank's operational risk control system and is responsible for the identification, assessment, monitoring, prevention and reporting of the operational risk. The Department was created in 2012 after the merger of the Department of Operational Risk Management and the Department of Financial Risk Management.

Reporting
The reporting system of operational risk enables the assessment of Bank's exposure to the operational risk and effective management of this risk, and it plays a fundamental role in the process of informing the Supervisory Board, the Management Board and high-level management about the Bank's exposure to operational risk and hedging activities. In particular, the annual and quarterly reports on operational risk control present information on operational losses, capital adequacy requirements, the observed trends in external and internal frauds, events connected with credit risk, significant operational events, key operational risk indicators and selected hedging activities. Annual and quarterly reports are presented to the Operational Risk Committee, the Management Board and finally they are submitted to the Supervisory Board. Reports with key risk indicators are prepared monthly and are submitted to the Operational Risk Coordinators, who are responsible for coordination of operational risk management in a given division, whereas the results from scenario analysis are presented to the Operational Risk Committee and the Management Board. Moreover, weekly information regarding internal and external significant operational events is passed to the Risk Operational Coordinators and the Internal Audit Department.

Notes to the financial statements (cont.)

(In PLN thousand)

Internal validation process
Internal validation of the operational risk management system is performed at least once a year and is aimed at examining the compatibility of the operational risk management system with the regulatory requirements and standards of the UniCredit Group. The local validation bases on the operational risk management and control system self-assessment performed by the Operational Risk Management Department, which results are presented in the Local Validation Report. Local validation is independently reviewed by the UniCredit Group Internal Validation Department. Local validation and results of independent review are audited by Internal Audit Department. The results of internal validation of the operational risk management system are accepted by the Management Board.

Capital adequacy requirements and allocation mechanism
The operational risk capital requirement for the Bank is calculated with the use of advanced method AMA (Advanced Measurement Approach) according to the internal model of UniCredit Group.

The Advanced Measurement Approach (AMA) is based on internal loss data, external loss data, scenario analysis data as well as key risk indicators. The calculated overall AMA capital requirement is allocated to UniCredit Group legal entities. The capital requirement allocated by means of the allocation mechanism reflects the entities' risk exposures. The operational risk capital requirement, in part related to Bank Pekao S.A. is subject to evaluation for its adequacy at the end of June and December.
The operational risk capital requirement for the Bank's subsidiaries is calculated using the standard method.

Qualitative information
The table below depicts operating events grouped into categories regulated in the New Capital Accord of the Basel Committee and Resolution No. 76/2010 of the Polish Financial Supervision Authority:

- internal frauds – losses resulting from acts intended defraud, misappropriation of property, circumvention of regulations, the laws and internal policies of a company, excluding losses resulting from diversity or discrimination of employees, which concern at least one internal party,
- external frauds – losses being a consequence of acts of defraud, misappropriation of property or circumvention of regulations performed by a third party,
- employment practices and workplace safety – losses due to acts inconsistent with regulations or employment agreements, workplace health and safety agreements, payments from personal injuries claims or losses from discrimination and unequal employee treatment,
- clients, products and business practices – losses arising from failures of meeting professional obligations towards clients due to unintended or negligent acts (including custody requirements and appropriate behavior) or concerning specific features or a design of a product,
- damages to physical assets – losses due to damage or loss of tangible assets resulting from natural disasters or other events,
- business disruption and system failures – losses stemming from business or system failures,
- execution, delivery and process management – losses resulting from failed transaction settlements or process management and losses from relations with cooperating parties and vendors.

OPERATING EVENTS BY CATEGORIES	2012	2011
Internal frauds	23.25%	5.24%
External frauds	6.68%	37.49%
Employment practices and workplace safety	3.30%	27.45%
Clients, products and business practices	54.47%	13.54%
Damages to physical assets	5.10%	5.62%
Business disruption and system failures	1.15%	1.19%
Execution, delivery and process management	6.05%	9.47%
Total	**100.00%**	**100.00%**

Notes to the financial statements (cont.)

(In PLN thousand)

In 2012, operational risk for the Group resulted primarily from losses on clients, products and business practices which accounted for 54.47% of total losses (13.54% in 2011).The second category of high losses was employment internal frauds which comprised 23.25% of total losses (5.24% in 2011) and the third category –external frauds constituted 6.68% of share in total losses (37.49% in 2011).

5.6 Business risk

Business risk is defined as adverse, unexpected changes in business volume and/or margins that are not caused by credit, market or operational risks. One of the elements of business risk is strategic risk that is the risk of incurring losses due to decisions or radical changes in the business environment, improper implementation of decisions, lack of response to changes in business environment, such as economic cycle trend shift.

The measurement of business risk is based on the Earnings at Risk EaR method. The method provides the means to estimate the risk of occurrence of an unexpected, negative deviation of realized financial income from the level assumed in the financial plan. EaR is estimated for a one year time horizon and at the confidence level of 99.97%.

5.7 Real estate risk

Real estate risk is caused by volatility of the market value of the Group's real estate portfolio. It covers the real estate portfolio of the Group. It does not cover real estate acquired through vindication proceedings or those used as collateral backing the credits granted.

The risk of own real property is calculated for a one year time horizon, using the Value at Risk (VaR) method, at the assumed confidence level of 99.97% and the standard method of calculating capital adequacy according to Pillar I of the New Capital Accord of the Basel Committee.

5.8 Financial investments risk

Financial investment risk stems from the Group's banking book equity holdings in companies.

Financial investment risk is estimated for a one year time horizon using the Value at Risk (VaR) method, at the assumed confidence level of 99.97%.

5.9 Macroeconomic risk

Macroeconomic risk (also called risk of changes in macroeconomic conditions) is defined as the risk of changes in macroeconomic conditions, which may have an impact on future capital requirements or net assets level.

Estimation of capital buffer to counter the macroeconomic risk is made on the basis of the impact of economic slowdown scenario analysis on the Group's economic capital in the horizon of 3 years.

5.10 Model risk

Model risk is defined as the risk of incurring losses due to implementation of wrongly defined models or their inappropriate adoption. Model risk includes also the risk of losses resulting from inadequate control and monitoring of the model application in the Group.

Model risk is a subject to quality assessment on the basis of the data used, assumptions and methodologies. An additional element of the risk assessment of the model is scenario analysis enabling assessment of the impact of potential irregularities in the model on its results.

Notes to the financial statements (cont.)

(In PLN thousand)

5.11 Reputation risk

Reputation risk is defined as the risk related to a possibility of negative variations from the planed financial results and equity level of the Group due to deterioration of the Group's image in the eyes of customers, contractors, shareholders/investors or regulators. The risk is hard to measure and is a subject to quality assessment. The Group strives to improve its reputation through continuous development of solid relationship with stakeholders.

5.12 Compliance risk

Compliance risk is defined as the risk of legal or regulatory sanctions, incurring financial losses or losing reputation at which the Group is exposed due to failure to comply with the provisions of the law, external regulations and standards adopted by the Group. This risk is defined as difficult to measure and is a subject to quality assessment.

5.13 Equity management

The equity management process applied by Bank Pekao S.A. Group has been adopted for the following purposes:

- assurance of safe operations by maintaining the balance between the capacity to undertake risk (limited by Bank's equity), and the risk levels generated,
- maintenance of risk capital above the minimum stated levels in order to assure further business operations, taking into consideration the possible, future changes in capital requirements and safeguarding the interests of shareholders,
- maintenance of the preferred capital structure in order to maintain the desired quality of risk coverage capital,
- creation of value to shareholders by the best possible utilization of the Group funds.

The Bank also has in place a formalized process of capital management and monitoring, established within the scope of ICAAP procedures. The Finance Division under the Chief Financial Officer is responsible for designing and implementing the capital management process in the Bank. The ultimate responsibility for capital management is vested in the Management Board of the Bank, supported by the Assets, Liabilities and Risk Management Committee, which approves the capital management process.

The capital management strategy defines the objectives and general rules of the management and monitoring of Group's capital adequacy, such as the guidelines concerning risk coverage sources, preferred structure of risk coverage capital, long-term capital targets, capital limits system, sources of additional capital under emergency situations and the structure of capital management.

The capital adequacy of the Group is controlled by the Assets, Liabilities and Risk Management Committee and Management Board. Periodic reports on the scale and direction of changes of the capital adequacy ratio together with indication of potential threats are prepared for the Management Board and for the Assets, Liabilities and Risk Management Committee. The level of basic types of risks is monitored according to the external limits of the banking supervision and the internal limits of the Group. Analyses and evaluations of directions of business development activities are performed assessing the compliance with capital requirements. Forecasting and monitoring of risk weighted assets, Bank's equity and capital adequacy ratio constitute an integral part of the planning and budgeting process, including stress tests.

The Group also has a capital allocation process in place, with an aim of guaranteeing the shareholders a safe and effective return on invested capital. On one hand, the process requires capital allocations to products/clients/business lines, which guarantee profits adequate to the risks taken, while on the other hand taking into consideration the cost of capital associated with the business decisions taken. Risk-related efficiency ratios used in the analyses of income generated compared against the risk taken and in the optimization of capital utilization for the needs of different types of operations.

Since 1st January 2008, the Group has followed the regulations under the Basel II Agreement. The regulations referred to above are based on three tiers (minimum capital requirement, process of internal capital adequacy assessment, disclosure).

Regulatory capital requirements

The basic measure applied in the measurement of capital adequacy is the capital adequacy ratio. The minimum capital adequacy ratio required by law equals to 8%, both for the Bank and the Group. As at the end of December 2012, the Group's capital adequacy ratio stood at 18.98%, i.e. more than twice as much as the minimum value required by the law.

The increase of capital adequacy ratio in December 2012 compared with December 2011 (by 2.0 p.p.) was a result of an increase in equity by 12%. The total capital requirements increased insignificantly (by ca. plus 0.3%).

The strengthening of the Group's capital base in 2012 is not only a consequence of the decision, adopted by the Annual General Meeting of Shareholders on the allocation of the PLN 1 414.3 million of net profit for 2011 to the Bank's equity but also high level of unrealized gains on available for sale debt instruments at the end of 2012.

The calculations of the regulatory capital requirement as at 31.12.2012 and 31.12.2011 were based on the provisions under Resolution No. 76/2010 Polish Financial Supervision Authority of 10.03.2010 on the scope and detailed procedures for determining capital requirements for particular risks with amendments (Official Journal of Polish Financial Supervision Authority from 2010, No 2, item 11, No. 8, item 38, from 2011, No. 8, item 29, No. 9, item 32, No. 11, item 42, No. 13, item 48 and 49 and from 2012, No. 8, item 19).

The Bank is using the standard method to calculate the capital requirements related to credit risk (in compliance with an enclosure No. 4 to Resolution No. 76/2010 KNF and Resolution No. 369/2010 KNF with subsequent amendments), whereas for the purpose of credit risk mitigation, it is using the financial collateral comprehensive method (in accordance with Enclosure No. 17 to Resolution No. 76/2010 KNF with subsequent amendments).

The regulatory capital requirement for operational risk is calculated by the Advance Measurement Approach (according to the Annex No.14 to Resolution No. 76/2010 KNF with subsequent amendments).

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents the basic data concerning Group's capital adequacy as at 31 December 2012 and 31 December 2011

	31.12.2012	31.12.2011
Capital (Tier 1)	**19 212 566**	**17 570 913**
Share capital	262 470	262 382
Supplementary capital	9 475 495	9 446 515
Reserve capital	8 419 371	7 215 233
General risk fund for unidentified risk of banking operations	1 737 850	1 537 850
Retained earnings	125 232	74 477
Non-controlling interest	92 237	85 467
Deductions from the core capital:		
Foreign currency exchange rate translation differences	(128 766)	(98 976)
Intangible assets	(669 387)	(703 355)
Unrealized losses from debt instruments available for sale	(1 836)	(110 120)
Unrealized losses from equity instruments available for sale	-	-
Negative amounts in respect of adjustments on revaluation of assets	(15 832)	-
Capital exposure to financial institutions	(84 268)	(138 560)
Supplementary funds (Tier 2)	**481 438**	**-**
Unrealized gains from debt instruments available for sale	563 053	40 442
Unrealized gains from equity instruments available for sale	2 653	2 390
Deductions:		
Capital exposure to financial institutions	(84 268)	(42 832)
Total equity	**19 694 004**	**17 570 913**
Capital adequacy ratio	**18.98%**	**16.98%**

Equity

Bank Pekao S.A. defines components of equity in accordance with the legal regulations applicable in Poland, in particular with Art. 127 of the Banking Act, including provisions under Resolution No. 325/2011 Polish Financial Supervision Authority dated December 20, 2011.

The equity is composed of capital and funds raised by companies which constitute the Group in accordance with the binding law. The equity of Bank's subsidiaries, other than share capital in the amount equal to the share of the parent's entity, is added to appropriate items of the equity of the parent entity. The Group's equity encompasses only those parts of subsidiaries' own funds, which have been raised after the day of purchase of shares by the parent entity. Particularly, this applies to equity changes due to gained profit, incurred loss or revaluation.

All equity components used in the capital adequacy ratio calculation are described below.

As at 31 December 2012, the Group had core capital (Tier 1) in the amount of PLN 19 212 566 thousand.

The core capital is composed of:

- share capital in the amount of PLN 262 470 thousand relates only to the equity of parent entity, i.e. Bank Pekao S.A. and is expressed in nominal value in accordance with Articles of Association and entry to the Register of Entrepreneurs
- supplementary capital is created according to the Bank's Articles of Association, from the appropriation of net profits and share premium. The share premium contains agio. Moreover, this position includes change in value of non-controlling interests resulting from an increase of the parent entity's stake in the share capital of the Bank. The supplementary capital amounted to PLN 9 475 495 thousand and comprised of a share premium in the amount of PLN 9 137 221 thousand and other items amounting to PLN 338 274 thousand,
- reserve capital in the amount of PLN 8 419 371 thousand is created from deductions from profits and serves objectives stated in the Bank's Articles of Association,

Notes to the financial statements (cont.)

(In PLN thousand)

- general risk fund for unidentified risk of banking operations accounted for PLN 1 737 850 thousand, and was created from profit after tax in line with the requirements of the Banking Act dated 29 of August 1997, as amended,
- retained earnings in the amount of PLN 125 232 thousand comprises of undistributed profit and uncovered losses from previous years of fully consolidated entities,
- non-controlling interest in the amount of PLN 92 237 thousand consitutes an additional item of the core capital calculated at the consolidated level. The non-controlling interest represents part of subsidiary's net assets (including part of profit or loss) which refers to the shares in equity that are not included directly or indirectly in the Bank's assets.

Deductions from the core capital:

- foreign currency exchange rate translation differences consitute an additional item of the core capital calculated at the consolidated level which covers exchange rate differences arising from translation of financial results of a foreign branch into Polish currency with the use of weighted average foreign exchange rate set at the balance sheet date in relation to the average NBP exchange rate and exchange rate transaltion differences resulting from revaluation of net assets in foreign entities. As at the end of December 2012, foreign exchange differences constitute a negative amount of PLN 128 766 thousand,
- intangible assets in the amount of PLN 669 387 thousand, decrease the Bank's core capital, according to Art. 127 of the Banking Act.,
- all unrealised losses from debt and equity instruments available for sale according to Resolution No. 325/2011 Polish Financial Supervision Authority of 20.12.2011, as amended reduce the core capital in 100%. At the end of December 2011, the unrealised losses from debt and equity instruments available for sale amounted to PLN minus 1 836 thousand and compassed only unrealized losses from debt instruments classified as available for sale,
- negative amounts in respect of adjustments on revaluation of assets in the amount of PLN minus 15 832 thousand, pursuant to § 3 Sec. 1, Point 11 of the Resolution No. 325/2011 Polish Financial Supervision Authority of 20 Decmeber 2011. These amounts refer to the risk of valuation models as well as the cost of closing out the position and are valued for trading portfolio positions,
- capital exposure to financial institutions (this refers to capital exposure to domestic banks, foreign banks, lending institutions and financial institutions falling in line with § 6 Sec. 1 Resolution No. 325/2011 Polish Financial Supervision Authority of 20 December 2011) accounted for PLN 168 536 thousand and constituted capital exposures resulted from shares nad interests held,
- pursuant to § 3 Sec. 1 Point 1, Sec. 3 and § 5 of the Resolution No. 325/2011 Polish Financial Supervision Authority of 20 December 2011, equity exposure to financial institutions is included in 50% of their amount in deductions from the core capital and the remaining 50% in the supplementary funds. However, if 50% of the equity exposure to financial institutions exceeds the supplementary funds, the difference is deducted from the core capital. Therefore the core capital in connection with this position amounted to PLN 84 268 thousand.

At the end of December 2012 the supplementary funds (Tier 2) amounted to 481 438 thosuand.

The supplementary funds are composed of:

- unrealized gains from debt instruments available for sale constitute the majority of the Group' s supplementary funds. At the end of December 2012, they amounted to PLN 703 816 thousand whereas unrealised gains from equity securities available for sale amounted to PLN 3 316 thousand. Pursuant to § 4 Sec. 2 of the Resolution No. 325/2011 Polish Financial Supervision Authority of 20 December 2011, unrealised gains from debt and equity instruments available for sale are presented in supplementary funds in 80% of their amount, i.e. PLN 565 706 thousand.

In the deductions of supplementary funds are included capital exposures to financial institutions in the amount of PLN 84 268 thousand (for further explanation please see explanation above – capital exposure to financial institutions).

Internal capital adequacy assessment

To assess the internal capital adequacy of the Group, the Bank has been applying methods designed internally. In internal capital adequacy assessment, the Bank takes the following risk types into consideration:

- credit risk (including counterparty credit risk, concentration risk, country risk and residual risk),
- market risk of the trading book (including interest rate risk in trading book, foreign exchange risk, risk of changes in stock prices and risk of changes in commodity prices),
- interest rate risk of the th banking book,
- liquidity risk (including liquidity maturity mismatch risk, liquidity contingency risk, market liquidity risk, operational liquidity risk, refinancing risk and liquidity risk associated with hedging deposits),
- operational risk,
- business risk (including strategic risk),
- real estate risk,
- financial investment risk,
- reputation risk,
- compliance risk,
- model risk,
- macroeconomic risk.

In addition, within the scope of management of risks mentioned above elements of models' and macroecnomic risks are taken into consideration.

For each risk deemed material, the Group develops and applies adequate risk assessment and measurement methods. The Group applies the following risk assessment methods:

- qualitative assessment – applied in case of risks which are difficult to measure or for which capital is not a sufficient means to cover losses (compliance, reputation and liquidity risk),
- capital buffer estimation assessment – applied in case of risks which can not be easily quantified, but it is possible to assess their overall impact (model risk, risk of changes in macroeconomic conditions),
- quantitative assessment – applied in case of risks which may be measured with the use of economic capital (other risk types).

Preferred methodologies of measuring quantitfied risks and determining the capital requirements are Value at Risk-based models, based on assumptions derived from Group's risk appetite (99.97% confidence level and a one-year time horizon). The models are implemented in compliance with the guidelines of UniCredit Group and supplemented with stress tests or scenario analyses. In case of risk types for which no methodologies have been finally developed or implemented, the Bank is using transitional methodologies (regulatory models supplemented by stress tests and scenario analyses). A consistent methodology for estimating buffer for macroeconomic and model risk has been developed. The capital buffer for macroeconomic risk coverage is determined twice a year (within the scope of annual budget process and at the end of June) on the basis of the economic slowdown scenario impact on the Bank's economic capital in the horizon of 3 years.

The amount of economic capital required to cover the model risk is estimated using the scenario analysis (including data limitations, incorrect assumptions, methods or manner of their implementation) for each model applied in the Bank.

The procedure starts with the calculation of economic capital, separately for each material, quantifiable risk identified by the Group. In the next step economic capital amounts for individual risks are aggregated into one aggregated economic capital amount including the diversification effect. Taking diversification effect into account, the total aggregated economic capital should not be greater than the sum of economic capital amounts calculated for specific risk types. Subsequently, taking into consideration capital buffer for model and macroeconomic risk, total internal capital is calculate.

Notes to the financial statements (cont.)

(In PLN thousand)

5.14 Fair value of financial assets and liabilities

The measurement of fair value of financial instruments, for which market values from active markets are available, is based on market quotations of the given instrument (mark-to-market).

The measurement of fair value of Over-the-counter ('OTC') derivatives and of instruments with limited liquidity (i.e. for which no market quotations are available), is made based upon the quotations of other instruments on active markets by replication thereof using a number of valuation techniques, including the estimation of present value of future cash flows (mark-to-model).

As at 31 December 2012 and 31 December 2011, the Group classified the financial assets and liabilities measured at fair value into the following three categories, broken down by valuation method:

- Method 1: mark-to-market, applies exclusively to quoted securities;
- Method 2: mark-to-model valuation with model parameterization, based exclusively on quotations from active markets for a given type of instrument. The method is applied for linear and non-linear derivative instruments on interest rate and foreign exchange markets (including forward transactions on securities and non-liquid Treasury or Central Bank securities);
- Method 3: mark-to-model valuation with partial model parameterization, based upon estimated risk factors. This method is applicable in case of derivatives on inactive market (mainly options for equity or commodity market instruments) and unquoted corporate or community securities.

31.12.2012	METHOD 1	METHOD 2	METHOD 3	TOTAL
Assets:	**15 897 698**	**12 313 287**	**1 294 204**	**29 505 189**
Financial assets held for trading	293 566	-	306 977	600 543
Derivative financial instruments, including:	-	2 624 737	24 360	2 649 097
- Banks	-	2 254 460	20 354	2 274 814
- Customers	-	370 277	4 006	374 283
Other financial instruments at fair value through profit or loss	-	-	-	-
Hedging instruments, including:	-	367 890	-	367 890
- Banks	-	187 847	-	187 847
- Customers	-	180 043	-	180 043
Securities available for sale	15 604 132	9 320 660	962 867	25 887 659
Liabilities:	**246 578**	**3 823 219**	**24 360**	**4 094 157**
Financial liabilities held for trading	246 578	-	-	246 578
Derivative financial instruments, including:	-	2 596 438	24 360	2 620 798
- Banks	-	2 410 168	1 050	2 411 218
- Customers	-	186 270	23 310	209 580
Hedging instruments, including:	-	1 226 781	-	1 226 781
- Banks	-	1 226 781	-	1 226 781
- Customers	-	-	-	-

Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2011	METHOD 1	METHOD 2	METHOD 3	TOTAL
Assets:	**15 487 762**	**12 260 509**	**991 423**	**28 739 694**
Financial assets held for trading	601 814	-	247 897	849 711
Derivative financial instruments, including:	-	2 130 179	26 095	2 156 274
- Banks	-	1 741 561	23 419	1 764 980
- Customers	-	388 618	2 676	391 294
Other financial instruments at fair value through profit or loss	-	-	-	-
Hedging instruments, including:	-	408 906	-	408 906
- Banks	-	95 595	-	95 595
- Customers	-	313 311	-	313 311
Securities available for sale	14 885 948	9 721 424	717 431	25 324 803
Liabilities:	**-**	**4 219 653**	**26 095**	**4 245 748**
Financial liabilities held for trading	-	-	-	-
Derivative financial instruments, including:	-	2 481 104	26 095	2 507 199
- Banks	-	2 270 102	1 025	2 271 127
- Customers	-	211 002	25 070	236 072
Hedging instruments, including:	-	1 738 549	-	1 738 549
- Banks	-	1 725 328	-	1 725 328
- Customers	-	13 221	-	13 221

Change in fair value of financial instruments measured by the Group at fair value according to Method 3

2012	FINANCIAL ASSETS HELD FOR TRADING	ASSETS FROM DERIVATIVES	SECURITIES AVAILABLE FOR SALE	LIABILITIES FROM DERIVATIVES
Opening balance	**247 897**	**26 095**	**717 431**	**26 095**
Increases, including:	21 259 293	24 674	390 389	35 518
Acquisition	21 254 306	-	250 513	-
Derivatives transactions made in 2012	-	11 592	-	24 331
Revenues from financial instruments	4 987	13 082	139 876	11 187
recognized in the income statement	4 987	13 082	50 524	11 187
recognized in Revaluation reserves from financial instruments	-	-	89 352	-
Decreases, including:	(21 200 213)	(26 409)	(143 953)	(37 253)
Settlement/redemption	(1 021 666)	(15 894)	(142 614)	(24 325)
Sale	(20 178 547)	-	(1 339)	-
Loss on financial instruments	-	(10 515)	-	(12 928)
recognized in the income statement	-	(10 515)	-	(12 928)
Closing balance	**306 977**	**24 360**	**963 867**	**24 360**
Unrealized income from financial instruments held in portfolio until end of period, recognized in comprehensive income statement	7 790	(1 461)	135 507	1 863
recognized in 'Interest income'	6 495	-	46 141	-
recognized in 'Result on financial assets and liabilities held for trading'	1 295	(1 461)	13	1 863
recognized in 'Result on fair value hedge accounting'	-	-	52 985	-
recognized in 'Revaluation reserves from financial instruments'	-	-	36 368	-

Notes to the financial statements (cont.)

(In PLN thousand)

2011	FINANCIAL ASSETS HELD FOR TRADING	ASSETS FROM DERIVATIVES	SECURITIES AVAILABLE FOR SALE	LIABILITIES FROM DERIVATIVES
Opening balance	**197 404**	**63 580**	**180 083**	**63 250**
Increases, including:	22 116 453	47 636	637 236	54 956
Acquisition	22 114 040	-	578 911	-
Derivatives transactions made in 2011	-	42 470	-	46 512
Revenues from financial instruments	2 413	5 166	58 325	8 444
recognized in the income statement	2 413	5 166	38 656	8 444
recognized in Revaluation reserves from financial instruments	-	-	19 669	-
Decreases, including:	(22 065 960)	(85 121)	(99 888)	(92 111)
Settlement/redemption	(272 127)	(32 836)	(70 494)	(29 910)
Sale	(21 793 833)	-	(29 394)	-
Loss on financial instruments	-	(52 285)	-	(62 201)
recognized in the income statement	-	(52 285)	-	(62 201)
Closing balance	**247 897**	**26 095**	**717 431**	**26 095**
Unrealized income from financial instruments held in portfolio until end of period, recognized in comprehensive income statement	**2 488**	**(46 030)**	**58 002**	**47 931**
recognized in 'Interest income'	2 347	-	37 660	-
recognized in 'Result on financial assets and liabilities held for trading'	141	(46 030)	-	47 931
recognized in 'Result on fair value hedge accounting'	-	-	27 103	-
recognized in 'Revaluation reserves from financial instruments'	-	-	(6 761)	-

The impact of estimated parameters of measurement at fair value for which the Group applies valuation to fair value according to Method 3 as at 31 December 2012 is insignificant.

In case of debt instruments exposed to credit spread risk, the sensitivity of exposure to spread changes by 1 bp amounts to PLN 21 thousand of impact on the income statement and PLN 537 thousand impact on equity, respectively.

In case of derivatives measured using Method 3, however, transactions are immediately closed back-to-back on the interbank market, and as such bear no impact upon the figures presented.

The Group also holds financial instruments which are not presented at fair value in the financial statements. Fair value is defined as the amount, for which an asset could be exchanged or a liability settled between interested and well informed but unrelated parties to the transaction at arm's length.

In case of certain groups of financial assets, recognized at the value due for payment taking impairment into consideration, fair value was assumed to be equal to carrying amount. The above applies in particular to cash, cash assets, current receivables and payables and other assets and liabilities.

In the case of credits for which no quoted market values are available, the fair values presented are roughly estimated using validation techniques and taking into consideration the assumption, that at the moment the credit is granted its fair value is equal to its carrying amount. Fair value of non-impaired loans is equal to the sum of future expected cash flows, discounted to the balance sheet date. The discount rate is defined as the sum of the appropriate market risk-free rate, increased by the credit risk margin and current sales margin (taking commission fees into consideration) for the given credit products group. The fair value of impaired loans is defined as equal to the sum of expected recoveries, discounted to the relevant balance sheet date using the market risk-free discount rate, since the average expected recovery values take the element of credit risk fully into consideration.

The fair value of central investment credits is presented on net basis, inclusive of the fair value of the NBP refinancing credit used for financing such investments. When gross value is used, the adjustment to fair value stands at PLN 25 million in case of credits for central investments, and PLN 23 million in case of refinancing credits. Both the central investment credit and NBP refinancing credit used for financing such investments were repaid by 31 December 2012.

Notes to the financial statements (cont.)

(In PLN thousand)

For exposures, for which no active market prices are available and market values are unattainable, the Group is unable to determine their fair value. The Group's non - controlling interests include companies associated with the financial sector, companies taken-over over as a result of debt restructuring, as well as other companies related to the financial sector. Equity interests in such companies are associated with the use of the financial and banking infrastructure and payment card services, including: BIK S.A., GPW S.A. and MasterCard. The Group's exposures to those companies depend upon the long-term investments, and to-date the Group has no plans as to the divestment thereof.

31.12.2012	CARRYING AMOUNT	FAIR VALUE	INCREASE/DECREASE OF FAIR VALUE OVER CARRYING AMOUNT
ASSETS			
Cash and due from Central Bank	9 207 285	9 207 285	-
Receivables from banks	4 053 848	4 054 284	436
Financial assets held for trading	600 543	600 543	-
Assets from derivatives	2 649 097	2 649 097	-
Loans and advances to customers (*)	95 081 651	93 972 637	(1 109 014)
Receivables from financial leasing	2 717 931	2 717 931	-
Hedging instruments	367 890	367 890	-
Securities available for sale (**)	25 872 871	25 872 871	-
Securities held for maturity	2 847 783	2 896 977	49 194
Total	**143 398 899**	**142 339 515**	**(1 059 384)**

(*) Including bills of exchange eligible for rediscount at Central Bank.
(**) Subtracted by the Group's exposures in the carrying amount of PLN 14 788 thousand, for which the Group is unable to determine their fair value.

31.12.2011	CARRYING AMOUNT	FAIR VALUE	INCREASE/DECREASE OF FAIR VALUE OVER CARRYING AMOUNT
ASSETS			
Cash and due from Central Bank	4 886 093	4 885 935	(158)
Receivables from banks	5 586 057	5 586 039	(18)
Financial assets held for trading	849 711	849 711	-
Assets from derivatives	2 156 274	2 156 274	-
Loans and advances to customers (*)	92 816 489	92 160 868	(655 621)
Receivables from financial leasing	2 862 760	2 862 760	-
Hedging instruments	408 906	408 906	-
Securities available for sale (**)	25 296 142	25 296 142	-
Securities held for maturity	3 794 834	3 812 229	17 395
Total	**138 657 266**	**138 018 864**	**(638 402)**

(*) Including bills of exchange eligible for rediscount at Central Bank.
(**)Subtracted by the Group's exposures in the carrying amount of PLN 28 661 thousand, for which the Group is unable to determine their fair value.

Since no quoted market prices are available for deposits, their fair values have been roughly estimated using valuation techniques with the assumption that the fair value of a deposit at the moment of its receipt is equal to its carrying amount. The fair value of term deposits is equal to the sum of future expected cash flows, discounted to the relevant balance sheet date. The cash flow discount rate is defined as the relevant market risk-free rate, increased by the sales margin. If the carrying amount is lower than the nominal value, a term deposit may be cancelled before maturity, and in such case the fair value will be equal to its nominal value. In case of current deposits, fair value was assumed as equal to the carrying amount.

In case of deposits received by the Group, the adjustment to fair value as at 31 December 2012 was PLN minus 5 461 thousand (PLN minus 7 141 thousand as at 31 December 2011) for deposits from clients, and PLN minus 69 790 thousand (PLN minus 49 579 thousand as at 31 December 2011) for deposits from banks.

The fair value of deposits is calculated based on contractual maturities.

In case of debt securities in issue, the adjustment to fair value as at 31 December 2012 was PLN 14 636 thousand (PLN minus 25 052 thousand as at 31 December 2011).

For other financial liabilities the Group assumes that the carrying amount is similar to the fair value.

The mark-to-model valuation of debt instruments is based on the method of discounting the future cash flows. Variable cash flows are estimated based upon rates adopted for specific markets (depending upon issue specifications). Both the fixed and implied cash flows are discounted using zero-coupon curves, relevant to given markets or issuers (taking into consideration relevant credit spread).

6. Custody activity

Custody activities are performed by virtue of a permit, issued by the Polish Financial Supervision Authority. The Bank's clients include a number of domestic and foreign financial institutions, banks offering custodial and investment services, insurance companies, investment and pension funds, as well as non-financial institutions. The Bank provides custodial services, including, inter alia, the settlement of transactions effected on domestic and international markets, custody of client assets, maintaining securities and cash accounts, valuation of assets and services related to dividend and interest payments.

In 2012, the Bank acquired a number of new clients from the segment of foreign custody banks and stockbroking companies, registered as remote members of the Warsaw Stock Exchange (GPW S.A.), for the benefit of which the Bank serves as a clearing agent. The Bank also maintained its leading position in terms of depositary notes, by handling more than 50% of all programmes.

As of 31 December 2012 the Bank maintained 4 666 securities accounts (in comparison to 4 852 securities accounts as at 31 December 2011).

(In PLN thousand)

7. Brokerage activity

The Group offers a wide range of capital market products and services via specialized Bank's organizational unit – Dom Maklerski Pekao (DM) and by the agency of Centralny Dom Maklerski Pekao S.A. (CDM) a subsidiary of the Bank Pekao S.A.

Dom Maklerski Pekao is a specialized organizational unit of the Bank designed to sell capital market products. The objective of the entity is providing the highest quality brokerage services. The comprehensive offering enables investors, especially the individual clients of the Bank to invest in shares, derivatives (futures and options), bonds traded on exchanges and OTC markets. The entity intermediates also in sales of Structured Certificates of Deposit issued by Bank Pekao S.A. and invests in securities offered in IPOs and traded on foreign exchanges. Clients are served in 650 Accepting Orders Spots located in Bank branches throughout Poland and through remote channels of Pekao24Makler (via Internet, mobile service and by phone) fully integrated with the Bank's electronic banking platform Pekao24.

Centralny Dom Maklerski Pekao S.A. (CDM) is the largest and oldest brokerage firm on the Polish capital market. The aim of CDM is to service investment accounts as well as financial instruments accounts. The offering enables Clients to invest in inter alia shares, Treasury bonds, corporate bonds, certificates, funds' units, ETF and structured products. CDM grants to clients access to invest on derivatives markets, foreign markets and OTC markets. Clients are served in 73 Consumer Service Spots located mainly in Bank branches throughout Poland and through remote service channels of CDM24 (CDMInternet, TeleCDM, CDM Mobile) fully integrated with the Bank's electronic banking platform Pekao24.

The tight cooperation of Dom Maklerski Pekao and CDM on the realization of the projects conducted on the primary market and in the other areas of market activities of both entities ensures professional and comprehensive brokerage services.

CDM as well as Dom Maklerski Pekao is a member of the Warsaw Stock Exchange (GPW S.A.) and a direct participant in the National Depository of Securities (KDPW).

Both entities conform to the Good Practices Code of Brokerage Firms guaranteeing comprehensive services in accordance with highest ethics standards.

Management Board of the Bank is a member of the Chamber of Brokerage Houses and Director of Dom Maklerski Pekao is its Vice-President. Both DM and CDM actively participate in capital market development in Poland.

Notes to the financial statements (cont.)

(In PLN thousand)

The financial instruments of the clients held on securities accounts or stored in a form of document

31.12.2012	QUANTITY (pcs)	VALUE
Dom Maklerski Pekao		
Clients' financial instruments ,including:		
Held on securities accounts		
- Equity securities and rights to such financial assets	1 152 364 083	3 950 743
- Debt instruments and rights to such financial assets	319 158	83 730
Stored in a form of document		
- Equity securities and rights to such financial assets	-	-
- Debt instruments and rights to such financial assets	-	-
Rights to commodities	-	-
Centralny Dom Maklerski Pekao S.A.		
Clients' financial instruments, including:		
Held on securities accounts		
- Equity securities and rights to such financial assets	4 135 539 401	15 842 461
- Debt instruments and rights to such financial assets	36 593 728	1 033 880
Stored in a form of document		
- Equity securities and rights to such financial assets	6 652 930 844	19 923 341
Rights to commodities	-	-

31.12.2011	QUANTITY (pcs)	VALUE
Dom Maklerski Pekao		
Clients' financial instruments, including:		
Held on securities accounts		
- Equity securities and rights to such financial assets	1 030 780 951	3 582 447
- Debt instruments and rights to such financial assets	9 462 930	1 342 051
Stored in a form of document		
- Equity securities and rights to such financial assets	-	-
- Debt instruments and rights to such financial assets	-	-
Rights to commodities	-	-
Centralny Dom Maklerski Pekao S.A.		
Clients' financial instruments, including:		
Held on securities accounts		
- Equity securities and rights to such financial assets	4 136 091 433	14 227 175
- Debt instruments and rights to such financial assets	1 327 822	1 425 210
Stored in a form of document		
- Equity securities and rights to such financial assets	6 608 643 331	19 430 426
Rights to commodities	-	-

Notes to the financial statements (cont.)

(In PLN thousand)

Customers' cash on brokerage accounts

31.12.2012	DOM MAKLERSKI PEKAO	CENTRALNY DOM MAKLERSKI PEKAO S.A.
Invested in debt securities issued by the State Treasury	-	-
Deposited on cash accounts in brokerage house and paid for securities bought in IPO or on the primary market	224 580	768 762
Other customers' cash	18 861	27 743
Transferred from clearing fund	-	-
Total	**243 441**	**796 505**

31.12.2011	DOM MAKLERSKI PEKAO	CENTRALNY DOM MAKLERSKI PEKAO S.A.
Invested in debt securities issued by the State Treasury	-	-
Deposited on cash accounts in brokerage house and paid for securities bought in IPO or on the primary market	214 932	579 631
Other customers' cash	17 737	95 891
Transferred from clearing fund	-	-
Total	**232 669**	**675 522**

Settlements with banks conducting brokerage activities, brokerage houses and commodity brokerage houses

31.12.2012	DOM MAKLERSKI PEKAO	CENTRALNY DOM MAKLERSKI PEKAO S.A.
Receivables from exchange transactions, including:	22 267	66 936
Stock Exchanges	22 258	66 445
OTC market	-	-
NewConnect	9	491
Receivables from representing other banks conducting brokerage activities and brokerage houses on regulated securities markets	-	-
Receivables from affiliation	-	-
Receivables from automatic loans realized through the National Depository of Securities	-	-
Total receivables	**22 267**	**66 936**
Liabilities from exchange transactions, including:	12 711	37 779
Stock Exchange	12 683	36 888
OTC market	-	-
NewConnect	28	891
Liabilities from representing other banks conducting brokerage activities and brokerage houses on regulated securities markets	-	-
Liabilities from affiliation	-	-
Liabilities from automatic loans realized through the National Depository of Securities	-	-
Total liabilities	**12 711**	**37 779**

Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2011	DOM MAKLERSKI PEKAO	CENTRALNY DOM MAKLERSKI PEKAO S.A.
Receivables from exchange transactions, including:	12 074	38 095
Stock Exchanges	11 636	37 377
OTC market	-	-
NewConnect	438	718
Receivables from representing other banks conducting brokerage activities and brokerage houses on regulated securities markets	-	-
Receivables from affiliation	-	-
Receivables from automatic loans realized through the National Depository of Securities	-	-
Total receivables	**12 074**	**38 095**
Liabilities from exchange transactions, including:	11 570	36 839
Stock Exchange	11 296	35 647
OTC market	-	-
NewConnect	274	1 192
Liabilities from representing other banks conducting brokerage activities and brokerage houses on regulated securities markets	-	-
Liabilities from affiliation	-	-
Liabilities from automatic loans realized through the National Depository of Securities	-	-
Total liabilities	**11 570**	**36 839**

Settlements with National Depository of Securities (KDPW), KDPW_CCP and other stock exchange clearing houses

31.12.2012	DOM MAKLERSKI PEKAO	CENTRALNY DOM MAKLERSKI PEKAO S.A.
Receivables from clearing fund	1 866	634
Receivables from margin deposits	12 490	13 656
Other receivables	268	141
Total receivables	**14 624**	**14 431**
Amounts due to clearing fund	-	-
Amounts due on margin deposits	33	-
Other liabilities	134	299
Total liabilities	**167**	**299**

Items concerning the participation in the compensation fund managed by National Depository of Securities (KDPW)

31.12.2012	DOM MAKLERSKI PEKAO	CENTRALNY DOM MAKLERSKI PEKAO S.A.
Receivables from compensation fund	192	7 622
Prepaid expenses - system maintenance fees	16	691
Deferred income – benefits from system	(208)	(8 313)
Amounts due to compensation fund	-	-
Total net balance sheet items concerning participation in the compensation fund	**-**	**-**

Notes to the financial statements (cont.)

(In PLN thousand)

Settlements with National Depository of Securities (KDPW), KDPW_CCP and other stock exchange clearing houses

31.12.2011	DOM MAKLERSKI PEKAO	CENTRALNY DOM MAKLERSKI PEKAO S.A.
Receivables from clearing fund	1 548	560
Receivables from margin deposits	11 577	6 438
Other receivables	318	156
Total receivables	**13 443**	**7 154**
Amounts due to clearing fund	-	-
Amounts due on margin deposits	-	-
Other liabilities	168	362
Total liabilities	**168**	**362**

Items concerning the participation in the compensation fund managed by the National Depository of Securities (KDPW)

31.12.2011	DOM MAKLERSKI PEKAO	CENTRALNY DOM MAKLERSKI PEKAO S.A.
Receivables from compensation fund	83	6 147
Prepaid expenses - system maintenance fees	11	625
Deferred income – benefits from system	(94)	(6 772)
Amounts due to compensation fund	-	-
Total net balance sheet items concerning participation in the compensation fund	**-**	**-**

Settlement with entities running regulated securities markets and commodity exchanges

31.12.2012	DOM MAKLERSKI PEKAO	CENTRALNY DOM MAKLERSKI PEKAO S.A.
Receivables from Warsaw Stock Exchange	-	-
Receivables from BondSpot	-	-
Total receivables	**-**	**-**
Amounts due to Warsaw Stock Exchange	261	522
Amounts due to BondSpot	-	-
Total liabilities	**261**	**522**

31.12.2011	DOM MAKLERSKI PEKAO	CENTRALNY DOM MAKLERSKI PEKAO S.A.
Receivables from Warsaw Stock Exchange	-	-
Receivables from BondSpot	-	-
Total receivables	**-**	**-**
Amounts due to Warsaw Stock Exchange	176	650
Amounts due to BondSpot	-	1
Total liabilities	**176**	**651**

(In PLN thousand)

8. Operating segments

Segment reporting is based on the application of the management model ("Model") in which the main criterion for segmentation in the Group reporting is the classification of customers based on their profile and service model.

The Model assumes that budgeting and monitoring of results at the segments' level includes all the components of income statement to the level of profit before income tax. This means that both income generated by activities of specific segments and operating costs associated with these activities (both direct costs and allocated costs, in accordance with the adopted model of the allocation) are assigned to distinctive segments, as well as other components of income statement.

The Group settles transactions between segments on an arms length basis by applying current market prices. Fund transfers between the Bank's segments namely retail, private, corporate and investment banking and Assets and Liabilities Management and other unit are based on market prices applicable to the funds' currency and maturity, adjusted for liquidity margins.

Business segments

Reported segments of the Group include the following areas:

- Retail banking – full scope of banking activity offered to the individual customers (excluding Private banking customers), small and micro enterprises with annual turnover not exceeding PLN 10 million, as well as results of those of the Group's consolidated subsidiaries, and share in net profit of those of the Group's associated entities accounted for using the equity method, that are assigned to the retail banking activity,
- Private banking – full scope of banking activity offered to wealthiest individual customers,
- Corporate and Investment banking – full scope of banking activity offered to the medium and large enterprises, including activities on the inter-bank market, investments in debt securities and other instruments as well as results of those of the Group's consolidated subsidiaries consolidated under the full method, that are assigned to the corporate and investment banking activities,
- Assets and Liabilities Management and other – covers supervision and monitoring of fund transfers, other areas centrally managed, results of Group's subsidiaries consolidated under the full method and share in the profits of associated entities accounted under the equity method that are not assigned to other reported segments.

Notes to the financial statements (cont.)

(In PLN thousand)

Information on revenues of the Group's operating segments for 2012

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING		ASSETS AND LIABILITIES MANAGEMENT AND OTHER (*)	TOTAL
			CONTINUED OPERATIONS	DISCONTINUED OPERATIONS		
Net interest income	**2 868 086**	**44 209**	**1 389 183**	**127 089**	**438 874**	**4 867 441**
Non-interest income	**1 918 069**	**28 240**	**793 116**	**35 874**	**44 600**	**2 819 899**
Operating income	**4 786 155**	**72 449**	**2 182 299**	**162 963**	**483 474**	**7 687 340**
Personnel expenses	(1 143 922)	(17 728)	(225 695)	(39 829)	(480 149)	(1 907 323)
Other administrative expenses	(1 488 722)	(26 635)	(407 336)	(37 780)	613 728	(1 346 745)
Depreciation and amortization	(172 060)	(1 112)	(19 345)	(6 460)	(169 861)	(368 838)
Operating costs	**(2 804 704)**	**(45 475)**	**(652 376)**	**(84 069)**	**(36 282)**	**(3 622 906)**
Operating profit	**1 981 451**	**26 974**	**1 529 923**	**78 894**	**447 192**	**4 064 434**
Net result on other provisions	557	(2 956)	(17 730)	-	4 802	(15 327)
Net impairment losses on financial assets and off-balance sheet commitments	(132 145)	(6 026)	(479 046)	(33 980)	(18 257)	(669 454)
Net result on investment activities	(119)	-	278 818	(21)	21 930	300 608
Profit before tax	**1 849 744**	**17 992**	**1 311 965**	**44 893**	**455 667**	**3 680 261**
Income tax expense (continuing operations)						(706 720)
Income tax expense (discontinued operations)				(8 288)		(8 288)
Net profit (continuing operations)						**2 928 648**
Net profit (discontinued operations)				**36 605**		**36 605**
Net profit for the period attributable to equity holders of the Bank						**2 955 702**
Net profit for the period attributable to non-controlling interest						9 551
Allocated assets	49 817 276	501 024	87 324 254	2 256 730	575 651	140 474 935
Unallocated assets						10 474 895
Total assets						**150 949 830**
Allocated liabilities	59 640 883	6 026 520	61 526 151	1 791 842	(5 625 511)	123 359 885
Unallocated liabilities						27 589 945
Total liabilities						**150 949 830**

(*) including intercompany transactions within the Group of Bank Pekao S.A.

Notes to the financial statements (cont.)

(In PLN thousand)

Information on revenues of the Group's operating segments for 2011

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING		ASSETS AND LIABILITIES MANAGEMENT AND OTHER (*)	TOTAL
			CONTINUED OPERATIONS	DISCONTINUED OPERATIONS		
Net interest income	**2 862 251**	**48 678**	**1 244 248**	**131 374**	**351 627**	**4 638 178**
Non-interest income	**2 061 258**	**34 964**	**921 489**	**32 799**	**42 643**	**3 093 153**
Operating income	**4 923 509**	**83 642**	**2 165 737**	**164 173**	**394 270**	**7 731 331**
Personnel expenses	(1 163 938)	(19 772)	(240 652)	(37 659)	(484 133)	(1 946 154)
Other administrative expenses	(1 672 737)	(28 601)	(427 214)	(39 237)	819 708	(1 348 081)
Depreciation and amortization	(163 124)	(574)	(13 091)	(9 026)	(191 678)	(377 493)
Operating costs	**(2 999 799)**	**(48 947)**	**(680 957)**	**(85 922)**	**143 897**	**(3 671 728)**
Operating profit	**1 923 710**	**34 695**	**1 484 780**	**78 251**	**538 167**	**4 059 603**
Net result on other provisions	(727)	-	(960)	-	(4 146)	(5 833)
Net impairment losses on financial assets and off-balance sheet commitments	(387 813)	(234)	(148 017)	(4 532)	2 657	(537 939)
Net result on investment activities	(305)	0	76 722	(47)	745	77 115
Profit before tax	**1 534 865**	**34 461**	**1 412 525**	**73 672**	**537 423**	**3 592 946**
Income tax expense (continuing operations)						(667 884)
Income tax expense (discontinued operations)				(15 966)		(15 966)
Net profit (continuing operations)						**2 851 390**
Net profit (discontinued operations)				**57 706**		**57 706**
Net profit for the period attributable to equity holders of the Bank						**2 899 414**
Net profit for the period attributable to non-controlling interest						**9 682**
Allocated assets	45 643 736	537 435	91 426 119	2 894 904	(3 791 042)	136 711 152
Unallocated assets						9 878 954
Total assets						**146 590 106**
Allocated liabilities	59 739 736	6 055 363	57 040 451	2 416 420	(5 116 393)	120 135 577
Unallocated liabilities						26 454 529
Total liabilities						**146 590 106**

(*) including intercompany transactions within the Group of Bank Pekao S.A.

(In PLN thousand)

Geographical segment
The operating activity of Bank Pekao S.A. Group is concentrated in Poland through the network of branches and the Group's entities.

The Group also conducts activities in the following countries:
Ukraine – through the subsidiary of Bank Pekao S.A.
France – through the branch of Bank Pekao S.A. in Paris.

Results generated by activities of the branch of Bank Pekao S.A. in Paris were not separated because of insignificance in comparison to the result of the Group.

The following table presents geographical segment information for the Group's operating activity:

	POLAND	UKRAINE (DISCONTINUED OPERATIONS)	TOTAL
2012			
Net income attributable to Bank's shareholders	2 919 097	36 605	2 955 702
Segment assets	148 693 100	2 256 730	150 949 830
2011			
Net income attributable to Bank's shareholders	2 841 708	57 706	2 899 414
Segment assets	143 695 202	2 894 904	146 590 106

9. Interest income and expense

Interest income

	2012	2011
Loans and other receivables from customers	6 701 073	5 898 070
Placements in other banks	278 963	219 086
Reverse repo transactions	161 693	111 645
Investment securities	1 129 711	1 126 094
Financial assets held for trading	44 617	48 498
Financial assets designated to fair value through profit and loss	-	827
Total	**8 316 057**	**7 404 220**

Interest income for 2012 includes income from impaired financial assets in the amount of PLN 347 515 thousand (in 2011 PLN 250 340 thousand).

Total amount of interest income for 2012 measured at amortized cost using the effective interest rate method, which applies to financial assets not measured at fair value through profit or loss, amounted to PLN 4 748 185 thousand (in 2011 PLN 4 193 093 thousand).

Notes to the financial statements (cont.)

(In PLN thousand)

Interest expense

	2012	2011
Customers' deposits	(2 995 901)	(2 482 728)
Other banks' deposits	(52 394)	(49 624)
Repo transactions	(168 677)	(118 648)
Loans from other banks	(107 201)	(133 001)
Debt securities issued	(186 465)	(62 361)
Total	**(3 510 638)**	**(2 846 362)**

Total amount of interest expenses for 2012, measured at amortized cost using the effective interest rate method with reference to financial liabilities, which are not valued at fair value through profit or loss amounted to PLN 3 119 201 thousand (in 2011 PLN 2 509 340 thousand).

10. Fee and commission income and expense

Fee and commission income

	2012	2011
Customer accounts maintenance, payment orders and cash transactions	798 649	863 839
Payment cards	901 056	812 389
Loans and advances	536 410	593 382
Investment products sales intermediation	238 745	274 995
Securities operations	120 897	151 714
Custody activity	52 687	59 242
Pension and investment funds service fees	61 205	68 499
Guarantees, letters of credit and similar transactions	50 091	54 057
Other	38 460	55 938
Total	**2 798 200**	**2 934 055**

Fee and commission expense

	2012	2011
Payment cards	(463 173)	(394 221)
Bank drafts and transfers	(26 724)	(26 340)
Securities and derivatives operations	(18 071)	(22 896)
Accounts maintenance	(3 730)	(8 389)
Custody activity	(8 183)	(8 580)
Pension funds management charges	(1 753)	(3 150)
Acquisition services	(1 525)	(1 768)
Other	(18 160)	(19 817)
Total	**(541 319)**	**(485 161)**

Notes to the financial statements (cont.)

(In PLN thousand)

11. Dividend income

	2012	2011
From issuers of securities available for sale	8 759	10 352
Total	**8 759**	**10 352**

12. Result on financial assets and liabilities held for trading

	2012	2011
Foreign currency exchange result	480 940	532 772
Gains (losses) on derivatives	8 803	51 757
Gains (losses) on securities	20 393	10 582
Total	**510 136**	**595 111**

In 2012, the total change in the fair value of financial instruments valued at fair value through profit or loss, determined with the use of valuation techniques (when no published quotations from active markets are available) amounted to PLN 16 349 thousand (in 2011 PLN 61 971 thousand).

13. Gains (losses) on financial assets and liabilities at fair value through profit or loss

	2012	2011
Debt securities	-	(501)
Total	**-**	**(501)**

Notes to the financial statements (cont.)

(In PLN thousand)

14. Gains (losses) on disposal

Realized gains

	2012	2011
Loans and other financial receivables	975	130
Available for sale financial assets – debt instruments	278 513	72 899
Available for sale financial assets – equity instruments	2	99
Held to maturity investments	283	3 884
Debt securities issued	381	96
Total	**280 154**	**77 108**

Realized losses

	2012	2011
Loans and other financial receivables	(217)	(161)
Available for sale financial assets – debt instruments	(54)	(167)
Available for sale financial assets – equity instruments	-	-
Held to maturity investments	-	-
Debt securities issued	(684)	(1 377)
Total	**(955)**	**(1 705)**

Net realized profit	**279 199**	**75 403**

The change in fair value of financial assets available for sale transferred in 2012 directly to equity amounted to PLN 1 040 006 thousand (increase), in 2011 PLN 10 913 thousand (increase).

The change in fair value of financial assets, transferred in 2012 from equity to financial income amounted to PLN 278 459 thousand (profit), in 2011 PLN 72 731 thousand (profit).

Notes to the financial statements (cont.)

(In PLN thousand)

15. Administrative expenses

Personnel expenses

	2012	2011
Wages and salaries	(1 598 857)	(1 651 197)
Insurance and other charges related to employees	(294 847)	(281 886)
Pension programs costs due define contributions	(1 351)	(1 491)
Share-based payments expense	(12 268)	(11 580)
Total	**(1 907 323)**	**(1 946 154)**

Other administrative expenses

	2012	2011
Other administrative expenses	(1 192 695)	(1 207 051)
Taxes and charges	(41 016)	(38 521)
Bank Guarantee Fund fee	(96 273)	(89 020)
Financial supervision authority fee (KNF)	(22 976)	(20 836)
Total	**(1 352 960)**	**(1 355 428)**

TOTAL ADMINISTRATIVE EXPENSES	**(3 260 283)**	**(3 301 582)**

16. Net other operating income and expenses

Other operating income

	2012	2011
Rental income and other (miscellaneous income)	44 657	44 202
Credit insurance charges	31 343	27 467
Recovery of debt collection costs	24 343	22 285
Compensation, penalty fees and fines received	9 501	9 811
Refund of administrative costs	6 215	7 347
Income from written off liabilities	7 867	1 472
Releases of impairment of litigation and other assets	1 968	2 138
Releases of provisions for liabilities	1 345	2 757
Gains on sale of other assets	4 071	5 528
Other	55 224	52 763
Total	**186 534**	**175 770**

Notes to the financial statements (cont.)

(In PLN thousand)

Other operating expenses

	2012	2011
Credit insurance costs	(27 164)	(29 152)
Costs of leasing activity	(11 182)	(21 247)
Revenue adjustments for prior periods and inventory deficiencies	(8 243)	(10 793)
Customers complaints expense	(2 123)	(3 611)
Impairment of litigations receivables and other assets	(2 723)	(8 029)
Costs of litigation and claims	(3 348)	(3 859)
Compensation, penalty fees and fines paid	(1 014)	(1 715)
Losses on disposal of other assets	(321)	(414)
Other	(36 023)	(22 885)
Total	**(92 141)**	**(101 705)**

Net other operating income and expenses	**94 393**	**74 065**

Notes to the financial statements (cont.)

(In PLN thousand)

17. Net impairment losses on financial assets and off-balance sheet commitments

2012	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON NET RESULT(**)
		IMPARIMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE STATEMENT OF FINANCIAL POSITION	RELEASE OF IMPARIMENT CHARGES	OTHER (*)		
Impairment of financial assets and off- balance sheet commitments								
Loans and advances to banks valued at amortized cost	72 516	292	2 236	-	(1 861)	(3 051)	70 132	1 569
Derivative financial instruments	-	-	-	-	-	-	-	-
Loans and advances to customers valued at amortized cost	4 422 752	1 435 144	142 379	(286 537)	(836 368)	(212 337)	4 665 033	(598 776)
Receivables from financial leasing	200 290	53 659	44	(10 328)	(34 066)	(16 914)	192 685	(19 593)
Financial assets available for sale	123	-	-	-	-	-	123	-
Impairment of off-balance sheet commitments	79 140	75 207	434	-	(48 375)	-	106 406	(26 832)
Total financial assets and off-balance sheet commitments	**4 774 821**	**1 564 302**	**145 093**	**(296 865)**	**(920 670)**	**(232 302)**	**5 034 379**	**(643 632)**
Impairment of other assets								
Investments in subsidiaries and associates	891	-	-	-	-	(831)	60	-
Intangible assets	10 961	438	-	-	-	-	11 399	(438)
Property, plant and equipment	9 650	1 261	(1 596)	(1 665)	(12)	-	7 638	(1 249)
Investment properties	550	1 604	-	-	-	-	2 154	(1 604)
Other	75 699	988	-	(83)	(1 968)	(739)	73 897	980
Total impairment of other assets	**97 751**	**4 291**	**(1 596)**	**(1 748)**	**(1 980)**	**(1 570)**	**95 148**	**(2 311)**
Total	**4 872 572**	**1 568 593**	**143 497**	**(298 613)**	**(922 650)**	**(233 872)**	**5 129 527**	**(645 943)**

(*)Including foreign exchange differences and transfers between positions.

(**)'Impairment of financial assets and off-balance sheet commitments' balance includes net impairment in the amount of PLN minus 643 632 thousand, net impairment from discontinued activities in the amount of PLN minus 33 980 thousand and proceeds from recovered bad debt in the amount of PLN 8 158 thousand, the total is PLN minus 669 454 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

2011	OPENING BALANCE	INCREASES: IMPARIMENT CHARGES	INCREASES: OTHER (*)	DECREASES: WRITE-OFFS OF ASSETS FROM THE STATEMENT OF FINANCIAL POSITION	DECREASES: RELEASE OF IMPARIMENT CHARGES	DECREASES: OTHER (*)	CLOSING BALANCE	IMPACT ON NET RESULT(**)
Impairment of financial assets and off- balance sheet commitments								
Loans and advances to banks valued at amortized cost	76 999	628	3 039	(3 428)	(3 652)	(1 070)	72 516	3 024
Derivative financial instruments	480	-	-	-	-	(480)	-	-
Loans and advances to customers valued at amortized cost	4 051 877	1 198 468	222 286	(255 643)	(667 093)	(127 143)	4 422 752	(531 375)
Receivables from financial leasing	181 794	94 939	-	(11 138)	(65 168)	(137)	200 290	(29 771)
Financial assets available for sale	481	-	-	-	-	(358)	123	-
Impairment of off-balance sheet commitments	96 500	50 744	1 089	-	(69 193)	-	79 140	18 449
Total financial assets and off-balance sheet commitments	**4 408 131**	**1 344 779**	**226 414**	**(270 209)**	**(805 106)**	**(129 188)**	**4 774 821**	**(539 673)**
Impairment of other assets								
Investments in subsidiaries and associates	3 787	-	110	-	-	(3 006)	891	-
Intangible assets	10 961	-	-	-	-	-	10 961	-
Property, plant and equipment	9 315	1 498	-	-	(333)	(830)	9 650	(1 165)
Investment properties	550	-	-	-	-	-	550	-
Other	95 047	8 010	5 249	(30 396)	(2 138)	(73)	75 699	(5 872)
Total impairment of other assets	**119 660**	**9 508**	**5 359**	**(30 396)**	**(2 471)**	**(3 909)**	**97 751**	**(7 037)**
Total	**4 527 791**	**1 354 287**	**231 773**	**(300 605)**	**(807 577)**	**(133 097)**	**4 872 572**	**(546 710)**

(*) Including foreign exchange differences and transfers between positions.
(**)'Impairment of financial assets and off-balance sheet commitments' balance includes net impairment in the amount of PLN minus 539 673 thousand, net impairment from discontinued activities in the amount of PLN minus 4 532 and proceeds from recovered bad debt in the amount of PLN 6 266 thousand, the total is PLN minus 537 939 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

18. Gains (losses) on associates and subsidiaries

Share of profit (loss) in associates

ENTITY	2012	2011
Dom Inwestycyjny Xelion Sp.z.o.o.(ex. Xelion. Doradcy Finansowi Sp. z o.o.)	711	702
Pioneer Pekao Investment Management S.A.	45 188	62 254
Krajowa Izba Rozliczeniowa S.A.	7 443	10 946
Pirelli Pekao Real Estate Sp. z o.o.	(79)	(3 902)
Central Poland Fund LLC	-	(32)
Total share of gains on associates	**53 263**	**69 968**

Gains (losses) on disposal of associates and subsidiaries	**(397)**	**-**

TOTAL GAINS (LOSSES) ON ASSOCIATES AND SUBSIDIARIES	**52 866**	**69 968**

19. Income tax

The Capital Group's tax charge for the year 2012 amounting to PLN 715 008 thousand contains:

- tax charge relating to continuing operations in the amount of PLN 706 720 thousand,
- tax charge relating to discontinued operations in the amount of PLN 8 288 thousand.

The below additional information notes present the Group gross profit's tax charge both for continued and discontinued operations.

Reconciliation between tax calculated by applying the current tax rate to accounting profit and the actual tax charge presented in the consolidated income statement.

	2012	2011
Profit before income tax	**3 680 261**	**3 592 946**
Tax charge according to applicable tax rate at 19%	**699 250**	**682 660**
Permanent differences:	**15 758**	**1 190**
Non taxable income	(20 702)	(23 142)
Non tax deductible costs	26 494	15 019
Impact of other tax rates applied under a different tax jurisdiction	3 146	1 801
Impact of utilized tax losses	(128)	(109)
Tax relieves not included in the income statement	392	292
Other	6 556	7 329
Effective income tax charge on gross profit	**715 008**	**683 850**

The applied tax rate of 19% is the corporate income tax rate binding in Poland.

Notes to the financial statements (cont.)

(In PLN thousand)

The basic components of income tax charge presented in the income statement and equity

	2012	2011
CONSOLIDATED INCOME STATEMENT		
Current income tax	(772 914)	**(826 747)**
Current tax charge disclosed in the income statement	(766 880)	(819 151)
Adjustments related to the current tax from previous years	142	156
Other taxes (for example withholding tax, income tax relating to foreign branches)	(6 176)	(7 752)
Deferred income tax	**57 906**	**142 897**
Occurrence and reversal of temporary differences	57 906	142 897
Tax charge disclosed in the consolidated income statement	**(715 008)**	**(683 850)**
EQUITY		
Deferred income tax	**(127 650)**	**9 187**
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments, used as cash flows hedges	7 623	9 361
revaluation of financial assets available for sale – debt securities	(144 693)	11 785
revaluation of financial assets available for sale – with equity rights	(63)	(566)
Foreign currency translation differences	**9 483**	(11 393)
Tax charge presented in other comprehensive income	**(127 650)**	**9 187**
Total charge	**(842 658)**	**(674 663)**

The Capital Group's deferred tax provision as at 31 December 2012 amounting to PLN 30 806 thousand contains:

- deferred tax provision relating to continuing operations in the amount of PLN 5 986 thousand
- deferred tax provision relating to discontinued operations in the amount of PLN 24 820 thousand

The Capital Group's deferred tax asset as at 31 December 2012 amounting to PLN 820 085 thousand relates only to the continuing operations.

Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2012									
	OPENING BALANCE			CHANGES RECOGNIZED		CHANGES RESULTING FROM CHANGES IN THE SCOPE OF CONSOLIDATION AND OTHER		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	IN THE INCOME STATEMENT	IN EQUITY	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENTS	IN EQUITY
DEFFERED TAX LIABILITY										
Accrued income – securities	32 454	32 454	-	(32 454)	-	-	-	-	-	-
Accrued income – loans	101 666	101 666	-	(26 672)	-	(806)	-	74 188	74 188	-
Change in revaluation of financial assets	115 759	115 497	262	(52 728)	91 952	-	-	154 983	62 769	92 214
Accelerated depreciation	121 973	121 973	-	6 792	-	212	-	128 977	128 977	-
Investment relief	7 693	7 693	-	(420)	-	-	-	7 273	7 273	-
Other	44 022	44 022	-	17 193	-	(341)	-	60 874	60 874	-
Gross deferred tax liability	**423 567**	**423 305**	**262**	**(88 289)**	**91 952**	**(935)**	**-**	**426 295**	**334 081**	**92 214**
DEFFERED TAX ASSET										
Accrued expenses – securities	-	-	-	78 150	-	623	-	78 773	78 773	-
Accrued expenses – loans and deposits	94 185	94 185	-	(18 469)	-	-	-	75 716	75 716	-
Downward revaluation of financial assets	400 250	364 509	35 741	(139 516)	(35 698)	-	-	225 036	224 993	43
Income received to be settled from loans and current accounts	86 860	86 860	-	(11 967)	-	3	-	74 896	74 896	-
Loan provision expenses	389 591	389 591	-	52 416	-	1 404	-	443 411	443 411	-
Personnel related provisions	89 499	89 499	-	(8 843)	-	(65)	-	80 591	80 591	-
Accruals	9 484	9 484	-	1 581	-	(98)	-	10 967	10 967	-
Previous year loss	6 518	6 518	-	(3 234)	-	-	-	3 284	3 284	-
Other	203 425	203 425	-	19 499	-	(24)	-	222 900	222 900	-
Gross deferred tax asset	**1 279 812**	**1 244 071**	**35 741**	**(30 383)**	**(35 698)**	**1 843**	**-**	**1 215 574**	**1 215 531**	**43**
Deferred tax expenses	**X**	**X**	**X**	**57 906**	**(127 650)**	**2 778**	**-**	**X**	**X**	**X**
Net deferred tax assets	**888 002**	**852 261**	**35 741**					**820 085**	**912 299**	**(92 214)**
Net deferred tax	**31 757**	**31 495**	**262**					**30 806**	**30 849**	**(43)**

Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2011									
	OPENING BALANCE			CHANGES RECOGNIZED		CHANGES RESULTING FROM CHANGES IN THE SCOPE OF CONSOLIDATION AND OTHER		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	IN THE INCOME STATEMENT	IN EQUITY	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENTS	IN EQUITY
DEFFERED TAX LIABILITY										
Accrued income – securities	25 209	25 209	-	6 197	-	1 048	-	32 454	32 454	-
Accrued income – loans	131 793	131 793	-	(30 127)	-	-	-	101 666	101 666	-
Change in revaluation of financial assets	183 114	177 221	5 893	(61 724)	(5 631)	-	-	115 759	115 497	262
Accelerated depreciation	119 559	119 559	-	2 730	-	(316)	-	121 973	121 973	-
Investment relief	8 193	8 193	-	(500)	-	-	-	7 693	7 693	-
Other	28 279	28 279	-	13 909	-	1 834	-	44 022	44 022	-
Gross deferred tax liability	**496 147**	**490 254**	**5 893**	**(69 515)**	**(5 631)**	**2 566**	**-**	**423 567**	**423 305**	**262**
DEFFERED TAX ASSET										
Accrued expenses – securities	-	-	-	-	-	-	-	-	-	-
Accrued expenses – loans and deposits	127 519	127 519	-	(33 334)	-	-	-	94 185	94 185	-
Downward revaluation of financial assets	328 263	296 078	32 185	68 431	3 556	-	-	400 250	364 509	35 741
Income received to be settled from loans and current accounts	106 435	106 435	-	(19 567)	-	(8)	-	86 860	86 860	-
Loan provision expenses	356 922	356 922	-	35 629	-	(2 960)	-	389 591	389 591	-
Personnel related provisions	92 527	92 527	-	(3 227)	-	199	-	89 499	89 499	-
Accruals	15 837	15 837	-	(6 486)	-	133	-	9 484	9 484	-
Previous year loss	2 265	2 265	-	4 255	-	(2)	-	6 518	6 518	-
Other	172 423	172 423	-	27 681	-	3 321	-	203 425	203 425	-
Gross deferred tax asset	**1 202 191**	**1 170 006**	**32 185**	**73 382**	**3 556**	**683**	**-**	**1 279 812**	**1 244 071**	**35 741**
Deferred tax expenses	**X**	**X**	**X**	**142 897**	**9 187**	**(1 883)**	**-**	**X**	**X**	**X**
Net deferred tax assets	**721 981**	**694 785**	**27 196**	**X**	**X**	**X**	**X**	**888 002**	**852 261**	**35 741**
Net deferred tax	**15 937**	**15 033**	**904**	**X**	**X**	**X**	**X**	**31 757**	**31 495**	**262**

(In PLN thousand)

As at 31 December 2012 and 31 December 2011, there were temporary differences related to investments in subsidiaries and associates, for which deferred tax liability was not created as a result of meeting the conditions of controlling the terms of temporary differences' reversing and being probable that these differences will not reverse in foreseeable future.

As at 31 December 2012, temporary differences related to investments in subsidiaries, branches, associates and joint arrangements, for which deferred tax liability was not created as a result of controlling the terms of temporary differences' reversing, amounted to PLN 22 257 thousand in total.

The table below presents the amount of negative temporary differences, unrecognized tax losses, unutilized tax reliefs, in relation to which deferred tax asset was not recognized in the statement of financial position as well as the expiration date of temporary differences.

EXPIRATION YEAR OF TEMPORARY DIFFERENCES	AMOUNT OF DIFFERENCES AS AT 31.12. 2012	AMOUNT OF DIFFERENCES AS AT 31.12.2011
2012	-	2 520
2013	190	405
2014	627	782
2015	710	670
2016	5	-
2017	216	-
No time limits	33 111	33 111
Total	**34 859**	**37 488**

20. Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing net profit of the Group by the weighted average number of the ordinary shares outstanding during the given period.

Earnings per share

	2012	2011
Net profit	2 955 702	2 899 414
Weighted average number of ordinary shares in the period	262 394 506	262 367 442
Earnings per share (in PLN per share)	11.26	11.05

Diluted earnings per share

Diluted earnings per share are calculated by dividing net profit of the Group by the weighted average number of the ordinary shares outstanding during the given period adjusted for all potential dilution of ordinary shares.

There are diluting instruments in the Group in the form of convertible bonds based on the G-class shares issue described in Note 43. For calculation purposes it is assumed that these instruments will be converted into shares.

	2012	2011
Net profit	2 955 702	2 899 414
Weighted average number of ordinary shares in the period	262 394 506	262 367 442
Adjustments to the number of shares for the purpose of calculation of diluted earnings per share	-	87 905
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 394 506	262 455 347
Diluted earnings per share (in PLN per share)	11.26	11.05

(In PLN thousand)

21. Dividend proposal

Dividends and other distributions to shareholders are recognized directly in equity. A liability for dividend payment is not recognized until the entity has not an obligation to pay the dividend, i.e. until the payment is approved.

The Management Board of the Bank will propose to the Shareholder's General Meeting a dividend payment for 2012 in the amount of PLN 8.39 per share. Total dividend proposed to pay amounts to PLN 2 202 124 thousand.

The final dividend distribution is subject to approval of the Shareholder's General Meeting.

22. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	31.12.2012	31.12.2011
Cash	2 228 394	2 236 224
Current account at Central Bank	6 978 478	2 005 750
Deposit	-	631 000
Interest	400	13 106
Other funds	13	13
Total	**9 207 285**	**4 886 093**

AMOUNTS DUE TO CENTRAL BANK	31.12.2012	31.12.2011
Loans	-	356 386
Total	**-**	**356 386**

Cash and balances with Central Bank by currencies

31.12.2012	ASSETS	LIABILITIES
PLN	8 530 306	-
EUR	336 426	-
USD	192 204	-
CHF	30 915	-
Other currencies	117 434	-
Total	**9 207 285**	**-**

31.12.2011	ASSETS	LIABILITIES
PLN	4 232 707	356 386
EUR	345 354	-
USD	191 072	-
CHF	25 190	-
Other currencies	91 770	-
Total	**4 886 093**	**356 386**

During the day, the Bank may use funds from the mandatory reserve account for ongoing payments pursuant to an instruction, submitted to the National Bank of Poland. It must, however, ensure that the average monthly balance on such accounts comply with the requirements described in the mandatory reserve declaration.

Funds in the mandatory reserve account bear interest in the amount of 0.9 of the rediscount rate for bills of exchange amounts to 4.50 %. as at 31 December 2012 (As at 31 December 2011 this interest rate amounted to 4.75 %).

The 'Loans' line presents refinancing loan granted by the National Bank of Poland for Bank's central investment. The loan was repaid before December 31, 2012.

Notes to the financial statements (cont.)

(In PLN thousand)

23. Loans and advances to banks

Loans and advances to banks by product type

	31.12.2012	31.12.2011
Current accounts and overnight placements	1 653 685	1 170 846
Interbank placements	607 767	151 685
Loans and advances	104 461	83 716
Cash collateral	1 332 991	2 065 677
Repo transactions	200 028	1 971 558
Debt securities	-	1 181
Interest accrued	35 891	29 396
Receivables in transit	199 157	184 514
Total gross amount	**4 123 980**	**5 658 573**
Impairment provision	(70 132)	(72 516)
Total net amount	**4 053 848**	**5 586 057**

Loans and advances to banks by quality

	31.12.2012	31.12.2011
Loans and advances to banks, including:		
gross value of non impaired receivables	4 045 173	5 577 796
gross value of impaired receivables	78 807	80 777
individual impairment charges	(54 000)	(55 181)
collective impairment charges (*)	(16 132)	(17 335)
Total	**4 053 848**	**5 586 057**

(*) Including estimated impairment for losses, incurred but not reported (IBNR)

Loans and advances to banks by contractual maturities

	31.12.2012	31.12.2011
Loans and advances to banks, including:		
up to 1 month	3 028 748	4 892 755
between 1 and 3 months	777 896	561 176
between 3 months and 1 year	76 972	6 436
between 1 and 5 years	80 913	46 718
over 5 years	44 564	42 495
expired	78 996	79 597
Interest accrued	35 891	29 396
Total gross amount	**4 123 980**	**5 658 573**
Impairment provision	(70 132)	(72 516)
Total net amount	**4 053 848**	**5 586 057**

Notes to the financial statements (cont.)

(In PLN thousand)

Loans and advances to banks by currencies

	31.12.2012	31.12.2011
PLN	1 155 757	2 311 393
CHF	31 502	24 549
EUR	2 048 093	2 927 817
USD	657 147	194 926
Other currencies	161 351	127 372
Total	**4 053 848**	**5 586 057**

Changes in the level of impairments charges in 2012 and 2011 are presented in the Note 17.

24. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product structure

31.12.2012	ASSETS	LIABILITIES
Securities issued by State Treasury	293 566	246 578
T- bills	1 204	-
T- bonds	292 362	246 578
Securities issued by banks	147 489	-
Securities issued by business entities	159 488	-
Total	**600 543**	**246 578**

31.12.2011	ASSETS	LIABILITIES
Securities issued by State Treasury	601 813	-
T- bills	106 729	-
T- bonds	495 084	-
Securities issued by banks	247 898	-
Total	**849 711**	**-**

Financial assets and liabilities held for trading by maturities

31.12.2012	ASSETS	LIABILITIES
Debt securities, including:		
up to 1 month	161 555	-
between 1 and 3 months	975	-
between 3 months and 1 year	175 674	37 496
between 1 and 5 years	160 512	131 160
over 5 years	101 827	77 922
Total	**600 543**	**246 578**

(In PLN thousand)

31.12.2011	ASSETS	LIABILITIES
Debt securities, including:		
up to 1 month	130 632	-
between 1 and 3 months	67 993	-
between 3 months and 1 year	368 520	-
between 1 and 5 years	209 065	-
over 5 years	73 501	-
Total	**849 711**	**-**

Financial assets and liabilities held for trading by currencies

31.12.2012	ASSETS	LIABILITIES
PLN	566 180	246 578
EUR	6 651	-
USD	27 712	-
Total	**600 543**	**246 578**

31.12.2011	ASSETS	LIABILITIES
PLN	573 434	-
EUR	61 865	-
USD	214 412	-
Total	**849 711**	**-**

25. Derivative financial instruments held for trading

Derivative financial instruments at the Group

In its operations the Group uses different financial derivatives for managing risks involved in the Group's business. The majority of derivatives at the Group include over-the-counter contracts. Regulated stock exchange contracts (mainly futures) represent a small part of those derivatives.

Derivative foreign exchange transactions include either the obligation or the right to buy or sell foreign and domestic currency assets. Forward foreign exchange transactions are based on the foreign exchange rates, specified on the transaction date for a predefined future date. These transactions are valued using the discounted cash flow model. Cash flows are discounted according to zero-coupon yield curves, relevant for a given market.

Foreign exchange swaps are a combination of a swap of specific currencies as at spot date and of reverse a transaction as at forward date with foreign exchange rates specified in advance on transaction date. Transactions of such type are settled by an exchange of assets. Foreign exchange swap transactions are mostly concluded in the process of managing the Bank's currency liquidity. These transactions are valued using the discounted cash flow model. Cash flows are discounted according to zero-coupon yield curves relevant for a given market.

Foreign exchange options with delivery are defined as contracts, where one of the parties, i.e. the option buyer, purchases from the other party, referred to as the option writer, at a so-called premium price the right without the obligation to buy (call option) or to sell (put option), at a specified point of time in the future or during a specified time range a foreign currency amount specified in the contract at the exchange rate set during the conclusion of the option agreement.

In case of options settled in net amounts, upon acquisition of the rights, the buyer receives an amount of money equal to the product of notional and difference between spot ad strike price.

Barrier option with one barrier is a type of option where exercise of the option depends on the underlying crossing or reaching a given barrier level. A barrier may be reached starting from lower ('UP') or from higher ('DOWN') level of the underlying instrument. 'IN' options start their lives worthless and only become active when a predetermined knock-in barrier price is breached. 'OUT' options start their lives active and become null and void when a certain knock-out barrier price is breached.

Foreign exchange options are priced using the Garman-Kohlhagen valuation model (and in case of barrier and Asian options using the so-called expanded Garman-Kohlhagen model). Parameters of the model based on market quotations of plain-vanilla at-the-money options and market spreads for out-of-the-money and in-the-money options (volatility smile) for standard maturities.

Derivatives related to interest rates enable the Group and its customers to transfer, modify or limit interest rate risk.

In the case of Interest Rate Swaps (IRS), counterparties exchange between each other the flows of interest payments, accrued on the nominal amount identified in the contract. These transactions are valued using the discounted cash flow model. Floating (implied) cash flows are estimated on base of respective IRS rates. Floating and fixed cash flows are discounted by relevant zero-coupon yield curves.

Forward Rate Agreements (FRA) involve both parties undertaking to pay interest on a predefined nominal amount for a specified period starting in the future and charged according to the interest rate determined on the day of the agreement. The parties settle the transaction on value date with the interest difference between the FRA rate (forward rate as at transaction date) and the reference rate. These transactions are valued using the discounted cash flow model.

Cross currency IRS involves both parties swapping capital and interest flows in different currencies in a specified period. These transactions are valued using the discounted cash flow model. Valuation of Basis Swap transactions (cross currency IRS with floating coupon) takes into account market quotations of basis spread (Basis swap spread).

In the case of forward transactions on securities, counterparties agree to buy or sell specified securities on a forward date for a payment fixed on the date of transaction. Such transactions are measured based upon the valuation of the security (mark-to-market or mark-to-model) and valuation of the related payment (method of discounting cash flows by money market rate).

Interest rate options (cap/floor) are contracts where one of the parties, the option buyer, purchases from the other party, the option writer, at a so-called premium price, the right without the obligation to borrow (cap) or lend (floor) at specified points of time in the future (independently) amounts specified in the contract at the interest rate set during the conclusion of the option. Contracts are net-settled (without fund location) at agreed time. Transactions of this type are valued using the Black-Scholes model. The model is parameterized based upon market quotations of at-the-money options as at standard quoted maturities.

Interest rate futures transactions refer to standardized forward contracts purchased on the stock market. Futures contracts are measured based upon quotations available directly from stock exchanges.

Derivative financial instruments embedded in other instruments

The Group uses derivatives financial instruments embedded in complex financial instruments, i.e. such as including both a derivative and base agreement, which results in part of the cash flows of the combined instrument changing similarly to cash flows of an independent derivative. Derivatives embedded in other instruments cause part or all cash flows resulting from the base agreement to be modified as per a specific interest rate, price of a security, foreign exchange rate, price index or interest rate index.

Call options in some of the corporate, municipal bonds and own equity placements are derivatives embedded in balance sheet financial instruments. In this case, embedded financial instruments are closely related to the base contract and thus the embedded derivative does not need to be isolated or recognized and valuated separately.

The Group has deposits and certificates of deposits on offer which include embedded derivatives. As the nature of such instrument is not strictly associated with the nature of the deposit agreement, the embedded instrument is separated and classified into the portfolio held-for-trading. The valuation of such instrument is recognized in the income statement. Embedded instruments include simple options (plain vanilla) and exotic options for single stocks, indices and other market indices, including interest rate indices, foreign exchange rates and their related baskets.

All embedded options are immediately closed back-to-back on the interbank market.

Currency options embedded in deposits are valued as other currency options.

Other plain vanilla and exotic options embedded in deposits as well as their close positions are valued using the Monte-Carlo simulation technique assuming Geometric Brownian Motion model of risk factors. Model parameters are determined based upon statistical measures.

The Group carried out an analysis of the portfolio of credit agreements and of regular agreements in order to isolate embedded derivatives and decided that the agreements in question do not require isolation and separate treatment of embedded instruments.

Risk involved in financial derivatives

Market risk and credit risk are the basic types of risk, associated with derivatives.

At the beginning, financial derivatives usually have a small market value or no market value at all. It is a consequence of the fact that derivatives require no initial net investments, or require a very small net investment compared to other types of contracts, which display a similar reaction to changing market conditions.

Derivatives gain positive or negative value as a result of change in specific interest rates, prices of securities, prices of commodities, currency exchange rates, price index, credit standing or credit index or another market parameter. In case of such changes, the derivatives held become more or less advantageous than instruments with the same residual maturities, available at that moment on the market.

Credit risk related to derivative contracts is a potential cost of concluding a new contract on the original terms and conditions if the other party to the original contract fails to meet its obligations. In order to assess the potential cost of replacement the Group uses the same method as for credit risk assessment. In order to control its credit risk levels the Group performs assessments of other contract parties using the same methods as for credit decisions.

The following tables present nominal amounts of financial derivatives and fair values of such derivatives. Nominal amounts of certain financial instruments are used for comparison with balance sheet instruments but need not necessarily indicate what the future cash flow amounts will be or what the current fair value of such instruments is and therefore do not reflect the Group’s credit or price risk level.

Notes to the financial statements (cont.)

(In PLN thousand)

Fair value of trading derivatives

31.12.2012	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	2 368 230	2 345 059
Forward Rate Agreements (FRA)	10 007	13 582
Options	18 316	17 647
Other	82	48
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	12 947	69 715
Currency Forward Agreements	77 355	76 742
Currency Swaps (FX–swap)	80 527	17 502
Options for currency and for gold	74 759	73 629
Transactions based on equity securities		
Options	6 874	6 874
Total	**2 649 097**	**2 620 798**

Fair value of trading derivatives

31.12.2011	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 701 579	1 754 943
Forward Rate Agreements (FRA)	2 818	2 743
Options	7 096	6 578
Other	208	155
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	9 283	54 257
Currency Forward Agreements	166 612	90 590
Currency Swaps (FX–swap)	132 111	507 621
Options for currency and for gold	111 806	65 551
Transactions based on equity securities		
Options	24 761	24 761
Total	**2 156 274**	**2 507 199**

Notes to the financial statements (cont.)

(In PLN thousand)

Nominal value of trading derivatives

31.12.2012	CONTRACTUAL MATURITY					TOTAL
	UP TO 1MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	3 691 426	8 470 978	19 639 614	43 212 120	10 401 416	85 415 554
Forward Rate Agreements (FRA)	11 850 000	7 450 000	4 375 000	-	-	23 675 000
Options	-	-	259 240	2 537 027	265 538	3 061 805
Other	194 475	-	-	-	-	194 475
Foreign currency and gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) - currency bought	-	-	1 533 075	1 507 670	-	3 040 745
Cross-Currency Interest Rate Swaps (CIRS) - currency sold	-	-	1 606 232	1 476 461	-	3 082 693
Currency Forward Agreements - currency bought	3 331 741	1 252 226	1 994 962	544 358	-	7 123 287
Currency Forward Agreements - currency sold	3 321 476	1 250 173	1 991 940	577 191	-	7 140 780
Currency Swaps (FX swap) – currency bought	4 317 071	2 971 247	880 609	224 375	-	8 393 302
Currency Swaps (FX swap) – currency sold	4 301 362	2 963 036	851 853	204 410	-	8 320 661
Options bought	405 506	327 895	420 723	1 969 096	-	3 123 220
Options sold	400 215	316 689	423 854	1 969 096	-	3 109 854
Transactions based on equity securities						
Options	-	-	352 722	228 712	-	581 434
Total	**31 813 272**	**25 002 244**	**34 329 824**	**54 450 516**	**10 666 954**	**156 262 810**

Nominal value of trading derivatives

31.12.2011	CONTRACTUAL MATURITY					TOTAL
	UP TO 1MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	5 259 334	4 580 513	17 064 676	54 773 046	14 464 308	96 141 877
Forward Rate Agreements (FRA)	3 700 000	3 450 000	9 950 000	600 000	-	17 700 000
Options	-	15 900	83 388	749 812	323 118	1 172 218
Other	511 345	-	-	-	-	511 345
Foreign currency and gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) - currency bought	-	-	-	2 862 652	-	2 862 652
Cross-Currency Interest Rate Swaps (CIRS) - currency sold	-	-	-	2 915 265	-	2 915 265
Currency Forward Agreements - currency bought	8 266 466	1 532 819	1 708 405	657 096	-	12 164 786
Currency Forward Agreements - currency sold	8 255 538	1 532 984	1 684 314	651 403	-	12 124 239
Currency Swaps (FX swap) – currency bought	10 153 653	3 986 364	4 521 798	224 375	-	18 886 190
Currency Swaps (FX swap) – currency sold	10 303 737	4 027 878	4 615 344	220 840	-	19 167 799
Options bought	717 227	1 322 625	1 142 822	144 215	-	3 326 889
Options sold	713 315	1 289 280	1 074 224	144 215	-	3 221 034
Transactions based on equity securities						
Options	-	32 064	590 184	846 974	-	1 469 222
Total	**47 880 615**	**21 770 427**	**42 435 155**	**64 789 893**	**14 787 426**	**191 663 516**

(In PLN thousand)

26. Loans and advances to customers

Loans and advances to customers by product type

	31.12.2012	31.12.2011
Mortgage	33 137 807	28 977 373
Current accounts	10 859 724	11 055 328
Operating loans	14 346 399	16 310 840
Investment loans	18 372 955	19 772 867
Payment cards receivables	747 952	706 358
Purchased debt receivables	2 873 180	3 134 511
Other loans and advances	9 580 888	9 466 792
Debt securities	6 791 337	5 681 677
Repo transactions	2 692 280	1 782 916
Receivables in transit	316 018	9 287
Interest accrued	27 985	341 192
Total gross amount	**99 746 525**	**97 239 141**
Impairment provision	(4 665 033)	(4 422 752)
Total net amount	**95 081 492**	**92 816 389**

Loans and advances to customers by customer type

	31.12.2012	31.12.2011
Receivables from corporate	47 812 814	49 373 710
Receivables from individuals	40 624 113	36 759 208
Receivables from budget entities	10 993 580	10 765 031
Interest accrued	316 018	341 192
Total gross amount	**99 746 525**	**97 239 141**
Impairment provision	(4 665 033)	(4 422 752)
Total net amount	**95 081 492**	**92 816 389**

Loans and advances to customers by quality

	31.12.2012	31.12.2011
Loans and advances to customers, including:		
gross value of non impaired receivables	92 540 136	91 193 753
gross value of impaired receivables	7 206 389	6 045 388
individual impairment charges	(2 201 789)	(1 834 506)
collective impairment charges (*)	(2 463 244)	(2 588 246)
Total	**95 081 492**	**92 816 389**

(*) Including estimated impairment for losses, incurred but not reported (IBNR)

Notes to the financial statements (cont.)

(In PLN thousand)

Loans and advances to customers by contractual maturities

	31.12.2012	31.12.2011
Loans and advances to customers, including:		
up to 1 month	15 059 577	15 671 206
between 1 and 3 months	3 660 637	3 371 176
between 3 months and 1 year	11 069 814	9 025 817
between 1 and 5 years	29 643 766	30 479 339
over 5 years	34 933 377	33 892 650
Expired	5 063 336	4 457 761
Interest accrued	316 018	341 192
Total gross amount	**99 746 525**	**97 239 141**
Impairment provision	(4 665 033)	(4 422 752)
Total net amount	**95 081 492**	**92 816 389**

Loans and advances to customers by currencies

	31.12.2012	31.12.2011
PLN	76 874 963	71 711 606
CHF	5 870 827	6 893 039
EUR	10 510 432	11 388 223
USD	1 794 904	2 755 554
Other currencies	30 366	67 967
Total	**95 081 492**	**92 816 389**

Changes in the level of impairment charges in 2012 and 2011 are presented in the Note 17.

27. Receivables from finance leases

The Group conducts leasing operations through its subsidiary Pekao Leasing Sp. z o.o. The value of gross lease investments and minimum lease payments were respectively:

31.12.2012	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASING PAYMENTS
Up to one year	1 369 550	1 220 143
Between 1 and 5 years	1 720 003	1 570 143
Over 5 years	131 031	120 330
Total	**3 220 584**	**2 910 616**
Unrealized financial revenues	(309 968)	
Net leasing investment	**2 910 616**	
Non-guarantee residual values attributed to lessor	-	
Present value of minimum lease payments	**2 910 616**	
Value of provision	**(192 685)**	
Statement of financial position value	**2 717 931**	

(In PLN thousand)

31.12.2011	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASING PAYMENTS
Up to one year	1 455 137	1 276 515
Between 1 and 5 years	1 826 675	1 653 950
Over 5 years	152 590	132 585
Total	**3 434 402**	**3 063 050**
Unrealized financial revenues	(371 352)	
Net leasing investment	**3 063 050**	
Non-guarantee residual values attributed to lessor	-	
Present value of minimum lease payments	**3 063 050**	
Value of provision	**(200 290)**	
Statement of financial position value	**2 862 760**	

The Group is acting as a lessor in finance leases mainly for transport vehicles, machines and equipment.

Moreover, when the Capital Group is a lessee in a finance lease contract among the Group entities, the inter-company transactions relating to the finance lease are subject to elimination in the consolidated financial statements.

Lease financing receivables from banks by quality

	31.12.2012	31.12.2011
Receivables from banks, in this:		
gross value of non impaired receivables	204	343
gross value of impaired receivables	-	-
individual impairment charges	(31)	(35)
collective impairment charges (*)	(1)	(3)
Total	**172**	**305**

(*) Including estimated impairment for losses, incurred but not reported (IBNR)

Lease financing receivables from customers by quality

	31.12.2012	31.12.2011
Receivables from customers, in this:		
gross value of non impaired receivables	2 622 002	2 760 475
gross value of impaired receivables	288 410	302 232
individual impairment charges	(38 740)	(49 992)
collective impairment charges (*)	(153 913)	(150 260)
Total	**2 717 759**	**2 862 455**

(*) Including estimated impairment for losses, incurred but not reported (IBNR)

(In PLN thousand)

Receivables from finance leases by currencies

	31.12.2012	31.12.2011
PLN	2 036 287	2 148 497
CHF	19 199	50 142
EUR	649 163	647 894
USD	13 282	16 227
Total	**2 717 931**	**2 862 760**

28. Hedge accounting

As at 31 December 2012 the Group applies fair value hedge accounting and cash flow hedge accounting.

In 2012 the Group continues to apply following hedging relationships:

- fair value hedge accounting for fixed-rate debt securities classified as available-for-sale hedged with interest rate swap (IRS) transactions- described in 28.1,
- cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions- described in 28.2,
- cash flow hedge accounting for floating-rate financial assets with interest rate swap (IRS) transactions – described in 28.3,
- fair value hedge accounting for interest rate risk for deposits portfolio denominated in EUR hedged with cross-currency interest rate swap (CIRS) transactions – described in 28.4,
- cash flow hedge accounting for floating-rate deposit portfolio denominated in EUR hedged with interest rate swap transactions – described in 28.5,
- cash flow hedge accounting for highy probable cash flow denominated in USD (long position in USD for the Bank) hedged with foreign exchange forward transactions (a series of fx-spot and fx-swap transactions) – described in 28.6.

In 2012 the Group:

- designated to the hedge accounting the hedging relationship – cash flow hedge accounting for floating-rate loan portfolio denominated in EUR and USD hedged with fx swap transactions – description in 28.7,
- prolonged the cash flow hedge accounting for highy probable cash flow in USD (long position in USD for the Bank) hedged with fx-forward transactions (a series of fx-spot and fx-swap transactions). It is expected that cash flows related to the hedged items will occur until 11 March 2013.

Notes to the financial statements (cont.)

(In PLN thousand)

Fair values of hedging derivatives

31.12.2012	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	-	270 343
Cross-currency interest rate swaps (CIRS)	180 042	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	68 317	69 097
Cross-currency interest rate swaps (CIRS)	75 036	887 341
FX-swaps	44 495	-
Total	**367 890**	**1 226 781**

31.12.2011	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	-	216 267
Cross-currency interest rate swaps (CIRS)	313 312	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	55 438	101 931
Cross-currency interest rate swaps (CIRS)	40 156	1 343 026
FX-swaps	-	77 325
Total	**408 906**	**1 738 549**

Nominal values of hedging derivatives
*

31.12.2012	CONTRACTS ACCORDING TO MATURITIES					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Fair value hedge accounting						
Interest rate swaps (IRS)	-	167 616	-	1 391 311	937 938	2 496 865
Cross-currency interest rate swaps (CIRS)	-	-	771 340	1 499 179	-	2 270 519
Cash flow hedge accounting						
Interest rate swaps (IRS)	-	70 000	1 312 080	1 076 585	-	2 458 665
Cross-currency interest rate swaps (CIRS)	-	-	4 274 170	6 722 953	5 197 026	16 194 149
Fx-swaps	-	1 752 975	2 005 060	-	-	3 758 035
Total	**-**	**1 990 591**	**8 362 650**	**10 690 028**	**6 134 964**	**27 178 233**

(In PLN thousand)

31.12.2011	CONTRACTS ACCORDING TO MATURITIES					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Fair value hedge accounting						
Interest rate swaps (IRS)	-	-	462 716	1 151 631	879 176	2 493 523
Cross-currency interest rate swaps (CIRS)	-	-	173 534	2 367 013	-	2 540 547
Cash flow hedge accounting						
Interest rate swaps (IRS)	50 000	-	500 334	2 390 460	175 000	3 115 794
Cross-currency interest rate swaps (CIRS)	-	-	2 122 570	8 224 643	5 361 276	15 708 489
Fx-swaps	-	1 156 186	-	-	-	1 156 186
Total	**50 000**	**1 156 186**	**3 259 154**	**14 133 747**	**6 415 452**	**25 014 539**

Amounts recognized in income statement and revaluation reserves related to cash flow hedge accounting

	2012	2011
Revaluation reserves (deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge - gross value)	(64 318)	(24 199)
Interest income on hedging derivatives	316 954	172 047
Ineffective portion in changes in fair value of hedging transactions recognized in income statement	6 687	(4 975)

Changes in revaluation reserves in respect of hedging derivatives related to cash flow hedge accounting

	2012	2011
Opening balance	**(24 199)**	**25 070**
Deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge	(40 171)	(49 321)
Amount of the deferral of fair value changes of hedging instruments of the effective hedge removed from revaluation reserves and presented in net profit or loss	52	52
Closing balance	**(64 318)**	**(24 199)**

Amounts recognized in income statement related to fair value hedge accounting

TYPE OF GAINS/LOSSES	2012	2011
Gains/losses from revaluation of hedging instruments to fair value	(76 484)	(52 580)
Gains/losses from revaluation of hedged item associated with hedged risk to fair value	40 733	36 823
Result on fair value hedge accounting	**(35 751)**	**(15 757)**
Net interest income of hedging instruments	(55 078)	(51 273)

Notes to the financial statements (cont.)

(In PLN thousand)

28.1 Fair value hedge of fixed-coupon debt securities

Description of hedging relationship
The Group hedges a portion of the interest rate risk resulting from the fair value changes of the hedged item related to the volatility of market swap curves with the designated IRS transactions.

Hedged items
The hedged items are fixed-coupon debt securities classified as available for sale ('AFS'), denominated in PLN, EUR and USD.

Hedging derivatives
The hedging derivatives consist of IRS transactions in PLN, EUR and USD (short position in fixed-rate) for which the Bank receives floating-rate payments, and pays fixed-rate.

Financial Statement presentation
The result of the change in the hedged items' fair value that relates to the hedged risk is presented in the income statement line item 'Result on fair value hedge accounting'. The remaining portion of the change in the hedged items' fair value (resulting from spread between swap yield curve and bond yield curve) is recognized in accordance with the accounting principles applicable to AFS (i.e. in revaluation reserve in equity). Interest accrued on AFS bonds is presented in the net interest income.

Changes in the fair value of hedging derivatives under the fair value hedge accounting is presented in the income statement line item 'Fair value adjustments in hedge accounting'. Interest accrued on the hedging derivatives under the fair value hedge accounting is presented in the interest income.

28.2 Cash flow hedge of floating-rate loans and floating-rate deposits

Description of hedging relationship
The Bank hedges a portion of the interest rate risk and the foreign currency risk resulting from the volatility of cash flows from floating-rate assets and liabilities with the designated CIRS transactions (basis swap).

Hedged items
Cash flows from floating-rate assets and liabilities portfolio is designated as the hedged items.

Hedging derivatives
Hedging derivatives consist of a portfolio of CIRS transactions (basis swap), where the Bank pays floating-rate currency cash flows, and receives floating-rate PLN/currency cash-flows.

Financial Statement presentation
The effective portion of the change in fair value of hedging derivatives' is recognized in revaluation reserve in equity. The ineffective portion of the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading. The interest on CIRS transactions and hedged items is presented in the net interest income.

Period when the cash flow is expected
It is expected that the cash flows related to the hedged items will occur until 22 November 2021.

Notes to the financial statements (cont.)

(In PLN thousand)

28.3 Cash flow hedge of floating-rate loans

Description of hedging relationship
The Bank hedges a portion of the interest rate risk related to the volatility of cash flows on floating-rate assets with the designated IRS transactions.

Hedged items
The hedged items consist of the cash flows from floating-rate assets.

Hedging derivatives
The hedging derivatives consist of portfolio of IRS transactions (short position in floating rate – the Bank receives fixed payments and pays floating-rate).

Financial Statement presentation
The effective portion of the change in fair value of hedging derivatives is recognized in revaluation reserve in equity. The ineffective portion of change in fair value hedging derivatives is recognized in the result on financial assets and liabilities held for trading.
The interest from IRS transactions and hedged items is presented in the net interest income.

Period when the cash flow is expected
It is expected that the cash flows related to the hedged items will occur until 20 November 2017.

28.4 Fair value hedge of interest rate risk for deposit portfolio

Description of hedging relationship
The Bank hedges the interest rate risk component of the fair value changes of the hedged item related to the volatility of market interest rates with the designated CIRS transactions.

Hedged items
The hedged item is a portfolio of deposits denominated in EUR with interests insensitive to interest rate changes.

Hedging derivatives
The hedging items consist of CIRS transactions in which the Bank receives fixed-rate payments in EUR, and pays floating-rate payments in Polish Zloty.

Financial Statement presentation
The result of the change in the hedged items' fair value that relates to the hedged risk is presented in the income statement line item 'Result on fair value hedge accounting'. The remaining portion of change in the hedged items' fair value is recognized as a separate line in the liabilities. Interests from deposits are presented in net interest income.

Changes in the fair value of hedging derivatives under the fair value hedge accounting are presented in the income statement line item 'Result on fair value hedge accounting'. Interest accrued on the hedging derivatives under the fair value hedge accounting is presented in net interest income.

(In PLN thousand)

28.5 Cash flow hedge of floating-rate deposits

Description of hedging relationship
The Bank hedges a portion of the interest rate risk related to the volatility of cash flows on floating-rate deposits with the designated IRS transactions.

Hedged items
Cash flows from floating-rate deposits denominated in EUR are the hedged items.

Hedging derivatives
The hedging derivatives consist of portfolio of IRS transactions (short position in fix-rate – the Bank receives floating-rate payments and pays fixed-rate).

Financial Statement presentation
The effective portion of the change in fair value of hedging derivatives is recognized in revaluation reserve in equity. The ineffective portion of change in fair value hedging derivatives is recognized in the net result on financial assets and liabilities held for trading. The interest from IRS transactions and hedged items is presented in net interest income.

Period when the cash flow is expected
It is expected that the cash flows related to the hedged items will occur until 5 December 2014.

28.6 Cash flow hedge of projected inflow denominated in foreign currency

Description of hedging relationship
The Bank hedges the volatility of cash flows denominated in USD constituting the projected revenues from expected sales with the designated FX-forward transactions. The currency risk is being hedged.

Hedged items
Projected sales revenues dependent on US-Dollar and Polish zloty exchange rates are the hedged items.

Hedging derivatives
The hedging derivatives consist of a portfolio of fx-forward transactions (fx-swap and fx-spot closing the short legs of fx-swap), in which the Bank sells USD currency in exchange for PLN currency on 11 March 2013 at an agreed exchange rate.

Financial Statement presentation
The effective portion of change in hedging derivatives fair value is recognized in revaluation reserve in equity. The ineffective portion of changes in hedging derivatives fair value is recognized in the ‘Result on financial assets and liabilities held for trading’.

Period when the cash flow is expected
It is expected that the cash flows related to the hedged items will occur until 11 March 2013.

Notes to the financial statements (cont.)

(In PLN thousand)

28.7 Cash flow hedge of floating-rate assets denominated in foreign currency hedged with fx-swap transactions against the exchange and interest rate risk

Description of hedging relationship
The Bank hedges the volatility of cash flows constituting the floating-rate financial assets (loans in EUR I USD) by fx-swap transactions. The currency and interest rate risk are hedged.

Hedged items
The hedged items are granted loans of the floating-rate denominated in EUR and USD.

Hedging derivatives
The hedging items consist of a fx-swap transaction portfolio.

Financial Statement presentation
The effective portion of change in hedging derivatives fair value is recognized in revaluation reserve in equity. The ineffective portion of changes in hedging derivatives fair value is recognized in the result on financial assets and liabilities held for trading. Settled part of the swap points on the hedging instrument is transferred from revaluation reserve in equity to interest income. Currency revaluation concerning the first capital swap on the hedging instrument is recognized in revaluation reserve in equity and the result on financial assets and liabilities held for trading.

Period when the cash flow is expected
It is expected that the cash flows related to the hedged items will occur until 25 November 2013.

29. Investment (placement) securities

	31.12.2012	31.12.2011
Debt securities available for sale (AFS)	25 869 334	25 307 265
Equity securities available for sale (AFS)	18 325	17 538
Debt securities held to maturity (HTM)	2 847 783	3 794 834
Total	**28 735 442**	**29 119 637**

Debt securities available for sale (AFS)

	31.12.2012	31.12.2011
Securities issued by State Treasury	15 600 595	14 885 948
T-bills	199	40 736
T-bonds	15 600 396	14 845 212
Securities issued by Central Banks	9 320 660	9 718 216
Securities issued by business entities	248 995	38 632
Securities issued by local governments	699 084	664 469
Total	**25 869 334**	**25 307 265**
including impairment of assets	-	-

Notes to the financial statements (cont.)

(In PLN thousand)

Equity securities available for sale (AFS)

	31.12.2012	31.12.2011
Shares	18 325	17 538
Total	**18 325**	**17 538**
including impairment of assets	(123)	(123)

Debt securities held to maturity (HTM)

	31.12.2012	31.12.2011
Securities issued by State Treasury	2 173 002	3 119 353
T- bills	116 604	154 765
T- bonds	2 056 398	2 964 588
Securities issued by Central Banks	674 781	675 481
Total	**2 847 783**	**3 794 834**
including impairment of assets	-	-

Investment debt securities according to contractual maturities

	31.12.2012	31.12.2011
Debt securities, including:		
up to 1 month	11 073 994	10 393 698
between 1 and 3 months	261 985	183 673
between 3 months and 1 year	841 723	3 008 959
between 1 and 5 years	12 077 182	8 404 007
over 5 years	4 462 233	7 111 762
Total	**28 717 117**	**29 102 099**

Investment debt securities according to currencies

	31.12.2012	31.12.2011
PLN	26 391 921	26 675 031
EUR	1 361 396	671 610
USD	963 800	1 755 458
Total	**28 717 117**	**29 102 099**

(In PLN thousand)

Changes in investment (placement) securities

	2012	2011
DEBT SECURITIES AVAILABLE FOR SALE (AFS)		
Opening balance	**25 324 803**	**25 856 387**
Increases (purchase)	248 783 649	281 276 903
Decreases (sale and redemption)	(250 015 507)	(283 155 093)
Changes in fair value	833 196	3 539
Exchange rate differences	(192 818)	295 050
Accrued interest	734 385	648 185
Other changes	419 951	399 832
Closing balance	**25 887 659**	**25 324 803**
DEBT SECURITIES HELD UNTIL MATURITY (HTM)		
Opening balance	**3 794 834**	**4 542 058**
Increases (purchase)	32 984 769	31 596 384
Decreases (sale and redemption)	(34 100 922)	(32 567 323)
Impairment charges	-	-
Exchange rate differences	-	7 537
Accrued interest	44 017	24 368
Other changes	125 085	191 810
Closing balance	**2 847 783**	**3 794 834**
Net total investment (placement) securities	**28 735 442**	**29 119 637**

30. Reclassification of securities

IAS 39 ‘Financial Instruments: Recognition and Measurement’ and IFRS 7 ‘Financial Instruments: Disclosures’ provide, under certain conditions, the possibility for reclassification of financial instruments into other categories.

In 2012 and 2011, the Group did not take advantage of this possibility.

On 1 October 2008, however, due to the exceptional situation related to the financial crisis, the Group made use of the possibility for reclassification of its financial instruments.

The tables below present the information on the reclassified financial assets

	31.12.2012			31.12.2011		
	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	242 792	245 391	239 075	409 495	415 467	403 022
Financial assets reclassified from Available for Sale assets to Loans and advances to banks	-	-	-	-	-	-
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	563 669	672 816	708 233	563 669	645 958	656 906
Total	**806 461**	**918 207**	**947 308**	**973 164**	**1 061 425**	**1 059 928**

Notes to the financial statements (cont.)

(In PLN thousand)

	31.12.2010			31.12.2009		
	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	792 253	805 328	783 944	1 146 993	1 166 680	1 139 803
Financial assets reclassified from Available for Sale assets to Loans and advances to banks	290 500	290 857	290 780	1 274 000	1 276 846	1 276 174
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	563 669	643 505	641 524	563 669	628 733	599 810
Total	**1 646 422**	**1 739 690**	**1 716 248**	**2 984 662**	**3 072 259**	**3 015 787**

	31.12.2008			01.10.2008		
	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	1 297 877	1 329 760	1 328 936	1 302 577	1 331 580	1 331 580
Financial assets reclassified from Available for Sale assets to Loans and advances to banks	1 529 000	1 534 650	1 535 070	1 529 000	1 534 077	1 534 077
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	563 669	615 036	581 149	563 669	602 507	602 507
Total	**3 390 546**	**3 479 446**	**3 445 155**	**3 395 246**	**3 468 164**	**3 468 164**

If the Group failed to perform the reclassification, the income and revaluation equity would have changed as follows:

31.12.2012	NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	REVALUATION RESERVE
Financial assets reclassified from Available for Sale assets to loans and advances to customers	-	1 981
Financial assets reclassified from Available for Sale assets to loans and advances to banks	-	-
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	(5 543)	-
Total	**(5 543)**	**1 981**

31.12.2011	NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	REVALUATION RESERVE
Financial assets reclassified from Available for Sale assets to loans and advances to customers	-	4 746
Financial assets reclassified from Available for Sale assets to loans and advances to banks	-	-
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	10 376	-
Total	**10 376**	**4 746**

(In PLN thousand)

Net interest income on reclassified financial assets

	2012	2011
Financial assets reclassified from Available for Sale assets to loans and advances to customers	17 477	29 449
Financial assets reclassified from Available for Sale assets to loans and advances to banks	-	8 753
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	29 299	23 959
Total	**46 776**	**62 161**

31. Assets held for sale and discontinued operations

According to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the Group identified non-current assets meeting requirements of IFRS 5 (concerning classification of non-current assets as held for sale) from the item 'Assets held for sale'.

As at 31 December 2012, non-current assets classified as held for sale included following items classified as held for sale:

- exposure in the subsidiary - PJSC UniCredit Bank,
- real estate, and
- other property, plant and equipment as well as perpetual usufruct rights owned by the Group.

Specification of assets held for sale and liabilities associated with those assets:

	31.12.2012	31.12.2011
ASSETS HELD FOR SALE		
Assets of PJSC UniCredit Bank	2 265 490	2 900 717
Property, plant and equipment	86 168	30 858
Other assets	22 515	
Total assets	**2 374 173**	**2 931 575**
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE		-
Liabilities of PJSC UniCredit Bank	891 007	999 985
Total liabilities	**891 007**	**995 958**

The disposal of the Bank's investment in Ukraine will be achievable upon receiving all the necessary approvals.

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents assets and liabilities of PJSC UniCredit Bank classified by the Pekao Group as assets held for sale:

	31.12.2012 BEFORE ELIMINATION	ELIMINATION OF INTERCOMPANY TRANSACTIONS/ CONSOLIDATION ADJUSTMENTS	31.12.2012 AFTER ELIMINATION	31.12.2011 BEFORE ELIMINATION	ELIMINATION OF INTERCOMPANY TRANSACTIONS/ CONSOLIDATION ADJUSTMENTS	31.12.2011 AFTER ELIMINATION
ASSETS HELD FOR SALE						
Cash and due from Central Bank	34 320	-	**34 320**	42 623	-	**42 623**
Loans and advances to banks	953 056	8 793	**961 849**	830 883	6 036	**836 919**
Financial assets held for trading	131	-	**131**	350 887	-	**350 887**
Loans and advances to customers	1 205 385	-	**1 205 385**	1 635 670	-	**1 635 670**
Investments securities	33 029	-	**33 029**	11	-	**11**
Intangible assets	1 831	-	**1 831**	3 570	-	**3 570**
Property, plant and equipment	14 424	-	**14 424**	20 755	-	**20 755**
Other assets	14 553	(32)	**14 521**	10 505	(223)	**10 282**
TOTAL ASSETS	**2 256 729**	**8 761**	**2 265 490**	**2 894 904**	**5 813**	**2 900 717**
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE						
Amounts due to other banks	956 129	(900 836)	**55 293**	1 529 478	(1 416 435)	**113 043**
Amounts due to customers	792 045	-	**792 045**	840 112	-	**840 112**
Income tax liabilities	27 007	-	**27 007**	32 087	-	**32 087**
Other liabilities	16 662	-	**16 662**	14 743	-	**14 743**
TOTAL LIABILITIES	**1 791 843**	**(900 836)**	**891 007**	**2 416 420**	**(1 416 435)**	**999 985**

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents the selected groups of assets and liabilities of PJSC UniCredit Bank (before elimination) classified by currencies

31.12.2012	UAH	USD	EUR	OTHER	TOTAL
Cash and due from Central Bank	24 428	4 146	5 746	-	34 320
Loans and advances to banks	712 326	221 815	13 324	5 591	953 056
Financial assets held for trading	131	-	-	-	131
Loans and advances to customers	173 013	774 528	257 844	-	1 205 385
Investments securities	33 029	-	-	-	33 029
Other assets	30 032	748	28	-	30 808
TOTAL	**972 959**	**1 001 237**	**276 942**	**5 591**	**2 256 729**
Amounts due to other banks	2 377	747 973	205 779	-	956 129
Amounts due to customers	456 026	211 936	119 428	4 655	792 045
Other liabilities	35 284	1 271	7 087	27	43 669
TOTAL	**493 687**	**961 180**	**332 294**	**4 682**	**1 791 843**

31.12.2011	UAH	USD	EUR	OTHER	TOTAL
Cash and due from Central Bank	31 135	5 514	5 974	-	42 623
Loans and advances to banks	519 878	291 695	14 708	4 602	830 883
Financial assets held for trading	350 887	-	-	-	350 887
Loans and advances to customers	199 393	1 103 496	332 781	-	1 635 670
Investments securities	11	-	-	-	11
Other assets	34 763	54	13	-	34 830
TOTAL	**1 136 067**	**1 400 759**	**353 476**	**4 602**	**2 894 904**
Amounts due to other banks	2 445	1 253 407	273 626	-	1 529 478
Amounts due to customers	416 661	259 021	161 583	2 847	840 112
Other liabilities	40 340	65	6 395	30	46 830
TOTAL	**459 446**	**1 512 493**	**441 604**	**2 877**	**2 416 420**

The following exchange rates were used for preparation of tables presenting major positions:

	31.12.2012	31.12.2011
1 USD/UAH – the average exchange rate of NBU	7.9930	7.9898
1 EUR/UAH – the average exchange rate of NBU	10.537172	10.298053
1 UAH/PLN – the average exchange rate of NBP	0.3825	0.4221

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents the income statement of discontinued operations of PJSC UniCredit Bank

	2012	2011
Interest income	190 878	225 066
Interest expense	(63 789)	(93 692)
Net interest income	**127 089**	**131 374**
Fee and commission income	41 095	38 648
Fee and commission expense	(15 062)	(17 309)
Net fee and commission income	**26 033**	**21 339**
Result on financial assets and liabilities held for trading	**9 641**	**12 007**
Gains (losses) on disposal of:	**(21)**	**242**
loans and other financial receivables	-	289
available for sale financial assets and held to maturity investments	(21)	(47)
Operating income	**162 742**	**164 962**
Net impairment losses on financial assets and off-balance sheet commitments	**(33 980)**	**(4 532)**
loans and other financial receivables	(33 980)	(4 532)
Net result on financial activity	**128 762**	**160 430**
Administrative expenses	**(77 609)**	**(76 896)**
personnel expenses	(39 829)	(37 659)
other administrative expenses	(37 780)	(39 237)
Depreciation and amortization	**(6 460)**	**(9 026)**
Net other operating income and expenses	**200**	**(836)**
Operating costs	**(83 869)**	**(86 758)**
Profit before income tax	**44 893**	**73 672**
Income tax expense	(8 288)	(15 966)
Net profit for the period	**36 605**	**57 706**

The table below presents the cash flow statement of discontinued operations of PJSC UniCredit Bank

	2012	2011
Net cash flows from operating activities	146 423	229 305
Net cash flows from investing activities	(32 501)	185 806
Net cash flows from financing activities	-	-
Total	**113 922**	**415 111**

Notes to the financial statements (cont.)

(In PLN thousand)

The changes in the balance of assets held for sale and liabilities associated with assets held for sale are presented in the table below:

ASSETS HELD FOR SALE	2012	2011
Opening balance	**2 931 575**	**3 246 985**
Increases including:	90 815	17 192
transfer from investment properties	27 324	1 441
transfer from property, plant and equipment	24 541	602
other changes	38 950	15 149
Decreases including:	(648 217)	(332 602)
PJSC UniCredit Bank's assets	(635 227)	(299 370)
transfer to property, plant and equipment	-	(8 685)
disposal	(10 427)	(94)
other changes	(2 563)	(24 453)
Closing balance	**2 374 173**	**2 931 575**
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE		
Opening balance	**999 985**	**1 009 074**
Increases including:	-	-
liabilities of PJSC UniCredit Bank	-	-
Decreases including:	(108 978)	(9 089)
liabilities of PJSC UniCredit Bank	(108 978)	(9 089)
Closing balance	**891 007**	**999 985**

The assets disposals have been settled as follows:

	2012	2011
Sales revenues	29 584	780
Net carrying amount of disposed assets (including sales cost)	12 787	94
Profit/loss on sale before income tax	**16 797**	**686**

(In PLN thousand)

32. Investments in associates

Information on associates entities valued using equity method:

NAME OF ENTITY	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
31.12.2012						
Krajowa Izba Rozliczeniowa S.A.	117 310	24 914	108 710	25 444	34.44	31 821
Pioneer Pekao Investment Management S.A.	321 098	54 651	364 109	92 419	49.00	130 559
Dom Inwestycyjny Xelion Sp.z o.o. (ex. Xelion. Doradcy Finansowi Sp. z o.o.)	25 391	13 279	26 877	1 422	50.00	6 056
Total						**168 436**
31.12.2011 (*)						
Pirelli Pekao Real Estate Sp. z o.o.	30 902	11 064	5 787	(15 609)	25.00	4 960
Krajowa Izba Rozliczeniowa S.A.	123 068	24 606	109 220	31 515	34.44	33 911
Pioneer Pekao Investment Management S.A.	347 619	59 670	452 040	127 250	49.00	141 095
Xelion. Doradcy Finansowi Sp. z o.o.	18 748	8 058	42 801	1 404	50.00	5 345
Central Poland Fund LLC (**)	1 021	46	-	(28)	53.19	941
Total						**186 252**

(*) The data available as at the day of preparation of the Financial Statements
(**) The data given in USD as at 19.12.2011, carrying amount in PLN

The change in value of investments in associates

	2012	2011
Opening balance	**186 252**	**183 242**
Share in profits/losses	53 263	69 968
Dividends	(65 256)	(67 083)
Disposal	(4 960)	-
Liquidation	(942)	-
Other	79	125
Closing balance	**168 436**	**186 252**

33. Intangible assets

	31.12.2012	31.12.2011
Intangible assets, including:	614 827	648 795
research and development expenditures	15 858	19 543
licenses and patents	452 599	476 474
other	2 460	3 811
expenditures on intangible assets and advances to expenditures on intangible assets	143 910	148 967
Goodwill	54 560	54 560
Total	**669 387**	**703 355**

Notes to the financial statements (cont.)

(In PLN thousand)

Goodwill - represents goodwill which has been transferred to Pekao on integration with Bank BPH S.A.

This represents goodwill arising on Bank BPH S.A.'s acquisition of Pierwszy Komercyjny Bank S.A. (PKBL) in Lublin and relates to those branches of the former PKBL which have been transferred to the Bank in effect of the integration of the Banks. The recognized goodwill related to PKBL amounts to PLN 51 675 thousand.

Goodwill of PLN 2 885 thousand represents goodwill that arose as a result of Pekao Leasing i Finanse (formerly BPH Leasing) acquisition by Pekao Leasing Holding (formerly BPH PBK Leasing S.A.).

At 31 December 2012 the Group carried out a test for PKBL and Pekao Leasing i Finanse goodwill impairment and as a result which was not recognized impairment of this item.

Changes in 'Intangibles assets' in the course of the reporting period:

2012	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER(*)	TOTAL
GROSS VALUE				
Opening balance	**89 780**	**1 826 203**	**187 077**	**2 103 060**
Increases including:	1 848	109 055	107 994	218 897
acquisitions	-	1 106	105 701	106 807
other	-	802	1 709	2 511
transfer from investments outlays	1 848	107 147	584	109 579
Decreases, including:	(694)	(5 492)	(112 074)	(118 260)
liquidation	(694)	(5 293)	(45)	(6 032)
other	-	(199)	(112 029)	(112 228)
Closing balance	**90 934**	**1 929 766**	**182 997**	**2 203 697**
ACCUMULATED AMORTIZATION				
Opening balance	**70 237**	**1 349 729**	**23 338**	**1 443 304**
Amortization for the period	5 533	134 586	1 935	142 054
Liquidation	(694)	(5 133)	(45)	(5 872)
Other	-	(2 015)	-	(2 015)
Closing balance	**75 076**	**1 477 167**	**25 228**	**1 577 471**
IMPAIRMENT DEDUCTIONS				
Opening balance	**-**	**-**	**10 961**	**10 961**
Closing balance	**-**	**-**	**11 399**	**11 399**
Closing balance				
NET VALUE	**19 543**	**476 474**	**152 778**	**648 795**
Opening balance	**15 858**	**452 599**	**146 370**	**614 827**

(*) Item covering mainly investment outlays.

Notes to the financial statements (cont.)

(In PLN thousand)

2011	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER(*)	TOTAL
GROSS VALUE				
Opening balance	**88 550**	**1 635 413**	**235 006**	**1 958 969**
Increases including:	1 230	192 230	(34 576)	158 884
acquisitions	-	2 563	151 759	154 322
other	-	2 489	2 073	4 562
transfer from investments outlays	1 230	187 178	(188 408)	-
Decreases, including:	-	(1 440)	(13 353)	(14 793)
liquidation	-	(1 435)	-	(1 435)
other	-	(5)	(13 353)	(13 358)
Closing balance	**89 780**	**1 826 203**	**187 077**	**2 103 060**
ACCUMULATED AMORTIZATION				
Opening balance	**64 695**	**1 219 917**	**20 721**	**1 305 333**
Amortization for the period	5 542	132 729	2 617	140 888
Liquidation	-	(1 371)	-	(1 371)
Other	-	(1 546)	-	(1 546)
Closing balance	**70 237**	**1 349 729**	**23 338**	**1 443 304**
IMPAIRMENT DEDUCTIONS				
Opening balance	**-**	**-**	**10 961**	**10 961**
Closing balance	**-**	**-**	**10 961**	**10 961**
NET VALUE				
Opening balance	**23 855**	**415 496**	**203 324**	**642 675**
Closing balance	**19 543**	**476 474**	**152 778**	**648 795**

(*) Item covering investment outlays.

In 2012 and in 2011 there have been no restrictions to legal titles to intangible assets, not pledged in place as security for liabilities.

34. Property, plant and equipment

	31.12.2012	31.12.2011
Non-current assets, including:	1 579 886	1 685 308
land and buildings	1 159 929	1 213 536
machinery and equipment	334 837	378 324
transport vehicles	49 475	56 603
other	35 645	36 845
Non-current assets in progress and prepayments for non-current assets in progress	90 658	87 632
Total	**1 670 544**	**1 772 940**

Notes to the financial statements (cont.)

(In PLN thousand)

Changes in 'Property, plant and equipment' in the course of the reporting period:

2012	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	TOTAL
GROSS VALUE					
Opening balance	**2 284 178**	**1 578 310**	**95 895**	**365 669**	**4 324 052**
Increases, including:	43 420	79 940	15 428	7 834	146 622
acquisitions	38	1 874	6 538	214	8 664
transfer from non-current assets under construction	42 739	77 770	-	7 605	128 114
other	643	296	8 890	15	9 844
Decreases, including:	(62 190)	(100 971)	(19 346)	(18 414)	(200 921)
liquidation and sale	(16 624)	(93 813)	(18 159)	(18 241)	(146 837)
transfer to non-current assets held for sale	(43 575)	(78)	-	-	(43 653)
other	(1 991)	(7 080)	(1 187)	(173)	(10 431)
Closing balance	**2 265 408**	**1 557 279**	**91 977**	**355 089**	**4 269 753**
ACCUMULATED DEPRECIATION					
Opening balance	**1 070 561**	**1 192 605**	**37 635**	**328 376**	**2 629 177**
Increases, including:	70 765	123 338	19 048	10 286	223 437
depreciation for the period	70 482	121 648	18 384	10 253	220 767
other	283	1 690	664	30	2 667
Decreases, including:	(37 049)	(99 489)	(14 200)	(19 646)	(170 384)
liquidation and sale	(15 623)	(93 424)	(12 910)	(18 131)	(140 088)
transfer to non-current assets held for sale	(18 761)	(26)	-	-	(18 787)
other	(2 665)	(6 039)	(1 290)	(1 515)	(11 509)
Closing balance	**1 104 277**	**1 216 454**	**42 483**	**319 016**	**2 682 230**
IMPAIRMENT DEDUCTIONS					
Opening balance	**81**	**7 381**	**1 657**	**448**	**9 567**
Increases	1 121	138	2	-	1 261
Decreases	-	(1 531)	(1 640)	(20)	(3 191)
Closing balance	**1 202**	**5 988**	**19**	**428**	**7 637**
NET VALUE					
Opening balance	**1 213 536**	**378 324**	**56 603**	**36 845**	**1 685 308**
Closing balance	**1 159 929**	**334 837**	**49 475**	**35 645**	**1 579 886**

Notes to the financial statements (cont.)

(In PLN thousand)

2011	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	TOTAL
GROSS VALUE					
Opening balance	**2 255 282**	**1 505 427**	**105 485**	**369 064**	**4 235 258**
Increases, including:	57 244	169 544	22 811	17 371	266 970
acquisitions	131	1 829	6 548	584	9 092
transfer from non-current assets under construction	44 413	167 295	399	16 297	228 404
other	12 700	420	15 864	490	29 474
Decreases, including:	(28 348)	(96 661)	(32 401)	(20 766)	(178 176)
liquidation and sale	(27 446)	(96 435)	(31 661)	(20 441)	(175 983)
transfer to non-current assets held for sale	(643)	-	-	(109)	(752)
other	(259)	(226)	(740)	(216)	(1 441)
Closing balance	**2 284 178**	**1 578 310**	**95 895**	**365 669**	**4 324 052**
ACCUMULATED DEPRECIATION					
Opening balance	**1 015 966**	**1 166 814**	**46 141**	**339 409**	**2 568 330**
Increases, including:	82 227	123 932	17 354	10 850	234 363
depreciation for the period	80 383	123 080	17 111	10 318	230 892
other	1 844	852	243	532	3 471
Decreases, including:	(27 632)	(98 141)	(25 860)	(21 883)	(173 516)
liquidation and sale	(24 441)	(95 344)	(25 081)	(20 172)	(165 038)
transfer to non-current assets held for sale	(283)	-	-	(109)	(392)
other	(2 908)	(2 797)	(779)	(1 602)	(8 086)
Closing balance	**1 070 561**	**1 192 605**	**37 635**	**328 376**	**2 629 177**
IMPAIRMENT DEDUCTIONS					
Opening balance	**81**	**6 657**	**2 068**	**509**	**9 315**
Increases	-	1 307	108	-	1 415
Decreases	-	(583)	(519)	(61)	(1 163)
Closing balance	**81**	**7 381**	**1 657**	**448**	**9 567**
NET VALUE					
Opening balance	**1 239 235**	**331 956**	**57 276**	**29 146**	**1 657 613**
Closing balance	**1 213 536**	**378 324**	**56 603**	**36 845**	**1 685 308**

As at 31 December 2012, the amount of expenditures in the item ‘property, plant and equipment under construction’ stood at PLN 90 653 thousand (PLN 87 372 thousand as at 31 December 2011).

The amount of compensations received from third parties for impairment of loss of property, plant and equipment items recognized in the income statement for 2012 stood at PLN 1 505 thousand (PLN 1 207 thousand in 2011).

In 2012 and 2011 there have been no restrictions to legal titles to property, plant and equipment, nor pledges in place as security for liabilities.

Contractual liabilities

As at 31 December 2012 the Group signed agreements with counterparties for the future purchase of intangible assets totaling PLN 41 841 thousand, including PLN 24 141 thousand in 2013 and property, plant and equipment totaling PLN 64 840 thousand, including PLN 27 512 thousand in 2013 (as at 31 December 2011, the Group signed agreements with counterparties for the future purchase of intangible assets totaling PLN 47 551 thousand including PLN 46 849 thousand in 2012 and property, plant and equipment totaling PLN 16 658 thousand including PLN 14 984 thousand in 2012).

(In PLN thousand)

35. Investment property

Group values investment property using the historical cost model.

The rights to sell the investment property and the rights to transfer related revenues and profits are not a subject to limitations.

Changes in 'Investment property' in the course of the reporting period:

	2012	2011
GROSS VALUE		
Opening balance	**106 001**	**103 151**
Increases, including:	4 403	5 422
acquisitions	1 811	-
transfer from property plant and equipment	-	95
other	2 592	5 327
Decreases, including:	(54 114)	(2 572)
transfer to non-current assets held for sale	(51 276)	(2 572)
other	(2 838)	-
Closing balance	**56 290**	**106 001**
ACCUMULATED DEPRECIATION		
Opening balance	**41 523**	**38 108**
Increases, including:	4 142	4 859
depreciation for the period	2 722	2 657
transfer from property plant and equipment	-	-
other	1 420	2 202
Decreases, including:	(24 750)	(1 444)
transfer to non-current assets held for sale	(22 647)	(1 131)
other	(2 103)	(313)
Closing balance	**20 915**	**41 523**
IMPAIRMENT DEDUCTIONS		
Opening balance	**550**	**550**
Decreases, including:	1 604	-
transfer to non-current assets held for sale	-	-
foreign currency exchange differences	-	-
other	-	-
Closing balance	**2 154**	**550**
NET VALUE		
Opening balance	**63 928**	**64 493**
Closing balance	**33 221**	**63 928**

The fair value of investment property as at 31 December 2012 stood at PLN 52 911 thousand (PLN 114 590 thousand as at 31 December 2011). Fair value was made on the assessment of a property surveyor holding a recognized and relevant professional qualification.

Notes to the financial statements (cont.)

(In PLN thousand)

The following amounts of revenues and costs associated with investment real properties have been recognized in the income statement:

	2012	2011
Rental revenues from investment properties	4 361	4 451
Direct operating expenses associated with investment properties (including repair and maintenance costs) which generated rental revenues during the reporting period	(1 373)	(1 238)
Direct operating expenses associated with investment properties (including repair and maintenance costs) which did not generate rental revenues during the reporting period	(178)	(108)

36. Other assets

	31.12.2012	31.12.2011
Prepaid expenses	91 840	112 435
Perpetual usufruct rights	15 965	38 807
Accrued income	37 316	47 218
Interbank and interbranch settlements	3 821	176
Other debtors	1 642 595	1 157 535
Assets for sale	279	6
Total	**1 791 816**	**1 356 177**

Prepaid expenses represent expenditures, which will be amortized against income statement in the forthcoming reporting periods.

Assets for sale represent assets taken over for debts. They are presented in a debt value reduced by impairment charge, calculated as a difference between the amount of debt and fair value of taken over assets (if lower than the amount of debt). In case of surplus between the fair value of taken over asset and the amount of debt, the difference is recognized as a liability to debtor.

The Group disposes of the assets for sale taken over for debts. The period in which the assets should be disposed is 5 years for real estate and 3 years for other assets for sale (the period starts from the date of assets' taken over). When the period expires, the Group reclassifies the carrying value of unsold assets for sales into appropriate category of property, plant and equipment used by the Group.

Notes to the financial statements (cont.)

(In PLN thousand)

37. Assets pledged as collateral

As at 31 December 2012 the Group held the financial assets pledged as collateral

TYPE OF TRANSACTION	PLEDGE INSTRUMENT	CARRYING AMOUNT OF ASSETS USED TO PLEDGE LIABILITIES	NOMINAL VALUE OF ASSETS USED TO PLEDGE LIABILITIES	VALUE OF LIABILITIES SUBJECT TO PLEDGE
Sell-buy-back	bonds	5 608 203	5 249 834	5 600 698
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds, bills	613 330	560 120	-
Lombard and technical loan	bonds, bills	7 102 603	6 656 034	-
Other loans	bonds, leases encumbrances	777 561	759 254	794 765
Deposits	bonds	147 251	152 095	142 490
Issue of mortgage bonds	receivables backed by mortgage, bonds	1 241 535	1 257 630	792 588

As at 31 December 2011 the Group held financial assets pledged as collateral

TYPE OF TRANSACTION	PLEDGE INSTRUMENT	CARRYING AMOUNT OF ASSETS USED TO PLEDGE LIABILITIES	NOMINAL VALUE OF ASSETS USED TO PLEDGE LIABILITIES	VALUE OF LIABILITIES SUBJECT TO PLEDGE
Sell-buy-back	bonds	4 064 582	4 125 831	4 064 362
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds, bills	588 340	560 100	-
Lombard and technical loan	bonds, bills	7 000 503	6 944 847	-
Other loans	bonds, leases encumbrances	802 591	816 480	625 476
Issue of mortgage bonds	receivables backed by mortgage, bonds and hedging instruments	1 258 233	1 274 793	641 305

The freeze on securities is a consequence of:

- in case of Repo and Sell-buy-back transactions – binding money market standards for such transactions,
- in case of freeze to the benefit of BFG – binding provisions of the Law on Banking Guaranty Fund BFG,
- in case of Lombard and technical credits – policy and standards, applied by the National Bank of Poland NBP,
- in case of Other loans and Deposis – terms and conditions of the agreement, entered between Bank Pekao S.A. and its clients,
- in case of Issue of mortgage bonds – binding provisions of the Law on Mortgage Bonds and Mortgage Banks.

Notes to the financial statements (cont.)

(In PLN thousand)

38. Amounts due to other banks

Amounts due to other banks by product type

	31.12.2012	31.12.2011
Current accounts and overnight deposits	1 278 004	618 446
Deposits from other banks and other liabilities	1 161 499	312 669
Loans and advances received	2 684 218	2 696 512
Repo transactions	2 608 219	1 882 259
Interest accrued	9 870	9 547
Funds in transit	40 862	24 777
Total	**7 782 672**	**5 544 210**

Amounts due to other banks by currencies

	31.12.2012	31.12.2011
PLN	4 488 972	2 359 627
CHF	1 008 560	1 084 176
EUR	1 898 819	1 479 521
USD	272 713	571 919
Other currencies	113 608	48 967
Total	**7 782 672**	**5 544 210**

39. Amounts due to customers

Amounts due to customers by product type

	31.12.2012	31.12.2011
Amounts due to corporate, including:	48 208 966	50 245 631
current accounts and overnight deposits	19 223 760	17 974 361
term deposits and other liabilities	28 874 042	32 157 675
interest accrued	111 164	113 595
Amounts due to budget entities, including:	5 642 509	5 384 931
current accounts and overnight deposits	4 611 446	3 712 176
term deposits and other liabilities	1 027 635	1 665 303
interest accrued	3 428	7 452
Amounts due to individuals, including:	48 908 199	47 833 077
current accounts and overnight deposits	26 503 598	27 017 211
term deposits and other liabilities	22 152 790	20 626 480
interest accrued	251 811	189 386
Repo transactions, including:	5 094 347	4 615 494
forward transactions	5 089 736	4 609 733
interest accrued	4 611	5 761
Funds in transit	138 587	357 831
Total	**107 992 608**	**108 436 964**

(In PLN thousand)

Amounts due to customers by currencies

	31.12.2012	31.12.2011
PLN	91 928 090	89 559 995
CHF	187 052	167 308
EUR	9 405 046	9 075 030
USD	5 882 785	8 220 227
Other currencies	589 635	1 414 404
Total	**107 992 608**	**108 436 964**

40. Debt securities issued

Debt securities issued by type

	31.12.2012	31.12.2011
Bonds	-	2
Certificates of deposit	3 907 679	2 390 059
Mortgage bonds	782 744	631 513
Interest accrued	68 313	22 345
Total	**4 758 736**	**3 043 919**

There have been no instances of late discharge of redemption the Group's own securities (repayment of principal, payment of interest).

Debt securities issued by currencies

	31.12.2012	31.12.2011
PLN	4 678 440	3 000 588
EUR	58 072	18 590
USD	22 224	24 741
Total	**4 758 736**	**3 043 919**

Changes in debt securities issued

	2012	2011
Opening balance	**3 043 919**	**1 177 158**
Increase (issuance)	5 327 751	2 475 162
Decrease (repurchase)	(3 451 775)	(589 442)
Decrease (partial payment)	(222 870)	(23 554)
Foreign currency exchange differences	(3 673)	6 598
Other changes	65 384	(2 003)
Closing balance	**4 758 736**	**3 043 919**

Notes to the financial statements (cont.)

(In PLN thousand)

41. Provisions

Roll-forward of provisions in the reporting period:

2012	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISONS FOR RETIREMENT BENEFITS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**47 315**	**149 981**	**79 140**	**37 444**	**313 880**
Provision charges/revaluation	24 509	13 834	75 207	13 230	126 780
Provision utilization	(5 740)	(57)	-	(11 363)	(17 160)
Provision releases	(8 775)	(713)	(48 375)	(708)	(58 571)
Foreign currency exchange differences	(27)	-	434	(476)	(69)
Other changes	(487)	(8 764)	-	3 897	(5 354)
Closing balance	**56 795**	**154 281**	**106 406**	**42 024**	**359 506**
Short term	22 069	6 762	63 378	28 652	120 861
Long term	34 726	147 519	43 028	13 372	238 645

2011	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISONS FOR RETIREMENT BENEFITS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**42 152**	**127 852**	**96 500**	**39 419**	**305 923**
Provision charges/revaluation	7 516	29 434	50 744	19 813	107 507
Provision utilization	(28)	(6)	-	(22 599)	(22 633)
Provision releases	(1 646)	(142)	(69 193)	(104)	(71 085)
Foreign currency exchange differences	79	-	1 089	401	1 569
Other changes	(758)	(7 157)	-	514	(7 401)
Closing balance	**47 315**	**149 981**	**79 140**	**37 444**	**313 880**
Short term	12 099	8 929	51 373	13 393	85 794
Long term	35 216	141 052	27 767	24 051	228 086

Litigation provision

Provision for litigation includes court, administrative and other legal proceedings. Provision for litigation was recognized in the amount of expected outflow of economic benefits.

Provisions for retirement benefits

Provision for retirement benefits is created individually for each employee based on the actuarial valuation. The basis for the determination of the provision amount is the expected benefit amount, which the Group is obliged to pay on the basis of internal regulations concerning employee remuneration.

Other provisions

Other provisions include in particular provisions for long term employee benefits resulting from IAS 19 and provision for employment restructuring concerning planned liquidation of the Branch in Paris.

Notes to the financial statements (cont.)

(In PLN thousand)

42. Other liabilities

	31.12.2012	31.12.2011
Deferred income	139 957	148 662
Provisions for holiday leave	54 732	55 271
Provisions for other employee-related liabilities	170 319	204 323
Provisions for administrative costs	53 964	43 390
Other costs to be paid	34 542	24 959
Other creditors	472 265	532 851
Interbank and interbranch settlements	592 621	1 101 106
Total	**1 518 400**	**2 110 562**

43. Share-based payment

Incentive program of Bank Pekao S.A.

Options to purchase the Bank's shares were granted as a part of the incentive program for senior management essential to the success of the Bank's Group strategy. These were established by resolution of Extraordinary General Shareholders Meeting of Bank Polska Kasa Opieki S.A. on 25 July 2003.

The program involves a contingent increase of the Bank's share capital by issuing the following shares received in exchange for bonds with pre-emptive rights to take up the Bank's shares.

TYPE OF SHARES	NUMBER OF SHARES ISSUED THROUGH THE CONDITIONAL INCREASE OF SHARE CAPITAL	NOMINAL VALUE OF 1 SHARE	THE ISSUE PRICE OF ONE SHARE	THE BASIS FOR ISSUE PRICE ESTABLISHMENT
Common bearer shares, F-class	830 000	PLN 1	PLN 108.37	The average of market closing prices of the Bank's shares quoted on the Warsaw Stock Exchange for July and August 2003
Common bearer shares, G-class	830 000	PLN 1	PLN 123.06	The average of market closing prices of the Bank's shares quoted on the Warsaw Stock Exchange for February and March 2004

Upon the realization of the pre-emptive rights to take up the Bank's shares, the shares are recognized in the Bank's equity.

On the 31 of December 2010 expired the program of F-class shares while on the 31 December 2012 expired the program of G-class shares.

In 2012, the incentive program has been implemented based on G-class shares issue (divided into two parts) with the following parameters:

	PROGRAM BASED ON G-CLASS ISSUE	
Expiry date	31.12.2012	
Realization price (in PLN)	123.06	
Number of options	415 000	415 000
Acquisition of rights criteria	1. Realization of individual goals within the MBO program in 2004. 2. Remaining under contract of employment within the Bank's Group on the date of option rights execution.	
	3. Realization of assumed ROE for 2006	3. Realization of assumed ROE for 2007

(In PLN thousand)

The table below presents the number and weighted average exercise prices of shares options for each of the following Group options:

	2012		2011	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE (*)	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE (*)
Opening balance	87 905	123.06	105 708	123.06
Granted during the year	-	-	-	-
Redeemed during the year	-	-	-	-
Exercised during the year	87 905	160.14	17 803	144.29
Terminated during the year	-	-	-	-
Existing at the period-end	-	-	87 905	123.06
Executable at the period-end	-	-	-	-

(*)Weighted average price of option execution on exercise dates in 2012 stood at PLN 160.14 against PLN 144.29 in 2011.

The UniCredit Group incentive program

In 2012, the following programs were granted to employees of the Bank by the UniCredit Group under the long term incentive programs:

- The long-term UniCredit Group Incentive Program 2007 in respect of share options. The rights to exercise the option were acquired in 2011. Strike price EUR 7.094. The option expires in 2017.
- The long-term UniCredit Group Incentive Program 2008 in respect of share options. The rights to exercise the option were acquired in 2012. Strike price EUR 4.185. The option expires in 2018.
- The long-term UniCredit Group Incentive Program 2008 in respect of common stock. In 2012 the shares were not granted due to missing the program conditions.
- The long-term UniCredit Group Incentive Program 2011-2013 granted in April 2011 in respect of common stock and share options. The rights to exercise the option will be acquired in 2014 after meeting the employment continuity condition in the UniCredit Group and achieving the Group's financial results. Strike price EUR 1.807. The option expires in 2020.

The fair value of share options and performance shares of UniCredit S.p.A. was estimated on basis of the Hull and White model.

The fair value of the pre-emptive rights to embrace the shares of the Bank's parent entity granted until 31 December 2012 amounted to PLN 5 473 thousand as at 31 December 2012. It is amortized over the vesting period.

The year 2012 personnel expenses increased by the amount of PLN 3 242 thousand with respect to that (in 2011 – PLN 9 101 thousand).

Notes to the financial statements (cont.)

(In PLN thousand)

The tables below present changes in the number of stock options and performance shares of Bank UniCredit S.p.A., as well as the weighted average exercise prices:

2012	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	6 448 634	7.39/17.11/29.00	270 094	-
Granted during the year	-	-	140 010	-
Redeemed during the year	-	-	92 864	-
Exercised during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at the period-end	6 448 634	7.39/17.11/29.00	317 240	-
Executable at the period-end	-	-	-	-

(*)The value of PLN 7.39 applies to the stock options program of UniCredit S.P.A. in 2011, values PLN 17.11 and PLN 29.00 apply to programs in 2008 and 2007 respectively.

2011	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	2 736 822	7.98/18.48/31.33	932 922	-
Granted during the year	3 987 327	-	2 102 794	-
Redeemed during the year	275 515	7.98/18.48/31.33	223 055	-
Exercised during the year	-	-	111 190	-
Terminated during the year	-	-	-	-
Existing at the period-end	6 448 634	7.98/18.48/31.33	2 701 471	-
Existing at the period-end – after reverse stock split (**)	-	-	270 094	-
Executable at the period-end	-	-	-	-

(*)The value of PLN 7.98 applies to the stock options program of UniCredit S.P.A. in 2011, values PLN 18.48 and PLN 31.33 apply to programs in 2008 and 2007 respectively.
(**) In December 2011 Bank UniCredit S.p.A. conducted a reverse stock split, which resulted in the recalculation of the number of shares with ratio 10:1, rounded down to integer.

System of Variable Remuneration for the Management Team Bank Pekao S.A.

A system of Variable Remuneration is addressed to the key employees for the fulfillment of the Bank's strategy, risk management and long-term increase of the Bank's income and to persons in managerial positions as defined in Resolution No. 258/2011 of Polish Financial Supervision Authority ('KNF'), who are specified in the Bank's appointment report. The aim of the system is to support the execution of the Bank's operational strategy, its risk management and to limit conflict of interests.

Under the System, the participant may receive a bonus consisting of cash payment and cash-settled share based payment realized in the form of phantom shares as cash equivalent amounting to the value of granted phantom shares.

Notes to the financial statements (cont.)

(In PLN thousand)

During the reporting period ending on 31 December 2012 the Bank had the following share-based payments transactions:

	System 2011 and System 2012
Transaction type in the light of IFRS 2	Cash-settled share based payments
Start date of the assessment period	System 2011: 1 January 2011 System 2012: 1 January 2012
Program announcement date	System 2011: April 2011 System 2012: April 2012
Program granting date in line with the definition of IFRS 2	System 2011: 1 June 2012 System 2012: date of the General Shareholders Meeting held to approve the financial statements for 2012
Number of instruments granted	System 2011: 87 901 System 2012: to be settled at the program granting date in line with the definition of IFRS 2
Maturity date	System 2011: 31 July 2016 System 2012: 31 July 2017
Vesting date for System 2011	For participants below the Management Board: • 50% after 2 years from program granting date • 50% after 3 years from program granting date For participants starting from the Management Board: • 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date
Vesting date for System 2012	For participants below the Management Board: • 20% after 2 years from program granting date • 40% after 3 years from program granting date • 40% after 4 years from program granting date For participants starting from the Management Board: • 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date
Vesting conditions	Compliance assessment Continuous employment Reaching the aim based on financial results of the Bank for a given period
Program settlement	On the vesting date, the participant will receive a cash payment amounting to the number the possessed phantom shares times the arithmetic mean of the Bank's share prices at the Warsaw Stock Exchange in the calendar month preceding the month of cash-settlement.

For the System 2011 the fair value of the program was estimated based upon the Bank's shares price on the WSE as of the balance sheet date and expected number of phantom shares to which full rights will be acquired.

For the System 2012, as of 31 December 2012, the Bank prepared the program valuation, presuming that the phantom shares were granted on 31 December 2012. This value will be changed at the actual date of granting the program.

Since this program is settled in cash, its fair value will be adjusted on each balance sheet date until the program settlement, which in case of this program coincides with the vesting date.

The fair value of the rights to embrace the phantom shares granted until 31 December 2012 amounted to PLN 14 385 thousand as at 31 December 2012. It is amortized over the vesting period.

Notes to the financial statements (cont.)

(In PLN thousand)

The year 2012 personnel expenses increased by the amount of PLN 9 026 thousand with respect to that program (in 2011 - PLN 2 479 thousand).

The table below presents changes in the number of Bank's phantom shares:

	2012	2011
Opening balance	-	-
Granted during the year	87 901	-
Redeemed during the year	-	-
Exercised during the year	-	-
Terminated during the year	-	-
Existing at the period-end	87 901	-

The table above does not present the number of shares granted in respect of the System 2012. This number will be determined in 2013 after approval of the financial statements for 2012 by the General Shareholder's Meeting. The hypothetical number of shares determined on the basis of the base value of the granted bonus to each of the program participants and arithmetic mean of the Bank's share price on the WSE in December 2012 amounts to 72 936.

System of Variable Remuneration for the Management Team of the entities

In order to meet requirements concerning rules of establishing policy of variable remuneration's component for individuals in managerial positions (Resolution No. 258/2011 of the Polish Financial Supervision Authority issued on 4 October 2011 and the Minister of Finance Regulation dated 2 December 2011, Official Journal from 2011, No. 263, item 1569), Centralny Dom Maklerski Pekao S.A. and Pekao Bank Hipoteczny S.A. have implemented System of Variable Remuneration for the Management Team.

Under the System, the participants may receive bonus dependent on results and effects of their work. Received component of variable remuneration is paid in cash and in phanton shares in proportion described in legal regulations mentioned above and in internal regulations of the entities.

At least 40 % components of variable renumerations is settled and paid in the time-period of 3 to 5 years since the granting date.

Number of granted phantom shares is determined after approval of financial statement for the given reporting year by the General Shareholders Meeting. Realization of rights to phantom shares has a form of cash equivalent amounting to the value of granted phantom shares. Value of phantom shares depend on book value of the given entity presented in the financial statement for the reporting year and approved by the General Shareholders Meeting before the day of rights execution.

The companies measure the future employees benefits at fair value of accepted liabilities, in accordance with IAS 19 "Employee benefits". Results of liabilities meassurement at fair value are presented in income statement as personnel expenses.

Notes to the financial statements (cont.)

(In PLN thousand)

44. Operating lease

The Group as a Lessor

In operating lease of buildings classified as investment properties the Group acts as a lessor.

The amount of future minimum lease payments expected to be received under non-cancellable operating lease can be summarized as follows:

	31.12.2012	31.12.2011
Up to one year	15 505	14 820
Between 1 and 5 years	13 496	18 645
Over 5 years	7 360	6 769
Total	**36 361**	**40 234**

The amount of the minimum operating lease payments classified as income in 2012 amounted to PLN 28 544 thousand (PLN 30 940 thousand in 2011).

The Group as Lessee

The Group is a lessee of buildings' lease contracts classified as operating lease.

The amount of future minimum lease payments expected to be paid under non-cancellable operating lease can be summarized as follows:

	31.12.2012	31.12.2011
Up to one year	138 168	150 833
Between 1 and 5 years	284 393	313 981
Over 5 years	219 874	290 692
Total	**642 435**	**755 506**

The amount of the minimum operating lease payments recognized as an expense in 2012 amounted to PLN 240 472 thousand (expense in 2011 amounted to PLN 234 592 thousand).

The lease agreements are usually entered into for an indefinite period. In case of lease agreements concluded for an indefinite term, the minimum lease payments are determined based upon notice of termination periods ensuing from relevant contracts. The notice period is usually fixed at 3 or 6 months. Lease agreements are denominated in PLN as well as in foreign currencies. Payments are made in PLN, regardless of the contract currency.

(In PLN thousand)

45. Contingent liabilities

Litigation

As at 31 December 2012, there were no court or administrative proceedings held by public administration bodies in relation to liabilities or receivables of the Group, with the claim amount (for cash payment) for at least 10% of the equity.

As at 31 December 2012, the total value of legal proceedings against the Group amounted to PLN 20 004 081 thousand (as at 31 December 2011 PLN 18 753 334 thousand).

The most significant, taking into account the amount in dispute, legal proceedings against the Bank as at 31 December 2012 are described below:

- legal proceeding resulting from minority shareholder lawsuit to repeal resolution No. 8 and No. 24 of the Annual General Meeting of 19 April 2011 on the approval of the Pekao Group consolidated financial statements for 2010 and acknowledgement of the fulfillment of duties by one of the members of the Management Board in 2010.
  Indicated by the plaintiff amount in dispute equals to PLN 18 000 000 thousand. In the opinion of the Bank, both the claim and amount in dispute are groundless.
- claim against the Bank and Centralny Dom Maklerski Pekao S.A. lodged by private individuals, which relates to the alleged damage arising as a result of shares purchased and execution process. The total amount in dispute is PLN 306 622 thousand. In the opinion of the Bank, the suit and amount in dispute are groundless.

As at 31 December 2012, the Bank created provisions for litigation against the Group, which according to legal opinion are associated with a risk of outflow of funds related to the fulfillment of court rulings. The value of provisions, created as at 31 December 2012 amounted to PLN 56 795 thousand (as at 31 December 2011 PLN 47 315 thousand).

Financial commitments

Financial commitments by entities

	31.12.2012	31.12.2011
Financial commitments to:		
financial entities	1 441 529	2 749 139
non - financial entities	21 415 681	23 215 499
budget entities	744 940	847 426
Total	**23 602 150**	**26 812 064**

Guarantees

Guarantees by entities

	31.12.2012	31.12.2011
Liabilities to financial entities, including:	964 391	747 530
guarantees	889 107	689 511
sureties	60 824	45 683
confirmed export letters of credit	14 460	12 336
Liabilities to non-financial entities, including:	9 284 016	7 642 158
guarantees	5 506 620	6 285 928
securities' underwriting guarantees	3 775 430	1 356 230
sureties	1 966	-
Liabilities to budget entities, including:	69 901	88 852
guarantees	3 401	10 252
securities' underwriting guarantees	66 500	78 600
Total	**10 318 308**	**8 478 540**

Notes to the financial statements (cont.)

(In PLN thousand)

Securities underwriting

As at 31 December 2012, the following securities programs have been in place, covered by underwriting:

NAME OF ISSUER	TYPE OFSECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT	CONTRACT LIFE
Client 1	bonds	772 000	23.07.10 - 30.06.15
Client 2	bonds	410 900	15.11.10 - 31.10.13
Client 3	bonds	540 000	29.07.12 - 15.12.17
Client 4	bonds	60 000	29.07.12 - 15.12.17
Client 5	bonds	71 710	25.08.11 - 30.06.13
Client 6	bonds	13 500	22.08.11 - 31.12.13
Client 7	bonds	2 500	19.08.11 - 30.12.13
Client 8	bonds	10 000	27.09.11 - 31.12.13
Client 9	bonds	58 770	20.12.11 - 30.03.13
Client 10	bonds	10 000	20.12.11 - 30.03.13
Client 11	bonds	2 310	20.12.11 - 31.03.13
Client 12	bonds	37 000	03.01.12 - 15.08.13
Client 13	bonds	3 440	19.01.12 - 30.12.13
Client 14	bonds	22 850	15.05.12 - 30.12.13
Client 15	bonds	22 000	07.03.12 - 30.03.13
Client 16	bonds	1 020 000	21.06.12 - 31.12.17
Client 17	bonds	4 000	10.09.12 - 30.09.13
Client 18	bonds	21 000	13.09.12 - 31.12.14
Client 19	bonds	241 150	06.12.12 - 31.03.16
Client 20	bonds	318 800	28.12.12 - 31.03.15
Client 21	bonds	200 000	01.07.11 - 20.12.14

Securities covered by the Bank underwriting are classified as securities with unlimited marketability, unquoted on stock exchanges and are not a subject to regulated off-the-floor trading.

As at 31 December 2011, the following securities programs have been in place, covered by underwriting:

NAME OF ISSUER	TYPE OFSECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS	CONTRACT LIFE
Client 1	bonds	61 540	26.03.10 - 30.04.12
Client 2	bonds	14 550	27.10.10 - 30.04.12
Client 3	bonds	6 640	31.05.10 - 28.02.12
Client 4	bonds	608 000	23.07.10 - 30.06.15
Client 5	bonds	410 900	15.11.10 - 31.10.13
Client 6	bonds	25 200	16.12.10 - 30.12.17
Client 7	bonds	43 180	04.04.11 - 31.12.12
Client 8	bonds	101 970	25.08.11 - 30.06.13
Client 9	bonds	48 000	22.08.11 - 31.12.13
Client 10	bonds	14 500	19.08.11 - 30.12.13
Client 11	bonds	30 600	27.09.11 - 31.12.12
Client 12	bonds	63 750	20.12.11 - 30.03.13
Client 13	bonds	6 000	20.12.11 - 31.03.13

Notes to the financial statements (cont.)

(In PLN thousand)

Securities covered by the Bank underwriting are classified as securities with unlimited marketability, unquoted on stock exchanges and are not a subject to regulated off-the-floor trading.

Off - Balance Sheet commitments received

Off – Balance Sheet commitments by entities

	31.12.2012	31.12.2011
Financial commitments from:	1 160 255	3 367 501
financial entities	1 160 255	3 367 501
non - financial entities	-	-
budget entities	-	-
Guarantees from:	10 226 535	12 632 187
financial entities	514 238	671 580
non - financial entities	9 014 735	9 181 483
budget entities	697 562	2 779 124
Total	**11 386 790**	**15 999 688**

Additionally, the Group can to obtain financing from the National Bank of Poland pledged on securities.

46. Share capital

Shareholding structure

CLASS/ISSUE	TYPE OF SHARES	NUMBER OF SHARES	NOMINAL VALUE OF CLASS/ISSUE	EQUITY COVERAGE	REGISTRATION DATE	DIVIDEND RIGHTS (FROM DATE)
A	Common bearer stock	137 650 000	137 650	fully paid-up	21.12.1997	01.01.1998
B	Common bearer stock	7 690 000	7 690	fully paid-up	06.10.1998	01.01.1998
C	Common bearer stock	10 630 632	10 631	fully paid-up	12.12.2000	01.01.2000
D	Common bearer stock	9 777 571	9 777	fully paid-up	12.12.2000	01.01.2000
E	Common bearer stock	373 644	374	fully paid-up	29.08.2003	01.01.2003
F	Common bearer stock	621 411	621	fully paid-up	29.08.2003	19.05.2006 16.05.2007
G	Common bearer stock	603 377	603	fully paid-up	29.08.2003	15.05.2008
H	Common bearer stock	359 840	360	fully paid-up	12.08.2004	01.01.2004
I	Common bearer stock	94 763 559	94 764	fully paid-up	29.11.2007	01.01.2008
Total number of Shares (pcs)		**262 470 034**				
Total share capital in PLN thousand			**262 470**			
Nominal value per share = PLN 1.00						

Notes to the financial statements (cont.)

(In PLN thousand)

Change in the number of shares in 2012 (pcs):

2012	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	**262 382 129**	**262 382 129**
Issue of G- Class shares (realization of the Bank's program of management share option plan)	87 905	87 905
Closing balance	**262 470 034**	**262 470 034**

2011	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	**262 364 326**	**262 364 326**
Issue of G- Class shares (realization of the Bank's program of management share option plan)	17 803	17 803
Closing balance	**262 382 129**	**262 382 129**

47. Other capital and reserves, retained earnings and profit for the period

The table below presents the structure of the Group's equity attributable to equity holders of the Bank:

	31.12.2012	31.12.2011
Reserve capital, including:	9 475 495	9 446 516
issue of shares above face value	9 137 221	9 126 501
other	338 274	320 015
Revaluation reserve, including:	519 192	(65 432)
revaluation of financial assets portfolio available for sale	705 296	(56 580)
deferred tax	(134 006)	10 750
revaluation of financial hedging instruments portfolio	(64 318)	(24 200)
deferred tax	12 220	4 598
Foreign currency translation differences, including:	(128 768)	(98 976)
foreign currency translation differences	(158 382)	(119 107)
deferred tax	29 614	20 131
General Banking Risk Fund	1 737 850	1 537 850
Other reserve capital	8 364 152	7 153 185
Bonds convertible into shares- equity component	33 558	39 517
Provision for the parent entity's shares repurchase liabilities - equity component	6 662	7 531
Funds for brokerage activities	15 000	15 000
Total other capital	**20 023 141**	**18 035 191**
Profit (loss) from previous periods, allocated to Bank's shareholders	125 232	74 476
Net profit for the period, allocated to Bank's shareholders	2 955 702	2 899 414
Total	**23 104 075**	**21 009 081**

From 1982 to 1984 and from 1988 to 1996, the Group operated in a hyperinflationary economic environment.

IAS 29 (Financial Reporting in Hyperinflationary Economies) requires restatement of each component of owners' equity (except for retained earnings and revaluation surplus) by applying a general price index for the period of hyperinflation. This retrospective application would have resulted in an increase in share capital and other reserves and a decrease in retained earnings in equivalent amounts. This restatement would not have any effect on the total amount of the Group's equity.

Notes to the financial statements (cont.)

(In PLN thousand)

48. Additional information to the consolidated cash flow statement

Cash and cash equivalents

	31.12.2012	31.12.2011
Cash and amounts due from Central Bank	9 207 285	4 886 093
Loans and receivables from banks with maturity up to 3 months	3 607 505	5 269 444
Cash and Cash equivalents presented in the cash flow statement	**12 814 790**	**10 155 537**

Restricted availability cash and cash equivalents as at 31 December 2012 amounted to PLN 3 601 110 thousand (PLN 3 469 124 thousand as at 31 December 2011).

49. Related party transactions

Bank Pekao S.A. is a parent entity of Bank Pekao S.A. Group while UniCredit S.p.A. is a parent entity of the Bank.

All of the transactions between the Bank and related parties were routine transactions, carried out in the ordinary course of operations and encompassed mainly loans, deposits and foreign currency transactions.

The credit granting process applicable to the Bank’s management and entities related to the Bank

According to the Banking Act, credit transactions with Members of the Bank Management Board and Supervisory Board, persons holding managerial positions at the Bank and with entities related financially or organizationally therewith shall be effected in compliance with the By-Laws, adopted by the Bank Supervisory Board.

The By-Laws provide detailed decision-making procedures, applicable to transactions with such persons and entities, also defining the decision-making levels, authorized to take decisions and their respective scopes of competence. In particular, transactions with Members of the Bank Management Board or Supervisory Board or with an entity related therewith financially or organizationally, are subject to decisions taken by the Bank Management Board and Supervisory Board.

Members of the Bank Management and entities related therewith financially or organizationally may take advantage of credit products offered by the Bank on standard terms and conditions of the Bank. In particular, the Bank may not offer more advantageous credit interest rates to such persons or entities.

Credit risk assessment is effected using the methodology applied by the Bank, in compliance with the client’s segment and type of transaction.

In case of entities related to the Bank, standard credit procedures are applied, with transaction-related decisions taken exclusively at level of the Bank Head Office.

Notes to the financial statements (cont.)

(In PLN thousand)

Related party transactions

Related party transactions as at 31 December 2012

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
Bank's parent entity						
UniCredit S.p.A.	425 754	-	596	57 621	-	13 928
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	1 252 269	375 503	4 662	1 808 236	929 295	1 210
Associates of Bank Pekao S.A. Group						
Dom Inwestycyjny Xelion Sp.z o.o. (ex. Xelion. Doradcy Finansowi Sp. z o.o.)	-	-	6	8 155	-	12
Pioneer Pekao Investment Management S.A.	-	-	81	142 481	-	19
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	2	-	17 630	103 914	-	21
Krajowa Izba Rozliczeniowa S.A.	-	-	-	19 700	-	-
Total Bank Pekao S.A. Group entities	**2**	**-**	**17 717**	**274 250**	-	52
Key management Staff of the Bank Pekao S.A.	7 361	-	-	12 675	-	-
Total	**1 685 386**	**375 503**	**22 975**	**2 152 782**	**929 295**	**15 190**

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by maturity dates

31.12.2012	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	INTEREST	TOTAL
UniCredit S.p.A. – Bank's parent entity	425 754	-	-	-	-	-	-	425 754
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	1 207 509	1 387	671	1 497	40 882	-	323	1 252 269
Bank Pekao S.A. Group entities								
Associates	-	-	-	-	2	-	-	2
Key management Staff of the Bank Pekao S.A.	-	6 949	-	6	35	369	2	7 361
Total	**1 633 263**	**8 336**	**671**	**1 503**	**40 919**	**369**	**325**	**1 685 386**

(*)Current receivables including Nostro and cash flow hedge accounts

Liabilities due to loans and deposits by maturity dates

31.12.2012	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	INTEREST	TOTAL
UniCredit S.p.A. – Bank's parent entity	57 621	-	-	-	-	-	-	57 621
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	294 699	295 684	18 055	504 489	218 833	474 782	1 694	1 808 236
Bank Pekao S.A. Group entities								
Associates	7 711	81 828	43 100	140 500	-	-	1 111	274 250
Key management Staff of the Bank Pekao S.A.	487	10 040	34	2 054	-	-	60	12 675
Total	**360 518**	**387 552**	**61 189**	**647 043**	**218 833**	**474 782**	**2 865**	**2 152 782**

(*)Current liabilities include Loro and current accounts of other entities

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currencies

31.12.2012	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – Bank's parent entity	366 990	58 764	-	-	-	425 754
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	577 094	3 906	265	228 250	442 754	1 252 269
Bank Pekao S.A. Group entities						
Associates	-	-	-	2	-	2
Key management Staff of the Bank Pekao S.A.	-	-	-	7 361	-	7 361
Total	**944 084**	**62 670**	**265**	**235 613**	**442 754**	**1 685 386**

Liabilities due to loans and deposits by currencies

31.12.2012	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – Bank's parent entity	-	-	-	57 621	-	57 621
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	196 468	46 414	601 426	949 594	14 334	1 808 236
Bank Pekao S.A. Group entities						
Associates	-	-	-	274 250	-	274 250
Key management Staff of the Bank Pekao S.A.	539	515	-	11 618	3	12 675
Total	**197 007**	**46 929**	**601 426**	**1 293 083**	**14 337**	**2 152 782**

Notes to the financial statements (cont.)

(In PLN thousand)

Related party transactions as at 31 December 2011

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
Bank's parent entity						
UniCredit S.p.A.	115 267		7	58 584	-	22 277
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	1 215 321	261 211	2 664	3 457 751	1 025 915	606
Bank Pekao S.A. Group entities						
Associates						
Pirelli Pekao Real Estate Sp. z o.o.	-	-	-	4 109	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	-	-	60	9 512	-	-
Pioneer Pekao Investment Management S.A.	-		80	3 719	-	-
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	-	-	15 236	14 896	-	-
Krajowa Izba Rozliczeniowa S.A.	-	-	2	26 231	-	3
Total Bank Pekao S.A. Group entities	**-**	**-**	**15 378**	**58 467**	**-**	**3**
Key management Staff of the Bank Pekao S.A.	3 489	-	-	12 873	-	-
Total	**1 334 077**	**261 211**	**18 049**	**3 587 675**	**1 025 915**	**22 886**

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by maturity dates

31.12.2011	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	INTEREST	TOTAL
UniCredit S.p.A. – Bank's parent entity	115 267	-	-	-	-	-	-	115 267
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	1 159 725	974	1 040	8 928	44 168	-	486	1 215 321
Bank Pekao S.A. Group entities								
Associates	-	-	-	-	-	-	-	-
Key management Staff of the Bank Pekao S.A.	-	3 064	-	1	38	385	1	3 489
Total	**1 274 992**	**4 038**	**1 040**	**8 929**	**44 206**	**385**	**487**	**1 334 077**

(*) Current receivables including Nostro and cash flow hedge accounts

Liabilities due to loans and deposits by maturity dates

31.12.2011	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	INTEREST	TOTAL
UniCredit S.p.A. – Bank's parent entity	58 584	-	-	-	-	-	-	58 584
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	998 834	485 465	21 791	633 199	705 791	609 387	3 284	3 457 751
Bank Pekao S.A. Group entities								
Associates	6 959	42 769	8 030	500	-	-	209	58 467
Key management Staff of the Bank Pekao S.A.	897	8 162	3 500	200	32	-	82	12 873
Total	**1 065 274**	**536 396**	**33 321**	**633 899**	**705 823**	**609 387**	**3 575**	**3 587 675**

(*)Current liabilities include Loro and current accounts of other entities

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currencies

31.12.2011	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – Bank's parent entity	109 286	3 055	-	2 926	-	115 267
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	823 885	3 110	291	8 852	379 183	1 215 321
Bank Pekao S.A. Group entities						
Associates	-	-	-	-	-	-
Key management Staff of the Bank Pekao S.A.	-	-	-	3 489	-	3 489
Total	**933 171**	**6 165**	**291**	**15 267**	**379 183**	**1 334 077**

Liabilities due to loans and deposits by maturity dates

31.12.2011	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – Bank's parent entity	-	-	-	58 584	-	58 584
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	648 952	57 571	645 179	1 200 390	905 659	3 457 751
Bank Pekao S.A. Group entities						
Associates	-	-	-	58 467	-	58 467
Key management Staff of the Bank Pekao S.A.	230	576	-	12 067	-	12 873
Total	**649 182**	**58 147**	**645 179**	**1 329 508**	**905 659**	**3 587 675**

Notes to the financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2012 to 31 December 2012

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	DERIVATIVES VALUATION AND OTHER INCOME	DERIVATIVES VALUATION AND OTHER EXPENSES
Bank's parent entity						
UniCredit S.p.A.	580	(469)	1 072	(3 993)	2 817	(10 675)
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	155 266	(72 071)	11 868	(3 886)	7 058	(101 408)
Bank Pekao S.A. Group entities						
Associates						
Pioneer Pekao Investment Management S.A.	-	(471)	529	-	127	-
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	-	(2 534)	209 690	-	33	(4)
Dom Inwestycyjny Xelion Sp.z o.o. (ex. Xelion. Doradcy Finansowi Sp. z o.o.)	-	(309)	45	(44)	268	-
Krajowa Izba Rozliczeniowa S.A.	-	(828)	65	-	-	(9 853)
Pirelli Pekao Real Estate Sp. z o.o.	-	(116)	16	-	-	-
Total Bank Pekao S.A. Group entities	**-**	**(4 258)**	**210 345**	**(44)**	**428**	**(9 857)**
Key management Staff of the Bank Pekao S.A.	209	(695)	3	-	-	(12)
Total	**156 055**	**(77 493)**	**223 288**	**(7 923)**	**10 303**	**(121 952)**

Notes to the financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2011 to 31 December 2011

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	DERIVATIVES VALUATION AND OTHER INCOME	DERIVATIVES VALUATION AND OTHER EXPENSES
Bank's parent entity						
UniCredit S.p.A.	5 202	(259)	204	(4 231)	2 748	(11 794)
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	118 950	(87 308)	5 661	(6 184)	7 126	(124 904)
Bank Pekao S.A. Group entities						
Associates						
Pioneer Pekao Investment Management S.A.	-	(5 372)	633	-	119	-
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	-	(4 270)	249 951	-	1 058	(19)
Xelion. Doradcy Finansowi Sp. z o.o.	-	(474)	26	(63)	202	-
Krajowa Izba Rozliczeniowa S.A.	-	(620)	15	-	-	(11 485)
Pirelli Pekao Real Estate Sp. z o.o.	-	(77)	16	-	3	-
Total Bank Pekao S.A. Group entities	**-**	**(10 813)**	**250 641**	**(63)**	**1 382**	**(11 504)**
Key management Staff of the Bank Pekao S.A.	195	(533)	3	-	-	(12)
Total	**124 347**	**(98 913)**	**256 509**	**(10 478)**	**11 256**	**(148 214)**

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial liabilities and guarantees as at 31 December 2012

NAME OF ENTITY	GRANTED	
	FINANCIAL	GUARANTEES
Bank's parent entity		
UniCredit S.p.A.	38 181	273 072
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	54 363	380 850
Bank Pekao S.A. Group entities		
Associates		
Dom Inwestycyjny Xelion Sp.z o.o. (ex. Xelion. Doradcy Finansowi Sp. z o.o.)	30	-
Pioneer Pekao Investment Management S.A.	32	-
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	136	-
Krajowa Izba Rozliczeniowa S.A.	-	500
Total Bank Pekao S.A. Group entities	**198**	**500**
Key management Staff of the Bank Pekao S.A.	184	-
Total	**92 926**	**654 422**

As at 31 December 2012, the Bank did not have off-balance sheet financial liabilities and guarantees received from related parties.

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial liabilities and guarantees granted by contractual maturity

31.12.2012	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL LIABILITIES GRANTED							
UniCredit S.p.A. – Bank's parent entity	-	-	-	38 181	-	-	38 181
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	818	-	-	52 693	852	-	54 363
Bank Pekao S.A. Group entities							
Associates	-	-	-	44	154	-	198
Key management Staff of the Bank Pekao S.A.	30	-	55	9	90	-	184
TOTAL	**848**	**-**	**55**	**90 927**	**1 096**	**-**	**92 926**
GUARANTESS GRANTED							
UniCredit S.p.A. – Bank's parent entity	-	51	1 362	26 381	136 408	108 870	273 072
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	-	2 152	19 990	21 449	27 117	310 142	380 850
Bank Pekao S.A. Group entities							
Associates	-	-	-	500	-	-	500
Key management Staff of the Bank Pekao S.A.	-	-	-	-	-	-	-
TOTAL	**-**	**2 203**	**21 352**	**48 330**	**163 525**	**419 012**	**654 422**

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial liabilities and guarantees granted by currencies

31.12.2012	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL LIABILITIES GRANTED						
UniCredit S.p.A. – Bank's parent entity	38 181	-	-	-	-	38 181
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	12 878	-	-	41 485	-	54 363
Bank Pekao S.A. Group entities						
Associates	-	-	-	198	-	198
Key management Staff of the Bank Pekao S.A.	-	-	-	184	-	184
TOTAL	**51 059**	**-**	**-**	**41 867**	**-**	**92 926**
GUARANTESS GRANTED						
UniCredit S.p.A. – Bank's parent entity	14 719	-	-	258 353	-	273 072
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	27 119	-	-	353 681	50	380 850
Bank Pekao S.A. Group entities						
Associates	-	-	-	500	-	500
Key management Staff of the Bank Pekao S.A.	-	-	-	-	-	-
TOTAL	**41 838**	**-**	**-**	**612 534**	**50**	**654 422**

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial liabilities and guarantees as at 31 December 2011

NAME OF ENTITY	GRANTED		RECEIVED
	FINANCIAL	GUARANTEES	FINANCIAL
Bank's parent entity			
UniCredit S.p.A.	64 701	188 638	-
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	710 554	304 095	2 208 613
Associates of Bank Pekao S.A. Group entities			
Pirelli Pekao Real Estate Sp. z o.o.	180	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	29	-	-
Pioneer Pekao Investment Management S.A.	32	-	-
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	135	-	-
Krajowa Izba Rozliczeniowa S.A.	-	500	-
Total Bank Pekao S.A. Group entities	**376**	**500**	**-**
Key management Staff of the Bank Pekao S.A.	286	-	-
Total	**775 917**	**493 233**	**2 208 613**

As at 31 December 2011, the Bank did not have off-balance sheet guarantees received from related parties.

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial liabilities and guarantees by contractual maturity

31.12.2011	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL LIABILITIES GRANTED							
UniCredit S.p.A. – Bank's parent entity	24 000	-	-	40 701			64 701
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	674 155			35 573	826	-	710 554
Bank Pekao S.A. Group entities							
Associates	-	-	-	32	344	-	376
Key management Staff of the Bank Pekao S.A.	30	5	-	49	202	-	286
TOTAL	**698 185**	**5**	**-**	**76 355**	**1 372**	**-**	**775 917**
GUARANTESS GRANTED							
UniCredit S.p.A. – Bank's parent entity	-	600	10 969	57 540	3 568	115 961	188 638
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	5 347	1 913	39 867	69 596	28 999	158 373	304 095
Bank Pekao S.A. Group entities							
Associates	-	-	-	500	-	-	500
Key management Staff of the Bank Pekao S.A.	-	-	-	-	-	-	
TOTAL	**5 347**	**2 513**	**50 836**	**127 636**	**32 567**	**274 334**	**493 233**
FINANCIAL LIABILITIES RECEIVED							
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	213	2 208 400	-	-	-	-	2 208 613
TOTAL	**213**	**2 208 400**	**-**	**-**	**-**	**-**	**2 208 613**

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial liabilities and guarantees by currencies

31.12.2012	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL LIABILITIES GRANTED						
UniCredit S.p.A. – Bank's parent entity	40 701	-	-	24 000	-	64 701
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	12 531	-	-	698 023	-	710 554
Bank Pekao S.A. Group entities						
Associates	-	-	-	376	-	376
Key management Staff of the Bank Pekao S.A.	-	-	-	286	-	286
TOTAL	**53 232**	**-**	**-**	**722 685**	**-**	**775 917**
GUARANTESS GRANTED						
UniCredit S.p.A. – Bank's parent entity	32 655	-	-	155 983	-	188 638
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	73 034	-	-	231 009	52	304 095
Bank Pekao S.A. Group entities						
Associates	-	-	-	500	-	500
Key management Staff of the Bank Pekao S.A.	-	-	-	-	-	-
TOTAL	**105 689**	**-**	**-**	**387 492**	**52**	**493 233**
FINANCIAL LIABILITIES RECEIVED						
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	2 208 400	-	-	-	213	2 208 613
TOTAL	**2 208 400**	**-**	**-**	**-**	**213**	**2 208 613**

(In PLN thousand)

Remuneration of Bank's Management Board and Supervisory Board Members

	VALUE OF BENEFITS	
	2012	2011
Management Board of the Bank		
Short-term employee benefits (*)	15 087	14 268
Other long-term benefits (**)	2 250	4 770
Benefits resulting from the termination of employment relationship	-	5 568
Share-based payments (***)	5 857	3 290
Total	**23 194**	**27 896**
Supervisory Board of the Bank		
Short-term employee benefits (*)	931	997
Share-based payments (***)	-	51
Total	**931**	**1 048**

(*) Short-term employee benefits include: base salary, bonuses and other benefits due in next 12 months from the date of the balance sheet.
(**) The item 'Other long-term benefit' includes: provisions for a long-term motivation program and deferred bonus payments.
(***) The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of fair value of share options and shares, including phantom shares, granted to the Members of the Bank's Management Board, as presented in the Note 43.

The Bank's Management Board and Supervisory Board Members have not received any remuneration from subsidiaries and associated entities in 2012 and 2011.

Remuneration of Members of Supervisory Boards and management Boards of Group subsidiaries

	VALUE OF BENEFITS	
	2012	2011
Companies' Management Boards		
Short-term employee benefits	17 385	18 898
Other long-term benefits	453	638
Benefits resulting from the termination of employment relationship	315	-
Share-based payments	234	413
Total	**18 387**	**19 949**
Companies' Supervisory Boards		
Short-term employee benefits	38	38
Total	**38**	**38**

50. Repo and reverse repo transactions

The Group increases its funds by sales transactions with the repurchase promise granted (repo and sell-buy back) at the same price increased by interest.

Securities composing the balance sheet portfolio of the Group as well as securities with obligation of resale (reverse repo and buy-sell back transactions) may be a subject to repo and sell-buy back transactions.

Securities composing the balance sheet portfolio of the Group and treated as repo and sell-buy back transactions are not derecognized from the statement of financial position due to the fact that the Group holds all the benefits and the risk deriving from these assets.

Notes to the financial statements (cont.)

(In PLN thousand)

	31.12.2012		31.12.2011	
	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RESPECTIVE LIABILITIES	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RESPECTIVE LIABILITIES
Financial assets held for trading				
up to 1 month	55 553	55 606	162 677	162 790
Total financial assets held for trading	**55 553**	**55 606**	**162 677**	**162 790**
Financial assets available for sale				
up to 1 month	4 833 622	4 830 418	3 253 715	3 245 195
from 1 to 3 months	702 569	698 212	-	-
from 3 to 6 months	-	-	297 041	303 916
Total financial assets available for sale	**5 536 191**	**5 528 630**	**3 550 756**	**3 549 111**
Financial assets held to maturity				
up to 1 month	16 459	16 462	-	-
from 1 to 3 months	-	-	351 149	352 461
Total financial assets held to maturity	**16 459**	**16 462**	**351 149**	**352 461**
Financial assets purchased under reverse repo and buy-sell back				
up to 1 month	2 079 999	2 081 794	2 421 332	2 423 963
from 1 to 3 months	20 122	20 073	9 454	9 428
Total financial assets purchased under reverse repo and buy-sell back	**2 100 121**	**2 101 867**	**2 430 786**	**2 433 391**
Total	**7 708 324**	**7 702 565**	**6 495 368**	**6 497 753**

The Group purchases financial instruments with the obligations of repurchase or resale (reverse-repo and buy-sell back) at the same price increased by interest.

Securities treated as reverse repo and buy-sell back transactions are not disclosed at the statement of financial position due to the fact that the Group do not holds all the advantages of risks and awareness deriving from these assets.

	31.12.2012		31.12.2011	
	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGE ASSETS	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGE ASSETS
Loans and advances from banks				
up to 1 month	190 118	190 058	1 465 411	1 465 483
from 1 to 3 months	-	-	508 684	507 625
Total loans and advances from bank	**190 118**	**190 058**	**1 974 095**	**1 973 108**
Loans and advances from customers				
up to 1 month	2 694 481	2 697 472	1 783 637	1 782 428
Total loans and advances from customers	**2 694 481**	**2 697 472**	**1 783 637**	**1 782 428**
Total	**2 884 599**	**2 887 530**	**3 757 732**	**3 755 536**

Financial assets subject to reverse repo and buy-sell back transactions constitute collateral accepted by the Group, which the Group has the right to sell or pledge.

	31.12.2012	31.12.2011
Fair value of assets pledged as collaterals, in this:	2 887 530	3 755 536
Short sale	246 578	-
Reverse repo transactions/ buy-sell-back	2 100 121	2 430 786

(In PLN thousand)

51. Company Social Benefits Fund ('ZFŚS')

The Social Benefits Fund Act of 4 March 1994 with subsequent amendments introduced the requirement to create a Company's Social Benefits Fund by all employers employing over 20 employees. The Bank and Group companies employing at least 20 staff have created the ZFŚS Fund and are making periodic charges to the ZFŚS Fund in amounts required by the Act. The basic aim of the ZFŚS Fund is to subsidize social assistance in benefit of the employees, former employees (pensioners and the retired) and entitled members of their families.

The liabilities of the ZFŚS Fund represent the accumulated value of charges made by the Company towards the ZFŚS Fund decreased by the amount of non-returnable expenditures of the ZFŚS Fund.

In the consolidated statement of financial position, the Group netted the ZFŚS Fund assets against the ZFŚS Funds value, due to the fact that the assets of the ZFŚS Fund do not represent the assets of the Group. For this reason the amount pertaining to the ZFŚS Fund in the consolidated statement of financial position as at 31 December 2012 and 31 December 2011 was zero.

The table below presents the assets according to type and book value, the balance of the Fund and costs related to ZFŚS:

	31.12.2012	31.12.2011
Loans granted to employees	38 130	44 750
Cash at ZFŚS account	12 979	10 494
ZFŚS assets	**51 109**	**55 244**
ZFŚS value	**51 109**	**55 244**
	2012	**2011**
Deductions made to ZFŚS during fiscal period	27 131	28 171

52. Subsequent events

There have been no significant subsequent events.

Signatures of all Management Board Members

Date	Name/Surname	Position/Function	Signature
14.03.2013	Luigi Lovaglio	President of the Management Board, CEO	
14.03.2013	Diego Biondo	Vice-President of the Management Board	
14.03.2013	Marco Iannaccone	Vice-President of the Management Board	
14.03.2013	Andrzej Kopyrski	Vice-President of the Management Board	
14.03.2013	Grzegorz Piwowar	Vice-President of the Management Board	
14.03.2013	Marian Ważyński	Vice-President of the Management Board	

Annexes to the financial statements

The accompanying annexes to the financial statements constitute an integral part of the consolidated financial statements.

Annex 1

New standards, interpretations and amendments to published standards that have been approved and published by the European Union and are effective from 1 January 2012

- **IFRS 7 (amendment)** 'Financial Instruments: Disclosures'

  The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

  The Group claims, that the standard amendment had no material impact on its consolidated financial statements in the period of its first implementation.

- **IAS 12 (amendment)** 'Income Taxes'

  The amendment would specify how the assets and provisions for deferred tax should be measured in case of investment properties measured using the fair value model in IAS 40 'Investment Property'. The revised standard withdraws the interpretation of SIC-21 'Income tax – Recovery of Revalued Non-depreciable Assets'.

  The Group claims, that the standard amendment had no material impact on its consolidated financial statements in the period of its first implementation.

- **IFRS 1 (amendment)** 'First-time Adoption of International Financial Reporting Standards'

  The proposed amendment would replace the fixed date: '1 January 2004' as the date of adopting IFRSs for the first time with a 'date of adopting IFRSs for the first time' in order to provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs. Moreover, the amendment would provide guidance on resumption of presentation of IFRS financial statements for entities emerging from severe hyperinflation.

  The Group claims, that the standard amendment had no material impact on its consolidated financial statements in the period of its first implementation.

Annexes to the financial statements (cont.)

Annex 2

New standards, interpretations and amendments to published standards that have been approved and published by the European Union, but are effective from the date after the balance sheet date

- **IFRS 7 (amendment)** 'Financial Instruments: Disclosures'

  Date of application: the first financial year beginning after 31 December 2012.

  The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to better estimate the influence or potential influence of offsetting financial assets and liabilities on financial standing of the entity.

  The Group claims, that the standard amendment will not have a material impact on its consolidated financial statements in the period of its first implementation.

- **IFRS 10** 'Consolidated Financial Statements'

  Date of application: the first financial year beginning after 31 December 2012.

  The standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The IFRS 10 supersedes IAS 27 'Consolidated and Separate Financial Statements' and SIC-12 'Consolidation - Special Purpose Entities'. The IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. The IFRS presents the additional guidelines useful in determining the existence of the control when it is hard to define.

  The Group claims, that the new standard will not have a material impact on its consolidated financial statements in the period of its first implementation.

- **IFRS 11** 'Joint Arrangements'

  Date of application: the first financial year beginning after 31 December 2012.

  The standard establishes more realistic principles for financial reporting by parties to a joint arrangement, and is concentrating mainly on rights and obligations resulting from those arrangements, and not on its legal form. The standard addresses inconsistencies in financial reporting of joint arrangements by introduction of homogenous method of accounting of interest in jointly controlled entities.
  IFRS 11 requires accounting of interests in joint arrangements only under the equity method, which eliminates the proportionate consolidation. The existence of an independent entity is no more a fundamental classification condition. Transitional provisions vary depending on the method of classification of joint arrangements under IAS 31.

  The Group claims, that the new standard will not have a material impact on its consolidated financial statements in the period of its first implementation.

Annexes to the financial statements (cont.)

- **IFRS 12** ‘Disclosure of Interests in Other Entities’

  Date of application: the first financial year beginning after 31 December 2012.

  The standard establishes new and complex principles for disclosure of entity’s interests in other entities, including subsidiaries, joint ventures, associates and other entities that are not consolidated.

  The Group claims, that the new standard will not have a material impact on its consolidated financial statements in the period of its first implementation.

- **IFRS 13** ‘Fair Value Measurement’

  Date of application: the first financial year beginning after 31 December 2012.

  The standard establishes framework for fair value measurement and requires disclosure of information on fair value measurement. The standard does not set out when an asset, liability or entity’s own equity instruments should be measured at fair value. On opposite, measurement and disclosure required by the standard is to be applied when other standards permit fair value measurement (with few exceptions).

  The Group claims, that the new standard will not have a material impact on its consolidated financial statements in the period of its first implementation.

- **IAS 1 (amendment)** ‘Presentation of Financial Statements’

  Date of application: the first financial year beginning after 30 June 2012.

  The changes serve clearer presentation of the increasing number of components of other comprehensive income as well as help users of financial statements to distinguish between the components of other comprehensive income, which may be then reclassified to profit or loss on items which cannot be reclassified in such a way.

  The Group claims, that the standard amendment will not have a material impact on its consolidated financial statements in the period of its first implementation.

- **IAS 19 (amendment)** ‘Employee Benefits’

  Date of application: the first financial year beginning after 31 December 2012.

  The changes should help users of financial statements to better understand the way in which the defined employee benefits influence the financial situation, financial results and cash flows of the entity. This standard aims at regulating employee benefits accountancy as well as information disclosure.

  The Group claims, that the standard amendment will not have a material impact on its consolidated financial statements in the period of its first implementation.

Annexes to the financial statements (cont.)

- **IAS 27** 'Separate Financial Statements'

  Date of application: the first financial year beginning after 31 December 2012.

  The IAS 27 'Separate Financial Statements' establishes principles for the presentation and disclosures to be applied in accounting for investments in subsidiaries, associates and jointly ventures. IAS 27 'Separate Financial Statements' supersedes the previous version of IAS 27 'Consolidated and Separate Financial Statements'.

  The Group claims, that the new standard will not have a material impact on its consolidated financial statements in the period of its first implementation.

- **IAS 28** 'Investments in Associates and Joint Ventures'

  Date of application: the first financial year beginning after 31 December 2012.

  The new standard refers to accounting for investments in associates and sets out the requirements for the application of equity method when accounting for investments in associates and joint ventures. IAS 28 'Investments in Associates and Joint Ventures' will replace the previous version of IAS 28 'Investments in Associates'.

  The Group claims, that the new standard will not have a material impact on its consolidated financial statements in the period of its first implementation.

- **IAS 32 (amendment)** 'Financial Instruments: Presentation'

  Date of application: the first financial year beginning after 31 December 2013.

  The objective of this Standard is to address inconsistencies in requirements when applying the offsetting criteria for financial assets and liabilities.

  The Group claims, that the standard amendment will not have a material impact on its consolidated financial statements in the period of its first implementation.

- **IFRIC 20** 'Stripping Costs in the Production Phase of a Surface Mine'

  Date of application: the first financial year beginning after 31 December 2012.

  The Interpretation clarifies accounting for costs associated with the process of removing waste from a surface mine in order to gain access to mineral ore deposits.

  The Group claims, that the new interpretation will not have a material impact on its consolidated financial statements in the period of its first implementation.

Annexes to the financial statements (cont.)

Annex 3

New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and are awaiting approval by the European Union

- **IFRS 1 (amendment)** 'First-time Adoption of International Financial Reporting Standards'

  Date of application: the first financial year beginning after 31 December 2012.

  The amendments allow entities that apply IFRS for the first time a prospective application of IAS 39 or IFRS 9 as well as § 10A IAS 20 as far as loans granted by the government and owned at the moment of transition to IFRS are concerned.

  The Group claims, that the standard amendment will not have a material impact on its consolidated financial statements in the period of its first implementation.

- **IFRS 9** 'Financial Instruments'

  Date of application: the first financial year beginning after 31 December 2014.

  New regulations compose a part of changes superseding IAS 39 'Financial Instruments: Recognition and Measurement'.
  Main changes resulting from the new standard include:
  - Elimination of available-for-sale and held-to-maturity financial assets,
  - Implementation of two financial assets categories: measured at amortized cost and fair value,
  - New criteria of assets classification to the group of financial assets measured at amortized cost,
  - New principles on recognition of changes in fair value measurement of capital investment in financial instruments,
  - Elimination of the need to separate embedded derivatives.

  The majority of IAS 39 requirements relating to financial liabilities classification and valuation were transferred to IFRS 9 unchanged.
  The standard will be extended by parts concerning principles of measurement at amortized cost as well as principles of hedge accounting application.

  The Group is currently assessing the impact of the IFRS 9 implementation on its financial statement, however due to the nature of the Bank, it is expected that these changes will have a meaningful impact on the Group's financial instruments valuation and presentation.
  The real impact of IFRS 9 first implementation will be possible to be estimated after the publication of the final, complete version of the standard.

Annexes to the financial statements (cont.)

Annex 4

Glossary

IFRS – International Financial Reporting Standards – the standards, interpretations and their structure adopted by the International Accounting Standards Board IASB.

IAS – International Accounting Standards – previous name of the standards forming part of the current IFRS.

IFRIC – International Financial Reporting Interpretations Committee – committee operating under the International Accounting Standards Board publishing interpretations of IFRS.

CIRS – Currency Interest Rate Swap – exchange transaction of principal amounts and interest payments in different currencies between two partners.

IRS – Interest Rate Swap – agreement between two counterparties, under which parties pay each other (at specified intervals during the contract live) of contractual principal and interest on the contract, charged at a different rate.

FRA – Forward Rate Agreement – contract under which two counterparties agree the interest rate which will be applied in the future for a specified amount in currency transactions for a predetermined period.

CAP – cap option is the financial agreement, which limits the risks borne by lenders on a variable rate, is susceptible to the potential for loss as a result of the growth rate. Cap option is a series of call options on interest rates, in which the issuer guarantees the buyer that he will compensate the additional interest costs, which he must pay from your loan if the loan interest rate rises above the agreed interest rate.

FLOOR – floor option is the financial agreement, which reduces the risk of incurring losses resulting from lower interest rates by the lender providing the loan at a variable rate of interest. Floor option is a series of put options on interest rates, the issuer guarantees the interest which he must pay the loan if the interest rate on the loan falls below the agreed interest rate.

IBNR – Incurred But Not Reported losses.

PD – Probability Default - parameter used in A-IRB method which determines the probability of debtor's insolvency. PD denotes with what probability is credit loss expected within time period of one year.

LGD – Loss Given Default.

EAD – Exposure At Default.

EL – Expected Loss.

CCF – Credit Conversion Factor.

A-IRB – Advanced Internal Rating-Based approach – advanced method where all parameters of risk (PD, LGD, EAD) are estimated by the bank using its own quantitative model to determine the amount of the risk weighted assets.

VaR – Value at Risk – the amount by which the market value of an asset or portfolio may be reduced based on specific assumptions, within a fixed time period and a specified probability.

EaR – Earnings at Risk – the maximum decrease of earnings, relative to specific goal, which might occur due to influence of market risk on specific risk factors for the given time period and confidence level.

ICAAP – Internal Capital Adequacy Assessment Process – the process of assessing internal capital adequacy.