Bank Pekao

Report on the activities of Bank Pekao S.A. Group for the year 2012

Warsaw, March 2013

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.

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Report on the activities of Bank Pekao S.A. Group for the year 2012

1 Highlights of Bank Pekao S.A. Group

	2012	2011	2010	2009	2008	2007 COMBINED DATA*	2007
INCOME STATEMENT (IN PLN MILLION) – SELECTED ITEMS**							
Operating income	7,687	7,731	7,218	7,053	7,834	8,355	5,398
Operating costs	(3,623)	(3,672)	(3,649)	(3,673)	(3,787)	(3,822)	(2,754)
Operating profit	4,064	4,060	3,569	3,380	4,046	4,533	2,645
Profit before income tax	3,680	3,593	3,102	2,998	4,346	4,366	2,605
Net profit for the period attributable to equity holders of the Bank	2,956	2,899	2,525	2,412	3,528	3,547	2,156
PROFITABILITY RATIOS							
Return on average equity (ROE)	13.3%	14.2%	13.1%	14.1%	23.5%	24.7%	23.7%
Net interest margin	3,6%	3.7%	3.5%	3.3%	4.0%	3.7%	3.9%
Non-interest income / operating income	36.7%	40.0%	42.1%	45.2%	41.0%	48.3%	49.3%
Cost / income	47.1%	47.5%	50.6%	52.1%	48.3%	45.7%	51.0%
STATEMENT OF FINANCIAL POSITION (IN PLN MILLION) – SELECTED ITEMS							
Total assets	150,950	146,590	134,090	130,616	131,941	124,096	124,096
Net loans and advances to customers***	97,799	95,679	80,840	79,455	82,512	69,699	69,699
Amounts due to customers	107,993	108,437	99,807	97,250	90,889	89,944	89,944
Debt securities issued	4,759	3,044	1,177	2,032	2,471	3,717	3,717
Equity	23,459	21,357	20,257	18,371	16,036	14,747	14,747
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS							
Net loans / total assets	64.8%	65.3%	60.3%	60.8%	62.5%	56.2%	56.2%
Securities / total assets	19.4%	20.4%	23.4%	21.0%	17.1%	19.8%	19.8%
Deposits**** / total assets	74.7%	76.0%	75.3%	76.0%	70.8%	75.5%	75.5%
Net loans / deposits****	86.7%	85.8%	80.1%	80.0%	88.4%	74.4%	74.4%
Equity / total assets	15.5%	14.6%	15.1%	14.1%	12.2%	11.9%	11.9%
Capital Adequacy Ratio	**19.0%**	**17.0%**	**17.6%**	**16.2%**	**12.2%**	**12.1%**	**12.1%**
EMPLOYEES AND NETWORK							
Total number of employees *****	19,816	20,357	20,783	20,874	21,992	22,926	22,926
Number of outlets (Bank Pekao S.A. and PJSC UniCredit Bank)	1,040	1,051	1,073	1,089	1,102	1,100	1,100
Number of ATMs (Bank Pekao S.A. and PJSC UniCredit Bank)	1,919	1,910	1,910	1,968	2,004	1,885	1,885

In order to assure data comparability, selected positions for 2007 income statement are presented as combined data of Bank Pekao S.A. Group and Pekao285, i.e. the part of Bank BPH SA merged with Bank Pekao S.A. as a result of the merger of the spun-off part of Bank BPH SA as registered on November 29, 2007.

Income statement items for 2007 are in line with those published for this period.

* Data not audited/reviewed by the independent auditor.

** Income statement includes continuing and discontinued operations.

*** Including debt securities eligible for rediscounting at Central Bank and net investments in financial leases to customers.

**** Deposits include Amounts due to customers and Debt securities issued.

***** Starting from the first quarter of 2012 including Pekao Property S.A. as a result of consolidation of the company under the full method since that date.

2 Summary of Performance

Bank Pekao S.A. Group reported solid financial results for 2012, with net profit attributable to equity holders amounting to PLN 2,955.7 million, i.e. an increase of PLN 56.3 million (1.9%) in comparison to 2011.

Sound results for 2012, with the operating profit increased by 0.1% in comparison with 2011, were accomplished thanks to the commercial activity of the Group.

The strength of the capital and liquidity structure of Bank Pekao S.A. Group is reflected by a capital adequacy ratio of 19.0% and net loans to deposits ratio at the level of 86.7% at the end of December 2012. This enables for further sound and stable development of the Group's activities.

The Bank continued its policy of offering only PLN mortgage loans. The residual stock of mortgage loans denominated in foreign currencies, almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA, represents 5.6% of total loans of the Bank.

- In 2012, the Group's operating income amounted to PLN 7,687.3 million, a decrease of PLN 44.0 million (0.6%) in comparison with 2011.
- Total net interest income, dividend income and income from equity investments in 2012 amounted to PLN 4,867.4 million and increased by PLN 229.2 million (4.9%) in comparison with 2011, mainly thanks to the higher volumes.
- The Group's net non-interest income in 2012 amounted to PLN 2,819.9 million, decrease of PLN 273.2 million (8.8%) in comparison with 2011, mainly due to lower net fee and commission income influenced by slowdown on consumer lending market, continuous migration of clients to internet channels as well as lower mutual funds and brokerage activity fees.
- In 2012, the operating costs were kept under control and amounted to PLN 3,622.9 million. They were lower by PLN 48.8 million (1.3%) than the operating costs in 2011.
- The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 669.4 million in 2012, an increase of PLN 131.5 million (24.4%) compared with 2011, mainly due to difficult situation in construction industry.

  As at December 31, 2012, the ratio of impaired receivables to total receivables amounted to 7.3% compared with 6.3% as at the end of 2011, mainly as a result of reclassification of some credit exposures within the construction industry.
- As at the end of December 2012, the total amounts due to the Group's customers and debt securities issued amounted to PLN 112,751.3 million, an increase of PLN 1,270.4 million (1.1%) in comparison to the end of 2011.

  The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 49,758.2 million at the end of December 2012, an increase of PLN 806.2 million (1.6%) in comparison to the end of 2011. The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 14,965.2 million at the end of December 2012, an increase of PLN 1,184.3 million (8.6%) in comparison to the end of 2011.

  The total volume of corporate customers deposits, repo and sell-buy-back transactions, Certificates of Deposit, Pekao Bank Hipoteczny S.A. mortgage bonds, interest and other amounted to PLN 62,993.1 million at the end of December 2012, an increase of PLN 464.2 million (0.7%) as compared to the end of 2011.
- As at the end of December 2012, the volume of retail loans amounted to PLN 40,484.9 million, an increase of PLN 3,751.4 million (10.2%) in comparison to the end of 2011.

  The volume of corporate loans, non-quoted securities, reverse repo transactions and securities issued by non-monetary entities decreased by PLN 1,273.1 million (2.0%) as compared to the end of 2011 and amounted to PLN 62,679.3 million at the end of December 2012.

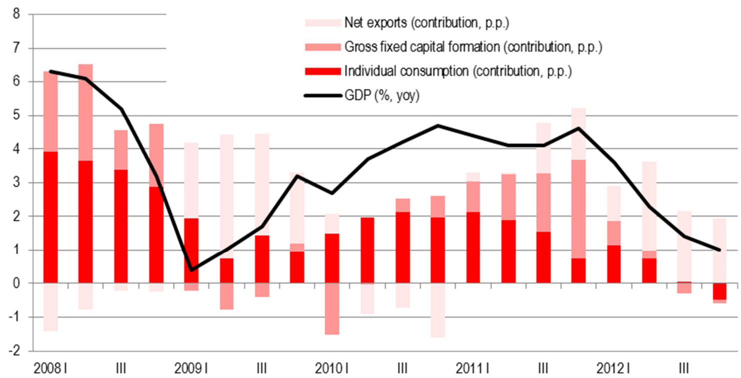
3 External Activity Conditions

Economic growth

According to data released by the Central Statistical Office (GUS) economic growth in 2012 amounted to 2.0% as compared with 4.3% GDP growth in 2011. In 2012, there was a significant deterioration of the domestic demand performance. Its growth slowed to 0.1% down from 3.4% a year earlier. Such developments stemmed from the fact that individual consumption growth rate decreased to merely 0.5% and fixed investments expansion slowed to 0.6%. Low growth in individual consumption of households was a consequence of worsening conditions on labour market and elevated inflation, which translated into a drop of real wage bill in corporate sector and as a consequence lower consumers income. Moreover, in the second half of 2011 households were rebuilding savings, which were an important source of consumption financing in the first half of the year. In the fourth quarter of 2012 individual consumption fell by 1% on a yearly basis meaning that private consumption fell for the first time since mid-90s.

Slowdown in investment activity was linked to completion of large investment projects financed by public sources and gradual reduction in new investments by enterprises amid declines in new contracts. Stagnating domestic demand meant that in 2012 net exports was the main source of economic growth as the foreign trade balance improved.

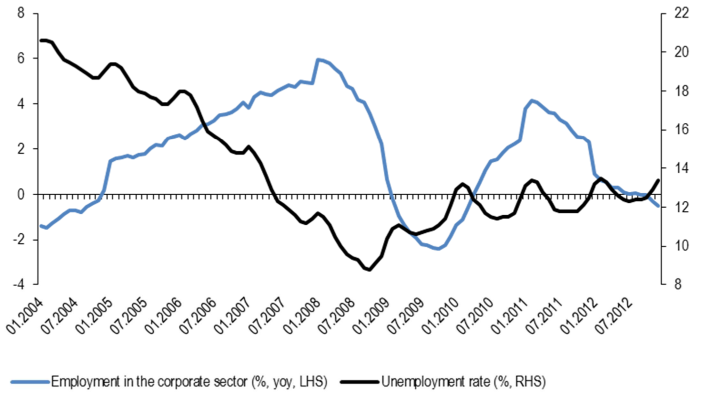
According to the forecast, in 2013 the GDP will expand by 1.7%. Fixed investments are foreseen to decline amid further reduction in public investments and lower investment activity in the private sector due to poor external demand. At the same time households individual consumption growth is expected to remain at the low level. As a consequence the domestic demand is to remain stagnant and net exports is to remain the main source of economic growth.



Labour market

Average employment in the Polish corporate sector in December 2012 was 5,474 thousand, by 29 thousand lower than in December 2011. It should be noted, however, that this decline in employment is underestimated due to the update of the statistical sample by the Central Statistical Office, which was made at the beginning of 2012 (there was an increase in the number of enterprises employing more than 9 persons) and caused a rise in employment by 48 thousand. In the period February – December 2012 the number of employees decreased by 77 thousand, out of which 40 thousand in the fourth quarter of 2012, reflecting significant acceleration of job reduction by corporates. The main drivers of decrease in employment in 2012 were redundancies, both in the construction sector related to the strong crisis of the whole sector (slowdown of infrastructure investments, payment backlogs, growing number of bankruptcies) and in the manufacturing sector due to weakening external demand.

The unemployment rate rose in 2012 to the level of 13.4% in December 2012 from the level of 12.5% at the end of 2011. In 2013 the upward trend of unemployment rate observed since 2009, is likely to be continued due to the slowdown of domestic economy.



As a result of the ongoing deterioration in the labour market wage pressure in the Polish corporate sector in 2012 remained very low, which was supported by a decline in households' inflation expectations. The average wage in the corporate sector increased in 2012 on average by 3.5% compared with an increase of 4.9% in the previous year. As a result, nominal wage bill in the corporate sector increased in 2012 by 3.7% compared with an increase of 8.3% in 2011, which after inflation translated into stagnation in real terms (0.0% in 2012 compared with 3.9% in 2011).

Inflation and monetary policy

The Central Statistical Office announced that average consumer price inflation stood at 3.7% last year, while in 2011 it amounted to 4.3%. Price index of consumer goods and services remained above the upper limit of the range of permissible deviations from the inflation target until September 2012. Middle of inflation target is defined in 2.5% and deviations are limited in the range of 1.5-3.5%. In October 2012, the CPI amounted to 3.4%, which had been the first time in the target since December 2010. At the end of last year CPI fell to 2.4%.

The strongest influence on inflation remaining at elevated level during the first three quarters of 2012 came from a rapid increase in housing, energy and transport prices. Prices of food and non-alcoholic beverages in 2012 grew faster than prices of other consumer goods and services, mainly due to high increase in prices of meat and dairy products. When analyzing the level of food prices it should be noted that the prices of fruits and vegetables in the first half of 2012 were lower compared to the previous year.

Inflation decrease in the fourth quarter of 2012 was due to fuel prices cuts. During the first nine months of 2012 fuel prices were on average 11.9% higher than in the same period of 2011, while growth of fuel prices in December 2012 compared to December 2011 amounted to only 0.7%. In the last months of 2012 a decline in inflation was supported by base effects. Since October inflation rate in year on year terms decreased due to the high base associated with increases in charges for kindergarten and implementation of new regulations of the Ministry of Health on prices of subsidized medicines.

In 2012, core inflation rate (excluding food and energy prices) declined to 2.2% from 2.4% in 2011. Despite a fall in consumer price inflation there was a decline in industrial production prices in 2012. It resulted from weakening demand in the industrial sector, more and more severe competitive pressure in the sector that forces companies to lower margins and lower global commodity prices.

An increase in consumer inflation early in the year of 2012 and associated rise in inflation expectations of households made the Monetary Policy Council raise interest rates in May by 25 bps. As a result of this hike the reference rate amounted to 4.75%. Increasingly strong signs of economic slowdown and falling inflation in last months of 2012 made the Monetary Policy Council cut interest rates in November and December. At the end of 2012 the reference rate amounted to 4.25%.

In the first half of 2013 a fall in the CPI inflation is expected. In June 2013, the CPI is likely to be near the lower limit of the target range. In the second half of 2013 a gradual increase in inflation is possible due to likely growth in raw material prices resulting from recovery in global economy.

Fiscal policy

The preliminary data indicate that in 2012 the state budget deficit amounted to ca. PLN 31 billion as compared with PLN 25.1 billion in 2011 and PLN 35 billion limit envisaged in the 2012 budget act. The lower than planned budget deficit resulted from higher than forecast non-tax revenues, predominantly due to PLN 8.2 billion payment from the NBP 2011 profit. Moreover, expenditures were reduced as compared to the level assumed in the budget act. According to preliminary estimates the budget expenditure were executed at 96.9% of the plan. At the same time tax revenues were visibly below the level planned in the budget act, especially as regards collections from indirect taxes. That was a consequence of economic growth slower than assumed by the government and its unfavourable, from the fiscal point of view, composition. It is estimated that in 2012 tax revenues were ca. PLN 13.5 billion lower than budgeted, predominantly due to nearly PLN 11 billion lower than planned VAT collections.

The project of budget act sets the 2013 budget deficit limit at PLN 35.6 billion i.e. higher than PLN 32.0 billion outlined in the Long-term Financial Plan of the State published in May 2012. Since the public debt in 2011 exceeded 50% of the GDP, the 2013 budget is constructed in line with the provisions of the public finance act curbing the deficit to revenue ratio at the level no higher than in the 2012 budget. Still slow economic growth and unfavourable GDP composition (weak domestic demand) along with visible decline in inflation will put pressure on the situation of the state budget in 2013, especially as regards the revenue side. Taking into account optimistic government forecasts regarding tax collection in the 2013 budget act, there is substantial probability of the 2013 budget revision in the middle of the year. As a consequence the deficit target might increase and the gross public borrowing needs could appear PLN 10-15 billion higher than planned PLN 145 billion.

Foreign sector

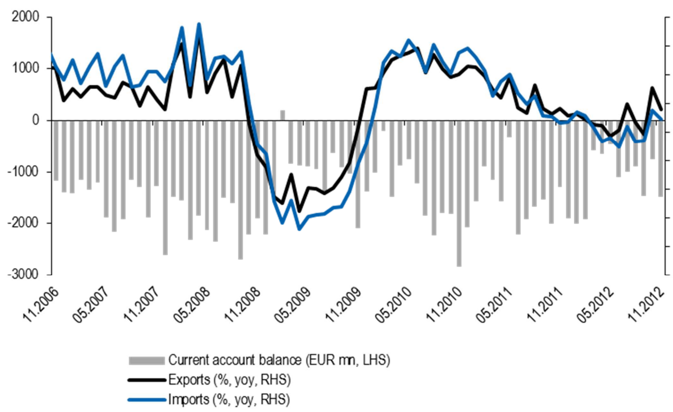
The NBP's preliminary estimates show that in 2012 the current account deficit amounted to EUR 13.5 billion compared to EUR 18.0 billion in 2011, denoting a decrease from 4.9% GDP to 3.5% GDP.

Lower deficit of the current account was mainly an effect of a decrease in the deficit of trade balance as well as a higher surplus in the services account. The trade deficit narrowed from EUR 10.1 billion in 2011 to EUR 5.5 billion in 2012 due to a larger slowdown in dynamics of imports (from 12.1% in 2011 to 0.9%) than of exports (from 12.0 % in 2011 to 4.2%), which was related to a significant slowdown in domestic demand. The surplus of the services account rose to EUR 4.8 billion from EUR 4.1 billion in 2011.

In turn, negative factors for the current account balance were the deepening of the income deficit and lower surplus of current transfers account. The deficit of the income account increased in 2012 to EUR 17.0 billion from EUR 16.4 billion in the previous year, while the surplus of the current transfers account fell to EUR 4.2 billion from EUR 4.4 billion in 2011.

As far as financing of the current deficit is concerned, in 2012 it was observed a significant drop in foreign direct investments (FDI) - from EUR 13.6 billion in 2011 to EUR 2.9 billion in 2012, as a result of which the FDI financed in 2012 only 21% of the current account deficit vs. 75% in 2011. The key role in financing the imbalance in the current account in 2012 had portfolio investments, which rose to EUR 15.3 billion from EUR 11.4 billion in 2011, mainly due to strong capital inflows to the domestic market of Treasury debt securities.

In 2012, there was only a slight increase in the Treasury's foreign debt. According to the data of the Ministry of Finance at the end of November 2012 the Treasury's foreign debt amounted to PLN 254.5 billion, which is an increase by ca. PLN 8.1 billion compared to December 2011 (by 3.3%). Such a small increase was partly an effect of the appreciation of the złoty against foreign currencies in which the Treasury's foreign debt is denominated.



Capital market

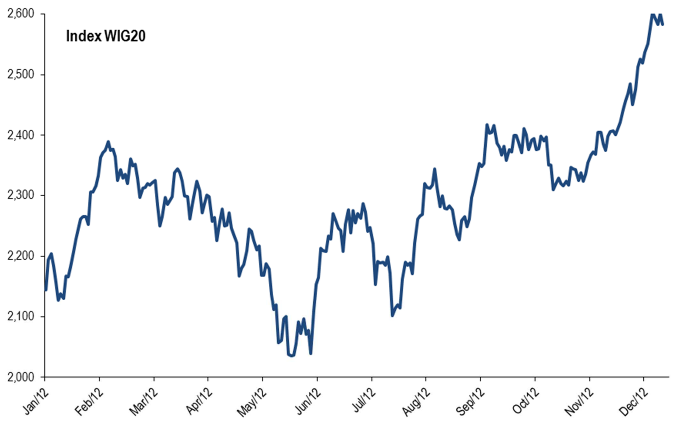
After decline of stock indices on the Warsaw Stock Exchange (the WSE) in 2011, the first half of 2012 did not bring prospects for better performance. Prolonged horizontal trend in Poland prevailed despite systematically higher global risk appetite and unprecedented actions taken by major central banks, which were providing liquidity for financial markets. Quantitative easing of monetary policy supported demand for broad spectrum of assets, including equities. The WSE underperformed due to specificity of domestic factors. Common fears of the economic slowdown, bankruptcy of some public companies, mainly within construction industry, a lack of faith in the long-term positive impact of the European Football Championship UEFA EURO 2012™ in Poland, increasingly smaller weight of Open Pension Funds, affected gains and activity.

The situation improved in the middle of the year, but investors had to wait longer to see indices above upper bound of long-term fluctuation band. Although all main indices went higher over a year, such results did not fully reflect the situation on the market over the whole period. Market outperformed only during last weeks of 2012 with prices of part of listed companies being actually lower.

Broad market index WIG outperformed and gained 26.24%, while the WIG20 index rose by 20.45%. New WIG20 Total Return, which in addition to changes in stock prices, measures also dividends increased by 28.71%. Smaller companies underperformed a little bit and the mWIG40 went up by 17.42%. Detailed analysis of sectors and individual companies shows considerable differences. Debt problems of large companies in the construction industry, including some spectacular bankruptcies, affected the WIG-Construction index, which drop by 30.86%. On the other hand companies from the commodities, chemicals and fuel industries were very popular among investors and outperformed.

Little activity that prevailed on the market during first months affected turnover, but also number of new issuers. In contrast to IPOs in 2011 (38), only 19 companies joined the stock exchange in 2012. The capitalization of listed companies increased by 14.1% to PLN 734.0 billion. The value of spot market trading amounted to PLN 189.2 billion and was significantly lower than in the previous year (PLN 252.2 billion).

Growth of equity indices and extremely large strengthening of T-bonds were positive for domestic investment funds. Statistical data from the Chamber of Fund and Asset Management confirmed that value of NAV increased by 26.9% to a record PLN 145.8 billion, also thanks to positive net sales. Debt strategies were the most popular, hence the largest increase in assets occurred in debt funds. It was due to both the appreciation of assets, as well as inflows (PLN 16.7 billion during the year). During this period the value of assets in that segment increased by 66.9% to PLN 41.2 billion, strengthening this class of funds as the leader with 28.3% market share. Although this resulted mainly from transfers within a single institution, inflows from individual clients was the highest as well. Private equity funds (growth of NAV by 63.7%) and absolute rate of return funds (49.5%) also attracted investors, gaining market shares and confirming popularity of new investment opportunities.



Banking sector

Despite the fact, that situation on the banking market was markedly different in the first and second half of 2012 due to changes in the economy, for the whole 2012 the situation of the banking system remained stable. After a fairly robust GDP growth in the first half of 2012, in the second half of the year a visible slowdown was observed. This was accompanied by a deterioration in the financial performance of non-financial companies and negative changes on the labor market. In November, in the response to slower growth as well as declining inflation, the Monetary Policy Council began a series of interest rate cuts (the reference rate was reduced to 4.25% at the end of 2012). The change in inflation expectations combined with monetary policy easing and higher risk appetite (after the ECB's actions aimed at stabilizing the situation in the euro zone) led in the second half of the year to a significant decline in government bond yields. This contributed positively to the banking sector results.

The year on year growth in the value of banks' assets declined to 4.7% at the end of 2012 (compared with a 11.5% year on year in December 2011). In 2012, the following changes occurred in key deposit categories[1]:

- a 7.7% year on year growth in households deposits (compared with a 13.5% year on year increase reported in 2011). The key factor contributing to the weaker growth was declining growth rate of households income,
- a 7.6% year on year decrease of corporate deposits (compared with a 12.2% year on year growth reported in 2011). The decline in corporate deposits derived mainly from deteriorating financial performance. In addition, a negative impact on their level had large foreign acquisition transaction[2] (comprising the transfer of substantial funds abroad),
- a 18.1% year on year growth in other deposits (compared with a 1.4% year on year increase reported in 2011). Stronger growth in this category stemmed from a sharp increase (29.8% year on year) in the deposits of non-monetary financial institutions.

As a result of the changes described above, the deposit structure was as follows: at the end of 2012 households' deposits, corporate deposits and other deposits represented 64.5% (62.7% at the end of 2011), 23.5% (26.7% at the end of 2011), and 12.0% (10.6% at the end of 2011) of total deposits, respectively.

As for the main loan categories, the following changes occurred in 2012:

- a 0.2% year on year growth of households loans (compared with a 11.9% year on year increase reported in 2011). Stagnation in households loans is derived from a slowdown in growth of housing loans (consumer loans has been remaining stagnant for several years) and appreciation of the złoty. The latter led to the reduction of the złoty value of loans denominated in foreign currencies (e.g. CHF mortgages). Estimated growth rate of households loans adjusted for FX effect stood at 4% year on year in 2012 (about 7% at the end of 2011),
- a 3.4% year on year growth of non-financial corporations loans (compared with a 19.1% year on year increase reported in 2011). The decline in the pace of growth rate was related to the lower investment activity. Similarly to the households loans, also growth in this category was distorted by FX changes. FX adjusted growth rate can be estimated at ca. 6% year on year (ca. 15% at the end of 2011),
- a 12.7% year on year growth of other loans (compared with a 16.3% year on year increase reported in 2011). The category rose mainly thanks to stronger portfolio of loans to non-monetary financial institutions (27.9% year on year) with slight increase of local governments loans (4.0% year on year).

[1] Based on aggregate data published by the NBP for all monetary financial institutions, including apart from deposits other liabilities and in case of loans including other receivables.
[2] Acquisition of Canadian mining company Quadra by KGHM.

At the end of 2012, households loans, non-financial corporations loans and other loans accounted for 59.7% (61.0% at the end of 2011) 30.0% (29.7% at the end of 2011) and 10.3% (9.3% at the end of 2011) of the total loan portfolio, respectively.

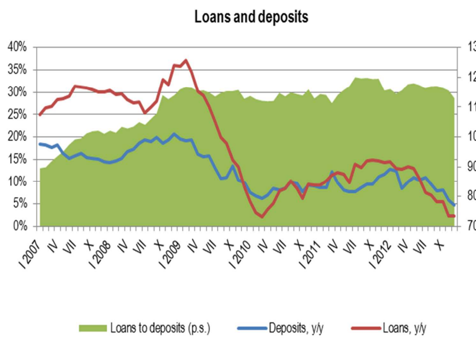
At the end of 2012 loans to deposits ratio[3] decreased to the level of 106.7% compared with 111.5% in December 2011.

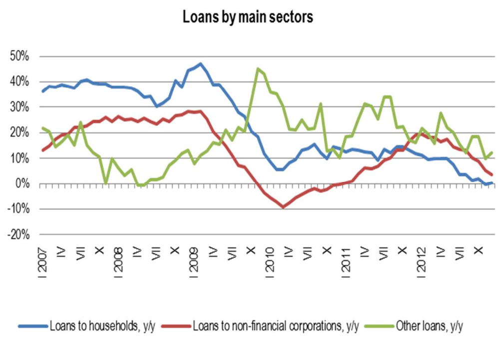
The quality of the loan portfolio is of fundamental importance. Within the scope of portfolio quality in 2012 the following trends were observed:

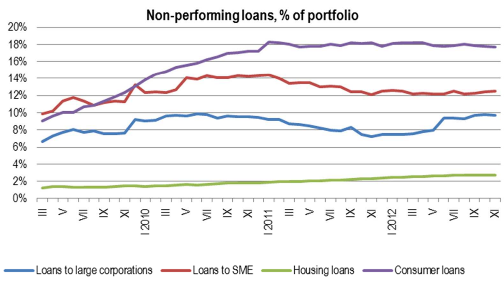
- reversal of positive trend in corporate loans – share of non-performing loans increased from 10.5% in December 2011 to 11.7% in December 2012. Increase of the NPL ratio derived from the lower quality of loans to large corporations (ratio went up from 7.5 to 9.7%) with a fairly stable quality of loans to SME (ratio went up from 12.5% to 13.0%),
- the share of non-performing loans in total households loans remained above 7% (7.4% in December 2012 compared to 7.2% in December 2011). Within this loan category, a steady, slow upward trend is observed in case of housing loans (the NPLs ratio went up from 2.3% in December 2011 to 2.8% in December 2012). The share of non-performing loans in non-housing retail loans slightly decreased (14.4% at the end of 2012 compared to 14.6% at the end of 2011).

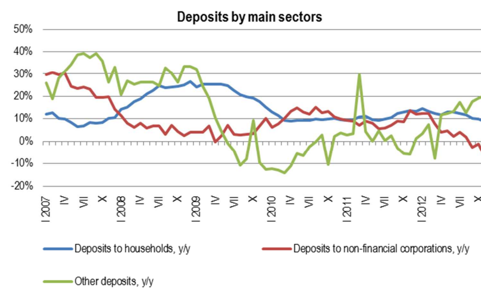
In 2012, stabilization of the gross and net profit at the levels similar to those of 2011 was observed. According to the Financial Supervisory Authority in 2012 the banking sector generated a net profit of PLN 16.1 billion (by 3.9% higher than in 2011). The higher cost of risk (5.0% year on year) and higher operating costs (3.7% year on year) were offset by higher income (net interest income increased by 1.5% year on year, net income from fees and commissions rose by 0.4% year on year and the result from other activity by 15.9% year on year).

In the regulatory framework, the most important changes of 2012 were further measures taken to restrict borrowers' access to foreign currency loans (higher capital requirement for FX loans) and scaling down of "Family on their own" housing loan subsidy scheme.









[3] In terms of the balance sheet, excluding mutual receivables and deposits of monetary financial institutions

4 Important Events and Achievements

4.1 Changes within the Group

The composition of Bank Pekao S.A. Group is presented in the Note 2 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2012.

The most significant changes concerning the Group are presented below.

Liquidation of the company
On October 20, 2010, the Extraordinary General Meeting of the Company Holding Sp. z o.o. in liquidation took the resolution to commence the process of liquidation of the company, business activity of which has been already discontinued.
On June 1, 2012, the Extraordinary General Meeting of the Company Holding Sp. z o.o. in liquidation took the resolution to end the liquidation of the company and apply to the court for removal of the company from the National Court Register.
The request on the removal of the Holding Sp. z o.o. in liquidation from the National Court Register was submitted to the District Court for the City of Warsaw, XIII Economic Department of National Court Register on June 21, 2012. On July 6, 2012, the District Court for the City of Warsaw, XIII Economic Department of National Court Register decided on completing the liquidation proceedings and removing the Company Holding Sp. z o.o. in liquidation from the National Court Register.

On December 31, 2012, the Bank received information on completing the liquidation proceedings of the Company Central Poland Fund LLC on September 30, 2012.

Change of name of the company
On March 26, 2012, the Company Xelion. Doradcy Finansowi Sp. z o.o. – associated entity in which the Bank holds a 50% stake, changed its name to Dom Inwestycyjny Xelion Sp. z o.o. The change of the name was registered by the court.

File for bankruptcy
On August 13, 2012, Mr. Zbigniew Sajdak – Member of the Management Board of FPB Media Sp.z o.o. filed for bankruptcy of FPB Media Sp.z o.o. – indirect subsidiary of the Bank. The motion was submitted to the District Court for the City of Warsaw, X Business Division for Bankruptcy and Repair Issues.

On October 16, 2012, The Management Board of FPB Media Sp. z o.o. filed motion for withdrawal of file for bankruptcy of FPB Media Sp. z o.o. dated August 13, 2012. The motion was submitted to District Court for Warsaw Praga-Północ in Warsaw, IX Business Division.

4.2 Changes in the Statutory Bodies of the Bank

Supervisory Board

On March 26, 2012, Ms. Alicja Kornasiewicz, Chairwoman of the Supervisory Board of the Bank has submitted a resignation from her position held in the Supervisory Board effective from the closing of the General Meeting of the Bank approving the financial statements of the Bank for 2011, i.e. on June 1, 2012.

On June 1, 2012, the Ordinary General Meeting of the Bank has appointed Mr. Jerzy Woźnicki, Mr. Roberto Nicastro, Mr. Enrico Pavoni, Mr. Alessandro Decio, Mr. Paweł Dangel, Mr. Leszek Pawłowicz, Ms. Laura Penna, Ms. Doris Tomanek and Ms. Wioletta Rosołowska as Members of the Supervisory Board of the Bank for the period of a common term of office, lasting three years, which began on June 2, 2012.

The Supervisory Board of the Bank elected at the meeting held on July 24, 2012, Mr. Jerzy Woźnicki as Chairman of the Supervisory Board, Mr. Enrico Pavoni as Deputy Chairman of the Supervisory Board, Mr. Roberto Nicastro as Deputy Chairman of the Supervisory Board and Mr. Alessandro Decio as Secretary of the Supervisory Board.

On October 21, 2012 died Mr. Enrico Pavoni, Deputy Chairman of the Supervisory Board of the Bank, who was a Member of the Supervisory Board since the privatization of the Bank in 1999, strongly supporting the development of the Bank in this period.

At the meeting held on November 7, 2012, the Supervisory Board of the Bank entrusted Member of the Supervisory Board Mr. Leszek Pawłowicz with the function of Deputy Chairman of the Supervisory Board.

Composition of the Supervisory Board as at December 31, 2012 and December 31, 2011 was as following:

DECEMBER 31, 2012	DECEMBER 31, 2011
Jerzy Woźnicki Chairman of the Supervisory Board	Alicja Kornasiewicz Chairwoman of the Supervisory Board
Roberto Nicastro Deputy Chairman of the Supervisory Board	Roberto Nicastro Deputy Chairman of the Supervisory Board
Leszek Pawłowicz Deputy Chairman of the Supervisory Board	Jerzy Woźnicki Deputy Chairman of the Supervisory Board
Alessandro Decio Secretary of the Supervisory Board	Alessandro Decio Secretary of the Supervisory Board
Paweł Dangel Member of the Supervisory Board	Paweł Dangel Member of the Supervisory Board
Laura Penna Member of the Supervisory Board	Oliver Greene Member of the Supervisory Board
Wioletta Rosołowska Member of the Supervisory Board	Leszek Pawłowicz Member of the Supervisory Board
Doris Tomanek Member of the Supervisory Board	Krzysztof Pawłowski Member of the Supervisory Board
	Enrico Pavoni Member of the Supervisory Board

Management Board of the Bank

Composition of the Management Board:

DECEMBER 31, 2012	DECEMBER 31, 2011
Luigi Lovaglio President of the Management Board, CEO	Luigi Lovaglio President of the Management Board, CEO
Diego Biondo Vice President of the Management Board	Diego Biondo Vice President of the Management Board
Marco Iannaccone Vice President of the Management Board	Marco Iannaccone Vice President of the Management Board
Andrzej Kopyrski Vice President of the Management Board	Andrzej Kopyrski Vice President of the Management Board
Grzegorz Piwowar Vice President of the Management Board	Grzegorz Piwowar Vice President of the Management Board
MarianWażyński Vice President of the Management Board	MarianWażyński Vice President of the Management Board

Members of the Management Board of the Bank are appointed for a joint three-year term of office.

Members of the Management Board are appointed and removed from office by the Supervisory Board. Vice Presidents and Members of the Management Board of the Bank are appointed and removed from office upon the request of the President of the Management Board of the Bank. Appointment of two members of the Management Board, including the President of the Management Board, is subject to approval by the Polish Financial Supervision Authority. The body which applies for the approval is the Supervisory Board.

On March 12, 2013, The Management Board of Bank Pekao S.A. published in the current report No. 12/2013 that Mr. Marco Iannaccone resigned from the function of Vice President of the Management Board of the Bank, effective from March 31, 2013. On March 12, 2013, the Supervisory Board of the Bank appointed, effective from April 1, 2013, Mr. Stefano Santini as Vice President of the Management Board of Bank Pekao S.A. for the current, common term of office of the Management Board of the Bank.

The Management Board of the Bank runs the Bank's affairs and represents the Bank. The scope of activities of the Management Board of the Bank includes all matters which, pursuant to the provisions of law or the Bank's Statute do not fall within the scope of competence of other bodies. The rules and procedures governing the activities of the Bank's Management Board are stipulated in the Rules of Procedure for the Management Board of the Bank.

Members of the Management Board of the Bank coordinate and supervise the activity of the Bank in accordance with the division of powers enacted by the Management Board of the Bank and approved by the Supervisory Board.

Mr. Luigi Lovaglio, President of the Management Board of the Bank, coordinated the activities of the members of the Management Board of the Bank, supervising also, in particular the following areas of the Bank's activity: internal audit, compliance, and corporate communication, including investor relations.

Mr. Luigi Lovaglio headed the Management Board, convened and presided over the Board meetings, presented its stance to other governing bodies of the Bank and in relations with third parties, in particular with the State authorities, and issued internal regulations.

Mr. Diego Biondo, Vice President of the Management Board of the Bank supervised the activity of the Risk Management Division.

Mr. Marco Iannaccone, Vice President of the Management Board of the Bank supervised the activity of the Finance Division.

Mr. Andrzej Kopyrski, Vice President of the Management Board of the Bank supervised the activity of the Corporate Banking and MIB Division.

Mr. Grzegorz Piwowar, Vice President of the Management Board of the Bank supervised the activity of the Retail Banking Division and Household Financing Division.

Mr. Marian Ważyński, Vice President of the Management Board of the Bank supervised the activity of the Logistics and Procurement Division.

4.3 Organizational changes

In 2012, there were changes in the organizational structure of the Head Office of Bank Pekao S.A.

In the Risk Management Division, the Financial Risk Management Department and the Operational Risk Management Department were transformed into the Financial and Operational Risk Management Department and the Validation Model Office was also established. The aim of the changes was to take advantage of abilities and experience of employees from the Financial Risk Management Department in the area of statistical operational risk modeling, which is required when applying AMA method (Advanced Measurement Approach), whereas establishing the Validation Model Office provided independence for this office from the other organizational Bank's units responsible for buildings models.

In the IT Department, the Planning and Controlling office has been established in order to ensure the support for planning and execution of capital expenditures budget and Division costs as well as to strengthen monitoring of these areas.

4.4 Awards and distinctions

The activities of Bank Pekao S.A. in 2012 gained wide recognition, as evidenced by numerous awards and distinctions granted by Polish and foreign institutions. The most relevant honors are presented below.

Global Finance: Bank Pekao S.A. as "World's Best Bank in Poland awarded most often over the past 16 years"

Bank Pekao S.A. has been titled the most often awarded bank in Poland over the past 16 years - "World's Best Bank in Poland awarded most often over the past 16 years" in the ranking organized by Global Finance magazine.

Almost three–fourths of awards granted to the Bank by Global Finance since 1999 were passed to corporate banking in the area of FX transactions, trade finance, electronic banking and custodial services. The ranking was announced in the special edition of Global Finance magazine issued on the occasion of 25th anniversary of the magazine.

Investor Relations of Bank Pekao S.A. - "Best Investor Relations by country: Poland" awarded by IR Magazine Europe Awards 2012

In 2012 Bank Pekao S.A. was prized IR Magazine Europe Award 2012 in the category: "Best Investor Relations by country: Poland". The IR Magazine Awards are the leading international awards honoring excellence and leadership in investor relations. The winners are chosen during independent research, which is a combination of an electronic survey and one-to-one telephone interviews with portfolio managers and financial analysts across Europe. The results acknowledge those individuals and teams that demonstrated excellence in investor relations over the past 12 months.

Promotional emblem "Teraz Polska" for the complex offer of the Bank's mobile banking

In the 22nd edition of "Teraz Polska" competition, Bank Pekao S.A. was honored with Promotional Emblem in the Service category for the complex offer of mobile banking for individual clients, including Eurokonto Mobilne, application of mobile banking Pekao24 and Mobilny Planer Zakupów ("Mobile Shopping Planner"). Another award for Pekao24 mobile banking confirms high quality of services and innovativeness of solutions offered by the Bank.

"Teraz Polska" competition awards the best products and services on the markets, which thanks to their qualitative, technological and utility values distinguish themselves on the markets and can be considered a model for others to follow. The competition is organized by Fundacja Polskiego Godła Promocyjnego under the honorary patronage of President of the Republic of Poland.

EUROPRODUKT 2012 for the Contact Center of Bank Pekao S.A.

In the 17th EUROPRODUKT competition, the Contact Center of Bank Pekao S.A. was awarded the title of "EUROPRODUKT 2012" in the service category. EUROPRODUKT is a nationwide competition held under the honorary patronage of the Ministry of Economy and Polish Agency for Enterprise Development. The title of EUROPRODUKT is granted for products which because of a high quality and cutting-edge technology of production are able to compete on the European market as well as for the company's services which endeavor to provide comprehensive and professional services to their clients.

Distinction for mobile application of Bank Pekao S.A.

In 2012, Pekao24 mobile application which is dedicated to individual clients won the ranking of the most useful mobile applications out of the all solutions offered by Polish banks, which were conducted by experts of Janmedia Interactive agency. The experts priced ergonomics and comfort of application use, graphics and the range of available functions. Pekao24 proved to be the best banking application installed on smart phones with iOS and Android operating systems and was granted almost the maximum number of points in the majority of categories.

Moreover, Pekao24 mobile banking took the first place in the ranking of Gazeta Bankowa and the second place in the ranking of “Przyjazny Bank Newsweeka” (Friendly Bank of Newsweek). The assessments took under account features that are significant from the customer’s point of view, elements of application utility and functionality. Those are the subsequent distinctions which confirm quality and competitiveness of mobile solutions offered to clients of Bank Pekao S.A.

“European Distributor Awards 2012” for structured products of Bank Pekao S.A.

The activity of Bank Pekao S.A. related to preparation and distribution of structured products was noticed and appreciated. The Bank was prized in competition “European Distributor Awards 2012” organized by Structured Retail Products institution which provides information on structured products. The Bank occupied high places in two categories: the first place in Poland as the best distributor of structured products in the category of investment profit and the second place as the best distributor in Poland in overall rating.

Global Finance: Bank Pekao as the best trade financing provider and the best foreign exchange services provider

Bank Pekao S.A. has been awarded for the fifth consecutive year two recognized awards granted by Global Finance – an international finance magazine - for product offers in the field of trade financing and foreign exchange services:

- Best Trade Finance Bank 2012 – the best trade financing provider,
- Best Foreign Exchange Provider 2012 – the Best foreign exchange services provider.

The award for the best trade financing provider is recognition for banks which are engaged in financing trade transactions and effectively meet the needs of the corporate clients in this area. The best foreign exchange provider award honors the institutions that specialize in FX transactions and efficiently support their clients on the volatile foreign exchange market.

Global Finance magazine has selected the winners based on the opinions of analysts, top managers and banking experts and their assessments of the following factors: transaction volume, market share, services scope, customer service, competitive prices and innovative technologies.

Global Finance: Bank Pekao S.A. as the best Internet bank for corporate customers in CEE

Corporate electronic banking of Bank Pekao S.A. has been awarded with two prestigious distinctions in World's Best Internet Banks competition, which has been organized by Global Finance magazine for 13 years:

- "Best Corporate/Institutional Internet Bank in Poland and in CEE 2012" – the title of the best Internet bank for corporate clients in Poland and CEE region for PekaoBIZNES24 system, the most commonly used transactional platform for large companies and corporates across the country,

- "Best Trade Finance Services in CEE 2012" – a distinction for electronic services dedicated to trade finance against competitors in Central and Eastern Europe region.

Experts appreciated Bank's corporate electronic banking as the best when taking into account the following areas: the effectiveness in gaining new customers and their online service, effectiveness in encouraging clients to use services available through the Internet banking system, an increase in the number of online customers, a range of products and services available online, measurable benefits derived from applied web-based solutions, a project and functionality of the system.

Global Finance: Bank Pekao S.A. as the best custodian bank in Poland

In 2012, Bank Pekao S.A. once again won the title of the best custodian Bank in Poland – "Best Sub-Custodian Bank in Poland 2012" in the ranking organized by Global Finance magazine.

The ranking winners have been selected on the basis of the expert sources. The assessed areas included relations with customers, the quality of customer service, competitive prices, technologies, development plans, the knowledge of regulations and local practices. The ranking appreciates banks which are the best at serving and securing customers' assets.

EUROMONEY: Bank Pekao S.A. as the best bank in Poland in the area of transaction banking

Bank Pekao S.A. has been awarded for the second consecutive year for the best transaction banking services among Polish banks - „Best Cash Management Bank in Poland 2012".

The award proves the Bank's position among the world's best banks, which offer transaction services, in three categories: sector knowledge and experience, technical support and advisory as well as compliance with customers' systems.

The awarded bank has been chosen in a survey conducted by prestigious monthly magazine – EUROMONEY, in which over 17 thousand international corporations assessed the products and services of transactional banking in a given country. The Bank's success is a result of, inter alia, a wide range of product offer and its constant adjustment to customers' expectations. The respondents in particular appreciated modern tools enabling limitless, fast and convenient access to transactions through PekaoBIZNES24 electronic platform.

Treasury BondSpot: Bank Pekao S.A. as a leader in treasury securities turnover on Treasury BondSpot

In 2012, Bank Pekao S.A. was chosen the leader in treasury securities turnover on Treasury BondSpot Poland market in 2002-2012, getting significant ahead of the competition. Over the past 10 year, the Bank has developed a 16% share in the treasury securities turnover on the TBS Poland platform.

The position of the leader in treasury securities turnover, the Bank owes to the strong Fixed Income Trade Team from Financial Market Department and to regular building and widening of relations with customers who appreciate the quality of service, which was summed up at the 10-year jubilee of TBS platform.

Forum Biznesu: Quality International for Bank's corporate banking products and services

Bank's corporate banking products and services have been once again among winners of "Najwyższa Jakość Quality International" competition, conducted by editorial board of Forum Biznesu, a supplement to Dziennik Gazeta Prawna newspaper.

The judging panel has honored the Bank with Gold Emblem of QI 2012 for the following solutions:

– MasterCard Euro Corporate Debit Pekao – a debit card settled in EUR and dedicated to large companies and corporates which delegate their employees to EU countries,
– Pekao Trade – a module incorporated in PekaoBIZNES24 designated to service of letters of credit and collection,
– PekaoBIZNES24 call center – remote customer service center for users of PekaoBIZNES24 which provides advisory and support services for both customers and Bank's Advisors in relation to system service and available products.

In 2012, the Bank received also Pearl QI which is a special award granted to a triple winner of Najwyższa Jakość Quality International competition.

Forum Biznesu: The Innovation of the Year 2012 title for the electronic products of trade finance

The judging panel of the competition held by Forum Biznesu has titled Gwarancje online (Guarantees online) and Kredyt Zaliczka (Advance Loan) as the "Innovation of the Year 2012". Two modules implemented in PekaoBIZNES24 have been recognized for, inter alia, flexibility in adjusting product parameters to customers' needs.

The Innovation of the Year is a competition that promotes modern and original solutions, products and services of Polish companies, institutions and organizations in different industry sectors.

5 Information for the Investors

The Bank's share capital and share ownership structure

As at December 31, 2012, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034 and it was divided into 262,470,034 shares of the following series:

137,650,000	Series A bearer shares with a par value of PLN 1 per share
7,690,000	Series B bearer shares with a par value of PLN 1 per share
10,630,632	Series C bearer shares with a par value of PLN 1 per share
9,777,571	Series D bearer shares with a par value of PLN 1 per share
373,644	Series E bearer shares with a par value of PLN 1 per share
621,411	Series F bearer shares with a par value of PLN 1 per share
603,377	Series G bearer shares with a par value of PLN 1 per share
359,840	Series H bearer shares with a par value of PLN 1 per share
94,763,559	Series I bearer shares with a par value of PLN 1 per share

As at December 31, 2012, the share capital of the Bank amounts to PLN 262,470,034 and remained unchanged until the date of submitting the report. In 2012, the share capital of the Bank increased by the total amount of PLN 87,905 as a result of issue of 87,905 series G ordinary bearer shares which have been taken up by participants of the Incentive Program realized in Bank Pekao S.A. Group.

All the existing shares are ordinary bearer shares. There are no special preferences or limitations connected with the shares, or differences in the rights attached to them. The rights and obligations related to the shares are defined by the provisions of the Polish Commercial Companies Code and other applicable laws.

The shareholders of Bank Pekao S.A., who held directly or indirectly through their subsidiaries at least 5% of the total number of voting rights at the General Meeting of Bank Pekao S.A. are as follows:

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	AS AT THE DATE OF SUBMITTING THE REPORT		DECEMBER 31, 2012		DECEMBER 31, 2011	
UniCredit S.p.A.	131,497,488	50.10%	155,433,755	59.22%	155,433,755	59.24%
Aberdeen Asset Management PLC	13,194,683	5.03%	13,194,683	5.03%	-	-
Other shareholders	117,777,863	44.87%	93,841,596	35.75%	106,948,374	40.76%
Total	**262,470,034**	**100.00%**	**262,470,034**	**100.00%**	**262,382,129**	**100.00%**

UniCredit S.p.A. has been the Bank's major shareholder since August 1999. As at December 31, 2012, UniCredit S.p.A. held 59.22% of the Bank's share capital and the same percentage of the total vote at its General Meeting of Shareholders, Aberdeen Asset Management PLC held 5.03% of the Bank's share capital and the same percentage of the total vote at its General Meeting of Shareholders and the remaining shareholders' interests amounted to 35.75%. Since none of the remaining shareholders holds more than 5% of the total vote at the Bank's General Meeting of Shareholders, they are not required to disclose acquisitions of Bank Pekao S.A. shares.

On January 11, 2012, Aberdeen Asset Management PLC (and/or acting on its own and behalf of subsidiaries) based in Aberdeen, acquired 215,000 shares of the Bank and exceeded the 5 % of the total number of voting rights on the General Shareholders' Meeting and this information was published by the Bank in the current report released on January 17, 2012 (current report 3/2012). Currently the entity holds 13,194,683 shares of the Bank, which account for 5.03% of all outstanding shares of the Bank with the same number and percentage share in voting rights.

On February 1, 2013 Management Board of Bank Pekao S.A. published in the current report No. 7/2013 information that the Bank received the notification from UniCredit S.p.A. with its registered office in Milan, about decreasing of the total number of votes at the General Meeting of the Bank as the result of the sale of 23,936,267 shares in the Bank constituting 9.12% in the total number of votes at the General Meeting of the Bank, through a sale order executed on January 31, 2013 via off-session transactions concluded on the Warsaw Stock Exchange S.A. according to the Secondary Placing Agreement made on January 29, 2013.

Prior to the sale, UniCredit owned 155,433,755 shares in the Bank, constituting 59.22% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank.

After the transaction, UniCredit holds 131,497,488 shares in Bank, i.e. 50.10% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank.

The Polish open-end pension funds (OFE) constitute the group of financial investors holding significant equity position in the Bank. Based on their publicly available financial statements, as at December 31, 2012 OFE held in aggregate 10.78% of Bank Pekao S.A. shares.

The Polish open-end pension funds' holdings in Bank Pekao S.A.:

SHAREHOLDER	NUMBER OF SHARES AND VOTES AT GM	% OF SHARE CAPITAL AND TOTAL VOTE AT GM	NUMBER OF SHARES AND VOTES AT GM	% OF SHARE CAPITAL AND TOTAL VOTE AT GM
	DECEMBER 31, 2012		DECEMBER 31, 2011	
Aviva OFE Aviva BZ WBK	6,578,969	2.51%	7,409,785	2.82%
ING OFE	4,291,521	1.64%	5,216,783	1.99%
OFE PZU "Złota Jesień"	4,107,337	1.56%	4,859,005	1.85%
Amplico OFE	2,508,569	0.96%	2,928,048	1.12%
AXA OFE	2,573,253	0.98%	2,564,607	0.98%
Generali OFE	1,661,671	0.63%	1,737,638	0.66%
Aegon OFE	1,493,665	0.57%	1,514,571	0.58%
Nordea OFE	1,374,940	0.52%	1,429,360	0.54%
PKO BP Bankowy OFE	1,246,856	0.48%	1,123,915	0.43%
Allianz Polska OFE	1,037,681	0.40%	967,384	0.37%
OFE Pocztylion	622,819	0.24%	505,271	0.19%
OFE Warta	471,976	0.18%	410,063	0.16%
OFE Polsat	316,670	0.12%	194,150	0.07%
Total	**28,285,927**	**10.78%**	**30,860,580**	**11.76%**

Source: OFE Reports – annual structure of open-end pension fund assets; closing share price of Bank Pekao S.A. as at the end of period.

Performance of market valuation of Bank Pekao S.A.'s stock

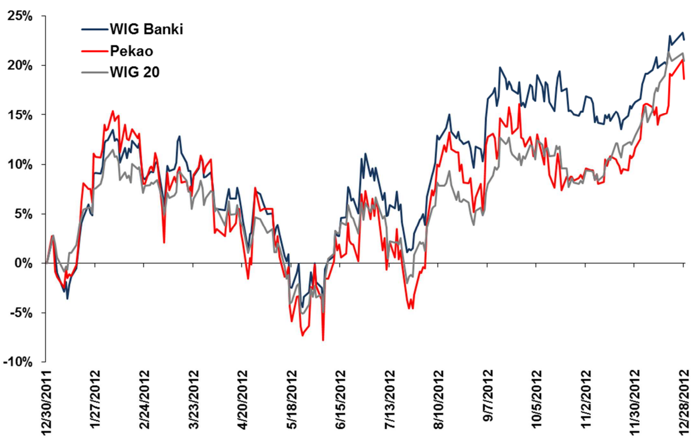
The shares of Bank Pekao S.A. are one of the most liquid share instruments in Poland and Central and Eastern Europe.

The Bank's market capitalization as at December 31, 2012 amounted to PLN 43.96 billion and it was by 18.7% higher in comparison to the previous year. Thanks to high liquidity and capitalization the Bank's shares are part of many important stock indices maintained by domestic and foreign institutions including, inter alia, Polish 'blue chips' index – WIG20. Since December 19, 2011, shares of Bank Pekao S.A. are included in stock index CEERIUS Sustainability Index.

With the Bank's average shares' daily turnover volume at the level of 418 thousand and the worth of the Bank's annual turnover value at the level of PLN 15.7 billion in 2012, the share of the Bank' shares' turnover in the WSE's turnover amounted to 8.32%.

The Bank's share's price increased by 18.6% in 2012 (from PLN 141.2 as at December 31, 2011 to PLN 167.5 as at December 31, 2012), similarly with growth of WIG20 index, which increased by 20.4% in that period.

In 2012, the Bank's share's price fluctuated in a range from PLN 128.1 to PLN 173.1. Such volatility stemmed mainly from a sentiment dominating on global markets.



Source: the WSE

Dividend payment history

In 2012, the Bank has paid out a 2011 dividend of PLN 5.38 per share. Dividend yield amounted to 3.2%.

The dividend payments for the year 2003 to 2011 are presented below:

Date	2003	2004	2005	2006	2007	2008	2009	2010	2011
Dividend for the year (million PLN)	748	1,065	1,234	1,504	2,517	-	761	1,785	1,412
Dividend per 1 share (PLN)	4.50	6.40	7.40	9.00	9.60	-	2.90	6.80	5.38

Investor Relations

The Bank's activity in areas concerning investor relations is focused on providing transparent and active communication with the market through active cooperation with investors, analysts and rating agencies as well as fulfilling disclosure requirements within applicable law regulations.

The Bank's representatives regularly hold a lot of meetings with investors in Poland and abroad, they take part in most of the regional and sector dedicated investors conferences and answer current questions from the market. Financial results of Bank Pekao S.A. Group are quarterly presented on conferences that are simultaneously transmitted via the internet. In 2012, four conferences were held for financial results' presentation and over 500 meetings with investors and analysts from ca. 300 investment companies took place.

The main goal of the Bank's activities concerning contacts with investors is to enable the market to make a reliable assessment of the financial situation of the Bank, its market position and business model effectiveness in the context of financial condition of the banking sector and macroeconomic situation of domestic economy as well as international markets.

All necessary investor information is available on the Bank's website: http://www.pekao.com.pl/information_for_investors/.

Bank Pekao S.A. financial credibility ratings

Bank Pekao S.A. is rated by three leading ratings agencies: Fitch Ratings, Standard and Poor's, and Moody's Investors Service. In the case of the first two, the ratings are provided on a solicited basis under agreements signed and with respect to Moody's Investors Service, the ratings are unsolicited and they are based on publicly available information and review meetings.

The Bank's ratings in 2012 proved to be strongly resistant to changes in financial markets' conditions and remained at a high level.

As at December 31, 2012, Bank Pekao S.A.'s creditworthiness was rated as follows:

FITCH RATINGS	BANK PEKAO S.A.*	POLAND
Long-term rating (IDR)	A-	A-
Short-term rating	F2	F2
Viability rating	a-	-
Support rating	2	-
Outlook	Stable	Stable**
STANDARD AND POOR'S RATINGS SERVICES	**BANK PEKAO S.A.**	**POLAND**
Long-term rating	BBB+	A-
Short-term rating	A-2	A-2
Stand-alone credit profile	bbb+	bbb-***
Outlook	Stable	Stable
MOODY'S INVESTORS SERVICE LTD. (UNSOLICITED RATING)	**BANK PEKAO S.A.**	**POLAND**
Long-term foreign-currency deposit rating	A2	A2
Short-term deposit rating	Prime-1	Prime-1
Financial strength	C-	-
Outlook	Negative	Stable/Negative****

* On January 30, 2013, Fitch Ratings confirmed ratings of Bank Pekao S.A.

** On February 21, 2013 rating agency Fitch Ratings has changed the Outlook on Poland's ratings: Long-Term foreign and local currency Issuer Default Ratings (Issuer Default Rating - IDR) to Positive from Stable. At the same time agency Fitch affirmed these ratings at 'A-' and 'A', respectively.

*** Banking Industry Country Risk Assessment (BICRA).

**** Stable for Poland and Negative for the Polish banking sector.

Bank Pekao S.A. has the highest Viability rating assigned by Fitch Ratings, the highest Stand-Alone Credit Profile rating assigned by Standard & Poor's and the highest Financial strength rating assigned by Moody's Investors Service among banks rated by these agencies in Poland.

Fitch Ratings agency assigned the "A" rating to the mortgage bonds issued by Pekao Bank Hipoteczny S.A., a 100% subsidiary of Bank Pekao S.A. It is the highest rating ever awarded to the Polish debt securities issued by a private company. The reasons underlying the Agency's decision included the high rating assigned to Pekao Bank Hipoteczny S.A. (A-), legal regulations pertaining to the mortgage bonds collateral register, and the excess of collateral over the volume of bonds in issue, as declared by the bank. The high rating assigned to the mortgage bonds confirms Pekao Bank Hipoteczny's ability to issue securities offering a high level of security and raise long-term capital to fund its lending activity.

6 Activity of Bank Pekao S.A. Group

6.1 Important factors influencing the Group's activities and results

The economic situation in Poland and developments in the Polish banking sector, as well as trends prevailing in the global economy, had a material effect on the Bank's operations in 2012.

The Polish economy had started the year of 2012 with still high level of economic growth, and was continuing the positive trend from the previous year. However, the second half of the year brought significant slowdown in pace of economic growth, which caused that the GDP growth in the whole 2012 reached 2% according to preliminary Central Statistical Office data. The key driver of economic growth was net export thanks to improvement of foreign trade balance. The pace of domestic demand decreased to 0.1%, because of slowdown in private consumption as well as in gross capital investments. During the year the situation on the labour market has deteriorated, with visible employment decline and decrease of average pay in real terms.

The abovementioned economic processes had a substantial effect on the Polish banking sector development, which recorded a significant slowdown in lending and deposits, and decrease in the case of corporate deposits. The sector's asset quality deteriorated, especially in corporate sector, which resulted in higher risk cost in the sector.

The mortgage loan sales decreased significantly against the previous year, because of tightening of Recommendations S of the Polish Supervision Authority and demand decrease caused by deteriorating on the labour market. The consumer loan sales and the demand for corporate loans also remained on the low level.

The low sales volumes growth was associated with high competition in the banking sector, which was represented in visible pressure on interest margin, especially on deposit interest rate. Despite of rapid deposit sales growth against loan sales growth, loans to deposits ratio is still higher than 100%, which results in high level of funding competition.

Additionally, the Monetary Policy Council, which completed the series of interest rate increase on the level of 4.75% in the first half of 2012, in the second half of 2012 had begun the series of interest rate decrease, which reached the level of 3.25% in the first quarter of 2013. The decrease of interest rate level increased the pressure on interest margin in the sector.

High variability and negative trend on capital markets in the first half of 2012 had negative effect on the investors' activity level and investment funds demand. The mood improvement in the second half of the year was not able to fully compensate it, which resulted in pressure on commission income from the capital market.

6.2 Major sources of risk and threats

Risk management
Effective risk management is a prerequisite for maintaining a high level of security of the funds entrusted to the Bank, and for achieving a sustainable and balanced profit growth.

The key risks material for the Group include credit risk, liquidity and market risks and operational risk. Moreover, business, real estate, financial investment, model, macroeconomic, reputation and compliance risks are also recognized.

The Bank has adopted a comprehensive and consolidated approach to risk management. It extends to all units of the Bank and its subsidiaries. Risks are monitored and controlled with respect to profitability and the funds necessary to cover the exposure.

The Management Board is responsible for achieving the strategic risk management goals, while the Supervisory Board oversees whether the Bank's policy of exposure to various types of risk is compliant with the overall strategy and financial plan. The Bank's Credit Committee plays an important role in the credit risk management, the Asset, Liability and Risk Committee in market and liquidity risk management, and management of the operational risk falls within the scope of responsibility of the Operational Risk Committee.

The rules of managing each of the risks are defined in internal procedures and are subject to the assumptions of the credit and investment policies adopted annually by the Management Board and approved by the Supervisory Board. The rules of managing operational risk are determined by the objectives specified in the Operational Risk Management Strategy.

Credit, market and operational risks reports analyzing details of their development are provided to the Management Board of the Bank, Audit Committee and the Supervisory Board of the Bank.

The rules and instruments of managing each of the risks are described below. Information on the risk exposure is included in the Note 5 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2012.

Credit risk
Managing credit risk and maintaining it at a safe level is vital for the Bank's financial performance. In order to minimize credit risk, special procedures have been established, pertaining in particular to the rules of assessing transaction risk, collateralization of loan and lease receivables, credit decision powers, and restrictions on lending to certain types of businesses.

Lending activities are subject to limits following both from the Banking Law and the Bank's internal standards, including limits concerning exposure concentration ratios for individual sectors of the economy, limit on the share of large exposures in the Bank's loan portfolio and limits of exposures to countries, foreign banks and domestic financial institutions.

The credit decision powers, lending restrictions as well as internal and external prudential standards, pertain to loans and guarantees as well as derivative transactions and debt instruments. The quality of the loan portfolio is also protected by periodic reviews and ongoing monitoring of the timely servicing of loans and the financial standing of customers.

Under the guidelines of UniCredit Group, the Bank has continued to work on further rationalization of the credit process with an aim to obtaining better efficiency and security, including in particular enhancement of the procedures and tools for risk measurement and monitoring.

Credit risk concentration limits
According to the Banking Law 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 Law were not exceeded.

Sector exposure concentration
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 Bank's current lending exposure to the particular sector and risk assessment of each sector. Periodic comparison of the Bank's exposure to particular sectors with the current concentration ratio allows for timely identification of the sectors in which the concentration of sector risk may become excessive. In case such situation occurs, an analysis of the economic situation of the sector is performed considering the current and forecasted trends and the quality of the current exposure to that sector. These measures enable the Bank to develop policies that reduce sector risk and allow for a timely reaction to a changing environment.

The rules for proceedings on residential mortgage secured loans
Bank Pekao S.A. has documented rules for proceedings on residential mortgage secured loans in case of material and adverse changes on the real estate market or the negative macroeconomic scenarios are to realize. This is a basis for prompt reaction of the Bank when such events occur on the real estate market in Poland.

Credit risk management in the subsidiaries located outside Republic of Poland
The process of credit risk management in PJSC UniCredit Bank is consistent with the Credit Policy of Bank Pekao S.A. Group and considers also local Ukrainian requirements. Since 2003 such a credit policy is annually approved by the statutory bodies of PJSC UniCredit Bank and issued in the form of internal regulation binding within PJSC UniCredit Bank.

Bank Pekao S.A. exercises strict supervision and control over the underwriting process in PJSC UniCredit Bank. All credit decisions are taken by the Management Board of PJSC UniCredit Bank, however for credits or total exposures above EUR 5 million (or its equivalent in other currencies), only upon positive opinion of Bank Pekao S.A. The credit underwriting scheme is compliant with the standards of credit risk management that are currently in force in Bank Pekao S.A.

The majority of the loan portfolio relates to corporate clients which include the largest companies in Ukraine. Corporate lending activity is driven by working capital loans and investment loans.

Liquidity and market risks
The management of liquidity and market risks is a vital element of the Group's risk management policy, which aims at optimizing the structure of assets and liabilities and off-balance sheet items, taking into account the assumed relation of risk to income and a comprehensive approach to all types of risk taken by the Group in its business activities. The risks are monitored and controlled in relation to profitability and funds necessary to cover the exposure, and relevant reports are prepared on a regular basis.

The Asset, Liability and Risk Committee supports the Management Board in advising and recommending the appropriate action assuring proper realization of the Management Board policy. The Asset, Liability and Risk Committee is responsible, among the other things, for structural risk management of the Group's statement of financial position resulting from the liquidity gap between assets and liabilities, exchange rate and interest rate gap and other aspects of market and liquidity risk management.

The Asset, Liability and Risk Committee monitors and controls the capital adequacy and the exposure to liquidity and market risks against the external limits imposed by supervisory authorities and internal limits adopted by the Group.

The market and liquidity risk management process is based on a three-tier control system, which conforms to international best banking practice, as well as recommendations issued by the regulators. The market risk management process and procedures reflect the division into the trading book and the banking book.

Liquidity risk

The overall objective of liquidity risk management is to ensure and maintain the Group's ability to meet its current and future planned obligations, taking into account the cost of liquidity to avoid crisis situations, and define contingency solutions to be employed in the event of a crisis.

The Group invests primarily in treasury securities issued by the Polish government characterized by high liquidity. Being highly liquid instruments or instruments to be pledged, they constitute a regularly monitored liquidity reserve for the Group, which should allow the Group to overcome potential crisis situations.

Short-term (operational) liquidity including transactions executed on financial markets and the available amount of liquid securities – marketable or eligible as collateral when borrowing from central banks is monitored on a daily basis. Additionally, the structural liquidity encompassing the whole time horizon of the Group's balance sheet, including its long-term liquidity is monitored on monthly basis.

The Bank's liquidity is managed by monitoring, setting the limits on, controlling and reporting to the Bank's management a number of liquidity indicators calculated for both the Polish złoty and the main foreign currencies, as well as on an aggregate basis. In accordance with the relevant recommendations by the financial supervision, the Group has introduced internal liquidity indicators, defined as the ratios of adjusted maturing assets to adjusted maturing liabilities of up to one month and up to one year. The Group has introduced coverage ratios determining ratios of adjusted maturing liabilities to adjusted maturing assets over 1, 2, 3, 4 and 5 years for: the total balance, the total balance of foreign currencies as well as balances of the main currencies.

The Group has contingency procedures in place protecting it against an increase in its liquidity risk exposure and against any substantial deterioration in its financial liquidity. The contingent liquidity management policy to be employed in the event of deterioration in the Group's liquidity involves daily monitoring of certain early-warning indicators capturing both systemic and Group-specific risks and four levels of liquidity risk depending on the level of early-warning indicators, the Group's situation as well as overall market situation. It defines also a source for covering of estimated cash inflows. Additionally, it defines the procedures for monitoring the liquidity levels, the procedures for emergency measures, the organizational structures of taskforces charged with restoring liquidity, and the scope of the Management Board's responsibility for making decisions necessary to restore the required liquidity level.

Scenario-based stress analyses, covering the Bank and selected subsidiaries, 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.

Pursuant to the PFSA's Resolution No. 386/2008 on fixing liquidity norms for banks, since January 2008 the Bank has calculated regulatory liquidity measures on a daily basis. In 2012, the Bank's regulatory liquidity measures were above the required levels.

Market risk

In its activities, the Group is exposed to market risk resulting from changes in market factors.

Market risk is the risk that the Group's net profit or economic capital will decrease due to changes in market conditions. The key market risk factors are related to interest rates, exchange rates, equity prices and commodity prices.

In connection with its exposure to market risk, the Group operates a market risk management system, which provides an organizational and methodological procedural framework designed to shape the statement of financial position structure and off-balance-sheet items in agreement with the strategic objectives. 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 of the Bank.

Trading book market risk

In the process of trading book market risk management the Group seeks to optimize its financial results as well as quality of services within the limits approved by the Management Board and the Supervisory Board of the Bank.

The key tool for assessing the market risk of the trading book is the Value at Risk (VaR) model. VaR represents the value of a one-day loss that might be realized with a probability not exceeding 1%. VaR is determined using historical simulation method based on two years observation of dynamics of market risk factors. The model is subject to statistical verification on an ongoing basis, which involves comparing the VaR value with the actual and revaluation results. The analyses for 2012 and 2011 have confirmed the model's adequacy.

Sensitivity measures, ongoing monitoring of the economic performance and stress tests are additional tools of trading book market risk measurement.

Banking book interest rate risk

In managing the banking book interest rate risk, the Group aims to maximize the economic value of capital employed 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 (revaluation gap), VaR analysis, simulation analysis and stress testing.

Currency risk

The currency risk is managed jointly for the trading and banking book. The objective of currency risk management is to create a currency profile of assets and liabilities and off-balance sheet items, which will remain within external and internal limits. The Group's exposure to currency risk is measured by means of the Value at Risk (VaR) model.

Operational risk

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 categories of risk.

Operational risk management is based on internal procedures which are in compliance with the Banking Law, the Polish Financial Supervision Authority Resolution 76/2010 (with amendments) and 258/2011, the 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. Advanced Measurement Approach is also used for assessment of operational risk of the Bank. The method is used also for capital adequacy assessment purposes. 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 prevention includes, inter alia, internal control system, hedging activities, business continuity plans, contingency plans as well as insurance policies.

Operational Risk Committee plays a key role in operational risk management process supporting the Management Board in controlling operational risk.

Business risk

Business risk is defined as adverse, unexpected changes in business volume and/or margins that are not due to 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.

Earnings at Risk concept is used in business risk calculation. This concept enables the calculation of unexpected negative deviation in the realized financial result from the level assumed in the financial plan. In compliance with the approach assumed by the Group, EaR is assessed in one-year time horizon at 99.97% confidence level.

Real estate risk
Real estate risk results from volatility of the market value of real estate owned by the Group. The risk does not cover real estate constituting collateral.

Real estate risk is calculated in one-year time horizon using the Value at Risk model at 99.97% confidence level and standard method of determining capital requirements as stated in the first pillar of the Basel II.

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

Financial investment risk is assessed based on Value-at-Risk method in one-year time horizon and at the assumed confidence level of 99.97%.

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 subject to quality assessment on the basis of the data used, assumptions, methodologies etc. 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.

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 economic capital in the horizon of 3 years.

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

Compliance risk
The purpose of the compliance risk management is to ensure the compliance of activities of the Bank and its employees with the applicable norms, including in particular provisions of the law, the Bank's internal regulations, recommendations issued by supervisory and control bodies, best practices and ethical standards as well as the standards of UniCredit Group.

Compliance Policy of Bank Pekao S.A. establishes the Bank's policy assumptions on compliance risk and compliance program, encompassing processes constituting compliance risk management (identification, assessment, control, monitoring and reporting), consistent at all organizational levels of the Bank. The Policy defines also the basic rules of conduct the Bank and its employees should follow in this area.

Implementation and application of the compliance risk management standards are key factors in creating the enterprise value, reinforcing and protecting the Bank's reputation, and winning public trust in the Bank's activities and its standing.

Compliance risk management takes place at three separate levels:

- management staff, responsible for ensuring compliance,
- risk management function, carried out by dedicated Bank's entities not engaged in the business activity,
- internal audit, responsible for carrying out an independent assessment of internal control system functioning and for monitoring post-control activities.

The responsibility for co-ordination of the Bank's activities in the scope of compliance risk management lies with the Compliance Department. The tasks of the Department include in particular updating the Policy and monitoring its observance; identification, assessing, monitoring and controlling of compliance risk in regulatory areas, in line with the scope of its competence; guidance provided to the organizational units on laws, regulations, rules, codes, standards, businesses and products in the area of compliance and reputation risk; strengthening dialogue and relationship with the supervisory and control authority and carrying out tasks related to the counteracting of the use of the Bank's activity for purposes of money laundering and terrorism financing.

The Bank uses the CAMP methodology for the compliance risk assessment, which enables assessment of the existing Bank's procedures and processes in terms of compliance with the key regulations concerning the banking business identified based on commonly binding regulations. The methodology acting on the rule of early-warning system includes immediate implementation of mitigation actions in case of detecting of irregularities. All the Bank's divisions are involved in the process and thanks to that the whole transparency of business and control processes is maintained enabling efficient monitoring of all key areas of the Bank's activity. The assessment of compliance risk contributes to improvement of internal control system in the Bank and as a consequence to minimization of the compliance risk.

6.3 New Capital Accord – Basel II

Bank Pekao S.A. applied the Basel II guidelines developed by the Basel Committee for the purpose of computing capital adequacy requirements and capital adequacy ratio since 2008. The guidelines were introduced in EU Member States by virtue of Directives 2006/48/EC relating to the taking up and pursuit of the business of credit institutions and 2006/49/EC on the capital adequacy of investment firms and credit institutions, and in the Republic of Poland by virtue of Resolution No. 1 of the Banking Supervision Commission dated March 13, 2007, and subsequent regulations issued by the Polish financial supervisory authorities.

Given regulatory requirements and the strategic nature of the changes to risk management and the methods of estimating the Bank's regulatory and economic capital following from the New Capital Accord, responsibility for the direct supervision over compliance with the New Capital Accord's requirements rests with the Bank's Management Board. The Board is periodically informed of all new projects connected with the implementation of the New Capital Accord and their results. The Management Board's opinion on questions related the introduction of changes resulting from the implementation of the New Capital Accord is submitted to the Supervisory Board for approval.

In 2005, the Bank in cooperation with banking supervisory authorities and guidelines of Unicredit Group, drafted and approved a plan that assumes the alignment of operations with all three Pillars of the New Capital Accord, i.e. Pillar I (Minimum Capital Requirements), Pillar II (Supervisory Review), and Pillar III (Market Discipline)

In accordance with the adopted schedule, Bank Pekao S.A. computes capital adequacy requirements for credit risk purposes under the Standardized Approach and for operational risk purposes under Advanced Measurement Approach, remaining fully compliant with Pillar I requirements. In 2008, it also prepared and approved the Internal Capital Adequacy Assessment Process - the basic constituent of Pillar II. The disclosure requirements under Pillar III were met.

The process of achieving compliance with the New Capital Accord also involves meeting stringent organizational and IT requirements. Throughout the process, the Bank has been supported by a reputable consulting firm and an IT system provider. The KRM system (Kamakura Risk Management) for capital charge calculation, in case of credit risk, is tailored for running in parallel the Standardized and Advanced Approach, its efficiency is above reproach, and its high effectiveness ensures the processing of 99.997% of the credit transactions volume each month. The system allows a sound level of scalability for its customization.

The general implementation framework of the capital adequacy system, embracing the chief elements of the Bank's internal capital management, the organizational structure, and the responsibility for the process, has been adopted by the Management Board and subsequently approved by the Supervisory Board. The Bank's detailed internal procedures concerning the estimation of regulatory and internal capital, capital management, and capital planning were also approved.

All above described features show that the Bank is effectively in compliance with the regulations of supervisory authorities introducing the Basel II requirements set by the Basel Committee on Banking Supervision and its subsequent updates.

6.4 Capital Adequacy

A basic measure of capital adequacy is the capital adequacy ratio (CAR). The minimum capital adequacy ratio required by law is 8%. As at the end of December 2012, CAR for the Group amounted to 18.98%, which is more than doubled compared with the minimum value required by law.

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

(in PLN thousand)

CAPITAL REQUIREMENT	31.12.2012	31.12.2011
Credit risk	7,020,898	7,016,931
Exceeding large exposure limits	0	0
Market risk	128,409	170,415
Delivery and contractor risk	145,302	125,811
Exceeding exposure concentration limit	0	0
Operational risk	1,005,703	963,353
Total capital requirement	**8,300,312**	**8,276,510**
Capital for capital adequacy ratio calculation		
Tier 1 capital	19,212,566	17,570,913
Tier 2 capital	481,438	0
Capital for capital adequacy ratio calculation	**19,694,004**	**17,570,913**
Capital adequacy ratio (%)	**18.98%**	**16.98%**

The capital requirements calculation is based on the regulation of supervisory authorities.

The capital adequacy ratio as at December 31, 2012 is higher by 2.00 p.p. than reported as at December 31, 2011 due to increase in own funds by 12.1%. Total capital requirement increased slightly (by 0.3%) in this period.

The strengthening of the Group's own funds base in 2012 is mainly a consequence of a decision of the Ordinary General Meeting of Bank Pekao S.A. to allocate the net profit of Bank Pekao S.A. for 2011 in the amount of PLN 1,414.3 million for the own funds and a high level of unrealized profit on available-for-sale debt instruments as at the end of 2012.

6.5 Bank Pekao S.A. on the Polish banking market

Bank Pekao S.A. is a universal commercial bank providing a full range of banking services to individual and institutional clients, both in Poland and abroad. Bank Pekao S.A. Group includes financial institutions operating in banking, asset management, pension funds, brokerage services, leasing and factoring markets.

Bank Pekao S.A. as the National Sponsor and the Official Bank of the Championship UEFA EURO 2012™

In the first half of 2012, Bank Pekao S.A. marketing activities have been mainly related to the most important and prestigious mass event in Poland - the European Football Championship UEFA EURO 2012™.

The sponsorship to the European Football Championship UEFA EURO 2012™ was a natural consequence of involvement of Bank Pekao S.A. in development of the infrastructure in Poland. For the past few years the Bank has financed construction of airports, motorways, railways and stadiums for the total amount of ca. EUR 1 billion.

The Bank as the National Sponsor and the Official Bank of the Championship prepared a wide range of modern and universal products and dedicated offers, such as the unique prepaid cards collection and the term deposits promotion under the marketing slogan “Zbierz drużynę marzen”.

In April and May, the Bank organized the Wielka Loteria Banku Pekao lottery (Big Lottery of Bank Pekao) in relation to the UEFA EURO 2012™, with over 6,000 prizes to be won by customers: 2012 tickets for the UEFA EURO 2012™, 2012 official UEFA EURO 2012™ balls as well as 2012 official prepaid cards with PLN 50 on each. Over 200 thousands participants took part in this initiative.

Bank Pekao S.A. actively participated in the events organized in Poland by UEFA together with the Hosting Cities, promoting and selling UEFA EURO 2012™ prepaid cards in the official “cashless” Fan-Zones in Wrocław, Gdańsk, Poznań and in Warsaw Fan Zone. Moreover, the Bank in collaboration with the Hosting Cities, has prepared special prepaid cards UEFA EURO 2012™ with cities’ emblems.

Distribution channels

The Bank offers to its clients a broad distribution network with ATMs and outlets conveniently located throughout Poland.

	31.12.2012	31.12.2011
Total number of outlets	1,001	1,002
Total number of own ATMs	1,845	1,817

The Bank’s clients can also make commission-free cash withdrawals from 3.7 thousand of domestic network of Euronet ATMs as well as European network of UniCredit Group ATMs.

As at the end of December 2012, the Bank maintained 5,305.4 thousand PLN-denominated current accounts, 246.0 thousand mortgage loan accounts and 676.1 thousand consumer loan accounts.

(in thousand)

	31.12.2012	31.12.2011
Total number of PLN current accounts*	5,305.4	4,833.9
of which packages	3,629.9	3,577.5
Number of mortgage loans accounts**	246.0	223.0
of which PLN mortgage loans accounts	202.5	176.7
Number of consumer loan accounts ***	676.1	685.0

* Number of accounts including accounts of pre-paid cards.
** Retail customers accounts.
*** “Pożyczka Ekspresowa”(Express Loan).

6.5.1 Individual clients

Retail banking
In 2012, the Bank was focused on the consequent strengthening of the position on consumer goods financing market and mortgage loans market. Promoting innovative solutions and modernity, the Bank offers user-friendly solutions in the area of mobile banking. Eurokonto Mobilne offer, supported by marketing campaign "Eurokonto Mobilne – O niebo więcej możliwości" was dedicated for customers who actively use modern solutions. Moreover, offer dedicated to young clients – high school students and college students, was promoted with the use of Eurokonto Intro and prepaid cards. Local promoting activities were carried out in schools and colleges, where the Bank's stands were located and additionally advertisements were placed in student newspapers and websites for young people.

During 2012, the Bank accompanied its customers in a number of charitable, sport and cultural public mass events, including the XX Grand Finale of the Great Orchestra of Christmas Charity, fun zones in each of the four UEFA EURO 2012™ Hosting Cities, Polish Masters tournament, Woodstock Music Festival and Pekao Szczecin Open tennis tournament.

Affluent customers
In 2012, the Bank launched a new brand name for affluent customers' services - Premium Personal Banking. It was the culmination of a process of changes which aimed at creating the most comprehensive offer for affluent clients on the Polish market. The Premium Personal Banking is distinguished by personal financial planning using a professional tool - the Investment Navigator, assistance of certified Personal Adviser and high quality of service.

The affluent customers' cooperation with the Bank is realized mainly through contacts with a dedicated adviser, which helps to build personal relationship and intensify cooperation. Such a model allows to gain ever-better understanding of the clients' needs and helps to fit optimal financial solutions within the frame of the wide products offer of the Bank.

The basic element of the Bank's product offer is Eurokonto Premium Plus that provides clients with the following services:

- Personal Adviser services at the Advisory Center,
- assistance insurance containing additional personal assistant (concierge) service,
- possibility to place deposits on the related Dobry Zysk saving account,
- standing orders and online transfers,
- an option to open additional accounts for children and foreign-currency accounts,
- debit card enabling making commission-free transactions in stores and service points as well as commission-free cash withdrawals from ATMs belonging to Bank Pekao S.A, domestic network of ATMs belonging to Euronet and European network of UniCredit Group ATMs.

A dedicated Personal Premium Banking Info-line was opened in October 2012 in the Bank's Contact Center, which is operated by a new team of the most experienced Contact Center employees – Premium Personal Banking Advisers.

Private Banking
In 2012, Private Banking Division conducted marketing and sales activities focused on offering new product solutions, which meet the needs of clients in the area of both deposit and credit products and maintaining high level of services provided by professional advisers.

The Bank continues to offer structured products "Indeks na Zysk". Clients were offered six subscriptions linked to exchange rates (four were linked to EUR/PLN exchange rate and two to USD/PLN exchange rate) and three subscriptions linked to the commodity prices.

Activities supporting high level of customer service were conducted in two areas: the project including improvement of the investment products services process conducted in 2011 and completed in 2012 and product training for sales employees.

In the area of Private Banking, the Bank has consequently focused on marketing activities related to the European Football Championship UEFA EURO 2012TM. Clients of the Private Banking Division had the opportunity to participate in sporting events sponsored by the Bank.

Deepening relationships with existing customers and attracting new customers were supported by sponsoring activities conducted by the Bank, which strengthen the Bank's position as the patron of culture and the continuation of the meetings dedicated to discussions about the situation in the markets, which were appreciated in the previous year.

Savings products
In 2012, the Bank continued its initiative taken in previous years and promoted the idea of regular savings, both by promoting Regular Savings Program (Program Systematycznego Oszczędzania) and a wide range of term deposits and saving accounts with active usage of the Investment Navigator application for this purpose.

The Regular Savings Program offer has been expanded by a new solution which is Individual Pension Insurance Account (IKZE). The Bank's customers can choose between IKZE DFE Pekao and IKZE Pioneer. On the other hand, customers have been offered a new Moderate Portfolio within the framework of the existing Regular Savings Program - My Perspective.

As a result of the clients' high interest in low risk financial instruments, the Bank introduced further new mutual funds to its offer aiming at capital protection:

- Pioneer Zmiennej Alokacji Rynku Amerykańskiego,
- Pioneer Zmiennej Alokacji Rynku Polskiego.

The Bank's offer in the area of investment products has been extended with the following funds:

- Pioneer Obligacji Dynamiczna Alokacja 2 – dedicated to customers looking for products with reduced investment risk,
- Pioneer Dynamicznych Spółek – characterized by an exposure to the stock market of, mainly, small and medium enterprises.

In 2012, the Bank offered to its clients five issues of Structured Certificates of Deposit with 100% capital protection:

- Certyfikat Rynku Złota 2,
- Certyfikat Azjatycka Perspektywa,
- Certyfikat EURPLN 3,
- Certyfikat EURPLN 4,
- Certyfikat Rynku Platyny.

Loans
The Bank offers to its customers a wide range of lending products, including first of all PLN mortgage loans and consumer loans Express Loan.

Consumer lending
Bank Pekao S.A. was following the consequent strengthening of its position on the consumer goods financing market while maintaining a prudent credit risk policy, by offering customers a wide range of loan products, including consumer loans the Express Loan. In search of new growth possibilities and sales development of the Express Loan, a significant role played local activities. The sale intensifying activities were supported by advertising campaigns launched in the country-wide and local press. Additionally, the Bank's internal channels of communication (including website dedicated to consumer loan www.pozyczka-gotowkowa.pekao.com.pl) has been actively used throughout the year. In 2012, the Bank's consumer loans portfolio grew at a faster pace than market, which translated into a significant increase in the Bank's market share in this area, to the level of 9.8%.

In 2012, the Bank has been systematically developing its product range adjusting it to the customers' expectations. As far as the Express Loan is concerned, the Bank expanded the insurance coverage of borrowers by adding new packages and possibility of insuring two borrowers. The Express Loan offer was enriched with seasonal, special offers targeted to current as well as prospective clients of the Bank. The Bank concentrated on improving the efficiency of the existing customer base and on the strengthening clients' relations through permanent contact and distribution of individually tailored loan offers.

Mortgage loans

The mortgage loans offer was on an ongoing basis updated and adjusted to changing market conditions and needs. The strong points of the Bank's mortgage loans offer are above all timely credit decision, attractive interest rates and competent advisers supporting customers in the process of loan granting.

In 2012, the Bank has taken a number of actions supporting sale of PLN mortgage loans, including:

- participation in real estate fairs organized all over the country,
- adjustments of product regulations to changing law regulations and banking supervisory recommendations,
- intensification of cooperation with real estate developers.

These measures contributed to maintaining a high level of sales, an increase in the number of new customers and enhance the image of Bank Pekao S.A. as a bank that has a good offer of loans and an efficient lending process.

The Bank continued its policy of offering only PLN mortgage loans, maintaining in 2012 its strong position on the market, and in the period March – June the Bank took the first position on both the PLN mortgage sales market and the whole mortgage sales market. Its market share in the PLN mortgage loans sales market in 2012 was nearly 2 p.p. higher than in 2011 and amounted to over 19%. The sale of PLN mortgage loans remained at a very high level and was nearly 5% higher than in 2011.

The Bank was actively involved in the sale of preferential subsidized loans within the framework of the governmental program “Rodzina na Swoim” (Family on their own). The Bank's share in the program increased by 4 p.p. and amounted to 31% in terms of volume as compared to 2011.

Payment cards

In relation to the European Football Championship UEFA EURO 2012™, Bank Pekao S.A. introduced to its offer a range of payment cards with the image of UEFA EURO 2012™ for individual and SME clients. Pursuing the policy of modern solutions for young customers, the Bank organized service of non-cash payments during the Woodstock Music Festival and prepared a dedicated prepaid card with the image of Woodstock Music Festival 2012.

In 2012, the Bank continued the development of credit card offers. In addition to official UEFA EURO 2012™ credit cards, the Bank offered customers the next edition of special credit cards with the image of the UEFA Champions League.

All the debit cards, which were issued in 2012, were equipped with PayPass™ technology enabling safe payments. In addition, the Bank has introduced a new technology improving the security level and confidence to online transactions - 3D Secure, which enables safe payments with all types of debit cards, for which along with 3D Secure service, online payments have been enabled.

In 2012, thanks to modern website and new application Mobilny Planer Zakupów (“Mobile Shopping Planner”) using geo-location, there was a further significant development of the Bank Rebate Program Płać kartą, bo warto! (“Pay with card, it pays worthwhile!”). Holders of all the Bank's payment cards and customers using Pekao24 were offered attractive rebates in many stores and online shops. The Bank's cooperation with e-commerce industry has been developing intensively, which translated into a fivefold increase in the number of partners promoting, together with the Bank, payments over the Internet in 2012.

Brokerage services
Bank Pekao S.A. Group offers a wide range of capital market products and services through retail brokerage entities: Dom Maklerski Pekao (Dom Maklerski), a subsidiary Centralny Dom Maklerski Pekao S.A. (CDM) and associated entity Dom Inwestycyjny Xelion Sp. z o.o. (Xelion).

Xelion has obtained permission from the Polish Financial Supervision Authority to conduct brokerage services in October 2011 and has started providing the brokerage services to its clients in May 2012 after a few months of pilot stage.

As at the end of December 2012, the brokerage entities maintained more than 367.4 thousand investment accounts. The brokerage entities offer to its clients an electronic service of investment accounts allowing to buy and sell all instruments listed on the Warsaw Stock Exchange (WSE) and on the BondSpot market via Internet. As at the end of December 2012, the brokerage entities had 169.9 thousand on-line accounts, an increase of 7.2 thousand since the end of 2011.

As at December 31, 2012, the value of assets deposited on investment accounts run by Dom Maklerski, CDM and Xelion amounted to ca. PLN 20.6 billion.

In 2012, the following shares on the WSE, within the transactions for individual customers, were achieved by the brokerage entities of Bank Pekao S.A. Group:

- a 19.9% share in the stock turnover,
- a 12.4% share in the futures trading volume.

In 2012, some functional improvements in a transactional system have been made in order to facilitate clients to place buy/sell orders of foreign financial instruments through the Internet channel. Another important project realized by the brokerage entities was the preparation to launch a new transactional system of the WSE - Universal Trading Platform (UTP). As a result, all brokerage entities of the Group, as one of the first on the market, implemented the system adapted to the UTP, which will be activated by the WSE in the first half of 2013.

Alternative distribution channels
The number of retail and business clients using alternative distribution channels such as Internet banking platform including mobile banking and Contact Center is growing systematically. Pekao24 service (for retail clients), PekaoFirma24 (for SME clients) and PekaoBIZNES24 (for corporate clients) facilitate the management of financial assets, and the range of available functionalities is being steadily extended.

Pekao24
The Pekao24 electronic banking system is a convenient and safe system for accessing the accounts maintained by the Bank, Dom Maklerski Pekao and Centralny Dom Maklerski Pekao S.A. The system enables to manage the funds accumulated on the accounts through the Internet, fixed-line or mobile phone and through Contact Center.

In 2012, the Bank has provided a new version of Pekao24 mobile application enhanced with further new functions. Pekao24 mobile application is the most advanced mobile banking application on the market that is dedicated to mobile phones and mobile devices. It enables to execute most of the operations available via the Internet service and to access additional functionalities such as geo-location of ATMs, branches and stores as well as to track market information. New functions in Pekao24 mobile application are, inter alia, an order for international payment (including SEPA), Western Union transfer receipt and access to detailed stock information and quotes.

As at the end of December 2012, the number of Pekao24 clients amounted to 2,204.5 thousand. In 2012, 1,321.2 thousand of clients logged into the electronic banking services.

As at the end of December 2012, the number of clients with an access to mobile banking amounted to 200.7 thousand. In 2012, 90.0 thousand of clients logged in to the mobile service m.pekao24.pl and the Pekao24 mobile banking application.

(in thousand)

	31.12.2012	31.12.2011
Number of individuals with an access to electronic banking Pekao24 as at the end of period	2,204.5	1,963.0
Number of individuals actively using electronic banking Pekao24*	1,225.0	1,120.3
Number of individuals with an access to mobile banking as at the end of period	200.7	79.6
Number of individuals actively using mobile banking**	90.0	39.8

* A customer actively using electronic banking is a customer who logged in to the system at least once during the last quarter.

** A customer actively using mobile banking is a customer who logged in to the mobile service m.pekao24.pl or the Pekao24mobile application at least once during the last quarter.

The most important projects realized in Pekao24 system in 2012 included:

– providing another version of Pekao24 mobile application enriched with new functions, inter alia, an order for international payment (including SEPA), Western Union transfer receipt and access to detailed stock information and quotes,

– making available a mobile application for mobile phones with Windows Phone system,

– enabling dedicated website and SMS for prepaid MaterCard UEFA EURO™ users and enabling Pekao24 users to manage prepaid cards through the website,

– providing service of prepaid cards through a dedicated Internet service for users, which are not clients of Pekao24 system,

– providing new version of PekaoToken application dedicated to the devices with BlackBerry system,

– enabling 3D Secure for payment cards,

– continuation of educational action for users of Pekao24 electronic banking related to the safe use of the Internet and mobile services by a new issue of Biuletyn Bezpieczny Internet (Safe Internet Bulletin),

– enabling online access to the full information on client’s payment cards; current account, history of operations.

Contact Center

Contact Center is a professional multi-channel service center that supports implementation of the Bank’s projects and business goals through serving incoming calls, conducting telemarketing campaigns, telephone execution of client’s orders, Back Office service within the selected activities and e-mails and SMS service.

The number of all calls serviced by the Contact Center in 2012 amounted to 12,412.8 thousand. The number of outbound calls initiated by the Contact Center in the same period equaled to 9,906.1 thousand, 3,789.9 thousand of which were initiated within the framework of telemarketing campaigns, which stands for nearly 13% increase in comparison to 2011. This increase in the number of telemarketing outbound calls reflects the constantly growing engagement of the Contact Center in a pro-active customer service - supporting the sales activities and after-sales service.

The number of answered incoming calls in 2012 amounted to 2,506.7 thousand and it constitutes a 7% decrease in comparison to 2011 which is in line with the trend that has been observed for the several years resulting mainly from the growing activities of the Bank's customers in other, self-service channels of contact with the Bank - an increasing number of active users of electronic banking services, mobile banking and a higher number of transactions conducted via remote channels.

(in thousand)

	2012	2011
Total number of outbound calls initiated by Contact Center	9,906.1	10,021.8
of which number of commercial outbound calls initiated by Contact Center supporting sales activities of the Bank	3,789.9	3,368.3
Number of inbound calls served by Contact Center	2,506.7	2,699.4
Total number of inbound and outbound calls served by Contact Center	12,412.8	12,721.2

6.5.2 Small and micro enterprises (SME)

In 2012, in the segment of small and micro enterprises, the Bank focused on the activities aiming at improving client's satisfaction in the most significant areas, especially those related to further enhancements of the key processes, products and services of the Bank.

In the lending area, simplified process of granting low-amount loans, which facilitates the access to financing for micro segment client, has been implemented. In order to support the sale of loans and leasing, the Bank launched "Szybki leasing" (Fast leasing) sale campaign concerning car leasing offer, sale campaign called "Łatwy Kredyt" (Easy Loan) with streamlined credit process for short-term loans and "Prosty Kredyt" (Simple loan) commercial campaign with simplified process of low-amount loan applications.

In 2012, the process of opening business accounts was simplified. In case of sole traders, the only document required to open business account is an identity card.

Moreover, the Bank extended the offer for small and micro enterprises with PekaoFirma24 mobile banking application for mobile phones and devices. The application distinguishes itself by the above-standard functionality offered in the market that allows conducting undefined cash transfers to any domestic or foreign currency account, making cash conversion with the preferential exchange rate (Autodealing) and a multistage requests authorization. Also, the application has a rich informational part (available without logging in) which presents the latest exchange rates, the Bank's product offer, localization of the Bank's ATMs and branches and the list of shops, in which payments made with any Bank's card entitles the customers to attractive discounts and special offers.

The Bank adjusted its services to requirements of the amended Act on Payment Services which implements regulations of the European Directive PSD (Payment Services Directive). The amendments in regulations raise the standards of services offered by the Bank by means of, inter alia, enhanced safety of funds, shortening deadlines for payment transactions performed within the European Economic Area and extend the current range of information on payment transactions made by the client.

The Bank has consistently continued improvement of the sales competences of the employees servicing SME customers. The employees have completed a series of training courses on financial analysis focused primarily on structuring credit transactions and foreign exchange transactions. The aim was to improve customer satisfaction and streamline sale process of loan and transaction products.

In January 2012, Bank Pekao S.A. in co-operation with the research institute prepared and shared the second edition of report "Raport o sytuacji mikro i małych firm w roku 2011" (Report on the situation of SME clients in 2011) containing information on their financial standing, investment plans, business environment and barriers to development. In addition, the report has been enriched with information on supporting programs for micro and small enterprises. The report has been prepared based on almost 7 thousand interviews conducted with the enterprises' owners and then was presented at the 16 regional conferences organized jointly with the marshals of the voivodeships and local business organizations.

In 2012, Bank Pekao S.A. implemented financing of business clients from the credit line of the European Investment Bank (EBI). The credit line with value of EUR 50 million was fully used and over 550 entrepreneurs gained of these funds. Thanks to credit line of EBI, the clients had access to cheaper funding through investment loans. Business projects mainly concerned the purchase of machinery, equipment and means of transport.

Moreover, the customers could benefit from easier access to financing by loans granted under the guarantee line of the EIF, which were offered on a preferential basis. Thanks to cooperation with the EIF, the Bank implemented also the offer for the youngest companies, Start-ups that operate on the market for less than 2 years, which could take advantage of revolving credits for start-up businesses with the guarantee of the EFI. To the end of 2012, the Bank granted almost 2.8 thousand such loans with the total value of PLN 630 million.

PekaoFirma24

PekaoFirma24 electronic banking system is a comprehensive platform including the Internet, mobile banking application with unlimited transaction capabilities and telephone channel dedicated to small and micro enterprises. The PekaoFirma24 system allows clients to use the banking products and services and manage their funds conveniently and intuitively.

The latest electronic banking product for firms is a mobile banking application that has been launched in 2012 and offers full functionality known by the clients from the PekaoFirma24 system, multi-signature service and the possibility of currency conversion between client's accounts with the use of preferential rate.

As at the end of December 2012, 199.1 thousand clients had an access to the PekaoFirma24 system, of which 121.3 thousand are active clients. The number of business clients with an access to electronic banking system PekaoFirma24 increased by 19.8 thousand compared to the end of 2011.

(in thousand)

	31.12.2012	31.12.2011
Number of business clients (SME) with an access to electronic banking PekaoFirma24 as at the end of period	199.1	179.3
Number of business clients (SME) actively using electronic banking PekaoFirma24*	121.3	109.7

* A customer actively using electronic banking is a customer who logged in to the system at least once during the last quarter.

The advances that were implemented in 2012 in the PekaoFirma24 system had the positive influence on the number of transactions carried through the electronic banking system. The number of transactions made through the PekaoFirma24 in 2012 exceeded 27.2 million, while the value of PLN transactions amounted to PLN 131.5 billion, an increase by 13.8% and 16.5% respectively in comparison to 2011.

In 2012, the PekaoFirma24 system was enriched with the number of functionalities that adjusted system to the changing client's needs and to the requirements of the Act on Payment Services, inter alia:

- implementing mobile banking PekaoFirma24 – a mobile version of the PekaoFirma24 system dedicated to the portable devices (smart phones, tablets, etc.), available for the most popular operating systems: iOS, Android, Symbian, BlackBerry,
- launching dedicated login page for the users of the PekaoFirma24 Internet banking at www.pekaofirma24.pl ,
- adding a new functionality known as "secured transaction".

6.5.3 Corporate customers

Bank Pekao S.A. as the leader in servicing large and medium-sized companies has one of the widest product offer for corporate clients on the market.

The model of corporate client service is based on the superior role of a dedicated banking adviser who is responsible for the identification the client's needs and selection- in cooperation with product's specialists – appropriate banking products and services.

The service of large companies is conducted on an individual basis by advisers located in the Large Companies Department at the Bank's Head Office, which is divided into industry service offices.

The service of the financial institutions and public finance sector entities is conducted by the specialized entity at the level of the Bank's Head Office which adjusts the product offer to individual needs of these clients.

The services for medium-sized companies are conducted in the Regional Corporate Centers, which are organized in micro-region structures, in order to provide comprehensive banking and advisory services.

Pekao BusinessLine is a modern and centralized call center which provides professional support for corporate clients in the area of transactional services, complaints handling and conducting information campaigns.

The clients of the Bank benefit from a full range of standard credit and deposit products as well as from transactional services. The Bank's product offer also includes financial services such as granting guarantees in national and international turnover and financial services provided through leasing and factoring subsidiaries. Bank Pekao S.A. is a leading organizer of investment project financing, mergers and acquisitions and debt securities issues. The Bank offers a wide range of products of money markets and currency exchange, both within the scope of current operations and long-term hedging structures of client's exposures such as currency risk and interest rate risk.

Transactional services
The Bank holds its leading market position in a comprehensive offer of services and products for the clients of transactional services.

In 2012, the Bank improved the product offer in the area of cash management by, inter alia, implementing new functionalities:

- direct integration of the client's systems with the Bank through Pekao Connect system, which, through Web- Services links financial and accounting systems with the Internet banking system and through SwiftNet Fileact for international clients who use SWIFT network for payment orders and downloading statements,

  The new solutions significantly accelerate and simplify the process of information exchange between the Bank and the client, optimize work of the accounting departments and enable efficient management of cash flows,
- the online Warranty module (Gwarancja online) implemented in the PekaoBIZNES24 system enables the clients to manage the collaterals of contractual obligation through the Internet,
- extended functionality of the Dealing Module in the PekaoBIZNES24 that allows the exchange offices to carry out foreign exchange transactions within one day, secured by cash on the clients' account,
- Advance Loan (Kredyt Zaliczka) online module in PekaoBIZNES24 system is another product of trade finance. The online module allows submitting financing requests and loan repayments, unlimited monitoring of transactions, settlement of invoices and provides individually customized reports.

Bank Pekao S.A. achieved the leading position among banks with affiliate programs for the providers of financial and accounting systems FK/ERP/HR cooperating with 40 producers whose systems are compatible with the PekaoBIZNES24 internet banking.

The Bank's corporate payment card offer, extended in 2011 by prepaid cards, attracted the interest of municipalities. In 2012, the Bank prepared two issues of prepaid cards MasterCard Corporate Prepaid Pekao thanks to tenders won for current financing of municipalities. Prepaid cards which are substitutes for cash, cash transfer and vouchers will be used for allowance payments.

Within the scope of foreign settlements, the Bank offered three sessions for foreign and domestic payments executed in EUR and implemented foreign payments in Juan Renminbi (CNY), a Chinese currency. Moreover, the Bank extended time of receiving foreign transfers for transactions conducted on the same day in urgency mode for the most common currencies and accelerated payment settlements in the European Economic Area (EEA) in the currencies of those countries reducing by one day the existing lead time.

Investment banking and structured finance

In 2012, Bank Pekao S.A. has consistently strengthened its market position in advisory, structuring and obtaining financing for investment projects entering into contracts for a total amount of ca. PLN 2.6 billion. In particular, the Bank strengthened its share in financing the energy, healthcare and telecommunications sector by acquiring new clients and cooperation with the existing clients from these sectors.

The Bank's activity in the area of advisory in structuring and obtaining debt financing for investment projects resulted in winning a tender for providing financial advisory services for the largest project in the energy sector conducting in the form of "project finance", the value of which amounted to ca. PLN 8 billion.

Financial markets and commercial debt instruments of the capital market

In the area of organization and servicing of commercial debt securities issuance, as at December 31, 2012, Bank Pekao S.A. for the consecutive time took the first place with market share of nearly 24% (based on the Rating & Market Bulletin published by Fitch Poland).

The market position of the Bank in each category was as follows:

– 1st place on corporate bonds market and corporate revenue bonds market (with maturities over 365 days) with a share of nearly 30%,
– 2nd place in the segment of short-term debt securities with nearly 26% market share,
– 2nd place in the area of mortgage bonds with over 28% market share,
– 2nd place on municipal bonds market (with maturities over 365 days) with share over 25%.

In 2012, Bank Pekao S.A. entered into a total of 30 new contracts for the organization and service of the issue of debt securities for entrepreneurs and budget entities, including:

– 9 agreements on the short- and medium- term bond issue for companies belonging, inter alia, to energy, fuel, transport and real estate development sector, as well as providing services in the area of public utilities and infrastructure (water supply, urban transport, airport),
– 1 agreement on the revenue bond issue for a company providing services in the area of public utility,
– 14 agreements on the municipal bond issue for budget entities (cities and communities),
– 2 agreements on the bond issue for the company of the energy sector and for the company of the restaurant industry,
– 4 agreements on the bond issue for the company in the public sector.

In the area of commercial debt, the Bank participated inter alia in the following transactions:

- the issue of 7-year bonds for a total amount of PLN 1 billion conducted for the largest Polish company in the fuel sector. The Bank acted as a co-organizer, an issuing agent, a paying agent and a dealer in this transaction. The issue was registered with the NDS and introduced to trading on Catalyst,
- the issue of 5-year bonds for a total amount of PLN 2.5 billion conducted for the largest company in the gas sector, operating also in other areas of the fuel and energy sector. The Bank acted as an organizer and a dealer in this transaction. The issue was conducted under a new agreement of the "best efforts" bond issue program and amounted to PLN 4.5 billion,
- the issue of 7-year bonds for a total amount of PLN 1 billion for the company in the energy sector. The Bank acted as a co-organizer and a dealer in this transaction. Bonds issued were registered with the NDS and are listed on the ASO BondSpot,
- the placement of short- term corporate bonds for a total amount of approximately PLN 1 billion among the market's investors. Among the issuers were also companies that represent packaging, property and publishing industry as well as financial services. The individual series of bonds were issued with maturities ranging from 2 to 7 year,
- the issue of 10-year mortgage bonds of Pekao Bank Hipoteczny S.A. for a total amount of PLN 150 million. Mortgage bonds were sold in a public offer and are listed on the regulated market WSE and BondSpot.

Bank Pekao S.A. was among 16 dealers of treasury securities (TSD), who were selected for 2013 by the Ministry of Finance.

Bank Pekao S.A. belongs also to the group of 15 dealers of money market (DRP), who were selected for 2013 by the Polish National Bank.

Custodial services
In the area of custodial services the Bank's clients are domestic and foreign financial institutions, banks providing custodial and investing services, insurance companies, investment and pension funds as well as non-financial institutions.

The Bank provides services including, among others, the settlement of transactions on domestic and foreign markets, the custody of client assets, the management of securities and cash accounts, serving dividend and interest payments. The Bank acts also as a depository for investment funds and pension funds.

In 2012, the Bank maintained its leader position serving more than 50% programs concerning depository receipts.

Comprehensive services for the public finance sector
In 2012, the Bank maintained its leading position on the market of financial services for municipalities. The Bank perceives the potential on this market and specific needs of clients from the public sector.

The Bank participated in the capital extensive urban investment projects related to EURO 2012 European Championship that took place in Poland. The Bank granted financing to the 5 regional airports in Poland and to urban public transportation and sports projects.

In 2012, the Bank finalized a significant financing transaction related to development and modernization of the airport in southern Poland. The Bank also participated in financing major projects supporting transportation, i.a. construction and modernization of tram lines, purchase of a modern tram and bus fleet, creation of agglomeration railway system in central Poland, including purchase of a rolling stock. The Bank has been also involved in funding numerous water, sewage and waste utilization infrastructure projects.

Thanks to strong commitment to the realization of infrastructure project, the Bank contributed significantly to the effective use of subsidies granted to Poland by the European Union.

The Bank participates in direct financing of the public sector's budgets through bond issues and granting loans. In 2012, the Bank conducted 15 significant financing transactions for local governments. The total Bank's exposure to public sector amounted to PLN 13 billion at the end of 2012.

In 2012, the Bank maintained its clear market leader position in the area of the current financing of local governments, serving 7 out of 12 major Polish metropolises. Additionally, the Bank gained one more customer among voivodeships and is currently serving 4 out of 16 voivodeships in Poland.

Cooperation with international and domestic financial institutions
The Bank maintains correspondent relations with 2.7 thousand foreign and domestic banks (by number of swift keys).

At the end of 2012, the Bank maintained 80 nostro accounts, kept 248 loro accounts for 227 foreign customers (banks and other financial institutions) and 25 current accounts for 23 foreign financial institutions.

Bank Pekao S.A. intermediates in execution of transactions for customers of other domestic banks, keeping 40 loro foreign currency accounts for 14 Polish banks and maintaining 5 nostro foreign currency accounts in 2 Polish banks used for the ZUS pension benefits as well as clearing and custodial services. The Bank renders also services for the Polish banks and branches of foreign banks in Poland in the transactions on foreign and domestic currencies.

In 2012, the Bank has expanded the product offer for correspondent banks, among others, in the area of PSD introduction (Payment Service Directive – European directive on payment services No. 2007/64/EU), expansion of online banking by functionality allowing payment transactions initiating as well as improving clearing services for loro accounts. As far as clearing services with non-correspondent banks are concerned, the Bank allows charging fees and commissions in form of monthly cost statement.

As far as transactional products targeting correspondent banking customers are concerned, the Bank continues to achieve a very high level of STP rate (straight through processing).

PekaoBIZNES24
PekaoBIZNES24 is an electronic banking system dedicated to large companies, corporations and budget entities which offers a wide spectrum of functionalities and services available within one platform.

PekaoBIZNES24 offers its corporate customers:

- convenient online access to a wide and modern offer of transactional banking and trade finance products,
- fast and efficient transactions processing,
- various types of reports adjusted to client's individual needs,
- the highest security standard thanks to application of latest methods of system securing,
- a user-friendly and intuitive system navigation,
- open structure allowing for integration with ERP, financial and accounting systems.

At the end of December 2012, the number of active users of PekaoBIZNES24 exceeded 14 thousand.

The volume of foreign transactions for the whole 2012 rose by 6% when compared to 2011 and was equal to ca. PLN 130 billion with over half a million operations performed.

The system users have an access to PekaoBIZNES24 call center, which provides remote, personalized, mobile or electronic assistance with the use of the system and products available within it.

6.6 Major areas of the Group's activities

Bank Pekao S.A. is one of the leading providers of banking services and groups together a number of financial institutions active in the asset management, pension funds, brokerage services, leasing and factoring markets.

Dom Maklerski Pekao (Dom Maklerski), Centralny Dom Maklerski Pekao S.A. (CDM) and associated entity Dom Inwestycyjny Xelion Sp. z o.o. (Xelion) are specialized entities rendering brokerage services within Bank Pekao S.A. Group, which provide retail customers with a wide range of products and services on the capital markets. For detailed description of the brokerage activity refer to the point 6.5.1.

Below are described the areas of operations of the Group's key companies from the financial sector.

6.6.1 Banking activity

PJSC UniCredit Bank – UniCredit Bank
UniCredit Bank operates in Ukrainian market as 100% subsidiary of Bank Pekao S.A. It pursues its activity through a network of 39 branches developed as a "green field project" and as a result of the merger with HVB Bank Ukraine, it provides services for 80.3 thousand individual customers and 5.0 thousand corporate clients (including SME).

Performance and operations of the bank is under continuous monitoring, specifically with the use of reinforced credit risk monitoring procedures.

Bank Pekao S.A. Group plans to concentrate its activities on local market and in connection with this a process aiming at disposal of the whole exposure of Bank Pekao S.A. in UniCredit Bank has been started.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny
In 2012, Pekao Bank Hipoteczny, as a specialised mortgage bank, continued to pursue its strategy focused on the creation of a secure loans portfolio, strived to maintain competitive position on the market of housing loans to individuals, as well as loans for purchase, construction, refurbishment or modernisation of commercial properties.

At the end of 2012, net value of loans portfolio of Pekao Bank Hipoteczny amounted to PLN 1,712.7 million (decrease by PLN 155 million in comparison to 2011). Loans granted to individual clients and loans granted to corporate and local governments represent comparable share in loan portfolio structure.

In 2012, the volume of new commercial real estate loans accounted for 88% of loan sales and resulted from implementation of a strategy focused on financing middle size projects.

In 2012, within the second Program of Mortgage Bonds to bearer, bank successfully conducted four public issuances of mortgage bonds (including one issuance denominated in EUR, which was the first issuance in foreign currency conducted on the Polish market)

6.6.2 Asset management

Pioneer Pekao Investment Management S.A. – PPIM

As at December 31, 2012, the net asset value of investment funds of Pioneer Pekao TFI S.A. (a company managed by Pioneer Pekao Investment Management S.A. in which the Bank holds a 49% share), amounted to PLN 14,965.2 million, an increase of PLN 1,184.3 million (8.6%) as compared to the end of 2011.

As at the end of December 2012, Pioneer Pekao TFI S.A. maintained 939.2 thousand open customer accounts (decrease by 7.9% in comparison to the end of 2011), managing portfolios of 39 investment funds and sub-funds.

The value of net assets of investment funds of Pioneer Pekao TFI S.A. is presented in the table below:

(in PLN million)

	31.12.2012	31.12.2011
Net asset value	**14,965.2**	**13,780.9**
bond and money market funds	8,216.8	6,537.7
equity funds	2,684.3	2,756.6
balanced funds	4,064.1	4,486.6

Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. - Pekao Pioneer PTE

Pekao Pioneer PTE is the management company of an open-end pension fund (Pekao OFE), in which pension contributions are pooled and invested with the aim of their distribution to unit holders after they reach retirement age. In October 2012, the Company started distribution of a new pension related product – Individual Pension Insurance Account in Pekao voluntary pension fund (Indywidualne Konto Zabezpieczenia Emerytalnego in Dobrowolny Fundusz Emerytalny Pekao).

As at December 31, 2012, the number of open-end pension members was 342.8 thousand and was by 0.5% lower comparing to December 31, 2011. The number of persons with at least one contribution credited to their accounts was 333.7 thousand.

As at the end of 2012, the value of the pension fund's net assets was PLN 4,047.6 million and, despite unfavourable market situation, was higher by PLN 660.3 million as compared to the end of 2011. As at the end of 2012, Pekao OFE held 1.5% share in the market of open-end pension funds, i.e. on the similar level in comparison to previous year.

6.6.3 Leasing activity

Pekao Leasing Sp. z o.o. – Pekao Leasing

Pekao Leasing provides financial services supporting purchases and sale of fixed assets, i.e. vehicles, plant and equipment, and office space, both in the form of operating and finance leases.

In 2012, the Company concluded 9,111 new agreements. The value of leased assets stood at the level of PLN 1,575.2 million, of which 67.6% were vehicles, 31.3% - plant and equipment, 1% - other.

Under an arrangement providing for mutual cooperation between Pekao Leasing and Bank Pekao S.A. in the area of sale, the value of assets leased via the Bank's branches amounted to PLN 1,005.2 million, i.e. 63.8% sales of the company and increased by 20.5% in comparison to 2011.

6.6.4 Other financial services

Centrum Kart S.A. - CK S.A.
The Company renders comprehensive services that include among others maintenance of payment card management systems, authorization of transactions and card personalization.

In 2012, CK S.A. continued realization of important IT projects allowing the extension of range of products offered by the Bank. The implementation of solutions allowing to process transactions with contactless cards (including also those issued by other issuers) in POS terminals of Bank Pekao S.A. was continued. Furthermore, the processing of issuance of prepaid cards for individual clients of the Bank was started (corporate clients had such possibility one year before).

In 2012, the Bank has introduced a new technology improving the security level – 3D Secure and possibility of transaction settlement in currency of issued card (in POS terminals and ATMs of Bank Pekao S.A.).

Pekao Faktoring Sp. z o.o. - Pekao Faktoring
The Company, besides the full range of factoring services (recourse and non-recourse factoring), offers additional services, such as collecting information on debtors' standing, payments collection, debt recovery, settlements accounting and monitoring of payments on an ongoing basis. Additionally, the Company offers settlement of mass transactions, financial advisory and consulting services regarding selection of business financing methods, as well as extending factoring-related loans. The Company cooperates with Bank Pekao S.A. in developing new sales channels and enhancing sales through the existing ones.

In 2012, volumes turnover of Pekao Faktoring increased by 88.2% in comparison with 2011. The volumes turnover in the factoring services market as a whole increased by ca. 22% in this period. The Company secure the second position on the Polish factoring market, with 15.9% of market share.

Pekao Financial Services Sp. z o.o. – PFS
The Company acts as a transfer agent for all participants of the asset management market, i.e. mutual funds, pension funds and employee pension plans.

In 2012, the Company was strengthening its position on the Polish market of transfer agents holding a leading position in services rendered to OFE sector (over 62% share in the market of OFE using services of external transfer agents in terms of net asset value.

At the end of 2012, PFS maintained 3.2 million investment and pension accounts, a 3% decrease in comparison with 2011.

Dom Inwestycyjny Xelion Sp. z o.o. – Xelion
The Company focuses on serving affluent clients, who require a highly individualized service.

In 2012, activities of the Company were concentrated on further extension of products range, taking into consideration changes in financial markets and current market trends. The further step of the Company's strategic development was starting to conduct brokerage services in the first half of 2012 and it allows to provide the Company's clients with more comprehensive offer.

As at the end of 2012, Xelion's customers had an access to the products and services of 14 domestic and foreign investment management companies (including, i.a. 64 domestic funds, 74 foreign funds and 9 closed-end funds offered by Polish investment management companies and 226 foreign funds managed by foreign investment management companies as well as 9 Asset Management strategies), 6 insurance companies offering life and property insurance and 8 Unit-Linked type of products offered by 225 insurance capital funds.

Moreover, Xelion provides 3 programs of individual pension accounts, 2 programs of individual pension insurance accounts (IKZE) and 3 investment programs.

Despite unfavourable market situation, the value of assets under management of Xelion was higher than reported in 2011 and amounted to almost PLN 2 billion.

6.7 Investing in human capital

Human Capital as a key asset
The principles of the Bank's policy in the area of Human Resources (HR) development are set by its mission and values considered as a key for the Bank sustainable growth.

The Bank invests in training, professional development of employees (in line with their preferences and abilities), creation of a friendly work environment and conducts questionnaire surveys on employees opinion and satisfaction. Significant area of the Bank's personnel policy is outstanding talents spotting within the organization and investing in development of their skills.

In 2012, these priorities were accompanied by a particular emphasis on promoting preferential values of corporate culture shared across UniCredit Group as defined in the Integrity Charter which was accepted in 2006. The ethical fundamentals promoted by the UniCredit Integrity Charter and the rules of conduct recommended by that document have come to be considered as universal standards of behaviour required of all employees of the Bank regardless of their position.

Training and professional development
The Bank invests in ongoing development of its employees through creation of learning opportunities and through access to various form of training. Key educational activities focus on training and implementing people management systems based on a culture of feedback. The Bank supported its employees in building and managing long-term career within the organization providing them except with various forms of training and competencies development also with promotions opportunities.

The Bank constantly extends not only its internal training programs tailored to the needs of the employees and ensuring professional services to customers but also methods and ways to deliver training. Training programs include class-room trainings, on-the-job trainings, electronic training, coaching and since 2012 system of Virtual Class which provides training at a distance in a form of remote seminars.

In 2012, the Bank delivered 1.7 classroom training day per employee on average. In 2012, a 64% of the total Bank's employees participated in the classroom training and during the last three years the classroom training covered 88.5% of the Bank's employees.

In 2012, the main training priorities of Bank Pekao S.A. were focused on:

- continuous professional skills development of the Bank's employees,
- efficiency increase,
- development of managerial and leadership competences,
- realization of mandatory training ensuing from internal regulations and external market regulations.

Continuous professional skills development
In 2012, the Bank continued the process of developing professional knowledge of its employees. The Bank realized 136 thousand training hours in which attended 10.3 thousand employees on average in two subjects.

The Bank continues a number of training projects aimed at knowledge and skills development of employees as well as customer satisfaction increase.

In 2012, the Bank realized also the next phase of several years training program co-financed by the European Union named "Complex Training Program, as the way to quality changes in Bank Pekao S.A." The project covers language courses, MS Office workshops and implementation of age management strategy accompanied by managerial training in this area.

Efficiency increase
In terms of efficiency increase among employees, the Bank realized training projects mainly aimed at sales skills and customer service development. The Bank realized 73.2 thousand training hours and 4.7 thousand employees took part.

Development of managerial and leadership competences
Development of managerial and leadership competences and support the Bank's business strategy implementation is a key activity to strengthen managers competences. When implementing this goal the Bank took advantage of the expertise of UniManagement – UniCredit Group leadership development centre recognized for using innovative approach to professional development. Co-operation with UniManagement enabled employees the possibility to share knowledge and develop their skills at the international level.

Within the scope of managerial and leadership competences, in 2012 the Bank realized 25.9 thousand training hours in which attended 1.6 thousand employees (managers).

Realization of mandatory training ensuing from internal regulations and external market regulations regulators.
In terms of mandatory training, related to the introduction of new market regulations as well as the strategy of the Bank and UniCredit Group, the Bank has launched a number of training projects aimed at providing the Bank's employees with specialized knowledge. There were realized, inter alia the training projects such as Anti-money Laundering, Market Frauds, the Payment Services Act, Rules on Management of Conflicts of Interest and others.

In 2012, the Bank delivered 137 thousand training hours, in which attended 16.9 thousand employees on average in two subjects.

Development programs and initiatives
One of the key element of employees' professional development is the Bank's support in long-term career management.

In 2012, a number of initiatives for the Bank's employees was realized and the employees had the possibilities to benefit from development advisers support in terms of carrier planning, professional aspiration and conditions of individual development. There was also launched for the employees a new intranet portal with an access to information on recruitment and promotion rules, appraisal and feedback process and tools development

Development processes
One of the key priorities of the Bank's development process is identification, review, verification and development of current and future leaders of the Bank.

In order to achieve this goal, the Bank currently operates four main processes:

- Executive Development Plan (EDP) - annual appraisal process for managers which consists of the following stages: effectiveness, competencies and potential appraisal step, development activities planning and realization step. 764 persons took part in EDP in 2012,
- Talent Management Review (TMR) - annual appraisal process of potential and professional achievements aimed at managing and development of talents in the Bank and UniCredit Group. The process is based on the Leadership Competency Model composes of four key stages: identification, review, development and verification. 330 persons took part in the process in 2012,

  Key outcomes of EDP and TMR processes are succession plans which are crucial for ensuring continuous employment of strategic positions, continuity of long-term projects and minimizing operational risk. The Bank designed succession plans for all key positions,
- Pekao Talents (PT) – two year program dedicated to the Bank's network employees with the highest potential aimed at talents' management and development. In 2012, 52 persons continued participation in the program,
- Annual Employee Appraisal System – process of evaluation of the Bank's employees which comprises appraisal of competencies, potential, personal development planning and business goals appraisal. 15,509 employees took part in the process in 2012.

Furthermore, the Bank offers the following development initiatives focused on supporting the employees in their professional career development and improvement of their skills, knowledge and competencies:

- Assessment Centre/Development Centre session, survey of individual operating style and communication and 180/360 Feedback - diagnostic tools for identification of strengths and development areas of the employee. In 2012, 779 employees participated in the survey as examined and 6,149 employees as respondent,
- Job Rotation, Mentoring and Coaching – dedicated for selected employees to give them broader business perspectives and an opportunity to gain new experience,
- UniQuest, UniFuture and MBA in banking area – initiatives held at UniCredit Group level enabling employees to get an international experience,
- Career Navigator and Internal Job Market - tools support career development planning of the Bank's employees.

Internship and trainee programs
The Bank offers students and graduates the following development programs:

- UniChallenge – a two year-long internship program, addressed to talented last-year MA students and graduates. It provides opportunities for its participants to gain work experience and professional knowledge in a certain field. The UniChallenge Program is used to spot high-potential candidates for employees. In 2012, 11 participants attained the program,
- UniStart, UniSummerStart - an apprenticeship programs addressed to students who are offered placements for the period ranging from 2 weeks to 3 months. These programs are an opportunity to gain experience in different areas of banking, in all of the Bank's divisions. In 2012, 1,291 participants took part in these programs.

Remuneration policy
On July 24, 2012, the Supervisory Board of Bank Pekao S.A. approved the Remuneration Policy of the Bank, which reflects the mission and values of the Bank's approach to remuneration systems. The policy defines basics of remuneration, management of structure, corporate and organizational processes and confirms compliance requirements of the adopted remuneration system with generally binding law, defines the rules for monitoring of market practices and the approach to remuneration systems, which ensure sustainability of the Bank.

Furthermore, the Policy defines principles of the variable components of remuneration of Bank's managers. These principles support accurate and efficient risk management and discourage excessive risk-taking. Also, they reinforce the implementation of the business strategy.

Effective management of the employees' remuneration maintains a high level of competitiveness of the benefits offered by the Bank.

The main remuneration policy tools include:

- retention plans,
- incentive systems: Management by Objectives (MBO), quarterly bonuses, Variable Remuneration System for Management,
- additional benefits for employees.

Retention Plans
In 2012, there were four main retention schemes existing in the Bank:

- Long-Term Incentive Plans of UniCredit Group (edition 2008-2012 and 2011-2013) addressed to top management,
- Five-Year Loyalty Plan addressed to employees of key significance for achieving the Bank's business goals and to the most promising employees selected under the Talent Management scheme,
- UniCredit Group Long Term Incentive Cash Plan edition 2010-2012 addressed to top management,
- Retention Program 2010-2013 of the Bank - a local retention program dedicated to the key employees.

Incentive systems
In the Bank, there are three main incentives systems: a system based on Management by Objectives (MBO), a system based on quarterly bonuses, which rules are defined in Corporate Collective Labour Agreement and System of Variable Remuneration for Management.

A system based on Management by Objectives (MBO) covers employees in the front-office sales jobs and in jobs which play a vital role in achieving the Bank's commercial goals. The employees covered by the MBO system receive individual goals, which successful completion determines the amount of annual bonus.

A system based on quarterly bonuses applies to all employees covered by the Corporate Collective Labour Agreement. Quarterly bonuses are granted on a discretionary basis and depend on employee's performance, quality and level of commitment to work within the specific timeframe.

System of Variable Remuneration for Management is dedicated to people on managerial positions, who influence the risk management profile of the Bank. The aim of the System is to support the execution of the Bank's operational strategy and to mitigate excessive risk conflicts of interest. Participant covered by the system may receive a bonus, amount of which depends on the assessment of the effects of the person's work, organizational unit as well as the Bank's bottom line. In accordance with the assumptions that at least 50% of variable remuneration constitutes a special incentive for employees to care about the long-term welfare of the Bank, part of the premium is deferrable and paid after the end of the evaluation period. This solution has been adopted as a result of the implementation of the Resolution No. 258/2011 issued by the Financial Supervision Authority on October 4, 2011.

Additional benefits for employees
Additional benefits available to the employees vary according to the positions and responsibilities.

Employee Share Ownership Plan is the Bank's offer for all employees to invest in shares of UniCredit S.p.A. on preferential terms. In 2012, the fourth edition of the Plan was introduced at the Bank.

The Bank contributes to the Social Benefit Fund which is spent on financial assistance to the Bank's current and former employees. The financial assistance from the Social Benefit Fund cover, inter alia,:

- funding to purchase sport, recreation, cultural, and educational services,
- funding for recreation,
- financial assistance to employees who find themselves in a difficult life situation,
- loans for housing purposes.

Internal communication
Constant improvement of the quality and effectiveness of mutual relations between the employer and the employees is a priority for the Bank.

The Bank use in internal communication a comprehensive range of tools and channels, including intranet portal, corporate magazine Życie Żubra, brochures and newsletters distributed by e-mail, Internal Discussion Forum and online chats with the Bank's Management Board members, managers and project leaders.

Since 2007, the Bank runs People Survey on a regular basis. The purpose of this anonymous survey is to gauge the employees' opinion on many aspects of the organization's functioning, including clarity of goals and objectives, quality of leadership and management, internal communication effectiveness, the Bank's image, internal relations, effectiveness of training and sense of affiliation with the organization. The survey results are used as a basis for preparation of specific action plans aimed at improvement of the employees' satisfaction.

Corporate values as a basis of working relations
The basis of the Bank's corporate culture and identity is the Integrity Charter – a code of corporate values including respect, reciprocity, transparency, fairness, trust and freedom (freedom to act). Since 2008, in the Bank operates the Restorative Justice System and since 2012 there is project Values System, which ensure practical application of corporate values into everyday relations and in the work environment.

The base for functioning of the system is activity of the Integrity Charter Ombudsmen – independent and experienced managers of the Bank who went retirement. The employees can report to them any misconduct behavior inconsistent with the Bank's corporate values.

The Ombudsmen use the available tools such as meeting and noticing and take actions to restore the corporate values in the relationships between employees. They promote the corporate culture based on the values of the Integrity Charter in internal publications, newsletters and during direct meetings with the employees. Moreover, the Ombudsmen meet representatives of HR Division on regular basis in order to exchange the experience and initiate activities focused on promotion of corporate values.

Relations with Trade Unions
In 2012, the co-operation with Trade Unions of the Bank in the scope of consultation, negotiations and agreements was conducted under Labour law with respect to interests of both sides and principle of social dialog. In 2012, there were 13 meetings organized with trade unions.

Relations with Works Council
Relationship with the Works Council of the Bank are based on the Act on information and consultation dated on April 7, 2006. The Bank pays strong attention to the role of Works Council in social dialog. In 2012, the Works Council held 7 meetings. All issues agreed with the employer are publish on the intranet websites and are available for each Bank's employee.

Workforce in number
At the end of 2012, Bank Pekao S.A. Group headcount, including companies consolidated under the full method, totaled 19,816, as compared with 20,357 employees at the end of 2011.

The Bank employed 17,433 people (a reduction by 488 in comparison with 2011) who are on average 44 years of age. 61% of the employees are university graduates (60% in 2011). Women represent 80% of the total workforce.

7 Statement of Financial Position and Financial Results

Bank Pekao S.A. Group plans to concentrate its activities on the local market and in connection with this a process aiming at disposal of the whole exposure of Bank Pekao S.A. in UniCredit Bank has been started.

Consolidated income statement containing cumulated items for the period from January 1 to December 31, 2012 and 2011 respectively was presented in the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2012.

The Report on activities of Bank Pekao S.A. Group includes statement of financial position in a short form and income statement in a presentation form as well as the key, selected items from these statements were discussed. Additionally, in order to ensure comparability, quarterly consolidated income statement containing 4 quarters of 2012 and 4 quarters of 2011 was presented.

In the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2012 and in the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2011 the entire engagement in UniCredit Bank, which includes subsidiary's assets and liabilities was classified as held for sale, whereas appropriate items of the Income Statement were presented as discontinued operations.

Items of income statement in a presentation form are presented including discontinued operations.

7.1 Structure of the consolidated statement of financial position – short form

The balance sheet of Bank Pekao S.A. determines the amount of total assets in balance sheet and the structure of the assets and liabilities of the Group. As at the end of December 2012, the total assets of Bank Pekao S.A. constitutes 97.6% of the total assets of the Group.

The tables below present the Group's statement of financial position – short form.

ASSETS	31.12.2012		31.12.2011		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	9,207.3	6.1%	4,886.1	3.3%	88.4%
Loans and advances to banks*	4,054.0	2.7%	5,586.4	3.8%	(27.4%)
Loans and advances to customers**	97,799.4	64.8%	95,678.9	65.3%	2.2%
Securities***	29,336.0	19.4%	29,969.3	20.4%	(2.1%)
Investments in associates	168.4	0.1%	186.3	0.1%	(9.6%)
Property, plant and equipment and intangible assets	2,339.9	1.6%	2,476.3	1.7%	(5.5%)
Other assets****	8,044.8	5.3%	7,806.8	5.4%	3.0%
Total assets	**150,949.8**	**100.0%**	**146,590.1**	**100.0%**	**3.0%**

* Including net investments in financial leases to banks.

** Including debt securities eligible for rediscounting at Central Bank and net investments in financial leases to customers.

*** Including financial assets held for trading and other financial instruments at fair value through profit and loss.

**** Other assets include the Bank's exposure in subordinated entity – UniCredit Bank in Ukraine qualified as held for sale. The detailed information concerning assets and liabilities held for sale is presented in the Note 31 of the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2012.

EQUITY AND LIABILITIES	31.12.2012		31.12.2011		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	0.0	0.0%	356.4	0.2%	(100.0%)
Amounts due to other banks	7,782.7	5.2%	5,544.2	3.8%	40.4%
Amounts due to customers	107,992.6	71.5%	108,437.0	74.0%	(0.4%)
Debt securities issued	4,758.7	3.2%	3,043.9	2.1%	56.3%
Other liabilities	6,957.0	4.6%	7,851.7	5.3%	(11.4%)
Total equity, including	23,458.8	15.5%	21,356.9	14.6%	9.8%
non-controlling interests	92.2	0.1%	85.5	0.1%	7.8%
Total equity and liabilities	**150,949.8**	**100.0%**	**146,590.1**	**100.0%**	**3.0%**

7.1.1 Assets

Changes in the structure of assets
Loans and advances to customers and securities represent items of the largest value under assets. As at the end of 2012, they accounted for 64.8% and 19.4% of the total assets, respectively, while as at the end of 2011, the respective figures were 65.3% and 20.4%.

Cash and due from Central Bank

(in PLN million)

	31.12.2012	31.12.2011	CHANGE
Cash and due from Central Bank, including:	**9,207.3**	**4,886.1**	**88.4%**
Cash	2,228.4	2,236.2	(0.3%)
Current account at Central Bank	6,978.5	2,005.8	247.9%
Other	0.4	644.1	(99.9%)

Customers' Financing
Customer structure of loans and advances

(in PLN million)

	31.12.2012	31.12.2011	CHANGE
Loans and advances at nominal value	**102,189.1**	**100,027.0**	**2.2%**
Loans*	92,705.5	92,562.5	0.2%
Retail	40,484.9	36,733.5	10.2%
Corporate	52,220.6	55,829.0	(6.5%)
Non- quoted securities	6,791.3	5,681.6	19.5%
Reverse repo transactions	2,692.3	1,782.9	51.0%
Other**	344.0	350.5	(1.9%)
Nominal value adjustment	124.0	(75.6)	(264.0%)
Impairment losses	**(4,857.7)**	**(4,623.0)**	**5.1%**
Total net receivables	**97,799.4**	**95,678.9**	**2.2%**
Securities issued by non-monetary entities***	975.1	658.9	48.0%
Total customers' financing****	**103,164.2**	**100,685.9**	**2.5%**

* Including debt securities eligible for rediscounting at Central Bank and net investments in financial leases to customers.
** Including interest and receivables in transit.
*** Securities issued by non-monetary entities being loans equivalents.
**** Total customers' financing includes Loans and advances at nominal value and Securities issued by non-monetary entities.

As at the end of December 2012, the volume of retail loans amounted to PLN 40,484.9 million, an increase of PLN 3,751.4 million (10.2%) in comparison to the end of 2011.

The Bank continued its policy of offering only PLN mortgage loans. The residual stock of mortgage loans denominated in foreign currencies, almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA, represents 5.6% of total loans of the Bank.

The volume of corporate loans, non-quoted securities, reverse repo transactions and securities issued by non-monetary entities decreased by PLN 1,273.1 million (2.0%) as compared to the end of 2011 and amounted to PLN 62,679.3 million at the end of December 2012.

Receivables and impairment losses

(in PLN million)

	31.12.2012	31.12.2011	CHANGE
Gross receivables*	**102,341.1**	**99,960.7**	**2.4%**
Not impaired	94,878.2	93,641.0	1.3%
Impaired	7,462.9	6,319.7	18.1%
Impairment losses	(4,857.7)	(4,623.0)	5.1%
Interest	316.0	341.2	(7.4%)
Total net receivables	**97,799.4**	**95,678.9**	**2.2%**

* Including debt securities eligible for rediscounting at Central Bank, net investments in financial leases to customers, non-quoted securities, reverse repo transactions.

As at December 31, 2012, the ratio of impaired receivables to total receivables amounted to 7.3% compared with 6.3% as at the end of 2011, mainly as a result of reclassification of some credit exposures within the construction industry.

Impairment losses as at the end of December 2012 amounted to PLN 4,857.7 million.

Loans and advances to customers by currency*

	31.12.2012		31.12.2011		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	83,067.0	80.9%	77,550.8	77.3%	7.1%
Denominated in foreign currencies**	19,590.1	19.1%	22,751.1	22.7%	(13.9%)
Total	**102,657.1**	**100.0%**	**100,301.9**	**100.0%**	**2.3%**
Impairment losses	(4,857.7)	x	(4,623.0)	x	5.1%
Total net receivables	**97,799.4**	**x**	**95,678.9**	**x**	**2.2%**

* Including interest and receivables in transit.

** Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish złoty; as at the end of December 2012, their share was 80.9%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (59.1%), CHF (31.1%) and USD (9.7%).

Loans and advances to customers by contractual maturities*

	31.12.2012		31.12.2011		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	15,134.2	14.7%	15,768.7	15.7%	(4.0%)
1 to 3 months	3,855.9	3.8%	3,580.0	3.6%	7.7%
3 months to 1 year	11,877.4	11.6%	9,872.4	9.8%	20.3%
1 to 5 years	31,213.9	30.4%	32,308.5	32.3%	(3.4%)
Over 5 years	40,231.7	39.2%	38,421.8	38.3%	4.7%
Other	344.0	0.3%	350.5	0.3%	(1.9%)
Total	**102,657.1**	**100.0%**	**100,301.9**	**100.0%**	**2.3%**
Impairment losses	(4,857.7)	x	(4,623.0)	x	5.1%
Total net receivables	**97,799.4**	**x**	**95,678.9**	**x**	**2.2%**

* Including interest and receivables in transit.

Loans and advances with maturity over 5 years represents 39.2% of total loans and advances (mainly attributed to mortgage loans and receivables for which the maturity date already passed).

Information on loan concentration is included in the Notes 26 and 27 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2012.

7.1.2 Liabilities

Changes in the structure of liabilities
Amounts due to customers were the main item under the Group's liabilities and equity. As at the end of 2012, amounts due to customers and debt securities issued totaled PLN 112,751.3 million, and their share in the total assets was 74.7%, compared with 76.0% as at the end of 2011. The share of total shareholder's equity in the total assets was 15.5% as at the end of 2012, compared with 14.6% as at the end of 2011.

External sources of financing

(in PLN million)

	31.12.2012	31.12.2011	CHANGE
Amounts due to Central Bank	0.0	356.4	(100.0%)
Amounts due to other banks	7,782.7	5,544.2	40.4%
Amounts due to customers	107,992.6	108,437.0	(0.4%)
Debt securities issued	4,758.7	3,043.9	56.3%
Total external sources of financing	**120,534.0**	**117,381.5**	**2.7%**

Bank Pekao S.A. had a refinancing loan taken out from the National Bank of Poland for the financing of a credit facility granted to fund a central state investment project which was repaid before December 31, 2012**.**

The Group acquires deposits mainly in Poland. The deposit base is widely diversified and the deposits sourced from retail and corporate customers. In addition, the Group uses also funds borrowed on the interbank market. The Group is not dependent on any single customer nor group of customers.

As at the end of 2012, the geographical structure of deposits acquired through the Bank's domestic branches was as follows:

REGION	% OF TOTAL DEPOSITS
Warszawski	31.7%
Centralny	23.4%
Małopolski	8.9%
Południowo-Wschodni	8.1%
Mazowiecki	7.9%
Zachodni	4.2%
Wielkopolski	4.2%
Śląski	4.0%
Dolnośląski	4.0%
Pomorski	3.6%
Total	**100.0%**

Total customer savings

(in PLN million)

	31.12.2012	31.12.2011	CHANGE
Amounts due to corporate	**53,736.9**	**55,509.6**	**(3.2%)**
Non-financial entities	36,270.0	40,890.8	(11.3%)
Non-banking financial entities	11,827.8	9,241.3	28.0%
Budget entities	5,639.1	5,377.5	4.9%
Retail deposits	**48,656.4**	**47,643.7**	**2.1%**
Repo and sell-buy-back transactions	**5,089.7**	**4,609.7**	**10.4%**
Other*	509.6	674.0	(24.4%)
Amounts due to customers	**107,992.6**	**108,437.0**	**(0.4%)**
Debt securities issued, of which	**4,758.7**	**3,043.9**	**56.3%**
Structured Certificates of Deposit (SCD)	718.7	1,119.0	(35.8%)
Certificates of Deposit	3,189.0	1,271.1	150.9%
Pekao Bank Hipoteczny S.A. mortgage bonds	782.7	631.5	23.9%
Interest	68.3	22.3	206.3%
Amounts due to customers and Debt securities issued, total	**112,751.3**	**111,480.9**	**1.1%**
Investment funds of Pioneer Pekao TFI	**14,965.2**	**13,780.9**	**8.6%**
including distributed through the Group's network	13,765.7	12,597.0	9.3%

* Other item includes interest and funds in transit.

As at the end of December 2012, the total amounts due to the Group's customers and debt securities issued amounted to PLN 112,751.3 million, an increase of PLN 1,270.4 million (1.1%) in comparison to the end of 2011.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 49,758.2 million at the end of December 2012, an increase of PLN 806.2 million (1.6%) in comparison to the end of 2011. The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 14,965.2 million at the end of December 2012, an increase of PLN 1,184.3 million (8.6%) in comparison to the end of 2011.

The total volume of corporate customers deposits, repo and sell-buy-back transactions, Certificates of Deposit, Pekao Bank Hipoteczny S.A. mortgage bonds, interest and other amounted to PLN 62,993.1 million at the end of December 2012, an increase of PLN 464.2 million (0.7%) as compared to the end of 2011.

Amounts due to customers by currency*

	31.12.2012		31.12.2011		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	91,928.0	85.1%	89,560.0	82.6%	2.6%
Denominated in foreign currencies	16,064.6	14.9%	18,877.0	17.4%	(14.9%)
Total	**107,992.6**	**100.0%**	**108,437.0**	**100.0%**	**(0.4%)**

* Including interest and amounts due in transit.

The bulk of the amounts due to customers are denominated in the Polish złoty and its share as at the end of December 2012 amounted to 85.1%. The majority of amounts due to customers denominated in foreign currencies were in EUR (58.5%) and USD (36.6%).

Amounts due to customers by contractual maturities

	31.12.2012		31.12.2011		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	50,338.8	46.8%	48,703.8	45.2%	3.4%
Term deposits	57,144.2	53.2%	59,059.2	54.8%	(3.2%)
Total deposits	**107,483.0**	**100.0%**	**107,763.0**	**100.0%**	**(0.3%)**
Interest accrued	371.0	x	316.2	x	17.3%
Funds in transit	138.6	x	357.8	x	(61.3%)
Total	**107,992.6**	**x**	**108,437.0**	**x**	**(0.4%)**

7.1.3 Off–balance sheet items

Statement of Off-balance sheet items

(in PLN million)

	31.12.2012	31.12.2011	CHANGE
Contingent liabilities granted and received	45,307.2	51,290.3	(11.7%)
Liabilities granted:	33,920.4	35,290.6	(3.9%)
financial	23,602.1	26,812.1	(12.0%)
guarantees	10,318.3	8,478.5	21.7%
Liabilities received:	11,386.8	15,999.7	(28.8%)
financial	1,160.3	3,367.5	(65.5%)
guarantees	10,226.5	12,632.2	(19.0%)
Derivative financial instruments	156,262.8	191,663.5	(18.5%)
interest rate transactions	112,346.8	115,525.4	(2.8%)
transactions in foreign currency and in gold	43,334.6	74,668.9	(42.0%)
transactions based on commodities and equity securities	581.4	1,469.2	(60.4%)
Other	30,230.1	29,211.9	3.5%
Total off-balance sheet items	**231,800.1**	**272,165.7**	**(14.8%)**

More detailed information on off-balance-sheet items is included in the Notes 25 and 45 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2012.

7.2 The structure of the net profit

The structure of the net profit of the Group is presented in the table below:

(in PLN million)

	2012	2011	CHANGE
Net profit of Bank Pekao S.A.	**2,938.2**	**2,826.4**	**4.0%**
Entities consolidated under full method			
Pekao Leasing Sp. z o.o.	41.9	42.0	(0.2%)
PJSC UniCredit Bank [1]	36.6	57.7	(36.6%)
Centralny Dom Maklerski Pekao S.A.	30.5	46.0	(33.7%)
Pekao Leasing Holding S.A. [2]	28.1	3.8	639.5%
Pekao Bank Hipoteczny S.A.	15.7	17.3	(9.2%)
Pekao Pioneer PTE S.A.	11.4	12.0	(5.0%)
Pekao Faktoring Sp. z o.o.	10.2	10.7	(4.7%)
Pekao Financial Services Sp. z o.o.	3.9	7.4	(47.3%)
Centrum Bankowości Bezpośredniej Sp. z o.o.	3.2	3.7	(13.5%)
Centrum Kart S.A.	2.5	3.7	(32.4%)
Pekao Property S.A. [3]	1.6	-	x
FPB "MEDIA" Sp. z o.o. [3]	1.4	-	x
Pekao Fundusz Kapitałowy Sp. z o.o.	1.2	1.3	(7.7%)
Jana Kazimierza Development Sp. z o.o. [3]	0.8	-	x
Pekao Telecentrum Sp. z o.o.	0.4	0.4	0.0%
Property Sp. z o.o. w likwidacji [3]	0.3	-	x
Holding Sp. z o.o. w likwidacji [4]	0.0	(0.1)	x
Metropolis Sp. z o.o. [3]	(1.3)	-	x
Entities valued under the equity method			
Pioneer Pekao Investment Management S.A.	45.2	62.3	(27.4%)
Krajowa Izba Rozliczeniowa S.A.	7.4	10.9	(32.1%)
Dom Inwestycyjny Xelion sp. z o.o. [5]	0.7	0.7	0.0%
Central Poland Fund LLC [6]	-	0.0	x
Pirelli Pekao Real Estate Sp. z o.o. [7]	(0.1)	(3.9)	(97.4%)
Exclusions and consolidation adjustments [8]	**(224.1)**	**(202.9)**	**10.4%**
Net profit of the Group attributable to equity holders of the Bank	**2,955.7**	**2,899.4**	**1.9%**

1 In the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2012 and on 31 December 2011, the entire engagement in PJSC UniCredit Bank, which includes subsidiary's assets and liabilities was classified as held for sale, whereas appropriate positions of the Income statement were presented as discontinued operations.
2 The results of Pekao Leasing Holding S.A. mainly include the dividend received from Pekao Leasing Sp. z o.o.
3 The Company was not consolidated in 2011.
4 In the current report No. 32/2012 from July 26, 2012 the Management Board of Bank Pekao S.A. informed that it received a ruling of the Local Court for the Capital City of Warsaw in Warsaw concerning the removal as at July 6, 2012 from the National Court Register of the Bank's subsidiary, Holding Sp. z o.o. in liquidation. The Bank informed of the winding-up of Holding Sp. z o.o. in the current report No. 66/2010 dated 22 October 2010.
5 On March 26, 2012, name of the Company Xelion.Doradcy Finansowi Sp. z o.o. was changed. Currently the Company's name is Dom Inwestycyjny Xelion Sp. z o.o.
6 On December 31, 2012, the Bank received information on completing the liquidation proceedings of the Company Central Poland Fund LLC on September 30, 2012.
7 On November 15, 2012 the Bank sold its entire stake in the Company.
8 Includes, among others, transactions within the Group (including dividends from subsidiaries for the previous year) and net profit attributable to non-controlling interest.

The results of Bank Pekao S.A.

The main items from the Bank's income statement in presentation form are as follows:

(in PLN million)

	2012	2011	CHANGE
Net interest income	4,529.6	4,268.2	6.1%
Dividend income	168.5	195.7	(13.9%)
Total net interest income and dividend income	4,698.1	4,463.9	5.2%
Net non-interest income	2,546.5	2,777.4	(8.3%)
Operating income	**7,244.6**	**7,241.3**	**0.1%**
Operating costs	**(3,323.4)**	**(3,366.3)**	**(1.3%)**
Operating profit	**3,921.2**	**3,875.0**	**1.2%**
Net result on other provisions	(16.1)	(5.1)	215.7%
Net impairment losses on loans and off-balance sheet commitments	(596.5)	(497.9)	19.8%
Net result on investment activities	300.3	77.5	287.5%
Profit before income tax	**3,608.9**	**3,449.5**	**4.6%**
Net profit for the period	**2,938.2**	**2,826.4**	**4.0%**

In 2012, the Bank's net profit amounted to PLN 2,938.2 million, an increase of PLN 111.8 million (4.0%) in comparison to 2011.

Sound results for 2012, with the operating profit increased by 1.2% in comparison with 2011, were accomplished thanks to the commercial activity of the Bank.

The main Bank's financial information is as follows:

	31.12.2012	31.12.2011	CHANGE
Total gross loans in PLN million*	89,522.8	88,785.3	0.8%
Impaired receivables to total receivables in %	7.0%	6.0%	1.0 p.p.
Total deposits in PLN million*	102,495.3	102,730.4	(0.2%)
Repo and sell-buy-back transactions in PLN million	5,099.7	4,609.7	10.6%
Structured Certificates of Deposit in PLN million	718.7	1,119.0	(35.8%)
Certificates of Deposit in PLN million	3,189.0	1,271.1	150.9%
Total assets in PLN million	147,262.1	142,390.0	3.4%
Investment funds distributed through the Bank's network in PLN million	12,845.1	11,634.1	10.4%
Capital adequacy ratio in %	18.7%	16.6%	2.1 p.p.

* The nominal value.

The volume of gross loans of the Bank's clients as at the end of December 2012 amounted to PLN 89,522.8 million, increasing by PLN 737.5 million (0.8%) as compared to the end of 2011. At the end of December 2012, the total volume of retail loans amounted to PLN 39,563.0 million and volume of corporate loans amounted to PLN 49,959.8 million.

The total amounts due to the Bank's customers (including customer deposits, repo and sell-buy-back transactions, Structured Certificates of Deposit, Certificates of Deposit) amounted to PLN 111,502.7 million and increased by PLN 1,772.5 million (1.6%) compared to the end of 2011.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. and distributed by the Bank's network increased by PLN 1,211.0 million (10.4%) as compared to the end of 2011.

Results of the Bank's important related entities

Pioneer Pekao Investment Management S.A. – PPIM
In 2012, the Company's consolidated net profit amounted to PLN 92.4 million compared with PLN 127.2 million in 2011. Net profit was influenced by the lower value of net assets as well as a change in assets structure. The Bank's share in the Company's profit was **PLN 45.2 million**.

Pekao Leasing Sp. z o.o. – Pekao Leasing
In 2012, the Company reported a net profit of PLN 41.9 million (the Bank's share equaled to **PLN 36.6 million**) and was at a similar level as achieved in 2011.

PJSC UniCredit Bank – UniCredit Bank
In 2012, the Company reported a net profit of **PLN 36.6 million**, compared with PLN 57.7 million in 2011.

Centralny Dom Maklerski Pekao S.A. – CDM
In 2012, CDM generated a net profit of **PLN 30.5 million** compared with PLN 46.0 million earned in 2011. The lower net profit was mainly influenced by lower valuation of investment products and also clients withdrawal from high-risk investments resulting from the situation on capital markets.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny
In 2012, the Company reported a net profit of **PLN 15.7 million** compared with PLN 17.3 million in 2011.

Pekao Faktoring Sp. z o.o. – Pekao Faktoring
In 2012, the Company reported a net profit of **PLN 10.2 million** compared with PLN 10.7 million in 2011.

Dom Inwestycyjny Xelion Sp. z o.o. – Xelion
In 2012, the Company reported a net profit of PLN 1.4 million (the Bank's share equaled to **PLN 0.7 million**) and was at a similar level as achieved in 2011.

7.3 The consolidated income statement – presentation form

Bank Pekao S.A. Group reported solid financial results for 2012, with net profit attributable to equity holders amounting to PLN 2,955.7 million, i.e. an increase of PLN 56.3 million (1.9%) in comparison to 2011.

Sound results for 2012, with the operating profit increased by 0.1% in comparison with 2011, were accomplished thanks to the commercial activity of the Group.

The strength of the capital and liquidity structure of Bank Pekao S.A. Group is reflected by a capital adequacy ratio of 19.0% and net loans to deposits ratio at the level of 86.7% at the end of December 2012. This enables for further sound and stable development of the Group's activities.

The consolidated income statement – presentation form

(in PLN million)

	2012	2011	CHANGE
Net interest income	4,805.4	4,557.9	5.4%
Dividend income and income from equity investments	62.0	80.3	(22.8%)
Total net interest income, dividend income and other income from equity investments	**4,867.4**	**4,638.2**	**4.9%**
Net fee and commission income	2,256.9	2,448.9	(7.8%)
Trading result	474.1	577.5	(17.9%)
Net other operating income and expenses	88.9	66.7	33.3%
Net non-interest income	**2,819.9**	**3,093.1**	**(8.8%)**
Operating income	**7,687.3**	**7,731.3**	**(0.6%)**
Operating costs	**(3,622.9)**	**(3,671.7)**	**(1.3%)**
Operating profit	**4,064.4**	**4,059.6**	**0.1%**
Net result on other provisions	(15.3)	(5.8)	163.8%
Net impairment losses on loans and off-balance sheet commitments	(669.4)	(537.9)	24.4%
Net result on investment activities	300.6	77.1	289.9%
Profit before income tax	**3,680.3**	**3,593.0**	**2.4%**
Income tax expense	(715.0)	(683.9)	4.5%
Net profit for the period	**2,965.3**	**2,909.1**	**1.9%**
Attributable to equity holders of the Bank	**2,955.7**	**2,899.4**	**1.9%**
Attributable to non-controlling interest	9.6	9.7	(1.0%)

Operating Income

In 2012, the Group's operating income amounted to PLN 7,687.3 million, a decrease of PLN 44.0 million (0.6%) in comparison with 2011.

Total net interest income, dividend income and income from equity investments

(in PLN million)

	2012	2011	CHANGE
Interest income	8,316.0	7,404.2	12.3%
Interest expense	(3,510.6)	(2,846.3)	23.3%
Net interest income	**4,805.4**	**4,557.9**	**5.4%**
Dividend income	8.7	10.3	(15.5%)
Income from equity investments	53.3	70.0	(23.9%)
Total net interest income, dividend income and income from equity investments	**4,867.4**	**4,638.2**	**4.9%**

Total net interest income, dividend income and income from equity investments in 2012 amounted to PLN 4,867.4 million and increased by PLN 229.2 million (4.9%) in comparison with 2011, mainly thanks to the higher volumes.

Net non-interest income

(in PLN million)

	2012	2011	CHANGE
Fee and commission income	2,798.2	2,934.1	(4.6%)
Fee and commission expense	(541.3)	(485.2)	11.6%
Net fee and commission income	**2,256.9**	**2,448.9**	**(7.8%)**
Trading result	474.1	577.5	(17.9%)
Net other operating income and expense	88.9	66.7	33.3%
Net non-interest income	**2,819.9**	**3,093.1**	**(8.8%)**

The Group's net non-interest income in 2012 amounted to PLN 2,819.9 million, decrease of PLN 273.2 million (8.8%) in comparison with 2011, due to net fee and commission income and trading result.

The table below presents the Group's net fee and commission income divided according to the main areas of the activity.

(in PLN million)

	2012	2011	CHANGE
Net fee and commission income	**2,256.9**	**2,448.9**	**(7.8%)**
on loans	587.8	640.1	(8.2%)
on cards	437.9	418.2	4.7%
capital market related	331.5	406.6	(18.5%)
other	899.7	984.0	(8.6%)

The Group's net fee and commission income in 2012 amounted to PLN 2,256.9 million and was lower by PLN 192.0 million (7.8%) in comparison with 2011, due to a slowdown on consumer lending market, continuous migration of clients to internet channels as well as lower mutual funds and brokerage activity fees.

Operating costs

In 2012, the operating costs were kept under control and amounted to PLN 3,622.9 million. They were lower by PLN 48.8 million (1.3%) than the operating costs in 2011.

(in PLN million)

	2012	2011	CHANGE
Personnel expenses	(1,907.3)	(1,946.1)	(2.0%)
Other administrative expenses (excl. BGF and KNF)	(1,227.6)	(1,238.2)	(0.9%)
Depreciation and amortization	(368.8)	(377.5)	(2.3%)
Operating costs (excl. BGF and KNF)	**(3,503.7)**	**(3,561.8)**	**(1.6%)**
BGF and KNF	(119.2)	(109.9)	8.5%
Operating costs	**(3,622.9)**	**(3,671.7)**	**(1.3%)**

In 2012, cost / income ratio amounted to 47.1% and was better by 0.4 p.p. than reported in 2011.

As at the end of December 2012, Bank Pekao S.A. Group employed 19,816 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 20,357 employees as at the end of 2011.

As at the end of December 2012, the Bank employed 17,433 people, a reduction by 488 as compared with the end of 2011.

Net impairment losses

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 669.4 million in 2012, an increase of PLN 131.5 million (24.4%) compared with 2011, mainly due to difficult situation in construction industry.

(in PLN million)

	2012	2011	CHANGE
Impairment losses on loans	(642.6)	(556.3)	15.5%
Impairment losses on off-balance sheet commitments	(26.8)	18.4	(245.7%)
Net impairment losses on loans and off-balance sheet commitments	**(669.4)**	**(537.9)**	**24.4%**

Provisions, deferred tax assets and liabilities

(in PLN million)

	31.12.2012	31.12.2011	CHANGE
Total provisions	**359.5**	**313.9**	**14.5%**
of which:			
provisions for off-balance sheet commitments	106.4	79.1	34.5%
provisions for liabilities to employees	193.3	184.4	4.8%
other provisions	59.8	50.4	18.7%
Deferred tax liabilities	**6.0**	**4.4**	**36.4%**
Deferred tax assets	**820.1**	**888.0**	**(7.6%)**

7.4 Quarterly income statement

7.4.1 Consolidated income statement – long form

Consolidated income statement for 2012 - Provided for comparability purposes.

(in PLN thousand)

	Q1 2012			Q2 2012			Q3 2012			Q4 2012		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Interest income	2,002,506	46,297	2,048,803	2,041,694	47,525	2,089,219	2,067,307	49,337	2,116,644	2,013,672	47,719	2,061,391
Interest expense	(839,043)	(16,640)	(855,683)	(887,626)	(16,179)	(903,805)	(895,695)	(14,692)	(910,387)	(824,485)	(16,278)	(840,763)
Net interest income	**1,163,463**	**29,657**	**1,193,120**	**1,154,068**	**31,346**	**1,185,414**	**1,171,612**	**34,645**	**1,206,257**	**1,189,187**	**31,441**	**1,220,628**
Fee and commission income	665,704	8,889	674,593	705,245	11,658	716,903	679,351	10,236	689,587	706,805	10,312	717,117
Fee and commission expense	(120,576)	(3,482)	(124,058)	(133,547)	(4,323)	(137,870)	(134,407)	(3,370)	(137,777)	(137,727)	(3,887)	(141,614)
Net fee and commission income	**545,128**	**5,407**	**550,535**	**571,698**	**7,335**	**579,033**	**544,944**	**6,866**	**551,810**	**569,078**	**6,425**	**575,503**
Dividend income	**-**	**-**	**-**	**8,749**	**-**	**8,749**	**10**	**-**	**10**	**-**	**-**	**-**
Result on financial assets and liabilities held for trading	**113,364**	**5,069**	**118,433**	**124,272**	**672**	**124,944**	**123,691**	**2,610**	**126,301**	**139,168**	**1,290**	**140,458**
Result on fair value hedge accounting	**(3,140)**	**-**	**(3,140)**	**(5,597)**	**-**	**(5,597)**	**(16,501)**	**-**	**(16,501)**	**(10,513)**	**-**	**(10,513)**
Net result on other financial instruments at fair value through profit and loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Gains (losses) on disposal of:	**43,118**	**-**	**43,118**	**37,044**	**-**	**37,044**	**156,397**	**(21)**	**156,376**	**42,661**	**-**	**42,661**
loans and other financial receivables	-	-	-	-	-	-	-	-	-	758	-	758
available for sale financial assets and held to maturity investments	43,209	-	43,209	36,929	-	36,929	156,503	(21)	156,482	42,124	-	42,124
financial liabilities	(91)	-	(91)	115	-	115	(106)	-	(106)	(221)	-	(221)
Operating income	**1,861,933**	**40,133**	**1,902,066**	**1,890,234**	**39,353**	**1,929,587**	**1,980,153**	**44,100**	**2,024,253**	**1,929,581**	**39,156**	**1,968,737**
Net impairment losses on financial assets and off-balance sheet commitments:	**(127,495)**	**(7,844)**	**(135,339)**	**(160,407)**	**(7,345)**	**(167,752)**	**(169,255)**	**(10,205)**	**(179,460)**	**(178,317)**	**(8,586)**	**(186,903)**
loans and other financial receivables	(137,201)	(7,844)	(145,045)	(139,664)	(7,345)	(147,009)	(176,302)	(10,205)	(186,507)	(155,475)	(8,586)	(164,061)
off-balance sheet commitments	9,706	-	9,706	(20,743)	-	(20,743)	7,047	-	7,047	(22,842)	-	(22,842)
Net result on financial activity	**1,734,438**	**32,289**	**1,766,727**	**1,729,827**	**32,008**	**1,761,835**	**1,810,898**	**33,895**	**1,844,793**	**1,751,264**	**30,570**	**1,781,834**

Consolidated income statement for 2012 - cont.

	Q1 2012			Q2 2012			Q3 2012			Q4 2012		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Administrative expenses	**(799,642)**	**(18,958)**	**(818,600)**	**(820,241)**	**(19,093)**	**(839,334)**	**(795,406)**	**(19,156)**	**(814,562)**	**(767,385)**	**(20,402)**	**(787,787)**
personnel expenses	(469,851)	(9,429)	(479,280)	(482,855)	(10,038)	(492,893)	(467,591)	(10,059)	(477,650)	(447,197)	(10,303)	(457,500)
other administrative expenses	(329,791)	(9,529)	(339,320)	(337,386)	(9,055)	(346,441)	(327,815)	(9,097)	(336,912)	(320,188)	(10,099)	(330,287)
Depreciation and amortization	**(91,515)**	**(1,854)**	**(93,369)**	**(91,353)**	**(1,673)**	**(93,026)**	**(91,093)**	**(1,531)**	**(92,624)**	**(88,417)**	**(1,402)**	**(89,819)**
Net result on other provisions	**(320)**	**-**	**(320)**	**(711)**	**-**	**(711)**	**(341)**	**-**	**(341)**	**(13,955)**	**-**	**(13,955)**
Net other operating income and expenses	**17,163**	**(44)**	**17,119**	**31,102**	**(131)**	**30,971**	**25,124**	**883**	**26,007**	**20,804**	**(508)**	**20,296**
Operating costs	**(874,314)**	**(20,856)**	**(895,170)**	**(881,203)**	**(20,897)**	**(902,100)**	**(861,716)**	**(19,804)**	**(881,520)**	**(848,953)**	**(22,312)**	**(871,265)**
Gains (losses) on subsidiaries and associates	**11,741**	**-**	**11,741**	**13,530**	**-**	**13,530**	**13,225**	**-**	**13,225**	**14,370**	**-**	**14,370**
Gains (losses) on disposal of property, plant and equipment, and intangible assets	**1,170**	**-**	**1,170**	**1,213**	**-**	**1,213**	**19,835**	**-**	**19,835**	**43**	**-**	**43**
Profit before income tax	**873,035**	**11,433**	**884,468**	**863,367**	**11,111**	**874,478**	**982,242**	**14,091**	**996,333**	**916,724**	**8,258**	**924,982**
Income tax expense	(169,669)	(2,099)	(171,768)	(165,955)	(2,116)	(168,071)	(192,008)	(3,723)	(195,731)	(179,088)	(350)	(179,438)
Net profit for the period	**703,366**	**9,334**	**712,700**	**697,412**	**8,995**	**706,407**	**790,234**	**10,368**	**800,602**	**737,636**	**7,908**	**745,544**
Attributable to equity holders of the Bank	**701,243**	**9,334**	**710,577**	**695,208**	**8,995**	**704,203**	**787,935**	**10,368**	**798,303**	**734,711**	**7,908**	**742,619**
Attributable to non-controlling interest	2,123	-	2,123	2,204	-	2,204	2,299	-	2,299	2,925	-	2,925

Consolidated income statement for 2011 - Provided for comparability purposes.

(in PLN thousand)

	Q1 2011			Q2 2011			Q3 2011			Q4 2011		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Interest income	1,611,758	57,327	1,669,085	1,735,909	49,287	1,785,196	1,850,351	56,347	1,906,698	1,981,136	62,105	2,043,241
Interest expense	(583,599)	(24,314)	(607,913)	(637,615)	(22,156)	(659,771)	(716,877)	(23,658)	(740,535)	(814,579)	(23,564)	(838,143)
Net interest income	**1,028,159**	**33,013**	**1,061,172**	**1,098,294**	**27,131**	**1,125,425**	**1,133,474**	**32,689**	**1,166,163**	**1,166,557**	**38,541**	**1,205,098**
Fee and commission income	690,972	8,773	699,745	753,752	9,112	762,864	734,599	10,411	745,010	716,084	10,352	726,436
Fee and commission expense	(98,806)	(3,531)	(102,337)	(114,171)	(4,125)	(118,296)	(128,220)	(5,027)	(133,247)	(126,655)	(4,626)	(131,281)
Net fee and commission income	**592,166**	**5,242**	**597,408**	**639,581**	**4,987**	**644,568**	**606,379**	**5,384**	**611,763**	**589,429**	**5,726**	**595,155**
Dividend income	**-**	**-**	**-**	**10,311**	**-**	**10,311**	**23**	**-**	**23**	**18**	**-**	**18**
Result on financial assets and liabilities held for trading	**141,813**	**7,341**	**149,154**	**124,200**	**4,954**	**129,154**	**157,711**	**(1,634)**	**156,077**	**159,380**	**1,346**	**160,726**
Result on fair value hedge accounting	**(4,244)**	**-**	**(4,244)**	**(3,345)**	**-**	**(3,345)**	**(526)**	**-**	**(526)**	**(7,642)**	**-**	**(7,642)**
Net result on other financial instruments at fair value through profit and loss	**14**	**-**	**14**	**(153)**	**-**	**(153)**	**(191)**	**-**	**(191)**	**(171)**	**-**	**(171)**
Gains (losses) on disposal of:	**1,459**	**(64)**	**1,395**	**3,385**	**16**	**3,401**	**42,606**	**3**	**42,609**	**27,711**	**287**	**27,998**
loans and other financial receivables	-	-	-	(153)	-	(153)	-	-	-	(167)	289	122
available for sale financial assets and held to maturity investments	1,877	(64)	1,813	3,863	16	3,879	42,894	3	42,897	28,128	(2)	28,126
financial liabilities	(418)	-	(418)	(325)	-	(325)	(288)	-	(288)	(250)	-	(250)
Operating income	**1,759,367**	**45,532**	**1,804,899**	**1,872,273**	**37,088**	**1,909,361**	**1,939,476**	**36,442**	**1,975,918**	**1,935,282**	**45,900**	**1,981,182**
Net impairment losses on financial assets and off-balance sheet commitments:	**(127,185)**	**(6,997)**	**(134,182)**	**(131,553)**	**(3,235)**	**(134,788)**	**(134,070)**	**(3,494)**	**(137,564)**	**(140,599)**	**9,194**	**(131,405)**
loans and other financial receivables	(159,598)	(6,997)	(166,595)	(122,887)	(3,235)	(126,122)	(127,819)	(3,494)	(131,313)	(141,552)	9,194	(132,358)
off-balance sheet commitments	32,413	-	32,413	(8,666)	-	(8,666)	(6,251)	-	(6,251)	953	-	953
Net result on financial activity	**1,632,182**	**38,535**	**1,670,717**	**1,740,720**	**33,853**	**1,774,573**	**1,805,406**	**32,948**	**1,838,354**	**1,794,683**	**55,094**	**1,849,777**

Consolidated income statement for 2011 - cont.

	Q1 2011			Q2 2011			Q3 2011			Q4 2011		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Administrative expenses	**(786,207)**	**(19,052)**	**(805,259)**	**(817,536)**	**(17,857)**	**(835,393)**	**(817,677)**	**(19,484)**	**(837,161)**	**(803,266)**	**(20,503)**	**(823,769)**
personnel expenses	(480,138)	(9,419)	(489,557)	(492,528)	(8,695)	(501,223)	(486,116)	(9,033)	(495,149)	(449,713)	(10,512)	(460,225)
other administrative expenses	(306,069)	(9,633)	(315,702)	(325,008)	(9,162)	(334,170)	(331,561)	(10,451)	(342,012)	(353,553)	(9,991)	(363,544)
Depreciation and amortization	**(93,296)**	**(2,399)**	**(95,695)**	**(90,582)**	**(2,054)**	**(92,636)**	**(91,284)**	**(2,165)**	**(93,449)**	**(93,305)**	**(2,408)**	**(95,713)**
Net result on other provisions	**(1,428)**	**-**	**(1,428)**	**532**	**-**	**532**	**173**	**-**	**173**	**(5,110)**	**-**	**(5,110)**
Net other operating income and expenses	**11,830**	**(467)**	**11,363**	**16,709**	**(265)**	**16,444**	**24,904**	**(144)**	**24,760**	**21,458**	**40**	**21,498**
Operating costs	**(869,101)**	**(21,918)**	**(891,019)**	**(890,877)**	**(20,176)**	**(911,053)**	**(883,884)**	**(21,793)**	**(905,677)**	**(880,223)**	**(22,871)**	**(903,094)**
Gains (losses) on subsidiaries and associates	**20,671**	**-**	**20,671**	**18,491**	**-**	**18,491**	**17,008**	**-**	**17,008**	**13,798**	**-**	**13,798**
Gains (losses) on disposal of property, plant and equipment, and intangible assets	**415**	**-**	**415**	**377**	**-**	**377**	**73**	**-**	**73**	**(465)**	**-**	**(465)**
Profit before income tax	**784,167**	**16,617**	**800,784**	**868,711**	**13,677**	**882,388**	**938,603**	**11,155**	**949,758**	**927,793**	**32,223**	**960,016**
Income tax expense	(147,073)	(2,821)	(149,894)	(163,913)	(1,739)	(165,652)	(179,627)	(1,409)	(181,036)	(177,271)	(9,997)	(187,268)
Net profit for the period	**637,094**	**13,796**	**650,890**	**704,798**	**11,938**	**716,736**	**758,976**	**9,746**	**768,722**	**750,522**	**22,226**	**772,748**
Attributable to equity holders of the Bank	**634,511**	**13,796**	**648,307**	**702,359**	**11,938**	**714,297**	**756,547**	**9,746**	**766,293**	**748,291**	**22,226**	**770,517**
Attributable to non-controlling interest	2,583	-	2,583	2,439	-	2,439	2,429	-	2,429	2,231	-	2,231

7.4.2 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for 2012 and 2011

(in PLN thousand)

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Net profit	**712,700**	**706,407**	**800,602**	**745,544**	**650,890**	**716,736**	**768,722**	**772,748**
Attributable to equity holders of the Bank	**710,577**	**704,203**	**798,303**	**742,619**	**648,307**	**714,297**	**766,293**	**770,517**
Attributable to non-controlling interest	2,123	2,204	2,299	2,925	2,583	2,439	2,429	2,231
Other comprehensive income								
Foreign currency translation differences	(38,574)	38,126	(34,900)	(11,271)	(11,290)	(16,131)	66,636	19,432
Change in fair value of available-for-sale financial assets	230,634	119,232	54,422	357,588	(93,470)	196,477	(116,760)	(45,088)
Change in fair value of cash flow hedges	(60,000)	(26,320)	257	45,944	(46,167)	18,395	9,505	(31,003)
Income tax expense on other comprehensive income	(24,600)	(24,896)	(3,626)	(74,528)	29,517	(38,577)	7,740	10,507
Other comprehensive income (net)	**107,460**	**106,142**	**16,153**	**317,733**	**(121,410)**	**160,164**	**(32,879)**	**(46,152)**
Total comprehensive income	**820,160**	**812,549**	**816,755**	**1,063,277**	**529,480**	**876,900**	**735,843**	**726,596**
Attributable to equity holders of the Bank	**818,037**	**810,345**	**814,456**	**1,060,352**	**526,897**	**874,461**	**733,414**	**724,365**
Attributable to non-controlling interest	2,123	2,204	2,299	2,925	2,583	2,439	2,429	2,231

7.4.3 Consolidated income statement – presentation form

Consolidated income statement for 2012

(in PLN thousand)

	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Net interest income	1,193,120	1,185,414	1,206,257	1,220,628
Dividend income and income from equity investments	13,643	22,279	14,009	12,091
Total net interest income, dividend income and other income from equity investments	**1,206,763**	**1,207,693**	**1,220,266**	**1,232,719**
Net fee and commission income	550,535	579,033	551,810	575,503
Trading result	115,202	119,462	109,694	129,724
Net other operating income and expenses	15,908	28,781	25,219	19,028
Net non-interest income	**681,645**	**727,276**	**686,723**	**724,255**
Operating income	**1,888,408**	**1,934,969**	**1,906,989**	**1,956,974**
Operating costs	**(910,758)**	**(930,170)**	**(906,398)**	**(875,580)**
Operating profit	**977,650**	**1,004,799**	**1,000,591**	**1,081,394**
Net result on other provisions	(320)	(711)	(341)	(13,955)
Net impairment losses on loans and off-balance sheet commitments	(135,339)	(167,752)	(179,460)	(186,903)
Net result on investment activities	42,477	38,142	175,543	44,446
Profit before income tax	**884,468**	**874,478**	**996,333**	**924,982**
Income tax expense	(171,768)	(168,071)	(195,731)	(179,438)
Net profit for the period	**712,700**	**706,407**	**800,602**	**745,544**
Attributable to equity holders of the Bank	**710,577**	**704,203**	**798,303**	**742,619**
Attributable to non-controlling interest	2,123	2,204	2,299	2,925

Consolidated income statement for 2011

(in PLN thousand)

	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Net interest income	1,061,172	1,125,425	1,166,163	1,205,098
Dividend income and income from equity investments	20,671	28,802	17,031	13,816
Total net interest income, dividend income and other income from equity investments	**1,081,843**	**1,154,227**	**1,183,194**	**1,218,914**
Net fee and commission income	597,408	644,568	611,763	595,155
Trading result	144,506	125,331	155,072	152,663
Net other operating income and expenses	9,484	14,619	22,408	20,176
Net non-interest income	**751,398**	**784,518**	**789,243**	**767,994**
Operating income	**1,833,241**	**1,938,745**	**1,972,437**	**1,986,908**
Operating costs	**(899,075)**	**(926,357)**	**(928,258)**	**(918,038)**
Operating profit	**934,166**	**1,012,388**	**1,044,179**	**1,068,870**
Net result on other provisions	(1,428)	532	173	(5,110)
Net impairment losses on loans and off-balance sheet commitments	(134,182)	(134,788)	(137,564)	(131,405)
Net result on investment activities	2,228	4,256	42,970	27,661
Profit before income tax	**800,784**	**882,388**	**949,758**	**960,016**
Income tax expense	(149,894)	(165,652)	(181,036)	(187,268)
Net profit for the period	**650,890**	**716,736**	**768,722**	**772,748**
Attributable to equity holders of the Bank	**648,307**	**714,297**	**766,293**	**770,517**
Attributable to non-controlling interest	2,583	2,439	2,429	2,231

7.4.4 Reconciliation of income statement – presentation and long form

Consolidated income statement for 2012

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFFIED TO PRESENTATION FORM	2012	COMMENTS
Net interest income		4,805,419	
Dividend income and income from equity investments		62,022	
	Dividend income	8,759	
	Gains (losses) on subsidiaries and associates	53,263	
Total net interest income, dividend income and other income from equity investments		**4,867,441**	
Net fee and commission income	Net fee and commission income	2,256,881	
Trading result		474,082	
	Result on financial assets and liabilities held for trading	510,136	
	Result on fair value hedge accounting	(35,751)	
	(Gains) losses on disposal of financial liabilities	(303)	
Net other operating income and expenses		88,936	
	Net other operating income and expenses	94,393	
	less - Refunding of administrative expenses	(6,215)	1/
	Gains (losses) on disposal of loans and other financial receivables	758	
Net non-interest income		**2,819,899**	
Operating income		**7,687,340**	
Operating costs		(3,622,906)	
	Personnel expenses	(1,907,323)	
	Other administrative expenses	(1,352,960)	
	Refunding of administrative expenses	6,215	1/
	Depreciation and amortization	(368,838)	
Operating profit		**4,064,434**	
Net result on other provisions	Net result on other provisions	(15,327)	
Net impairment losses on loans and off-balance sheet commitments		(669,454)	
	Net impairment losses on loans	(642,622)	
	Net impairment provision for off-balance sheet commitments	(26,832)	
Net result on investment activities		300,608	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	22,261	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	278,744	
	Net impairment losses on available for sale financial assets and held to maturity investments	-	
	Impairment losses on subsidiaries and associates	-	
	(Gains) losses on disposal of subsidiaries and associates	(397)	
Profit before income tax		**3,680,261**	
Income tax expense	Income tax expense	(715,008)	
Net profit for the period	**Net profit for the period**	**2,965,253**	
Attributable to equity holders of the Bank	**Attributable to equity holders of the Bank**	**2,955,702**	
Attributable to non-controlling interest	Attributable to non-controlling interest	9,551	

1/ In the long form the item "Refunding of administrative expenses" included in the item "Net other operating income/expenses", in a presentation form included in “Operating cost”.

Consolidated income statement for 2011

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFFIED TO PRESENTATION FORM	2011	COMMENTS
Net interest income		4,557,858	
Dividend income and income from equity investments		80,320	
	Dividend income	10,352	
	Gains (losses) on subsidiaries and associates	69,968	
Total net interest income, dividend income and other income from equity investments		**4,638,178**	
Net fee and commission income	Net fee and commission income	2,448,894	
Trading result		577,572	
	Result on financial assets and liabilities held for trading	595,111	
	Result on fair value hedge accounting	(15,757)	
	Net result on other financial instruments at fair value through profit and loss	(501)	
	(Gains) losses on disposal of financial liabilities	(1,281)	
Net other operating income and expenses		66,687	
	Net other operating income and expenses	74,065	
	less - Refunding of administrative expenses	(7,347)	1/
	(Gains) losses on disposal of loans and other receivables	(31)	
Net non-interest income		**3,093,153**	
Operating income		**7,731,331**	
Operating costs		(3,671,728)	
	Personnel expenses	(1,946,154)	
	Other administrative expenses	(1,355,428)	
	Refunding of administrative expenses	7,347	1/
	Depreciation and amortization	(377,493)	
Operating profit		**4,059,603**	
Net result on other provisions	Net result on other provisions	(5,833)	
Net impairment losses on loans and off-balance sheet commitments		(537,939)	
	Net impairment losses on loans	(556,388)	
	Net impairment provision for off-balance sheet commitments	18,449	
Net result on investment activities		77,115	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	400	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	76,715	
	Net impairment losses on available for sale financial assets and held to maturity investments	-	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	-	
Profit before income tax		**3,592,946**	
Income tax expense	Income tax expense	(683,850)	
Net profit for the period	**Net profit for the period**	**2,909,096**	
Attributable to equity holders of the Bank	**Attributable to equity holders of the Bank**	**2,899,414**	
Attributable to non-controlling interest	Attributable to non-controlling interest	9,682	

1/ In the long form the item "Refunding of administrative expenses" included in the item "Net other operating income/expenses", in a presentation form included in “Operating cost”.

8 Other Information

Subsequent events
On February 1, 2013 Management Board of Bank Pekao S.A. published in the current report No. 7/2013 information that the Bank received the notification from UniCredit S.p.A. with its registered office in Milan, about decreasing of the total number of votes at the General Meeting of the Bank as the result of the sale of 23,936,267 shares in the Bank constituting 9.12% in the total number of votes at the General Meeting of the Bank, through a sale order executed on January 31, 2013 via off-session transactions concluded on the Warsaw Stock Exchange S.A. according to the Secondary Placing Agreement made on January 29, 2013.

Prior to the sale, UniCredit S.p.A. owned 155,433,755 shares in the Bank, constituting 59.22% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank.

After the transaction, UniCredit S.p.A. holds 131,497,488 shares in the Bank, i.e. 50.10% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank.

On March 12, 2013, The Management Board of Bank Pekao S.A. published in the current report No. 12/2013 that Mr. Marco Iannaccone resigned from the function of Vice President of the Management Board of the Bank, effective from March 31, 2013. On March 12, 2013, the Supervisory Board of the Bank appointed, effective from April 1, 2013, Mr. Stefano Santini as Vice President of the Management Board of Bank Pekao S.A. for the current, common term of office of the Management Board of the Bank.

Management Board position regarding the possibility of achieving previously published forecasts
The Bank has not published the forecast of the financial results for 2012.

Management Board and Supervisory Board remuneration
The total amount of remuneration, bonuses and benefits (in cash, payments in kind or in any form) paid or payable to Management Board Members in 2012:

(in PLN thousand)

	BASE SALARY FOR 2012	OTHER BENEFITS FOR 2012	TOTAL 2012	BONUSES PAID IN 2012 RELATED TO PRIOR YEARS
Luigi Lovaglio	3,506	81	3,587	976
Diego Biondo	1,856	1	1,857	147
Marco Iannaccone	1,490	1	1,491	143
Andrzej Kopyrski	1,277	113	1,390	237
Grzegorz Piwowar	1,238	109	1,347	282
Marian Ważyński	852	33	885	123

Within the framework of implementation of the Resolution No. 258/2011 issued by the Financial Supervision Authority on October 4, 2011 on detailed principles for functioning of risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital, and the principles for determining the variable salary components policy for key management personnel at the bank, the System of Variable Remuneration for Management has been adopted in the Bank. Participant covered by the system may receive bonus, amount of which depends on the assessment of the effects of the person's work, organizational unit as well as the Bank's results. In accordance with the assumptions at least 50% of bonus is deferred up to five years.
In 2012, cost of the system of variable remuneration related to the Members of the Management Board amounted to PLN 11,787 thousand.

A decision on variable remuneration for 2012 for the Management Board Members has not yet been taken by the Supervisory Board of the Bank.

Additionally, in 2012 cost of the stock and stock options program that may be executed by the Management Board Members, subject to fulfillment of given conditions, amounted to PLN 850 thousand.

For description of incentive programs refer to the Note 43 to the Consolidated Financial Statement of Bank Pekao S.A. Group for the period ended on December 31, 2012.

In 2012, the Management Board Members did not receive nor are due any compensation from subsidiaries and associated entities.

The total amount of remuneration (in cash and payments in kind) paid or payable to Supervisory Board Members in 2012:

(in PLN thousand)

	2012	COMMENTS
Alicja Kornasiewicz (until 01.06.2012)	96	
Jerzy Woźnicki	205	
Roberto Nicastro	-	Did not receive remuneration according to the Group's policy
Leszek Pawłowicz	172	
Alessandro Decio	-	Did not receive remuneration according to the Group's policy
Paweł Dangel	133	
Oliver Greene (until 01.06.2012)	78	
Enrico Pavoni (until 21.10.2012)	123	
Krzysztof Pawłowski (until 01.06.2012)	53	
Laura Stefania Penna (from 02.06.2012)	-	Did not receive remuneration according to the Group's policy
Wioletta Rosołowska (from 02.06.2012)	71	
Doris Tomanek (from 02.06.2012)	-	Did not receive remuneration according to the Group's policy

In 2012, the Supervisory Board Members did not receive nor are due any compensation from subsidiaries and associated entities.

For description of incentive programs refer to the Note 43 to the Consolidated Financial Statement of Bank Pekao S.A. Group for the period ended on December 31, 2012.

The Incentive Programs

On December 31, 2012, Bank Pekao S.A. Capital Group has completed the implementation of the Incentive Program granting members of governing bodies, members of the management and the employees of Bank Pekao S.A. Group essential to the success of the Bank's strategy, right to acquire the Bank's shares under the terms stated in the Incentive Program Rules of Bank Pekao S.A.

On January 2, 2013, the Bank made a total redemption of the registered last D-series bonds with the pre-emptive right to acquire the Bank's shares, whose holders have not exercised their right to the realization of the pre-emptive right to acquire the Bank's shares issued under the Resolution No. 7 of the Extraordinary General Shareholders Meeting of the Bank held on July 25, 2003 regarding contingent increase of the Bank's share capital, waiving the F- series and G-series shares rights issue and changing the Bank's Articles of Association.

Due to the realization of the Incentive Program, the Bank's share capital, that has been increased by the Bank's shares issued under the contingent capital increase amounted to PLN 262,470,034 as at December 31, 2012.

The Incentive Program was implemented under the Resolution No. 5 of the Extraordinary General Shareholders Meeting of the Bank held on July 25, 2003, and based on the Resolution No. 7 the share capital of the Bank was conditionally increased by the issue of F-series and G-series bearer shares. Bondholders of the A, B, C, and D-series registered bonds, issued under the Resolution No.6 of the Extraordinary General Shareholders Meeting held on July 25, 2003 regarding the issue of A, B, C, and D-series bonds with the pre-emptive right to acquire the Bank's shares, waiving the pre-emptive right under F-series and G-series shares and waiving the rights issue under A, B, C, and D-series registered bonds with the pre-emptive right to acquire Bank shares were entitled to the right to realization of the pre-emptive right under the F-series and G-series shares issued in connection with the realization of the Incentive Program.

The Incentive Program had been realized from January 1, 2006 to December 31, 2012. From January 1, 2006, to December 31, 2010 subscriptions for F-series shares from the entitled people had been accepted, whereas from January 1, 2008 to December 31, 2012 subscriptions for G-series shares from the entitled people had been accepted.

The issue included:

- 830,000 F-series shares with the nominal value of PLN 1 (one), issued under the Resolution No.7,
- 830,000 G-series shares with the nominal value of PLN 1 (one), issued under the Resolution No.7.

In the public offering, there were allocated 1,224,788 shares of the Bank, including 621,411 F-series shares and 603,377 G-series shares. The issue price of F-series shares amounted to PLN 108.37 and the issue price of G-series shares amounted to PLN 123.06.

Due to the realization of the Incentive Program, 41 people acquired rights to F-series shares, whereas 43 people acquired rights to G-series shares.

The value of the issue amounted to PLN 141,593,883.69 including:

- PLN 67,342,310.07 for F-series shares,
- PLN 74,251,573.62 for G-series shares.

The Supervisory Board members did not participate in the Incentive Program of Bank Pekao S.A.

The number of shares which were eligible to be acquired by members of the Management Board in accordance with the Rules of Incentive Program is presented in the table below:

	AS AT THE DATE OF SUBMITTING THE REPORT		
	FOR THE YEAR 2012	FOR THE THIRD QUARTER OF 2012	FOR THE YEAR 2011
Luigi Lovaglio	0	32,678	32,678
Total	**0**	**32,678**	**32,678**

In addition, as at December 31, 2012, the following long-term incentive programs are realized:

- 39 employees of Bank Pekao S.A. Group have been covered with the long-term UniCredit Group Incentive Program 2007, including 3 members of the Management Board. The option expires in 2017.
- 55 employees of the Group have been covered with the long-term UniCredit Group Incentive Program 2008, including 3 members of the Management Board. The option expires in 2018.
- 73 employees have been covered with the long-term UniCredit Group Incentive Program 2011-2013, including 2 members of the Management Board.

Shares in the Bank and related entities held by the Bank's Directors
According to information available to the Bank as at December 31, 2012, the members of the Bank's management and supervisory bodies held 73,535 shares of Bank Pekao S.A. with face value of PLN 73,535. The number of the Bank's shares held by the members of the Bank's management and supervisory bodies and its face value remained unchanged as the date of submitting of this report.

The table below presents the number of shares held by the Management Board Members:

	AS AT THE DATE OF SUBMITTING THE REPORT		
	FOR THE YEAR 2012	FOR THE THIRD QUARTER OF 2012	FOR THE YEAR 2011
Luigi Lovaglio	64,035	31,357	31,357
Diego Biondo	9,500	9,500	9,500
Total	**73,535**	**40,857**	**40,857**

Moreover, as at December 31, 2012 UniCredit S.p.A. shares were held by: Mr. Luigi Lovaglio – 64,290 shares without nominal value, Mr. Diego Biondo – 4,653 shares without nominal value, Mr. Alessandro Decio – 145,077 shares without nominal value, Mr. Andrzej Kopyrski – 1,152 shares without nominal value, Mr. Roberto Nicastro – 245,364 shares without nominal value, Ms. Laura Penna – 23,784 shares without nominal value, Mr. Grzegorz Piwowar – 1,562 shares without nominal value, Ms. Doris Tomanek – 17,489 shares without nominal value and Mr. Marian Ważyński – 827 shares without nominal value.

Information regarding contracts for post termination benefits
The employment contracts concluded by the Bank with the following Board Members provide compensation equal to 18 fold of monthly base salary for the final month of employment in case of non-renewal of contract or dismissal:

- Mr. Andrzej Kopyrski, Vice President of the Management Board,
- Mr. Grzegorz Piwowar, Vice President of the Management Board,
- Mr. Marian Ważyński, Vice President of the Management Board.

This does not apply in case of dismissal pursuant to Art. 52 or Art. 53 of the Labor Code or improper performance of duties, or breach of the Bank's Statute, or Management Board or Supervisory Board resolutions.

Moreover, the above mentioned Management Board Members have signed non – competition agreements with the Bank setting rights and responsibilities of the parties to the contracts concerning competitive activities during and after termination of employment with the Bank.

Employment contracts with the remaining Management Board Members do not cover such compensations.

Agreements with companies entitled to auditing of financial reports
On the basis of the agreement concluded on July 27, 2012, KPMG Audyt sp. z o.o. sp.k. is the company appointed to audit and review the financial statements of Bank Pekao S.A. and Bank Pekao S.A. Group for 2012.

Audit remuneration for services of Bank Pekao S.A. Group.

(in PLN thousand)

	2012	2011
Fee for the audit of annual financial statements	3,924	4,321
Fee for other attestation services, including review of financial statements	2,253	3,808

The amounts above do not include value added tax (VAT).

Average interest rates in Bank Pekao S.A. in December 2012
The average nominal interest rates for the basic types of PLN deposits for non-financial sector residents:

PLN retail deposits	2.86% p.a.
PLN corporate clients deposits	3.33% p.a.

The average nominal interest rates for the PLN loans for non-financial sector residents:

Total retail loans	8.40% p.a.
Mortgage	6.22% p.a.
Consumption	15.80% p.a.
Other	10.02% p.a.
Corporate loans	6.44% p.a.

Number and value of titles of execution and value of collaterals
Bank Pekao S.A. has established specific policy with regard to collateral accepted to secure loans and guarantees. This policy is reflected under internal rules and regulations in the Bank. The type of collateral and its value are carefully analyzed and chosen regarding the particular risk of the secured transaction.

The Bank obeys the rule, according to which the value of collateral should relate directly to the value of secured liability, that is cash provided by the Bank to a client (capital or the amount of off-balance sheet commitments granted by the Bank) together with extraneous amounts due, for example, interest or commissions.

The collateral used by the Bank to hedge against risks related to its lending activities includes: bank guarantees, sureties under the Civil Code, blank promissory notes, endorsement on bills, transfer of debts, mortgages, registered pledges, pledges, assignment as collateral, appropriation of assets in bank accounts, deposits.

For corporate clients, the total value of the collateral for impaired transactions as at December 31, 2012 amounted to PLN 2,715.3 million. In 2012, 432 titles of execution were issued on behalf of the Bank in the total amount of PLN 351.8 million.

For retail clients, the total value of the collateral for impaired transactions as at December 31, 2012 amounted to PLN 608.0 million. In 2012, 19,041 titles of execution were issued on behalf of the Bank in the total amount of PLN 358.3 million.

Pending litigations
In 2012 the number of the legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of the Group's liabilities was 2,532 with the total value amounting to PLN 18,716.6 million. The number of legal proceedings in respect of receivables was 18,875 with the total value of PLN 1,287.5 million.

In 2012 there were no legal proceedings relating to the liabilities and/or receivables of the Group in which asserted claims accounted for at least 10% of the Bank's own funds.

In the opinion of the Bank none of the individual pending proceedings before any courts, arbitration bodies or public administration authorities during 2012, nor the proceedings in aggregate pose any threat to the Bank's financial liquidity.

Related party transactions
In 2012, the Bank and its subsidiaries have not concluded any significant transactions (single or aggregate) with related entities other than those executed on arm's length.

In 2012, the Bank and its subsidiaries did not provide any sureties or guarantees in respect of loans or advances to an entity or a subsidiary of such entity, as a result of which the total value of existing sureties and guarantees would have equaled or exceeded 10% of the Bank's equity.

Information on significant agreements
In 2012, there have been no significant agreements concluded by the Bank.

Information on the agreement with the Central Bank
Bank Pekao S.A. used a refinancing loan from the National Bank of Poland for financing a loan contracted for a central state investment, which starting from the beginning of 1999 was repaid quarterly and was repaid before December 31, 2012. The loan contracted for a central state investment was guaranteed by the State Treasury.

Information on derivative financial instruments and hedge accounting
Information on derivative financial instruments and hedge accounting is included in the Notes 25 and 28 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2012.

Accounting principles adopted in the preparation of the Consolidated Financial Statements
Accounting principles adopted in the preparation of the report are described in the Note 4 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2012.

Issuance, redemption and repayment of debt securities
Structured Certificates of Deposit
Structured Certificates of Deposit are investment products for the Bank's clients that form an alternative to traditional banks' deposits. The total value of the Bank's liabilities relating to these products amounted to PLN 718.7 million (principal value) as at the end of December 2012. There are 12 issues of Structured Certificates of Deposit open in PLN, EUR and USD with the maximum maturity date set at September 12, 2014. Those liabilities that mature in 2013 and 2014 account for 53.0% and 47.0% of its total value, respectively.

Certificates of Deposit
Certificates of Deposit are investment products denominated in PLN that guarantee 100% protection of invested funds also in case of termination before redemption date. The total value of the Bank's liabilities under these products amounted to PLN 3,247.4 million (principal value) as at the end of December 2012. There are 12 issues of Certificates of Deposit, and the maturity date up to 3 months accounts for 24.6%, up to 6 months accounts for 30.0% and up to 1 year accounts for 45.4% of its total value.

Pekao Leasing Sp. z o.o. bonds
The total value of the company's liabilities under these bonds amounted to PLN 45.1 million as at December 31, 2012 with the maturity date up to 3 months.

Pekao Bank Hipoteczny S.A. mortgage bonds
The total value of liabilities due to mortgage bonds amounted to PLN 894.2 million as at December 31, 2012. The liabilities under mortgage bonds with maturity date up to 1 year account for 1.2%, from 3 up to 5 years account for 16.7% and from 5 up to 10 years account for 82.1% of the total nominal value.

9 Prospects for Development

9.1 Factors which will affect the results of the Group

Bank Pekao S.A. and its subsidiaries operate predominantly on the territory of Poland. Therefore, the Bank's performance will be influenced mainly by the economic events in Poland and international outlooks that have an impact on the Polish economy.

In the first quarter of 2013, economic slowdown will be expected, firstly due to weak domestic demand which was observed in the fourth quarter of 2012 and additionally the year on year dynamic of data will be affected by the high statistical base from the same period of 2012. In the following quarters of 2013, the pace of economic growth should accelerate, mostly thanks to positive impact of cyclical recovery in the global economy, supporting the GDP via net exports. However, it should be noted that dynamics of domestic demand still will be weak, which will impede economic activity of enterprises focused mostly on the domestic market, including the domestic banking sector.

The labor market will continue to stay in stagnation, with employment declining by 0.8% in 2013 with slightly positive year on year changes in real wage bill. However, the increasing save propensity of individuals can cause potential improvement in real wage bill growth rate will not translate into increasing private consumption. To see real improvement in consumption growth rate, a longer period of economic revival is needed, which strengths the perception of stability.

In spite of expected slight acceleration of economic growth, beyond the second quarter of 2013 pace of growth will still stay below potential growth, which will limit inflationary pressure. Consumer prices will likely decelerate their growth untill mid-year dropping to levels below the lower limit of the MPC's inflation target (1.5%) with probable further stabilization at the level below the MPC's target (2.5%). In response to the March NBP projection of inflation, the MPC decided to reduce reference interest rate by 50 b.p., while indicating that after this decision a longer period of unchanged interest rates should be expected. In total, since November 2012, the reference rate has been reduced by 150 p.b., which brought it to the lowest level (3.25%) since the beginning of transformation. By the end of 2013, interest rates are expected to remain unchanged.

The accommodative monetary policy run by the key central banks is potential risks for inflation. Taking into account that commodities and energy prices stood at elevated levels in the previous year, in spite of weak economic growth, it should be taken into account the risk of significant prices increase after signals of slightly stronger economic growth appear in 2013.

In the fourth quarter of 2012, the volume of corporate deposits increased on a quarter on quarter base, but it remained below the level recorded in the fourth quarter of 2011. At the same time household deposits increased both on quarter on quarter and year on year basis. It is possible that 2013 will bring a trend change in the corporate deposits. The gradual improvement in financial results supported by the reduction of capital expenditures should result in a gradual recovery in corporate deposits. In case of households, the general economic situation (rising unemployment, slow wage growth) will probably continue to depress growth in their savings, even despite the fact that an increase in household's propensity to save is expected.

Growth in loans to households stood at the end of 2012 at 0.2% year on year. Such a low growth rate was caused partly by appreciation of the złoty and consequently diminishing value of the portfolio denominated in foreign currencies. Given the fundamental factors it can be expected that the household's demand for loans remains at the low level in 2013. This is related to the liquidation of the governmental program "Rodzina na swoim" (a new replacing scheme "Mieszkanie dla młodych" will be launched in 2014 only with less favorable terms to the borrowers) and to the downward price trend in the housing market, which tends to postpone the purchase decisions. In case of loans to non-financial corporations a decline in demand due to deceleration of investment processes can be expected.

Due to the regulators' and merchants' pressure, the Polish market of non-cash transactions has started to adopt an interchange fee reduction program. This may adversely affect the banks' income from fees and commissions on card business area.

In 2013, it should not be expected any further, significant decline in government bond yields. Due to that contribution of treasury operations to banks' profit may decline. At the same time the banks' net interest income may get under pressure stemming from the monetary easing (reduction in the NBP and market rates)and may lead to a narrowing of interest margins.

In terms of regulatory and tax changes banks may be impacted by:

– possibility of introduction of a new banking levy aimed at increasing safety buffers of the banking system. The fee is foreseen by the amendment to the Act on the Bank Guarantee Fund, which is currently in the legislative process,

– possible regulatory changes aimed at facilitating easier access to consumer loans (the so-called liberalization of Recommendation T). However, taking into account the limited nature of the changes and the unfavorable macroeconomic environment, proposed solutions are not likely to have a major impact on the dynamics of consumer loans in 2013.

9.2 Directions of the activities and business priorities

Bank Pekao S.A. plans to concentrate its activities on the Polish market.

In 2012, the Bank continued to strengthen its competitive advantages, including in particular the solid capital and liquidity base and market position in the key lending areas such as PLN mortgage loans and consumer loans. Once again the resilience and stability of the Bank's business model were confirmed in the conditions of significant economic slowdown, which resulted in sustainability of the profits, operational efficiency, high profitability, effective risk management, the Bank's reputation and satisfaction of clients and employees.

Despite the expected further slowdown in the GDP growth rate in 2013, medium-term prospects of economic development remain positive. Competitiveness of the Polish economy, planned next cycle of investments co-funded by European Union and still low levels of banking products penetration, give the grounds for some degree of optimism in regards to perspective of banking sector development.

In the above described environment, the Bank intends to continue the development of its commercial activities focused on increasing number of clients, further development of the most crucial business areas, strengthening the multi-channel distribution of products and services, improving brand awareness, reinforcing the Bank's leading position, continuing clients and employees satisfaction improvement programs and pursuing projects designed to further optimize the risk management process and operating cost to achieve higher commercial efficiency.

The business model and competitive advantages
The Bank will continue commercial activities on the financial services market based on the client segmentation model.

– The individual clients segment was split into the retail, affluent clients and private banking sub-segments. Each of the sub-segments has a dedicated business model, with a defined service standard and an appropriate product offer. Affluent and private banking clients have assigned Relationship Managers,

– SME clients are provided with professional products and services offered by account managers dedicated to this customer segment,

– The corporate clients segment is divided into medium-size and large companies. The segmentation is based on clients' turnover, sector of the economy, type of ownership (public / private, domestic/ international, other). Clients are served by Relationship Managers. This allows to find optimal level between service quality and service cost. The Relationship Managers concentrate on providing high quality and effective services, using the best practices and integrated sales management tools.

The Bank offers products and services which are competitive on the Polish market, top service quality, a wide network of branches and ATMs easily accessible across Poland, a professional call-center and a competitive Internet and mobile banking platform for individual and corporate clients as well as small and medium-sized companies.

The scale of business operations, solid capital and liquidity structure, strong balance sheet with a high capital adequacy ratio and a significant excess of deposits over loans granted, give the Bank a competitive advantage to successfully compete on the market.

Business priorities
The Bank will continue its focus on the further development of the business while maintaining high risk management standards and further improvement of the operational effectiveness.

The priority in the area of commercial activities will be acquisition of new clients and continuation of sale of consumer loans and PLN mortgage loans for individual clients, and loans to the SME segment, as well as increase of financing to medium-size enterprises and infrastructure projects.

The Bank will seek to maintain a balanced balance-sheet structure by increasing the volume of deposits. At the same time, the Bank will offer its clients the possibility of investing in mutual funds.

Individual clients
The Bank is consistently working on increasing the number of clients and achieving the leader position on the consumer finance market by effective and timely adjusting of our offer to the clients' needs as well as becoming "first choice bank" in the consumer loans segment, while maintaining ethical principles in lending and reasonable risk levels.

The Bank also intends to improve its position on the market of PLN mortgage loans. To this end we will leverage on many years' of experience gained while specializing in this product. In the area of savings products the Bank will continue to offer attractive deposit products, which should allow continuing sustainable growth of the balance sheet. Individual clients will also be offered mutual funds.

The completion of the above goals will be supported by leveraging on the innovative changes implemented in the electronic distribution channels, including mobile banking, and reinforcing the Bank sales force.

Private Banking
The Bank will further develop the products and services portfolio and tools dedicated to the private banking clients. The Bank will continue activities aiming at expansion of our product offer to our clients and continuous improvement of service quality, also through continuous training and improvement of the Relationship Managers qualifications.

Corporate and business clients
Bank Pekao S.A. is committed to strengthen its leading position in the corporate banking, corporate finance and transactional banking segments. It is also the Bank's goal to achieve the leading position in major infrastructure projects, including in the public sector.

Ensuring top quality service to the corporate and business clients (medium-sized and large corporations, as well as small and micro enterprises), the Bank will continue to develop its highly sophisticated and comprehensive offer, providing innovative banking products to meet the most demanding requirements of the clients.

The Bank's goal is to reinforce its position as the most recognizable among corporate clients in Poland for its expertise and professionalism, customer satisfaction, and value creation.

The activities of Bank Pekao S.A. on the financial services market will be connected to delivery of the added value for the customers and improvement of their satisfaction from the provided services through meeting their needs, continuous improvement of the service quality and offering customers simple and comprehensible solutions, which will allow them to reach their financial goals.

10 Representations of the Bank's Management Board

The Management Board of Bank Pekao S.A. declares to the best of its knowledge that:

– Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2012 and comparative figures have been prepared in accordance with the binding accounting policies and that they reflect in a true, fair and clear manner Bank Pekao S.A. Group financial position and their results,

– Report on the activities of Bank Pekao S.A. Group for the year 2012 provides the true picture of Bank Pekao S.A. Group development, achievements and situation, including the main threats and risks.

The Management Board of Bank Pekao S.A. declares that the registered audit company performing the review of Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2012 has been selected in line with the binding legal regulations. The company and the registered auditors performing the review meet the requirements indispensable for issuing an objective and independent report on the annual consolidated financial statement, in line with the binding provisions of the law and professional standards.

11 Statement of Bank Polska Kasa Opieki Spółka Akcyjna on application of Corporate Governance Standards in 2012

According to the ordinance of Minister of Finance dated February 19, 2009 *on current and periodic information published by issuers of securities and the conditions for recognition as equivalent the information required by the laws of a non-member state*[1], as well as pursuant to Par. 29.5 of the Rules of the Warsaw Stock Exchange (WSE), in conjunction with the WSE Management Board's Resolution No. 1013/2007 on the scope and structure of statements of compliance with corporate governance rules by listed companies, dated December 11, 2007, Bank Polska Kasa Opieki Spółka Akcyjna (the "Bank") states as follows: identification of corporate governance standards, that apply to issuer, that issuer apply voluntarily and any other relevant information on corporate governance practices used by issuer beyond the requirements under national law together with information on corporate governance practices used by issuer.[2]

General corporate governance rules i.e. a system of regulations and procedures defining guidelines for the activities of the Bank's governing bodies, including their relations with entities interested in the Bank's activities (stakeholders) result from laws regulations, especially from the Commercial Companies Code and the Banking Law, capital market regulations, as well as the rules laid down in Code of Best Practice of Polish Bank Association together with Code of Best Practice for WSE Listed Companies.

The Bank applies corporate governance rules laid down in the Code of Best Banking Practice of Polish Bank Association.[3]

The Bank applies corporate governance rules laid down in the Code of Best Practice for WSE Listed Companies[4] set by WSE Supervisory Board's Resolution No. 20/1287/2011 of October 19, 2011.

Furthermore, the Bank applies corporate governance rules resulting from UniCredit Group Integrity Charter[5] as requirements beyond requirements under national law.

The activities undertaken by the Bank comply with the laws regulations, Statute, internal Bank's regulations, supervisory and control bodies recommendations, good practices standards and ethic norms.

Acting in compliance with par. 91.5.4.c–k of above mentioned ordinance of Minister of Finance dated 19 February 2009, the Bank presents following information:

1) The description of Key Features of the Bank's internal control and risk management systems related to the preparation of financial statements and consolidated financial statements[6]

The Bank's Management Board is responsible for designing, implementing and functioning of the internal control system and risk management system with respect to the preparation of financial statements.

The Supervisory Board oversees the functioning of the internal control system by assessing its adequacy and effectiveness through the Audit Committee and the Internal Audit Department.

The internal control system is aimed at ensuring reliable, complete and correct disclosure of all commercial transactions executed over a given period.

1 Journal of Laws of 2009 no.33 item 259, as amended

2 Par. 91.5.4.a of the ordinance of the Minister of Finance of 19 February 2009

3 The document is publicly accessible on the Polish Bank Association web site: http://www.zbp.pl/prawo_bankowe

4 The document is publicly available on the WSE webpage: .: http://www.corp-gov.gpw.pl/publications.asp

5 The document is publicly available on Bank Pekao S.A. webpage: http://www.pekao.com.pl/o_banku/misja/#tab2

6 Par. 91.5.4.c of the ordinance of the Minister of Finance of 19 February 2009

The accounting policies adopted by the Bank, which are compliant with the International Financial Reporting Standards (IFRS), the chart of accounts and reporting databases take into account the format and the extent of detail of the financial data disclosed in the financial statements, in accordance with the requirements and rules applied by the dominant entity. The Bank maintains its accounting books in the form of separate IT resources in its IT systems, in line with the adopted business structure. The IT systems ensure access to intelligible and centralized data, separately for each system, which confirm the accounting records and make it possible to control records continuity and transfer account activity and balances, as well as draw up financial statements.

The accounting books are reconciled against reporting databases.

The responsibility for preparation of financial statements and periodic financial reports and for information management rests with the Financial Division supervised by the Vice President of the Bank's Management Board.

UniCredit S.p.A. as the parent company of the Bank is subject to the provisions of the Italian "Saving Act 262" (law 262/2005 and Legislative Decree 303/2006), modeled on the US provisions of the "Sarbanes-Oxley Act." Therefore in the Bank there has been implemented a verification process of its operational and audit procedures applied in the drawing up of the financial statements, in accordance with UniCredit S.p.A. guidelines arising from the above provisions.

2) Identification of shareholders owning directly or indirectly a significant block of shares together with identification of number of shares owned by those shareholders, percentage of shareholders share in share capital, number and percentage of votes at the Bank's General Meeting resulting from owned shares[7]

Since August 1999, the Bank's principal shareholder has been UniCredit S.p.A. As at December 31, 2012, UniCredit S.p.A. held 59.22% of the Bank's share capital and the same percentage of the total vote at its General Shareholders Meeting.

On January 11, 2012 Aberdeen Asset Management PLC (and/or acting on its own behalf and subsidiaries), located in Aberdeen, purchased 215,000 shares of the Bank and exceeded the level of 5% in the total number of voting rights in the Bank's General Shareholders Meeting. The Bank informed about this in the current report on January 17, 2012 (current report No. 3/2012). At present the entity owns 13,194,683 Bank's shares, which amounts to 5.03% of the total number of the Bank's shares and the same percentage of the total number of voting rights in the Bank's General Shareholders Meeting.

The remaining shareholders interests amounted to 35.75%. Since none of the remaining shareholders holds more than 5% of the total vote at the Bank's General Shareholders Meeting, they are not required to disclose acquisitions of the Bank's shares.

The shareholders of the Bank owning directly or indirectly through their subsidiaries at least 5% of the total number of voting rights at the Bank's General Shareholders Meeting are as follows:

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	DECEMBER 31, 2012		DECEMBER 31, 2011	
UniCredit S.p.A.	155,433,755	59.22%	155,433,755	59.24%
Aberdeen Asset Management	13,194,683	5.03%	-	-
Other shareholders	93,841,596	35.75%	106,948,374	40.76%
Total	**262,470,034**	**100.00%**	**262,382,129**	**100.00%**

As a result of Series G Ordinary Bearer Shares issue the share capital of the Bank was increased and currently amounts to PLN 262,470,034. The Bank informed about registration of Series G Shares and increase of share capital of the Bank in the current report published in 2012[8].

7 Par. 91.5.4.d of the ordinance of the Minister of Finance of 19 February 2009

8 The document is publicly accessible on the Polish Bank Association web site

http://www.pekao.com.pl/informacje_dla_inwestorow/raporty/#tab2

As of February 1, 2013 UniCredit S.p.A. held 131,497,488 shares in the Bank, i.e. 50.10% of the overall number of shares in the Bank, corresponding to the same number and percentage of votes at the General Meeting of the Bank. Information about decreasing of UniCredit S.p.A. shares in the total number of votes at the General Meeting of the Bank was included in the published current report[9].

3) Identification of holders of any securities with special control rights with description of those rights[10]

According to the Bank's Statute all the existing shares are ordinary bearer shares. There are no special preferences or limitations connected with the shares, or differences in the rights attached to them. The rights and obligations related to the shares are defined by the provisions of the Polish Commercial Companies Code and other applicable laws.

Securities issued by the Bank do not give their holders any special control rights.

4) Identification of any restrictions of voting rights, such as restriction of voting rights of holders of given number or percentage of votes, temporary restrictions of voting or provisions according to which, with cooperation of a company, rights resulting from securities are separated from the fact of holding those securities[11]

According to the Bank's Statute there are no restrictions of voting rights.

5) Identification of any restrictions of ownership transfer of securities issued by the Bank[12]

According to the Bank's Statute there are no limitations of ownership transfer of the Bank's shares.

6) Description of rules governing appointment and dismissal of members of managerial bodies and their rights, in particular right to decide whether to issue or repurchase shares[13]

Management Board

As stated in the Bank's Statute the Management Board is composed of 5 to 9 members. Members of the Management Board are appointed by the Supervisory Board for the common term, which shall last three years. The Management Board comprises the President of the Management Board of the Bank, Vice Presidents of the Management Board of the Bank including the first President of the Management Board of the Bank and Members of the Management Board of the Bank. Deputy Presidents and Members of the Management Board are appointed and removed on the motion of the President. Appointment of two Members of the Management Board, including its President of the Management Board, is subject to approval by the Financial Supervision Authority. The body which applies to the Financial Supervision Authority for the approval is the Supervisory Board.

At least half of the Members of the Management Board, including its President, should possess a thorough knowledge of the Polish banking market, i.e. they should meet all of the following criteria:

- they have professional experience gained on the Polish market, relevant for the performance of a managerial function at the Bank,
- they are permanently domiciled in Poland,
- they have command of the Polish language.

9 The document is publicly accessible on the Polish Bank Association web site
http://www.pekao.com.pl/informacje_dla_inwestorow/raporty/?r,main,reportId=44056

10 Par. 91.5.4.e of the ordinance of the Minister of Finance of 19 February 2009

11 Par. 91.5.4.f of the ordinance of the Minister of Finance of 19 February 2009

12 Par. 91.5.4.g of the ordinance of the Minister of Finance of 19 February 2009

13 Par. 91.5.4.h of the ordinance of the Minister of Finance of 19 February 2009

The Management Board runs the business and represents the Bank. Each Member of the Bank's Management Board is obliged to act in such a way as to further the Bank's interests. Members of the Management Board are prohibited from taking any decisions or actions that would lead to conflicts of interests or that would be incompatible with the Bank's interests or their official duties. A Management Board Member is obliged to notify the Management Board of the Bank and the Supervisory Board of any situation in which a conflict of interests might occur or has occurred as well as refrain from participating in discussion and voting on resolution in case of which a conflict of interest has occurred. A Management Board Member who becomes aware of any situation where an employee or a representative of a business partner of the Bank demanded any benefits, regardless of their scope and nature, should promptly notify the Supervisory Board of such demand.

Members of the Management Board shall have rights under the generally applicable law. According to the Bank's Statute they have no right to decide whether to issue or purchase shares.

7) Description of rules governing amendment of the Statute of the Bank[14]

Amendment of the Bank's Statute and drafting its consolidated text requires adoption by way of resolution of the Bank's General Shareholders Meeting as well as registering the amendment in the National Court Register. Procedure of the General Shareholders Meeting of the Bank[15] defines detailed rules of conducting the Bank's General Shareholders Meetings and adopting resolutions. The Bank's General Shareholders Meetings resolutions concerning the amendments of the Bank's Statute are being adopted by the three-quarter majority, whereas according to the Bank's Status the Bank's General Shareholders Meeting is entitled to adopting resolutions only if at least 50% of shares plus one share is represented. Moreover, as stated in Par. 34.2 of the Banking Act, any amendment of the Statute of the Bank shall require the authorization of the Polish Financial Supervision Authority where such amendment relates to:

– the company name,
– the bank's registered office, objects and scope of activity taking into consideration activities defined in par. 69.2.1-7 of the Act on Trading in Financial Instruments of July 29, 2005 that the Bank intends to perform according to Par. 70.2 of this Act,
– the management bodies and their competences, including particularly the competences of the members of the management board appointed with acceptance by the Polish Financial Supervision Authority and in compliance with the decision making standards, the basic organizational structure of the bank, the procedures applicable to making legally binding statements regarding property rights and obligations, the procedures for issuing internal regulations and the procedure for making decisions concerning the undertaking of commitments or disposal of assets whose total value with regard to a single entity exceeds 5% of the bank's own funds,
– the principles of functioning of the internal control system,
– the own funds and financial management principles,
– voting preference or limitation attached to shares at a bank.

14 Par. 91.5.4.i of the ordinance of the Minister of Finance of 19 February 2009

15 Adopted by virtue of the Resolution of the General Shareholders Meeting No. 19 of April 8th 2003

8) Functioning of the General Shareholders Meeting and its key powers, as well as description of the rights of shareholders and the manner of exercising these rights, in particular rules resulting from Rules of Procedure for the General Shareholders Meeting, unless these rules result directly from generally applicable law[16]

The operation of the Bank's General Shareholders Meeting is governed by the Rules of Procedure for the Bank's General Shareholders Meeting, adopted by way of Resolution No. 19 of April 8, 2003, amended by way of Resolution No. 41 of May 5, 2009 which defines detailed rules of conducting General Shareholders Meetings and adopting resolutions. The Rules of Procedure are available to the public at the Bank's website[17].

Apart from powers and authorities mentioned in the Code of Commercial Companies and the Bank's Statute, the Bank's General Shareholders Meeting has the following powers and authority:

- to review and approve the report on the Bank's operations and the Bank's financial statements for the previous financial year,
- to adopt a resolution on profit distribution or coverage of loss,
- to review and approve the report on the activities of the Supervisory Board,
- to grant discharge to members of the Supervisory Board and Management Board in respect of their duties,
- to review and approve the report on Bank Group's operations and the Group's financial statements,
- to set the dividend record date and dividend payment date,
- to dispose of or lease a business or its organized part, and to encumber it with limited property rights,
- to amend the Bank's Statute and to draft its consolidated text,
- to increase or decrease the Bank's share capital,
- to issue convertible bonds, bonds with pre-emptive rights to acquire shares, and subscription warrants,
- to retire shares and to define the terms of retirement,
- to decide on the Bank's merger, demerger or liquidation,
- to create and release special accounts,
- to appoint and remove from office members of the Supervisory Board,
- to define the remuneration rules for members of the Supervisory Board,
- to conclude an agreement with a subsidiary which provides for the management of the subsidiary or for the transfer of profit by the subsidiary,
- to appoint the entity authorized to examine financial statements and review the financial statements,
- to deal with other matters falling within the scope of the Bank's activities which are submitted to the Bank's General Shareholders Meeting.

The Bank's General Shareholders Meeting is convened via the Bank's website and in a way determined for passing current information according to rules regarding public offer and conditions, under which the financial instruments are introduced to organized turnover system and to rules regarding public companies. The convocation have to take place at last twenty-six days before the Bank's General Shareholders Meeting.

16 Par. 91.5.4.j of the ordinance of the Minister of Finance of 19 February 2009

17 http://www.pekao.com.pl/informacje_dla_inwestorow/walne-zgromadzenia-banku/

The Ordinary General Shareholders Meeting should take place once a year, not later than in June. When determining the date of the Bank's General Shareholders Meeting, the Management Board seeks to enable as many shareholders as possible to participate in the Meeting.

The Statute allows the participation in the General Meeting with the use of electronic communication means. According to the Statute, in each case of convening the General Meeting, the Management Board of the Bank defines whether the participation in the General Meeting with the use of electronic communication means is possible and what are the requirements and limitations necessary to identify of shareholders and to ensure the safety of electronic communication. Detailed conditions of participation in the General Meeting with the use of electronic communication means are specified in regulation adopted by the General Meeting and notice of calling the General Meeting.

The Bank's Supervisory Board can convene Annual General Shareholders Meeting, if the Management Board does not convene it in due time stated in the Statute and the Extraordinary Shareholders Meeting, if necessary.

The full documentation which is to be presented to the Bank's General Meeting, together with the drafts of resolutions and information concerning the Bank's General Meeting are made available to persons entitled to participate in the Bank's General Meeting on the internet page of the Bank and in paper form which is available in Bank's Headquarters, Warsaw, Żwirki i Wigury Street 31. Information in this respect is covered by announcement about convening the General Meeting, in accordance with Art. 402^2 of Code of Commercial Companies.
Official copies of the Bank's Management Board on the Bank's operations and financial statements as well as copies of the Supervisory Board's report and external auditor's opinion are issued to shareholders upon request no later than 15 days prior to the Bank's General Meeting date.

The rights of Bank's shareholders include in particular:

– the right of shareholders holding at least a half of the share capital or at least a half of the votes to convene Extraordinary Meeting of Shareholders. In this case, the shareholders elect the chairman of the Bank's General Meeting,
– the right of shareholders holding at least the twentieth of share capital to demand that specific issues be placed on the agenda of the next Bank's General Shareholders Meeting. The demand should include the justification and the project of resolution's project concerning proposed issue and should be submitted to the Management Board no later than 21 days prior to the Meeting date. The Management Board is obliged to announce changes in the Meeting agenda introduced because of shareholder's demand as fast as possible and no later than 18 days prior to the Meeting date. The Announcement takes place according to the way proper for General Meeting convocation,
– the right of shareholders holding at least the twentieth of share capital to submit via electronic communication media projects of resolutions concerning issues introduced to the Bank's General Meeting agenda or issues, which are supposed to be introduced to the Meeting agenda before the date of holding the Bank's General Meeting. The Bank instantly announces projects of resolutions on the Bank's webpage,
– the right of every shareholder to submit projects of resolutions concerning issues introduced to the Meeting's agenda,
– the right of shareholders to participate in the Bank's General Shareholders Meeting personally or by proxy,
– the right of shareholders holding a tenth of the share capital represented at the Bank's General Shareholders Meeting to demand that the attendance list of the Bank's General Shareholders Meeting be checked by a committee appointed for that purpose and composed of at least three persons, including one person appointed by the parties making the demand,
– the right according to which the Bank's General Shareholders Meeting is not allowed to adopt a resolution to remove an item from the agenda or not to consider an issue which was placed on the agenda upon request of shareholders unless the shareholders express their consent to the same,
– the right according to which the Bank's General Shareholders Meeting may not be adjourned deliberately to obstruct the exercise of the shareholders rights,

– the right of each individual participant of the Bank's General Shareholders Meeting to nominate one or more candidates for membership on the Bank's Supervisory Board,

– the right of shareholders holding at least a fifth of the share capital to demand block voting on the appointment of the Supervisory Board; a relevant request should be submitted to the Management Board in writing at such time as to enable its placement on the agenda of the Bank's General Shareholders Meeting,

– the right to inspect the book of minutes and to receive copies of resolutions authenticated by the Management Board,

– the right according to which the Chairperson of the Bank's General Shareholders Meeting is obliged to ensure that the rights of minority shareholders are respected,

– the right of shareholders who raise an objection against a resolution to justify the objection in a concise manner.

All issues submitted to the Bank's General Shareholders Meeting have the recommendation of the Supervisory Board. According to Par. 9 of the Bank's Statute, the Management Board is obliged to present the issues submitted to the Bank's General Shareholders Meeting for consideration by the Supervisory Board.

The Bank's General Shareholders Meetings are attended by members of the Supervisory Board and Management Board in makeup that enables providing content-related answers to question in discussion. An auditor is present at the Annual General Shareholders Meeting or the Extraordinary General Shareholders Meeting if financial matters of the Bank are to be discussed at the Meeting.

The Bank's Management Board, as a body responsible for providing legal service to the Bank's General Shareholders Meeting, exerts every effort to ensure that resolutions are formulated in a clear and unambiguous manner.

The Rules of Procedure for the Bank's General Shareholders Meeting contain provisions (Par. 13.10–17) regarding block voting on the appointment of the Supervisory Board.

Any amendments to the Rules of Procedure for the Bank's General Shareholders Meeting take effect as of the date of the next General Shareholders Meeting.

In the course of performing their responsibilities, the Bank's governing bodies ensure that the interests of majority shareholders are served in such a way as not to prejudice the interests of the minority shareholders. The above principle finds its practical implementation in the proper composition of the Supervisory Board, which comprises representatives of both majority and minority shareholders. Thus, the interests of all shareholder groups are accounted for in carrying out the supervisory function. The principle of the majority rule is reflected in Par. 10.2 of the Bank's Statute, whereby the Bank's General Shareholders Meeting may adopt resolutions if at least 50% of the share capital plus one share is represented at the Meeting. The purpose of this provision is to guarantee that resolutions on matters most important to the Bank and its shareholders are adopted by the Bank's General Shareholders Meeting in the presence of shareholders representing jointly an absolute majority of the share capital. However, if a resolution is not adopted for lack of quorum, as defined above, the resolution may be adopted at the next Meeting with the same agenda, in the presence of shareholders representing at least 20% of the share capital.

The Chairperson of the Bank's General Shareholders Meeting is responsible for the orderly conduct of the meeting and ensures that the rights and interests of all shareholders are respected, that any abuse of rights by the participants is prevented, and that the rights of minority shareholders are observed.

Within the scope of their competence and to the extent necessary to resolve issues placed under discussion of the Bank's General Shareholders Meeting, members of the Supervisory Board, members of the Management Board and the auditor provide the participants with the required explanations and information concerning the Bank.

Voting on procedural matters may be carried out only on issues related to the conduct of the Meeting. This voting procedure cannot be applied to resolutions which may have impact on the exercise of the shareholders rights.

Removing an item from the agenda or a decision not to consider an issue placed on the agenda at the request of shareholders requires a resolution of the Bank's General Shareholders Meeting, adopted with a three-quarter majority of the votes, following approval by all the present shareholders who submitted such a request.

9) Composition of Bank's managerial, supervisory or administrative bodies and it's committees, and its changes that occurred during last financial year as well as rules of procedure[18]

Management Board

As at January 1, 2012, the Bank's Management Board was composed of the following persons:

Luigi Lovaglio- President of the Management Board, CEO,

Diego Biondo - Vice President of the Management Board,

Marco Iannaccone - Vice President of the Management Board,

Andrzej Kopyrski - Vice President of the Management Board,

Grzegorz Piwowar - Vice President of the Management Board,

Marian Ważyński - Vice President of the Management Board.

The composition of Management Board did not change till December 31, 2012.

The Bank's Management Board acts according to the Rules of procedure adopted by virtue of its Resolution No. 101/VI/03 of June 3, 2003. The Rules of procedure shall in particular define the matters which require joint consideration by the Management Board, as well as the procedure for adopting a resolution in writing. The Rules of Procedure of the Management Board are available at the Bank's website[19]. The members of the Management Board shall coordinate and supervise the activity of the Bank pursuant to the binding division of competence.

According to the Bank's Statute, the Management Board shall conduct the matters of the Bank and represent the Bank. All issues not reserved by virtue of the provisions of the law or of the Statute to fall within the scope of competence of other authorities, shall fall within the scope of competence of the Bank's Management Board. The Management Board of the Bank in the framework limited by the rules of the binding Polish law submits all required information and data to UniCredit S.p.A. as the parent company. The Management Board of the Bank, operating through the statutory bodies of the subsidiaries of the Bank, coordinates and affects their activities aimed at ensuring the stability of the group.

Pursuant to the provisions of the Rules of procedure, the Bank's Management Board prepares the development strategy for the Bank and is responsible for the implementation and execution of that strategy. The Supervisory Board issues its opinions on the Bank's long-term development plans and annual financial plans, prepared by the Management Board. The Management Board ensures that the management system at the Bank is transparent and effective, and runs the Bank's affairs in compliance with applicable laws and Best Practices. The core values underlying the management of the Bank are professionalism, credibility and confidentiality, while customer relations are underpinned by reliability and integrity, as well as compliance with applicable laws, including the provisions governing the prevention of money laundering and financing of terrorism.

Pursuing the principle of efficient and prudent management, the Management Board is responsible for initiation and implementation of programs aimed at increasing the Bank's value and rate of return for the shareholders, as well as protection of the employees' long-term interests. In its decisions, the Bank's Management Board makes every effort to ensure, to the maximum extent possible, the promotion of the interests of the shareholders, creditors, employees, as well as other entities and persons cooperating with the Bank in its business activity.

18 Par. 91.5.4.k of the ordinance of the Minister of Finance of 19 February 2009

19 http://www.pekao.com.pl/o_banku/wladze_Banku/

Supervisory Board

As at January 1, 2012, the Bank's Supervisory Board was composed of the following persons:

Alicja Kornasiewicz - Chairman of the Supervisory Board,

Roberto Nicastro - Deputy Chairman of the Supervisory Board,

Jerzy Woźnicki - Deputy Chairman of the Supervisory Board,

Alessandro Decio - Secretary of the Supervisory Board,

Paweł Dangel - Member of the Supervisory Board,

Oliver Greene - Member of the Supervisory Board,

Enrico Pavoni - Member of the Supervisory Board,

Leszek Pawłowicz - Member of the Supervisory Board,

Krzysztof Pawłowski - Member of the Supervisory Board.

Ms Alicja Kornasiewicz, Chairwoman of the Supervisory Board of the Bank, resigned from positions held in the Supervisory Board as from June 1, 2012 at the closing date of the General Meeting of the Bank approving the financial statements of the Bank for 2011.

On June 1, 2012 the following persons: Jerzy Woźnicki, Roberto Nicastro, Enrico Pavoni, Alessandro Decio, Paweł Dangel, Leszek Pawłowicz, Laura Penna, Doris Tomanek and Wioletta Rosołowska were appointed by the Ordinary General Meeting of Bank Polska Kasa Opieki Spółka Akcyjna as Members of the Supervisory Board of Bank Polska Kasa Opieki Spółka Akcyjna for the period of a common term of office, lasting three years, which shall begin on June 2, 2012.

At the meeting held on July 24, 2012 the Supervisory Board of Bank Polska Kasa Opieki S.A. elected: Mr. Jerzy Woźnicki as Chairman of the Supervisory Board, Mr. Enrico Pavoni as Deputy Chairman of the Supervisory Board, Mr. Roberto Nicastro as Deputy Chairman of the Supervisory Board and Mr. Alessandro Decio as Secretary of the Supervisory Board.

On October 22, 2012 The Management Board of Bank Polska Kasa Opieki S.A. informed in current report published on Bank's website about the death of Mr. Enrico Pavoni, Deputy Chairman of the Supervisory Board of the Bank. As a result of the above the Supervisory Board of Bank at the meeting held on November 7, 2012 entrusted Member of the Supervisory Board Mr. Leszek Pawłowicz with the function of Deputy Chairman of the Supervisory Board.

As at December 31, 2012, the Bank's Supervisory Board was composed of the following persons:

Jerzy Woźnicki - Chairman of the Supervisory Board,

Roberto Nicastro - Deputy Chairman of the Supervisory Board,

Leszek Pawłowicz - Deputy Chairman of the Supervisory Board,

Alessandro Decio - Secretary of the Supervisory Board,

Paweł Dangel - Member of the Supervisory Board,

Laura Penna - Member of the Supervisory Board,

Wioletta Rosołowska - Member of the Supervisory Board,

Doris Tomanek - Member of the Supervisory Board.

The Supervisory Board acts on the basis of the Rules of procedure adopted by virtue of its Resolution No. 17/03 of May 22, 2003, amended by way of Resolution No. 20/05 of June 27, 2005. The Rules of procedure of the Supervisory Board are available at the Bank's website[20].

The role of the Supervisory Board is to exercise a general and permanent supervision over the Bank's activities, taking into consideration Bank's function of a parent company regarding subsidiaries of the Bank. Apart from the competence defined in law, the Supervisory Board possesses competence stated in the Bank's Statute, the Supervisory Board in particular examines every matter submitted to the Bank's General Shareholders Meeting.

20 http://www.pekao.com.pl/o_banku/wladze_Banku/#tab2

The Supervisory Board members always act with due regard to the Bank's interests and take all actions necessary to ensure efficient functioning of the Supervisory Board. Moreover, Members of the Supervisory Board of the Bank are prohibited from taking any decisions or actions that would lead to conflicts of interests or that would be not in line with the Bank's best interest. About existing or potential conflict of interests the Member of the Supervisory Board informs the Supervisory Board and restrains from participating in a discussion and voting on resolution regarding issue in case of which a conflict of interest occurred.

Each year, according to regulations in force, the Supervisory Board prepares and submits to the Bank's General Shareholders Meeting an assessment of the Bank's annual statements prepared by the Bank's Management Board and annual statements of Bank Group's activities, assessment of Bank's financial statements and consolidated financial statements of Bank Group, assessment of motion concerning profit's division or losses coverage, as well as the Supervisory Board activities statements. The assessments prepared by the Supervisory Board are made available to the shareholders before the Bank's General Shareholders Meeting.

The Supervisory Board set up dedicated committees which deal with specific areas of the Bank's operations, including the Audit Committee, the Remuneration Committee and the Financial Committee. Reports of the committees set up by the Supervisory Board are stored at the Bank's Head Office and made available by the President's Office to the shareholders at the request. Annual reports of committees are annexed to and published with the Supervisory Board statement.

Audit Committee

As at January 1, 2012, the Audit Committee was composed of the following persons:

Oliver Greene - President of the Committee,

Alessandro Decio – Member of the Committee,

Alicja Kornasiewicz - Member of the Committee,

Leszek Pawłowicz - Member of the Committee,

Jerzy Woźnicki - Member of the Committee.

At the meeting held on July 24, 2012 the Supervisory Board appointed from among the Supervisory Board Members the following persons to the Audit Committee: Enrico Pavoni (Chairman), Alessandro Decio, Leszek Pawłowicz, Laura Penna and Jerzy Woźnicki.

On November 7, 2012 the Supervisory Board appointed Mr. Paweł Dangel into the composition of the Audit Committee and entrusted Him with the function of Chairman of the Audit Committee.

Since November 7, 2012, the Audit Committee had been composed of the following persons:

Paweł Dangel – President of the Committee,

Alessandro Decio – Member of the Committee,

Leszek Pawłowicz - Member of the Committee,

Laura Penna - Member of the Committee,

Jerzy Woźnicki - Member of the Committee.

The composition of the Audit Committee did not change till December 31, 2012.

The scope of the Audit Committee's remit has been determined by the Supervisory Board's Resolution No. 9/12 of March 8, 2012. Previously in force Supervisory Board's Resolution No. 42/07 of October 2, 2007 expired.

The Audit Committee supports the Supervisory Board in the performance of its duties, therein related to the adequacy and effectiveness of the Bank's internal control mechanisms, including identification, measurement and management of risk, compliance with applicable laws and procedures governing the Bank's operations, correct application of accounting rules in the process of drawing up financial statements, and ensuring independence of external auditors and the resources of the Internal Audit Department.

The Audit Committee is composed of five persons selected from among the members of the Supervisory Board, and includes at least three independent members. The Chairman of the Audit Committee is an independent member of the Supervisory Board.

Meetings of the Audit Committee are held as need arises, but not less frequently than four times a year, and dates of these meetings coincide with key dates in the Bank's quarterly reporting cycle and the review of the annual audit plan presented by the Director of the Internal Audit Department.

Remuneration Committee

As at January 1, 2012, the Remuneration Committee was composed of the following persons:

Alicja Kornasiewicz,

Roberto Nicastro,

Enrico Pavoni,

Jerzy Woźnicki.

On July 24, 2012 the Supervisory Board appointed from among the Supervisory Board Members the following persons to the Remuneration Committee: Mr. Roberto Nicastro, Ms. Wioletta Rosołowska, Ms. Doris Tomanek and Mr. Jerzy Woźnicki.

Since July 24, 2012, the Remuneration Committee had been composed of the following persons:

Roberto Nicastro,

Wioletta Rosołowska,

Doris Tomanek,

Jerzy Woźnicki.

The composition of the Remuneration Committee did not change till December 31, 2012.

The Remuneration Committee operates on the basis of the Supervisory Board's resolution. The Remuneration Committee makes recommendations to the Supervisory Board regarding: the amount of remuneration to be paid to members of the Management Board, the remuneration policy for the Bank's managerial staff, submission of recommendations to the Bank's General Shareholders Meeting regarding the amount of remuneration to be paid to members of the Supervisory Board.

Financial Committee

As at January 1, 2012, the Financial Committee was composed of the following persons:

Alessandro Decio,

Enrico Pavoni,

Roberto Nicastro

On July 24, 2012, the Supervisory Board appointed from among the Supervisory Board Members the following persons to the Financial Committee: Mr. Alessandro Decio, Mr. Roberto Nicastro and Ms. Laura Penna.

Since July 24, 2012, the Financial Committee had been composed of the following persons:

Alessandro Decio,

Roberto Nicastro,

Laura Penna.

The composition of the Financial Committee did not change till December 31, 2012.

The Financial Committee operates on the basis of the Supervisory Board's resolution. Its role is to exercise supervision over the implementation of the Bank's financial objectives. Members of the Committee have the right to use services of advisers.

Signatures of all Members of the Bank's Management Board

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	