



Bank Polski

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



SELECTED FINANCIAL DATA DERIVED FROM THE CONSOLIDATED FINANCIAL STATEMENTS

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	period from 01.01.2013 to 30.06.2013	period from 01.01.2012 to 30.06.2012	period from 01.01.2013 to 30.06.2013	period from 01.01.2012 to 30.06.2012
Net interest income	3 266 230	4 042 245	775 090	956 835
Net fee and commission income	1 542 578	1 502 699	366 060	355 702
Operating profit	1 907 395	2 443 226	452 633	578 333
Profit before income tax	1 892 742	2 449 254	449 156	579 760
Net profit (including non-controlling shareholders)	1 533 957	1 952 805	364 014	462 246
Net profit attributable to equity holders of the parent company	1 534 231	1 953 361	364 079	462 378
Earnings per share for the period – basic (in PLN/EUR)	1.23	1.56	0.29	0.37
Earnings per share for the period – diluted (in PLN/EUR)	1.23	1.56	0.29	0.37
Net comprehensive income	1 207 951	1 773 245	286 652	419 743
Net cash flow from / used in operating activities	(3 674 331)	(82 984)	(871 934)	(19 643)
Net cash flow from / used in investing activities	(1 276 130)	2 280 924	(302 831)	539 915
Net cash flow from / used in financing activities	(107 427)	(2 109 884)	(25 493)	(499 428)
Total net cash flows	(5 057 888)	88 056	(1 200 258)	20 844

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 30.06.2013	as at 31.12.2012	as at 30.06.2013	as at 31.12.2012
Total assets	198 219 149	193 479 628	45 786 554	47 326 361
Total equity	23 665 601	24 707 650	5 466 507	6 043 650
Capital and reserves attributable to equity holders of the parent company	23 663 003	24 707 988	5 465 907	6 043 733
Share capital	1 250 000	1 250 000	288 737	305 758
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	18.93	19.77	4.37	4.83
Diluted number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN/EUR)	18.93	19.77	4.37	4.83
Capital adequacy ratio	13.51%	13.07%	13.51%	13.07%
Basic funds (Tier 1)	20 080 649	18 788 075	4 638 420	4 595 684
Supplementary funds (Tier 2)	1 522 970	1 573 276	351 790	384 833
Short-term equity (Tier 3)	81 942	129 641	18 928	31 711

The selected consolidated financial statements positions were translated into EUR using the following exchange rates:

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

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



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Bank Polski

CONSOLIDATED INCOME STATEMENT

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

	Note	01.01- 30.06.2013	01.01- 30.06.2012
Continuing operations			
Interest and similar income	4	5 585 770	6 487 257
Interest expense and similar charges	4	(2 319 540)	(2 445 012)
Net interest income		3 266 230	4 042 245
Fee and commission income	5	1 973 589	1 853 696
Fee and commission expense	5	(431 011)	(350 997)
Net fee and commission income		1 542 578	1 502 699
Dividend income		5 295	6 077
Net income from financial instruments measured at fair value	6	3 298	15 385
Gains less losses from investment securities		61 353	4 642
Net foreign exchange gains (losses)		74 943	144 655
Other operating income	7	250 583	237 646
Other operating expense	7	(204 472)	(162 497)
Net other operating income and expense		46 111	75 149
Net impairment allowance and write-downs	8	(866 919)	(1 101 285)
Administrative expenses	9	(2 225 494)	(2 246 341)
Operating profit		1 907 395	2 443 226
Share of profit (loss) of associates and jointly controlled entities		(14 653)	6 028
Profit before income tax		1 892 742	2 449 254
Income tax expense	10	(358 785)	(496 449)
Net profit (including non-controlling shareholders)		1 533 957	1 952 805
Profit (loss) attributable to non-controlling shareholders		(274)	(556)
Net profit attributable to equity holders of the parent company		1 534 231	1 953 361
Earnings per share			
	11		
- basic earnings per share for the period (PLN)		1.23	1.56
- diluted earnings per share for the period (PLN)		1.23	1.56
Weighted average number of ordinary shares during the period (in thousand)		1 250 000	1 250 000
Weighted average diluted number of ordinary shares during the period (in thousand)		1 250 000	1 250 000

Discontinued operations

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	01.01- 30.06.2013	01.01- 30.06.2012
Net profit (including non-controlling shareholders)		1 533 957	1 952 805
Other comprehensive income		(326 006)	(179 560)
Items that may be reclassified to the income statement		(326 006)	(179 560)
Cash flow hedges (gross)	16	(245 054)	(241 976)
Deferred tax on cash flow hedges	16	46 560	45 975
Cash flow hedges (net)		(198 494)	(196 001)
Unrealised net gains on financial assets available for sale (gross)		(167 948)	21 811
Deferred tax on unrealised net gains on financial assets available for sale		31 737	(4 108)
Unrealised net gains on financial assets available for sale (net)		(136 211)	17 703
Currency translation differences from foreign operations		10 537	(2 443)
Share in other comprehensive income of an associate	21	(1 838)	1 181
Total net comprehensive income		1 207 951	1 773 245
Total net comprehensive income, of which attributable to:		1 207 951	1 773 245
equity holders of PKO Bank Polski SA		1 208 176	1 773 883
non-controlling shareholders		(225)	(638)

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Bank Polski

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2013 and as at 31 December 2012

	Note	30.06.2013	31.12.2012
Assets			
Cash and balances with the central bank		5 658 046	10 289 451
Amounts due from banks	13	3 243 295	3 392 486
Trading assets	14	3 376 991	277 566
Derivative financial instruments	15	3 324 374	3 860 561
Financial assets designated upon initial recognition at fair value through profit and loss	17	12 661 245	12 629 711
Loans and advances to customers	18	149 100 583	143 875 644
Investment securities available for sale	19	13 720 351	12 205 130
Investment securities held to maturity	20	49 624	46 971
Investments in associates and jointly controlled entities	21	111 297	119 211
Non-current assets held for sale		28 261	20 410
Inventories		645 666	553 534
Intangible assets	22	1 983 545	1 934 000
Tangible fixed assets, of which:	22	2 662 292	2 650 597
investment properties		193	238
Current income tax receivables		42 443	5 713
Deferred income tax asset	10	650 752	564 514
Other assets		960 384	1 054 129
Total assets		198 219 149	193 479 628
Liabilities and equity			
Liabilities			
Amounts due to the central bank		3 858	3 128
Amounts due to banks	23	3 876 976	3 733 947
Derivative financial instruments	15	3 684 673	3 964 098
Amounts due to customers	24	149 242 633	146 193 570
Debt securities in issue	25	10 939 240	10 270 783
Subordinated liabilities	26	1 624 355	1 631 256
Other liabilities	27	4 854 281	2 057 707
Current income tax liabilities		4 887	155 580
Deferred income tax liability	10	44 192	41 300
Provisions	28	278 453	720 609
Total liabilities		174 553 548	168 771 978
Equity			
Share capital		1 250 000	1 250 000
Other capital		21 044 504	19 933 012
Currency translation differences from foreign operations		(109 817)	(120 305)
Unappropriated profits		(55 915)	(103 340)
Net profit for the year		1 534 231	3 748 621
Capital and reserves attributable to equity holders of the parent company		23 663 003	24 707 988
Non-controlling interest		2 598	(338)
Total equity		23 665 601	24 707 650
Total liabilities and equity		198 219 149	193 479 628
Capital adequacy ratio	42	13.51%	13.07%
Book value (in PLN thousand)		23 665 601	24 707 650
Number of shares (in thousand)	1	1 250 000	1 250 000
Book value per share (in PLN)		18.93	19.77
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		18.93	19.77

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six-month periods ended 30 June 2013 and 30 June 2012 respectively**

for the six-month period ended 30 June 2013	Share capital	Other capital						Total other capital	Currency translation differences from foreign operations	Unappropriated profits	Net profit for the period	Total capital and reserves attributable to equity holders of the parent company	Non- controlling interest	Total equity
		Reserves			Other comprehensive income									
		Reserve capital	General banking risk fund	Other reserves	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges							
As at 1 January 2013	1 250 000	15 364 728	1 070 000	3 437 957	1 330	7 098	51 899	19 933 012	(120 305)	(103 340)	3 748 621	24 707 988	(338)	24 707 650
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	3 748 621	(3 748 621)	-	-	-
Total comprehensive income, of which:	-	-	-	-	(1 838)	(136 211)	(198 494)	(336 543)	10 488	-	1 534 231	1 208 176	(225)	1 207 951
Net profit	-	-	-	-	-	-	-	-	-	-	1 534 231	1 534 231	(274)	1 533 957
Other comprehensive income	-	-	-	-	(1 838)	(136 211)	(198 494)	(336 543)	10 488	-	-	(326 055)	49	(326 006)
Transfer from unappropriated profits	-	1 416 885	-	31 150	-	-	-	1 448 035	-	(1 448 035)	-	-	-	-
Dividends declared	-	-	-	-	-	-	-	-	-	(2 250 000)	-	(2 250 000)	-	(2 250 000)
Change in the controlling interest	-	-	-	-	-	-	-	-	-	(3 161)	-	(3 161)	3 161	-
As at 30 June 2013	1 250 000	16 781 613	1 070 000	3 469 107	(508)	(129 113)	(146 595)	21 044 504	(109 817)	(55 915)	1 534 231	23 663 003	2 598	23 665 601

for the six-month period ended 30 June 2012	Share capital	Other capital						Total other capital	Currency translation differences from foreign operations	Unappropriated profits	Net profit for the period	Total capital and reserves attributable to equity holders of the parent company	Non- controlling interest	Total equity
		Reserves			Other comprehensive income									
		Reserve capital	General banking risk fund	Other reserves	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges							
As at 1 January 2012	1 250 000	13 041 390	1 070 000	3 460 368	(257)	(52 422)	362 185	17 881 264	(92 023)	(23 162)	3 807 195	22 823 274	(1 290)	22 821 984
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	3 807 195	(3 807 195)	-	-	-
Total comprehensive income, of which:	-	-	-	-	1 181	17 703	(196 001)	(177 117)	(2 361)	-	1 953 361	1 773 883	(638)	1 773 245
Net profit	-	-	-	-	-	-	-	-	-	-	1 953 361	1 953 361	(556)	1 952 805
Other comprehensive income	-	-	-	-	1 181	17 703	(196 001)	(177 117)	(2 361)	-	-	(179 478)	(82)	(179 560)
Transfer from unappropriated profits	-	2 322 284	-	66 122	-	-	-	2 388 406	-	(2 388 406)	-	-	-	-
The effect of the takeover of subsidiary's assets and liabilities by the parent company	-	-	-	(88 533)	-	-	-	(88 533)	-	88 533	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	(1 587 500)	-	(1 587 500)	-	(1 587 500)
As at 30 June 2012	1 250 000	15 363 674	1 070 000	3 437 957	924	(34 719)	166 184	20 004 020	(94 384)	(103 340)	1 953 361	23 009 657	(1 928)	23 007 729

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CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	01.01 - 30.06.2013	01.01 - 30.06.2012
Net cash flow from operating activities			
Profit before income tax		1 892 742	2 449 254
Adjustments:		(5 567 073)	(2 532 238)
Amortisation and depreciation	9	283 987	269 622
(Gains) losses from investing activities		1 473	1 657
Interest and dividends		(303 150)	(427 516)
Change in amounts due from banks		(280 445)	28 401
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss		(3 130 959)	(1 558 119)
Change in derivative financial instruments (asset)		536 187	207 524
Change in loans and advances to customers		(5 694 458)	(55 483)
Change in other assets and non-current assets held for sale		(6 238)	(239 531)
Change in amounts due to banks		236 848	(525 071)
Change in derivative financial instruments (liability)		(279 425)	114 439
Change in amounts due to customers		2 985 737	512 618
Change in debt securities in issue		636 168	(66 195)
Change in impairment allowances and provisions		(47 781)	315 850
Change in other liabilities and subordinated liabilities		632 887	(17 897)
Income tax paid		(547 423)	(521 120)
Other adjustments		(590 481)	(571 417)
Net cash from / used in operating activities		(3 674 331)	(82 984)
Net cash flow from investing activities			
Inflows from investing activities		27 737 276	9 568 978
Proceeds from sale and interest of investment securities		27 727 755	9 564 992
Proceeds from sale of intangible assets and tangible fixed assets		7 649	2 149
Other investing inflows (dividends)		1 872	1 837
Outflows from investing activities		(29 013 406)	(7 288 054)
Purchase of a subsidiary, net of cash acquired		-	(2 500)
Purchase of investment securities		(28 647 451)	(7 072 160)
Purchase of intangible assets and tangible fixed assets		(365 955)	(213 394)
Net cash from / used in investing activities		(1 276 130)	2 280 924
Net cash flow from financing activities			
Proceeds from debt securities in issue		1 429 385	4 462 910
Redemption of debt securities in issue		(1 397 096)	(4 853 501)
Dividends paid		-	(1 587 500)
Repayment of interest from issued debt securities and subordinated loans		(72 167)	(111 010)
Long-term borrowings		292 196	362 087
Repayment of long-term borrowings		(359 745)	(382 870)
Net cash generated from financing activities		(107 427)	(2 109 884)
Net cash flow		(5 057 888)	88 056
of which currency translation differences on cash and cash equivalents		164 601	(58 722)
Cash and cash equivalents at the beginning of the period		12 495 632	11 422 970
Cash and cash equivalents at the end of the period	31	7 437 744	11 511 026
of which restricted		11 694	4 041

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

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

The parent company of the Group is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski SA', 'the Bank').

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

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

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

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

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

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

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

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

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

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

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

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

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FINANCIAL STATEMENTS OF
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SPÓŁKA AKCYJNA GROUP FOR THE SIX-MONTH PERIOD
ENDED 30 JUNE 2013 (IN PLN THOUSAND)**



The structure of PKO Bank Polski SA share capital:

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

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

Business activities of the Group

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

Moreover, through its subsidiaries, the Group conducts activities relating to leasing, factoring, investment funds, pension funds, Internet banking, servicing and settlement of card transactions and real estate development, as well as through its subsidiaries in Ukraine, the Group conducts banking, debt collection and factoring activities.

The scope of activities of each of the Group entities is set out in the position 'Structure of the PKO Bank Polski SA Group'.

The Group operates in the Republic of Poland and through its subsidiaries: KREDOBANK SA, 'Inter-Risk Ukraina' Additional Liability Company, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., Finansowa Kompania 'Idea Kapitał' Sp. z o.o. (and until 14 November 2012 through UKRPOLINWESTYCJE Sp. z o.o.) - in Ukraine as well as through its subsidiary PKO Finance AB in Sweden.

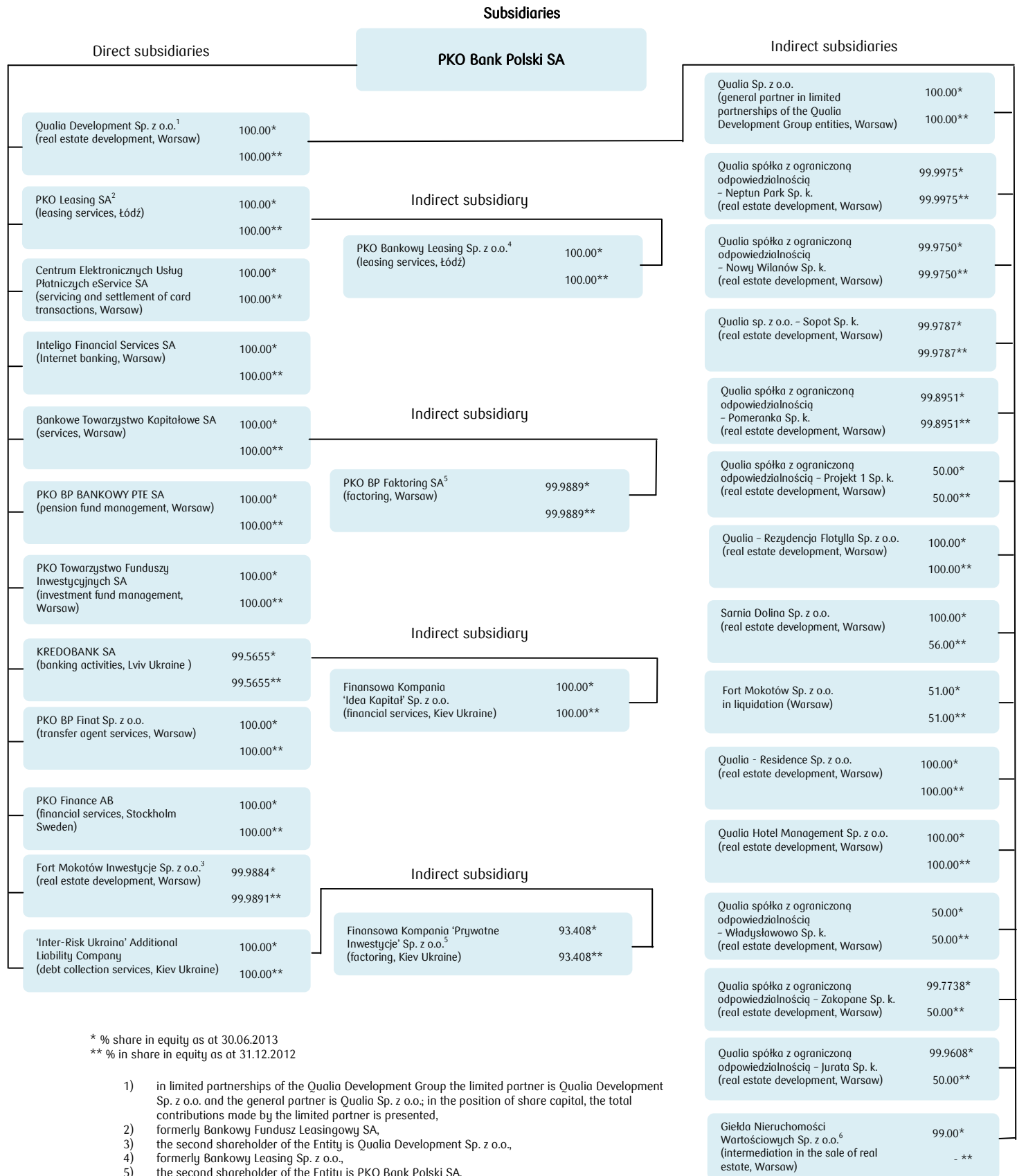
**CONDENSED INTERIM CONSOLIDATED
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Structure of the PKO Bank Polski SA Group

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



* % share in equity as at 30.06.2013

** % in share in equity as at 31.12.2012

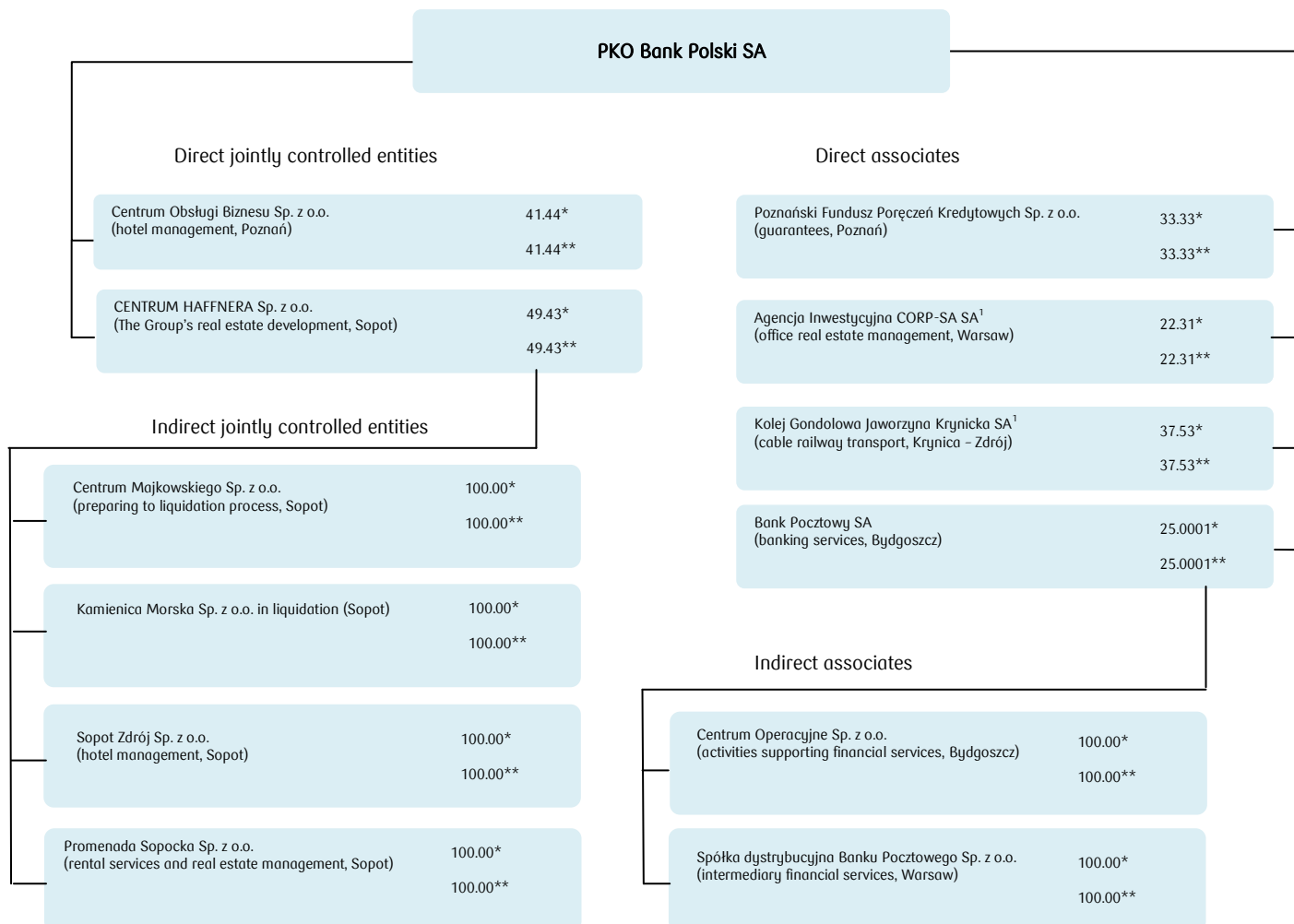
- in limited partnerships of the Qualia Development Group the limited partner is Qualia Development Sp. z o.o. and the general partner is Qualia Sp. z o.o.; in the position of share capital, the total contributions made by the limited partner is presented,
- formerly Bankowy Fundusz Leasingowy SA,
-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

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Jointly controlled entities and associates included in the consolidated financial statements:

Jointly controlled entities and associates



* % share in equity as at 30.06.2013

** % share in equity as at 31.12.2012

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

Information on changes in the participation in the share capital of the subsidiaries is set out in Note 37 'Changes to the entities of the Group'.

Seasonality or cyclicity in the interim period

The Group's activities are not subject to significant seasonality or cyclicity.

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

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

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

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

- | | |
|---------------------|--|
| • Cezary Banasiński | Chairman of the Supervisory Board |
| • Tomasz Zganiacz | Deputy-Chairman of the Supervisory Board |
| • Mirosław Czekaj | Secretary of the Supervisory Board |
| • Zofia Dzik | Member of the Supervisory Board |

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- | | |
|---------------------------------|---------------------------------|
| • Krzysztof Kilian | Member of the Supervisory Board |
| • Piotr Marczak | Member of the Supervisory Board |
| • Elżbieta Mączyńska – Ziemacka | Member of the Supervisory Board |
| • Marek Mroczkowski | Member of the Supervisory Board |
| • Ryszard Wierzba | Member of the Supervisory Board |

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

Approval of financial statements

These condensed interim consolidated financial statements of the PKO Bank Polski SA Group, reviewed by the Supervisory Board's Audit Committee of the Bank on 28 August 2013, have been approved for issue by the Management Board of the Bank on 26 August 2013.

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

2. Summary of significant accounting policies and estimates and judgements

2.1. Compliance with accounting standards

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

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

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

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

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

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

2.2. Critical estimates and judgements

While preparing consolidated financial statements, the PKO Bank Polski SA Group makes certain estimates and assumptions, which have a direct influence on both the consolidated financial statements presented and the notes to these financial statements. The principles for making critical estimates and judgements are consistent with those used in preparing the consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2012.

The estimates and assumptions that are used by the Group in determining the value of assets and liabilities as well as revenues and costs, are made based on historical data and other factors which are available and are considered to be proper in the given circumstances. Assumptions regarding the future and the data available are used for assessing carrying amounts of assets and liabilities which cannot be determined unequivocally using other sources. In making estimates the Group takes into consideration the reasons and sources of the uncertainties that are anticipated at the end of the reporting period. Actual results may differ from estimates.

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

The most significant areas in which the Group performs critical estimates are presented below.

2.2.1. Impairment of loans and advances

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

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

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

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

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

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

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

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

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

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

Estimated change in valuation due to parallel movement of yield curve:	30.06.2013		31.12.2012	
	+50 bp. scenario	-50 bp. scenario	+50 bp. scenario	-50 bp. scenario
IRS	(43 773)	38 340	(45 124)	45 852
CIRS	(89 273)	79 426	(93 837)	98 908
other derivatives	819	(1 810)	1 679	(1 698)
Total	(132 227)	115 956	(137 282)	143 062

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

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

2.2.3. Calculation of provisions for employee benefits

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

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

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

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

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

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

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

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

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

When the period of use of a given asset results from a contract term, the useful life of such an asset corresponds to the period defined in these contract terms. If, however, the estimated useful life is shorter than the period defined in the contract terms, the estimated useful life is applied. If the useful life of assets being subject to depreciation and classified as land and buildings was changed by +/- 10 years, it would influence the financial result as follows: a decrease in depreciation costs by PLN 14 million or an increase in depreciation costs by PLN 185 million respectively.

3. Information on the segments of activities and information about geographical areas

3.1. Information on the segments of activities

The PKO Bank Polski SA Group's segment reporting scheme is primarily based on the criteria of the groups of clients – recipients of the products and services offered by the parent company and the PKO Bank Polski SA Group entities. Every operating business segment comprises activities of providing products and services that are characterised by similar risk and income – different from other business segments. The segment note below is recognised in an internal reporting system, i.e. information presented to the Management Board of PKO Bank Polski SA, used to assess achieved results and to allocate resources.

The segment report below presents an internal organisational structure of the PKO Bank Polski SA Group. At present, the PKO Bank Polski SA Group comprises four basic segments: retail, corporate, investment segment and transfer centre:

1. The retail segment comprises transactions of the parent company with retail clients, clients of small and medium enterprises and housing market clients. This segment comprises, among others, the following products and services: current and saving accounts, deposits, private banking services, investment products, credit and debit cards, consumer and mortgage loans, corporate loans for small and medium enterprises and housing market customers.
2. The corporate segment includes transactions of the parent company with large corporate clients. This segment comprises, among others, the following products and services: current accounts, deposits, securities depository services, currency and derivative products, sell buy back and buy sell back transactions, corporate loans, leases and factoring. Within the segment, PKO Bank Polski SA also enters, individually or in a consortium with other banks, into loan agreements financing large investment projects.
3. The investment segment comprises transactions of the parent company with financial institutions' clients and the Bank's portfolio activity on its own account i.e. investing and brokerage activities, interbank transactions, derivative instruments and debt securities transactions and activities of PKO Bank Polski SA's subsidiaries.
4. The transfer centre comprises the result on internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting is presented. Internal funds transfer is based on transfer pricing dependant on market rates. The transactions between business segments are conducted at arm's length. Long-term external financing includes the issuance of securities, subordinated liabilities and amounts due to financial institutions.

The PKO Bank Polski SA Group typically settles inter-segment transactions as if they were concluded between unrelated parties, using internal settlement rates. The transactions between business segments are conducted at arm's length.

Accounting policies applied in the segment report are consistent with accounting policies described in Note 2 of these financial statements.

Disclosed values of assets and liabilities are operating assets and liabilities applied by operating activities segment. Values of assets, liabilities, income and expenses of a particular segment are based on internal management information. To particular segments there are assigned assets and liabilities as well as income and costs related to these assets and liabilities.

The current income tax expense in respect of the presentation of the financial result, and deferred income tax asset, current income tax receivables and current income tax liabilities in respect of the statement of financial position presentation were recognised at the Group level.

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The tables below present data relating to income and results of individual operational segments of the PKO Bank Polski SA Group for the six-month periods ended 30 June 2013 and 30 June 2012 and assets and liabilities as at 30 June 2013 and as at 31 December 2012.

Continuing operations					
For the six-month period ended 30 June 2013	Retail segment	Corporate segment	Investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	2 564 627	295 059	124 099	282 445	3 266 230
Net fee and commission income	1 183 468	150 837	209 521	(1 248)	1 542 578
Other net income	68 972	39 268	133 759	(50 999)	191 000
Net result from financial operations	(5 682)	10 201	65 729	(5 597)	64 651
Net foreign exchange gains (losses)	60 011	41 297	19 037	(45 402)	74 943
Dividend income	-	-	5 295	-	5 295
Net other operating income and expense	1 624	789	43 698	-	46 111
Income/expenses relating to internal customers	13 019	(13 019)	-	-	-
Net impairment allowance and write-downs	(517 566)	(321 849)	(27 504)	-	(866 919)
Administrative expenses, of which:	(1 788 633)	(128 660)	(308 201)	-	(2 225 494)
amortisation and depreciation	(234 624)	(14 597)	(34 766)	-	(283 987)
Share of profit (loss) of associates and jointly controlled entities	-	-	-	-	(14 653)
Segment gross profit	1 510 868	34 655	131 674	230 198	1 892 742
Income tax expense (tax burden)	-	-	-	-	(358 785)
Profit (loss) attributable to non-controlling shareholders	-	-	-	-	(274)
Net profit attributable to equity holders of the parent company	1 510 868	34 655	131 674	230 198	1 534 231

Continuing operations					
As at 30 June 2013	Retail segment	Corporate segment	Investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Assets	110 023 939	44 833 621	38 160 292	4 508 102	197 525 954
Unallocated assets	-	-	-	-	693 195
Total assets	110 023 939	44 833 621	38 160 292	4 508 102	198 219 149
Liabilities	128 658 759	18 688 483	21 870 465	5 330 954	174 548 661
Unallocated liabilities	-	-	-	-	4 887
Total liabilities	128 658 759	18 688 483	21 870 465	5 330 954	174 553 548

Continuing operations*					
For the six-month period ended 30 June 2012	Retail segment	Corporate segment	Investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	2 936 682	293 217	128 168	684 178	4 042 245
Net fee and commission income	1 194 521	137 220	171 212	(254)	1 502 699
Other net income	112 613	40 361	146 603	(53 669)	245 908
Net result from financial operations	6 126	4 012	19 338	(9 449)	20 027
Net foreign exchange gains (losses)	93 457	49 001	46 417	(44 220)	144 655
Dividend income	-	-	6 077	-	6 077
Net other operating income and expense	11	367	74 771	-	75 149
Income/expenses relating to internal customers	13 019	(13 019)	-	-	-
Net impairment allowance and write-downs	(855 628)	(196 782)	(48 875)	-	(1 101 285)
Administrative expenses, of which:	(1 808 230)	(123 993)	(314 118)	-	(2 246 341)
amortisation and depreciation	(220 032)	(12 812)	(36 778)	-	(269 622)
Share of profit (loss) of associates and jointly controlled entities	-	-	-	-	6 028
Segment gross profit	1 579 958	150 023	82 990	630 255	2 449 254
Income tax expense (tax burden)	-	-	-	-	(496 449)
Profit (loss) attributable to non-controlling shareholders	-	-	-	-	(556)
Net profit attributable to equity holders of the parent company	1 579 958	150 023	82 990	630 255	1 953 361

*Data for the first half of 2012 have been brought to comparability. Change in methodology of results' presentation.

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As at 31 December 2012	Continuing operations				Total activity of the PKO Bank Polski SA Group
	Retail segment	Corporate segment	Investment segment	Transfer centre	
Assets	108 005 298	43 031 211	32 563 098	9 309 794	192 909 401
Unallocated assets*	-	-	-	-	570 227
Total assets	108 005 298	43 031 211	32 563 098	9 309 794	193 479 628
Liabilities	121 365 763	18 739 826	23 724 738	4 786 071	168 616 398
Unallocated liabilities	-	-	-	-	155 580
Total liabilities	121 365 763	18 739 826	23 724 738	4 786 071	168 771 978

* Data as at 31 December 2012 have been brought to comparability. Recognition of current income tax receivables on the Group level.

3.2 Information about geographical areas

As an additional reporting scheme, the PKO Bank Polski SA Group uses geographical areas. The PKO Bank Polski SA Group conducts its activities in Ukraine – through the KREDOBANK SA Group and the 'Inter-Risk Ukraina' Sp. z d. o. Group.

For the six-month period ended 30 June 2013	Poland	Ukraine	Total
Net interest income	3 244 281	21 949	3 266 230
Net fee and commission income	1 512 503	30 075	1 542 578
Other net income	191 473	(473)	191 000
Administrative expenses	(2 161 010)	(64 484)	(2 225 494)
Net impairment allowance and write-downs	(848 777)	(18 142)	(866 919)
Share of profit (loss) of associates and jointly controlled entities	-	-	(14 653)
Gross profit	1 938 470	(31 075)	1 892 742
Income tax expense (tax burden)	-	-	(358 785)
Profit (loss) attributable to non-controlling shareholders	-	-	(274)
Net profit (loss)	1 938 470	(31 075)	1 534 231

As at 30 June 2013	Poland	Ukraine	Total
Assets of which:	196 406 551	1 812 598	198 219 149
non-financial fixed assets	4 490 143	155 694	4 645 837
deferred tax asset and current income tax receivable	620 960	72 235	693 195
Liabilities	172 917 281	1 636 267	174 553 548

For the six-month period ended 30 June 2012*	Poland	Ukraine	Total
Net interest income	4 013 394	28 851	4 042 245
Net fee and commission income	1 478 930	23 769	1 502 699
Other net income	240 057	5 851	245 908
Administrative expenses	(2 184 963)	(61 378)	(2 246 341)
Net impairment allowance and write-downs	(1 083 856)	(17 429)	(1 101 285)
Share of profit (loss) of associates and jointly controlled entities	-	-	6 028
Gross profit	2 463 562	(20 336)	2 449 254
Income tax expense (tax burden)	-	-	(496 449)
Profit (loss) attributable to non-controlling shareholders	-	-	(556)
Net profit (loss)	2 463 562	(20 336)	1 953 361

*Data for the first half of 2012 have been brought to comparability. Change in methodology concerning presentation of mutual transactions.

As at 31 December 2012	Poland	Ukraine	Total
Assets of which:	191 613 212	1 866 416	193 479 628
non-financial fixed assets	4 438 395	146 202	4 584 597
deferred tax asset and current income tax receivable*	502 996	67 231	570 227
Liabilities	167 100 845	1 671 133	168 771 978

* Data as at 31 December 2012 have been brought to comparability. Recognition of current income tax receivables on the Group level.

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NOTES TO THE CONSOLIDATED INCOME STATEMENT

4. Interest income and expense

Interest and similar income

	01.01 - 30.06.2013	01.01 - 30.06.2012
Interest income calculated using the effective interest rate method, with respect to financial assets, which are not measured at fair value through profit and loss, of which:	5 015 263	5 629 284
Income from loans and advances to customers, of which:	4 636 336	5 129 789
from impaired loans	256 824	224 030
Income from investment securities available for sale	281 220	376 903
Income from placements with banks	94 866	119 322
Income from investments securities held to maturity	1 312	-
Other	1 529	3 270
Other income, of which:	570 507	857 973
Income from derivative hedging instruments (Note 16)	270 344	466 217
Income from financial assets designated upon initial recognition at fair value through profit and loss	265 214	359 288
Income from trading assets	34 949	32 468
Total	5 585 770	6 487 257

Interest expense and similar charges

	01.01 - 30.06.2013	01.01 - 30.06.2012
Interest expense calculated using the effective interest rate method, with respect to financial liabilities, which are not measured at fair value through profit and loss, of which:	(2 312 564)	(2 444 197)
Interest expense on amounts due to customers	(2 041 516)	(2 231 625)
Interest expense on debt securities in issue and subordinated liabilities	(245 287)	(193 697)
Premium expense on debt securities available for sale	(16 581)	(4 992)
Interest expense on deposits from banks	(9 180)	(13 883)
Other expense, of which:	(6 976)	(815)
Interest expense on trading assets	(4 073)	(682)
Interest expense on financial assets designated upon initial recognition at fair value through profit and loss	(2 903)	(133)
Total	(2 319 540)	(2 445 012)

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5. Fee and commission income and expense

Fee and commission income

	01.01 - 30.06.2013	01.01 - 30.06.2012
Income from financial assets, which are not measured at fair value through profit and loss, of which:	298 473	285 577
Income from loans and advances granted	298 473	285 577
Other commissions	1 673 021	1 566 299
Income from payment cards	588 999	552 059
Income from maintenance of bank accounts	430 895	449 005
Income from loan insurance	260 999	202 821
Income from maintenance of investment and open pension funds (including management fees)	183 009	152 032
Income from cash transactions	63 696	68 317
Income from securities transactions	35 450	35 277
Income from servicing foreign mass transactions	24 965	24 124
Income from providing the services of an agent for the issue of Treasury bonds	11 265	21 856
Income from sale and distribution of court fee stamps	3 918	10 267
Other*	69 825	50 541
Income from fiduciary activities	2 095	1 820
Total	1 973 589	1 853 696

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

Fee and commission expense

	01.01 - 30.06.2013	01.01 - 30.06.2012
Expenses on payment cards	(243 354)	(180 611)
Expenses on loan insurance	(66 311)	(54 820)
Expenses on acquisition services	(51 347)	(54 233)
Expenses on settlement services	(13 497)	(11 026)
Expenses on fee and commissions for operating services rendered by banks	(5 848)	(5 095)
Expenses on asset management fees	(5 155)	(6 952)
Other*	(45 499)	(38 260)
Total	(431 011)	(350 997)

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

6. Net income from financial instruments measured at fair value

	01.01 - 30.06.2013	01.01 - 30.06.2012
Change in fair value of financial instruments measured at fair value through profit and loss determined using the valuation techniques:	7 686	(2 136)
Derivative instruments, of which:	20 908	(1 613)
an ineffective portion related to cash flow hedges	497	(12 187)
Structured bank securities measured at fair value through profit and loss	(13 222)	(523)
Debt securities	(2 485)	17 331
Equity instruments	(1 903)	190
Total	3 298	15 385

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01.01 -30.06.2013	Gains	Losses	Net result
Trading assets	10 249 630	(10 229 526)	20 104
Financial assets designated upon initial recognition at fair value through profit and loss	70 725	(87 531)	(16 806)
Total	10 320 355	(10 317 057)	3 298

01.01 -30.06.2012	Gains	Losses	Net result
Trading assets	8 304 289	(8 303 179)	1 110
Financial assets designated upon initial recognition at fair value through profit and loss	81 407	(67 132)	14 275
Total	8 385 696	(8 370 311)	15 385

7. Other operating income and expense

	01.01 - 30.06.2013	01.01 - 30.06.2012
Other operating income		
Net income from sale of products and services	137 987	127 252
Sales and disposal of tangible fixed assets, intangible assets and assets held for sale	42 938	36 303
Damages, penalties and fines received	30 307	14 892
Sundry income	9 910	9 440
Recovery of expired and written-off loans	2 515	16 032
Other	26 926	33 727
Total	250 583	237 646

	01.01 - 30.06.2013	01.01 - 30.06.2012
Other operating expense		
Costs of sale of products and services	(109 976)	(83 810)
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(45 603)	(37 878)
Donations	(7 562)	(7 981)
Sundry expenses	(2 789)	(2 673)
Other	(38 542)	(30 155)
Total	(204 472)	(162 497)

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8. Net impairment allowance and write-downs

For the six-month period ended 30 June 2013	Note	Value at the beginning of the period	Increases			Decreases			Value at the end of the period	Net – impact on the income statement
			Recognised during the period	Currency translation differences	Other	Decrease due to derecognition of assets and settlement	Reversed during the period	Other		
Investment securities available for sale	19	23 243	-	5	-	5 536	-	-	17 712	-
Equity securities not admitted to public trading		17 707	-	5	-	-	-	-	17 712	-
Debt securities available for sale		5 536	-	-	-	5 536	-	-	-	-
Amounts due from banks	13	29 382	486	-	2 667	-	-	-	32 535	(486)
Loans and advances to customers measured at amortised cost	18	6 776 265	3 026 210	26 650	63 553	553 119	2 093 775	-	7 245 784	(932 435)
Non-financial sector		6 606 755	2 997 490	25 334	63 048	551 263	2 076 973	-	7 064 391	(920 517)
corporate loans		3 458 562	1 603 723	20 196	16 876	329 158	986 128	-	3 784 071	(617 595)
housing loans		1 714 698	640 084	4 318	34 621	66 663	528 286	-	1 798 772	(111 798)
consumer loans		1 431 689	752 545	820	11 551	155 442	562 559	-	1 478 604	(189 986)
debt securities		1 806	1 138	-	-	-	-	-	2 944	(1 138)
Financial sector, corporate loans		25 376	825	1 316	459	-	789	-	27 187	(36)
Public sector		21 990	219	-	46	126	6 659	-	15 470	6 440
corporate loans		19 640	219	-	46	126	6 635	-	13 144	6 416
debt securities		2 350	-	-	-	-	24	-	2 326	24
Finance lease receivables		122 144	27 676	-	-	1 730	9 354	-	138 736	(18 322)
Non-current assets held for sale		2 906	963	-	-	21	-	-	3 848	(963)
Tangible fixed assets		13 943	462	703	-	1 278	6	-	13 824	(456)
Intangible assets		142 313	3 936	16	-	-	-	-	146 265	(3 936)
Investments in associates and jointly controlled entities	21	113 226	1 350	-	-	-	10 370	-	104 206	9 020
Other, of which:		405 593	144 985	242	5 302	19 367	207 322	1 658	327 775	62 337
inventories		31 504	2 999	-	4 193	2 097	11	-	36 588	(2 988)
provisions for legal claims, loan commitments and guarantees granted	28	217 085	107 480	12	779	309	179 131	1 658	144 258	71 651
Total		7 506 871	3 178 392	27 616	71 522	579 321	2 311 473	1 658	7 891 949	(866 919)

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For the six-month period ended 30 June 2012	Note	Value at the beginning of the period	Increases			Decreases				Value at the end of the period	Net - impact on the income statement
			Recognised during the period	Currency translation differences	Other	Decrease due to derecognition of assets and settlement	Reversed during the period	Currency translation differences	Other		
Investment securities available for sale	19	20 563	9 696	-	-	10 598	1 564	247	-	17 850	(8 132)
Equity securities not admitted to public trading		2 619	9 696	-	-	-	-	1	-	12 314	(9 696)
Debt securities available for sale		17 944	-	-	-	10 598	1 564	246	-	5 536	1 564
Amounts due from banks	13	32 812	409	-	-	-	676	-	387	32 158	267
Loans and advances to customers measured at amortised cost	18	5 658 243	2 945 544	-	31 397	662 280	1 915 512	7 198	33 129	6 017 065	(1 030 032)
Non-financial sector		5 497 033	2 920 340	-	30 932	660 348	1 893 563	6 883	32 678	5 854 833	(1 026 777)
corporate loans		2 709 360	1 184 420	-	8 612	209 345	688 757	5 836	17 144	2 981 310	(495 663)
housing loans		1 323 830	510 909	-	3 169	18 684	304 916	970	12 949	1 500 389	(205 993)
consumer loans		1 463 843	1 225 011	-	19 151	432 319	899 890	77	2 585	1 373 134	(325 121)
Financial sector, corporate loans		37 058	2 666	-	160	1 714	9 126	315	451	28 278	6 460
Public sector, corporate loans		15 779	1 348	-	305	-	961	-	-	16 471	(387)
Finance lease receivables		108 373	21 190	-	-	218	11 862	-	-	117 483	(9 328)
Non-current assets held for sale		2 958	-	-	-	3	-	-	-	2 955	-
Tangible fixed assets		6 388	11 531	313	-	-	305	-	-	17 927	(11 226)
Intangible assets		135 295	4 542	-	237	-	-	-	-	140 074	(4 542)
Investments in associates and jointly controlled entities	21	88 953	5 526	-	-	-	-	-	-	94 479	(5 526)
Other, of which:		336 751	113 599	659	6 990	34 253	71 505	4	305	351 932	(42 094)
inventories		33 088	7 313	-	-	7 897	944	-	-	31 560	(6 369)
provisions for legal claims, loan commitments and guarantees granted	28	115 608	87 723	-	-	61	59 923	4	220	143 123	(27 800)
Total		6 281 963	3 090 847	972	38 624	707 134	1 989 562	7 449	33 821	6 674 440	(1 101 285)

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9. Administrative expenses

	01.01 - 30.06.2013	01.01 - 30.06.2012
Staff costs	(1 179 672)	(1 213 338)
Overheads	(648 066)	(655 077)
Amortisation and depreciation	(283 987)	(269 622)
Taxes and other charges	(36 898)	(36 310)
Contribution and payments to the Bank Guarantee Fund	(76 871)	(71 994)
Total	(2 225 494)	(2 246 341)

Wages and salaries / Employee benefits

	01.01 - 30.06.2013	01.01 - 30.06.2012
Wages and salaries*	(953 808)	(998 851)
Social insurance, of which:	(190 402)	(178 710)
contributions for retirement pay and pensions**	(161 632)	(149 383)
Other employee benefits	(35 462)	(35 777)
Total	(1 179 672)	(1 213 338)

* In line 'Wages and salaries' in the first half of 2013 the effect of release of provision for anniversary bonuses and retirement benefits in the amount of PLN 179 million was included.

**Total expense incurred by the Group related to contributions for retirement pay and pensions.

10. Income tax expense

	01.01 - 30.06.2013	01.01 - 30.06.2012
Consolidated income statement		
Current income tax expense	(363 834)	(522 002)
Deferred income tax related to creating and reversal of temporary differences	5 049	25 553
Tax expense in the consolidated income statement	(358 785)	(496 449)
Deferred tax expense in other comprehensive income related to creating and reversal of temporary differences	78 297	41 867
Total	(280 488)	(454 582)

Deferred tax asset/liability

	30.06.2013	31.12.2012
Deferred tax asset	650 752	564 514
Deferred tax liability	44 192	41 300
Total	606 560	523 214

As at 30 June 2013 KREDOBANK SA remains in legal claims with the tax authorities, as stated below:

- The legal claim concerns the possibility of recognition of the loss from previous years as tax deductible expenses. The legal claim concerns tax years 2008-2010, the value of decrease of the deferred tax asset amounts to UAH 123 430 thousand (i.e. PLN 49 903 thousand *). On 31 January 2013 KREDOBANK SA obtained a legally valid judgment of the court of second instance favourable to the Company. KREDOBANK SA does not have any information indicating that the tax authority within the statutory term applied on cassation of the judgment. The risk of further continuation of the presented legal claim, the company considers as minor.
- The legal claim concerns recognition of the costs related to the transaction of selling loans in 2011, including factoring transactions between KREDOBANK SA and Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. as tax deductible expenses by KREDOBANK SA (the tax authority questioned the legal basis treating the above mentioned costs as tax deductible). On 21 March 2013, KREDOBANK SA obtained a legally valid judgment of the court of the second instance invalidating a tax audit decision concerning payment of income tax. The tax authority filed a motion for cassation of this judgment. On 4 April 2013, the court opened proceedings in the above mentioned case - the date of the hearing has not been set yet.

* The values of legal claims presented in PLN were translated using the average NBP rate from 28 June 2013 prevailing as at 30 June 2013.

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In case the verdict of the court is unfavourable, KREDOBANK SA will be obliged to pay to the State Treasury of Ukraine an amount of UAH 62 909 thousand (i.e. PLN 25 434 thousand) increased by due penalty interests. At the same time tax losses of KREDOBANK SA concerning previous years will be eliminated in the amount set at the end of the audit period (i.e. as at 31 December 2011), which will reduce/resolve deferred tax asset.

3. The legal claim concerns fiscal decision made on 19 February 2013 on the basis of tax audit, which covered the period from 1 April 2011 to 30 September 2012. Legal claims mainly concern recognition of the costs related to the transaction of selling loans in the period covered by the inspection, the adequacy of recognition of impairment allowances on loans, the correctness of the settlement of VAT on property sales and withholding tax for the payment of fees for services as tax deductible expenses. As a result of the above mentioned control the total amount of tax claims has been established at UAH 1 129 thousand (i.e. PLN 456 thousand), including the value of legal claims amounted to UAH 877 thousand (i.e. PLN 355 thousand), and the amount of reduction in tax losses from previous years has been established at UAH 626 282 thousand (i.e. PLN 253 206 thousand). KREDOBANK SA appealed against the above mentioned tax decision consecutive to the Regional State Tax Service and The Ministry of Revenue and Duties of Ukraine, and these appeals were rejected.

On 2 August 2013, KREDOBANK SA filed a claim with the Lviv Regional Administrative Court appealing against the results of the inspection and applying for annulling the above mentioned tax decision.

4. The legal claim concerns the possibility of recognition of the legal costs in litigation conducted by KREDOBANK SA as tax deductible expenses, questioned by the tax authority as a result of the audit conducted in 2003. On 10 December 2012, as a result of the cassation of the previous favourable for KREDOBANK SA verdict (issued in 2004), the court of the first instance issued an unfavourable verdict for KREDOBANK SA. On 15 March 2013, KREDOBANK SA appealed to the Lviv Court of Appeal. The date of the hearing has not been set yet.

In case the verdict of the court is unfavourable, KREDOBANK SA will be obliged to pay to the State Treasury of Ukraine an amount of UAH 594 thousand (i.e. PLN 240 thousand).

11. Earnings per share

Basic earnings per share

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

Earnings per share

	01.01 - 30.06.2013	01.01 - 30.06.2012
Profit per ordinary shareholder (in PLN thousand)	1 534 231	1 953 361
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000
Earnings per share (in PLN per share)	1.23	1.56

Earnings per share from discontinued operations

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

Diluted earnings per share

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

There were no dilutive instruments in the first half of 2013 as well as in the first half of 2012.

Diluted earnings per share from discontinued operations

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

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

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

PLN 1.80 per share.

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

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NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

13. Amounts due from banks

	30.06.2013	31.12.2012
Receivables due from repurchase agreements	1 450 637	149 284
Deposits with banks	1 360 785	2 369 774
Current accounts	388 655	861 331
Loans and advances granted	70 708	38 150
Cash in transit	5 045	3 329
Total	3 275 830	3 421 868
Impairment allowances on receivables, of which:	(32 535)	(29 382)
impairment allowances on exposure to a foreign bank	(31 476)	(29 373)
Net total	3 243 295	3 392 486

Details on risk related to amounts due from banks were presented in Note 41 'Risk management in the Group'.

14. Trading assets

	30.06.2013	31.12.2012
Debt securities	3 365 140	273 576
issued by the State Treasury, of which:	3 281 200	216 521
Treasury bonds	2 688 910	216 521
Treasury bills	592 290	-
issued by local government bodies, municipal bonds	43 441	26 673
issued by non-financial institutions, corporate bonds	29 980	15 064
issued by other financial institutions, of which:	9 308	13 947
bonds issued by WSE	9 145	13 880
bonds issued by NIF (National Investment Fund)	100	-
corporate bonds	63	67
issued by banks, of which:	1 211	1 371
BGK bonds	1 211	1 361
Shares in other entities - listed on stock exchange	10 998	3 237
Investment certificates	853	713
Rights issues	-	40
Total	3 376 991	277 566

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

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

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15. Derivative financial instruments

Derivative instruments used by the Group

The Bank and the other Group entities use various types of derivatives in order to manage risk involved in its business activities. The most frequently used types of derivatives in the Group's activity are: IRS, CIRS, FX Swap, FRA, Options, Forwards. The remaining Group's subsidiaries may enter into transactions in derivatives exclusively for the purpose of hedging against the risk resulting from their core activities.

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

	30.06.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	224 780	660 870	498 130	224 373
Other derivative instruments	3 099 594	3 023 803	3 362 431	3 739 725
Total	3 324 374	3 684 673	3 860 561	3 964 098

Type of contract	30.06.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
IRS	2 882 363	2 719 122	3 221 798	3 183 744
CIRS	190 218	791 493	357 675	370 043
FX Swap	83 417	32 103	109 819	207 538
FRA	67 780	62 580	74 608	78 693
Options	56 789	40 928	63 301	61 932
Forward	39 613	32 000	33 190	60 742
Other	4 194	6 447	170	1 406
Total	3 324 374	3 684 673	3 860 561	3 964 098

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16. Derivative hedging instruments

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

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

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

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Cash flow hedges

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

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

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

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

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

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

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

	30.06.2013	31.12.2012
Debt securities	12 661 245	12 629 711
issued by central banks, NBP money market bills	10 394 854	9 995 300
issued by the State Treasury, of which:	2 011 806	2 377 883
Treasury bonds PLN	1 761 214	1 322 226
Treasury bills	222 674	1 040 863
Treasury bonds UAH	27 918	14 794
issued by local government bodies, of which:	254 585	256 528
municipal bonds EUR	147 416	145 343
municipal bonds PLN	107 169	111 185
Total	12 661 245	12 629 711

18. Loans and advances to customers

	30.06.2013	31.12.2012
Loans and advances to customers, gross, of which:	156 346 367	150 651 909
financial sector	1 349 827	746 320
corporate, of which:	1 349 827	746 320
receivables due from repurchase agreements	361 030	-
deposits of the Brokerage House in the Stock Exchange Guarantee Fund and initial deposit	14 492	8 779
non-financial sector	147 299 725	142 218 959
Housing	75 098 925	72 279 131
Corporate	50 159 023	47 021 975
consumer	21 132 927	22 014 785
debt securities	908 850	903 068
public sector	7 696 815	7 686 630
Corporate	6 528 703	6 511 591
Housing	4 926	-
debt securities	1 163 186	1 175 039
Impairment allowances on loans and advances to customers	(7 245 784)	(6 776 265)
Loans and advances to customers - net	149 100 583	143 875 644

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	30.06.2013	31.12.2012
Loans and advances to customers		
Assessed on an individual basis	8 675 578	8 087 968
Impaired, of which:	6 603 210	6 506 653
receivables from finance leases	154 765	134 421
Not impaired, of which:	2 072 368	1 581 315
receivables from finance leases	156 671	128 142
Assessed on a portfolio basis	7 565 937	6 939 156
Impaired, of which:	7 565 937	6 939 156
receivables from finance leases	146 220	132 185
Assessed on a group basis (IBNR), of which:	140 104 852	135 624 785
receivables from finance leases	3 411 681	3 177 631
Loans and advances to customers, gross	156 346 367	150 651 909
Allowances on exposures assessed on an individual basis	(2 765 492)	(2 707 928)
Impaired, of which:	(2 695 619)	(2 647 481)
allowances on lease receivables	(43 545)	(35 164)
Allowances on exposures assessed on a portfolio basis, of which:	(3 788 887)	(3 516 549)
allowances on lease receivables	(82 225)	(73 524)
Allowances on exposures assessed on a group basis (IBNR), of which:	(691 405)	(551 788)
allowances on lease receivables	(12 966)	(13 456)
Allowances – total	(7 245 784)	(6 776 265)
Loans and advances to customers, net	149 100 583	143 875 644

A detailed description of changes in allowances has been presented in the Note 8 'Net impairment allowance and write-downs'.

By client segment	30.06.2013	31.12.2012
Loans and advances granted, gross, of which:	156 346 367	150 651 909
mortgage banking	67 272 755	64 199 027
Corporate	43 158 695	41 113 192
retail and private banking	21 132 926	22 014 784
small and medium enterprises	17 808 455	16 688 662
housing market clients	6 598 014	6 627 465
receivables due from repurchase agreements	361 030	-
other receivables	14 492	8 779
Impairment allowances on loans and advances	(7 245 784)	(6 776 265)
Loans and advances granted, net	149 100 583	143 875 644

As at 30 June 2013, the share of impaired loans amounted to 9.1% (as at 31 December 2012: 8.9%), whereas the coverage ratio for impaired loans (calculated as total impairment allowances on total loans and advances to customers divided by gross carrying amount of impaired loans) amounted to 51.1% (as at 31 December 2012: 50.4%).

As at 30 June 2013, the share of loans overdue by more than 90 days in the gross amount of loans and advances was 6.2% (as at 31 December 2012: 6.1%).

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19. Investment securities available for sale

	30.06.2013	31.12.2012
Debt securities available for sale, gross	13 515 542	12 049 073
issued by the State Treasury	9 777 979	7 902 479
Treasury bonds PLN	9 527 930	7 697 426
Treasury bonds USD	209 849	125 253
Treasury bonds UAH	40 200	79 800
issued by local government bodies, municipal bonds	2 639 446	2 780 212
issued by non-financial institutions, corporate bonds PLN	1 031 194	1 315 490
issued by banks	66 923	50 892
corporate bonds PLN	50 716	50 892
corporate bonds UAH	16 207	-
Impairment allowances of debt securities available for sale	-	(5 536)
corporate bonds PLN	-	(5 536)
Total net debt securities available for sale	13 515 542	12 043 537
Equity securities available for sale, gross	222 521	179 300
Equity securities not admitted to public trading	169 425	129 653
Equity securities admitted to public trading	53 096	49 647
Impairment allowances of equity securities available for sale	(17 712)	(17 707)
Total net equity securities available for sale	204 809	161 593
Total net investment securities available for sale	13 720 351	12 205 130

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

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

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

20. Investments securities held to maturity

	30.06.2013	31.12.2012
Investment securities held to maturity - debt securities		
issued by the State Treasury	29 392	27 843
issued by banks	20 232	19 128
Total	49 624	46 971

21. Investments in associates and jointly controlled entities

1) the value of the Bank's investments in jointly controlled entities (i.e. the acquisition cost adjusted to share in the change in net assets after acquisition date and impairment allowances)

Entity name	30.06.2013	31.12.2012
The CENTRUM HAFFNERA Sp. z o.o. Group	-	5 935
Purchase price	44 371	44 371
Change in net assets (valuation with equity method)	(44 195)	(27 890)
Impairment allowances	(176)	(10 546)
Centrum Obslugi Biznesu Sp. z o.o.	4 577	6 113
Purchase price	17 498	17 498
Change in valuation with equity method	(12 921)	(11 385)
Total	4 577	12 048

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- 2) the value of the Bank's investments in associates (i.e. the acquisition cost adjusted to share in the change in net assets and impairment allowances)

Entity name	30.06.2013	31.12.2012
The Bank Pocztowy SA Group	106 720	106 720
Purchase price	146 500	146 500
Change in valuation with equity method	58 550	57 428
Impairment allowances	(98 330)	(97 208)
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-
Purchase price	1 500	1 500
Change in valuation with equity method	4 200	3 972
Impairment allowances	(5 700)	(5 472)
Agencja Inwestycyjna CORP-SA SA*	-	443
Purchase price	-	29
Change in valuation with equity method	-	414
Total	106 720	107 163

* As at 30 June 2013 the Company's shares were presented as non-current assets held for sale.

	01.01 - 30.06.2013	01.01 - 30.06.2012
Investments in associates at the beginning of the period	107 163	107 147
Share of profit/loss	3 188	4 475
Share in other comprehensive income of associate	(1 838)	1 181
Change in impairment allowances of investment	(1 350)	(5 526)
Dividends paid	-	(247)
Reclassification of the Agencja Inwestycyjna CORP-SA SA's shares to non-current assets held for sale	(443)	-
Investment in associates at the end of the period	106 720	107 030

	01.01 - 30.06.2013	01.01 - 30.06.2012
Investments in jointly controlled entities at the beginning of the period	12 048	15 972
Share of profit/loss	(17 841)	1 553
Change in impairment allowances of investment	10 370	-
Investments in jointly controlled entities at the end of the period	4 577	17 525

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

Selected data on associates accounted for using the equity method

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

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

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

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Selected data on jointly controlled entities accounted for using the equity method

Entity name	Total assets	Total liabilities	Total revenue	Net profit/loss	% share
30.06.2013					
Centrum Obsługi Biznesu Sp. z o.o.	113 593	102 548	11 461	(5 452)	41.44
The CENTRUM HAFFNERA Sp. z o.o. Group	295 662	294 995	22 155	(26 563)	49.43
Total	409 255	397 543	33 616	(32 015)	X
31.12.2012					
Centrum Obsługi Biznesu Sp. z o.o.	115 420	98 924	22 391	3 688	41.44
The CENTRUM HAFFNERA Sp. z o.o. Group	293 421	266 636	48 886	5 944	49.43
Total	408 841	365 560	71 277	9 632	X

Financial data concerning Centrum Obsługi Biznesu Sp. z o.o. and the CENTRUM HAFFNERA Sp. z o.o. Group, presented in the table are derived from financial statements prepared in accordance with the Polish Accounting Standards. According to the Group's estimates, differences between the above mentioned financial statements and the financial statements prepared in accordance with IFRS are not significant from the perspective of the consolidated financial statements of the Group. Data of both entities for the year 2012 are derived from audited financial statements.

In the interim consolidated financial statements for the period ended 30 June 2013, all associates and jointly controlled entities are accounted for using the equity method.

In the first half of 2013, PKO Bank Polski SA did not make any direct investments in jointly controlled entities or associates.

22. Intangible assets and tangible fixed assets

Intangible assets	30.06.2013	31.12.2012
Software	1 532 096	1 446 356
Goodwill acquired as a result of business combinations (including subsidiaries' goodwill)	221 118	222 438
Development costs	872	3 486
Other, including capital expenditure	229 459	261 720
Total	1 983 545	1 934 000

In the first half of 2013, the PKO Bank Polski SA Group took over the management of POLSAT Open Pension Fund. The value of the right to manage the Open Pension Fund as at 30 June 2013 amounted to PLN 65 292 thousands (included in 'Other, including capital expenditure').

Tangible fixed assets	30.06.2013	31.12.2012
Land and buildings	1 754 432	1 705 092
Machinery and equipment	543 303	494 282
Assets under construction	155 938	264 665
Means of transport	52 628	59 822
Investment properties	193	238
Other	155 798	126 498
Total	2 662 292	2 650 597

In the first half of 2013, there were no significant transactions of purchase and sale of tangible fixed assets and significant liabilities due to purchase of tangible fixed assets.

23. Amounts due to banks

	30.06.2013	31.12.2012
Loans and advances received	2 310 592	2 542 361
Bank deposits	1 401 432	1 086 956
Amounts due from repurchase agreements	65 618	-
Current accounts	52 764	72 676
Other money market deposits	46 570	31 954
Total	3 876 976	3 733 947

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

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24. Amounts due to customers

	30.06.2013	31.12.2012
Amounts due to retail clients	116 754 581	110 866 422
Term deposits	66 364 930	63 517 469
Current accounts and overnight deposits	50 149 757	47 143 802
Other money market deposits	239 894	205 151
Amounts due to corporate entities	28 036 784	31 868 251
Term deposits	13 824 062	17 171 300
Current accounts and overnight deposits	10 074 064	11 621 112
Loans and advances received	1 993 209	1 557 653
Amounts due from repurchase agreements	1 478 050	851 416
Other money market deposits	667 399	666 770
Amounts due to State budget entities	4 451 268	3 458 897
Current accounts and overnight deposits	2 911 142	2 870 735
Term deposits	1 471 261	562 397
Other money market deposits	68 865	25 765
Total	149 242 633	146 193 570

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

By client segment	30.06.2013	31.12.2012
Amounts due to customers, of which:		
retail and private banking	112 476 200	106 538 784
Corporate	20 082 960	23 586 602
small and medium enterprises	8 705 611	9 008 039
housing market clients	4 506 603	4 651 076
loans and advances received	1 993 209	1 557 653
amounts due from repurchase agreements	1 478 050	851 416
Total	149 242 633	146 193 570

25. Debt securities in issue

	30.06.2013	31.12.2012
Debt securities in issue		
Financial instruments measured at amortised cost	10 516 047	9 902 161
bonds issued by PKO Finance AB	9 795 524	9 169 937
bonds issued by PKO Bank Polski SA	494 587	497 283
bonds issued by PKO Leasing SA	225 936	234 941
Financial instruments measured at fair value through profit and loss	423 193	368 622
- bank securities issued by PKO Bank Polski SA		
Total	10 939 240	10 270 783

	30.06.2013	31.12.2012
Debt securities in issue by remaining maturity:		
up to 1 month	158 370	14 960
from 1 month to 3 months	217 188	754 928
from 3 months to 1 year	820 281	225 156
from 1 year to 5 years*	6 212 224	5 990 368
above 5 years**	3 531 177	3 285 371
Total	10 939 240	10 270 783

* Significant items of debt securities in issue included Eurobonds in the nominal value of EUR 800 000 thousand and bonds in the nominal value of CHF 750 000 thousand.

** Significant items of debt securities in issue included Eurobonds in the nominal value of EUR 50 000 thousand and bonds in the nominal value of USD 1 000 000 thousand.

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

In the first half of 2013 PKO Leasing SA issued bonds at nominal value of PLN 1 115 000 thousand and redeemed bonds at nominal value of PLN 1 000 000 thousand. As at 30 June 2013, the Company's debt in respect of the bonds issued amounted to PLN 510 000 thousand (at nominal value) of which the debt due to the Bank amounted to PLN 283 090 thousand (at nominal value).

26. Subordinated liabilities

As at 30 June 2013

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

As at 31 December 2012

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

Change in subordinated liabilities

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

27. Other liabilities

	30.06.2013	31.12.2012
Accounts payable	435 120	376 150
Deferred income	437 299	366 410
Other liabilities, of which:	3 981 862	1 315 147
dividends declared	2 250 000	-
payment of anniversary bonuses and retirement benefits	186 900	-
Total	4 854 281	2 057 707

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

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28. Provisions

For the six-month period ended 30 June 2013	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
Provisions as at the beginning of the period, of which:	6 081	431 210	211 004	72 314	720 609
Short term provision	6 081	36 233	145 066	72 314	259 694
Long term provision	-	394 977	65 938	-	460 915
Increase/reassessment of provision	712	537	106 768	12 829	120 846
Release of provision	(559)	(179 453)	(178 572)	-	(358 584)
Use of provision	(309)	(193 142)	-	(10 103)	(203 554)
Currency translation differences	12	-	-	-	12
Transfers and other changes	(1 658)	(25 380)	779	25 383	(876)
Provisions as at the end of the period, of which:	4 279	33 772	139 979	100 423	278 453
Short term provision	4 279	1 450	105 981	100 423	212 133
Long term provision	-	32 322	33 998	-	66 320

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

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

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

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

For the six-month period ended 30 June 2012	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
Provisions as at the beginning of the period, of which:	3 638	428 299	111 970	75 257	619 164
Short term provision	3 638	38 232	111 970	75 257	229 097
Long term provision	-	390 067	-	-	390 067
Increase/reassessment of provision	364	-	87 359	5 235	92 958
Release of provision	(575)	-	(59 348)	-	(59 923)
Use of provision	(61)	(9)	-	(33 192)	(33 262)
Currency translation differences	-	-	(4)	-	(4)
Transfers and other changes	-	-	(220)	-	(220)
Provisions as at the end of the period, of which:	3 366	428 290	139 757	47 300	618 713
Short term provision	3 366	38 253	139 757	47 300	228 676
Long term provision	-	390 037	-	-	390 037

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

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

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OTHER NOTES**29. Contingent liabilities****Underwriting programmes**

As at 30 June 2013 and as at 31 December 2012, the Bank's underwriting agreements covered the following securities (maximum liability of the Bank to acquire securities):

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

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

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

Contractual commitments

As at 30 June 2013 the amount of contractual commitments concerning intangible assets amounted to PLN 160 184 thousand (as at 31 December 2012, it amounted to PLN 157 320 thousand) and concerning tangible fixed assets amounted to PLN 37 412 thousand (as at 31 December 2012, it amounted to PLN 71 513 thousand).

Loan commitments granted

By nominal value	30.06.2013	31.12.2012
Financial entities	433 871	913 713
Non-financial entities	30 114 443	29 137 031
State budget entities	3 293 705	2 462 680
Total	33 842 019	32 513 424
of which: irrevocable loan commitments	7 781 062	7 871 614

Guarantees issued

	30.06.2013	31.12.2012
Financial entities	80 932	50 456
Non-financial entities	9 912 884	10 190 736
State budget entities	378 011	135 943
Total	10 371 827	10 377 135

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

Information on provisions for off-balance sheet guarantees and financial liabilities is included in Note 28 'Provisions'.

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Off-balance sheet liabilities received (by nominal value)

	30.06.2013	31.12.2012
Financial	1 135 515	1 831 357
Guarantees	1 927 250	1 780 305
Total	3 062 765	3 611 662

Assets pledged as collateral for contingent liabilities

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

30. Legal claims

As at 30 June 2013, the total value of court proceedings in which the PKO Bank Polski SA Group entities (including the Bank) are a defendant was PLN 366 080 thousand, of which PLN 3 866 thousand referred to court proceedings in Ukraine (as at 31 December 2012 the total value of above mentioned court proceedings amounted to PLN 404 689 thousand), while the total value of court proceedings in which the Group entities (including the Bank) are the plaintiff was PLN 496 112 thousand, of which PLN 195 170 thousand referred to court proceedings in Ukraine, mainly related to collection of dues from loans granted by KREDOBANK SA and tax litigations (as at 31 December 2012 the total value of above mentioned court proceedings amounted to PLN 360 205 thousand).

The most significant legal claims of the Group are described below:

a) Unfair competition proceedings

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

On 20 December 2011 a hearing was held during which no factual resolution of the appeals was reached. The Court obligated MasterCard to submit explanations concerning the issue until 31 January 2012 and set the date for another sitting of the Court for 9 February 2012. Upon the application of the plaintiffs' attorney, the date of hearing was postponed for 24 April 2012, on which the attorney's request for deferment of the case until the end of September 2012 was dismissed. The Court postponed announcing the resolution on the request for suspension of the case until 8 May 2012. On 8 May 2012, the District Court in Warsaw, the Court for Competition and Consumer Protection (Sąd Ochrony Konkurencji i Konsumentów - SOKiK), suspended proceedings until the final conclusion of proceedings before the European Union Court in the case MasterCard against the European Commission. On 24 May 2012, the European Union Court upheld the decision of the European Commission banning multilaterally agreed interchange fees applied by MasterCard. On 28 May 2012 the participant to the proceedings, Visa Europe Ltd, and on 29 May 2012 the plaintiffs' attorney, including PKO Bank Polski SA, filed a complaint against the decision of the District Court in Warsaw, the Court for Competition and Consumer Protection dated 8 May 2012. In August 2012, the European Court of Justice received the appeal of MasterCard against the verdict of the Court of 24 May 2012 rejecting the appeal of MasterCard. On 25 October 2012, the Court of Appeal in Warsaw changed the decision of 8 May 2012 and dismissed the motion of MasterCard for suspending the proceedings. The court's decision in this case was delivered to the plaintiff's attorney in January 2013. In February 2013, court files were transferred to the court of first instance. Currently, the case is subject to re-examination by SOKiK. The date of the hearing has been set for 29 October 2013. As at 30 June 2013 the Bank has a liability in the amount of PLN 16 597 thousand.

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

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

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

In respect of the second of proceedings, on 28 December 2012, the President of UOKiK imposed a fine on the Bank in the amount of PLN 2 845 thousand, on which the Bank recognised a liability in the same amount on 30 June 2013.

Both appeal proceedings are pursued on behalf of the Bank by reputable law offices. The Bank appealed against both decisions of the President of UOKiK, on 2 and 16 January 2013, respectively. As at 30 June 2013 proceedings are in progress.

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Moreover, the Bank is a party to:

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

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

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

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

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

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

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

31. Supplementary information to the consolidated statement of cash flows

Cash and cash equivalents

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

	30.06.2013	31.12.2012	30.06.2012
Cash and balances with the central bank	5 658 046	10 289 451	8 837 388
Current receivables from banks	1 779 698	2 206 181	2 673 638
Total	7 437 744	12 495 632	11 511 026

Cash flow from interests and dividends, both received and paid

Interest and similar income - received	01.01 – 30.06.2013	01.01 – 30.06.2012
Interest income from loans and advances granted	3 916 792	4 384 672
Interest income from investment securities	328 084	452 344
Interest income from securities designated upon initial recognition at fair value through profit and loss	274 898	426 757
Interest income from placements	104 766	138 289
Interest income from securities from held for trading portfolio	34 397	32 462
Other interest received	713 102	715 968
Total	5 372 039	6 150 492

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Dividend income - received	01.01 – 30.06.2013	01.01 – 30.06.2012
Dividend income from jointly controlled entities and associates	294	247
Dividend income from other entities	1 578	1 589
Total	1 872	1 836

Interest expense and similar charges – paid	01.01 – 30.06.2013	01.01 – 30.06.2012
Interest expense on deposits – paid	(1 600 303)	(1 692 999)
Interest expense on debt securities in issue – paid	(73 195)	(111 232)
Interest expense on loans and advances – paid	(37 296)	(46 238)
Other interest paid (mainly premium from debt securities, interest expense on cash collateral liabilities, interest expense on current account)	(445 800)	(518 651)
Total	(2 156 594)	(2 369 120)

32. Transactions with the State Treasury and related parties

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

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

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

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

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

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

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

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

Since 1 January 1996, the Bank is the general distributor of value marks and receives commissions in this respect from the State Treasury.

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

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

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

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

The transactions were concluded at arm's length.

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

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

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

33. Related party transactions

All transactions with related parties presented below were arm's length transactions. Repayment terms are within a range from one month to ten years.

30 June 2013

Entity	Receivables	including loans	Liabilities	Total income	including interest and fee and commission	Total expense	including interest and fee and commission	Off-balance sheet liabilities granted
Agencja Inwestycyjna CORP-SA SA	69	-	-	319	-	47	-	-
Bank Pocztowy SA	-	-	198	32	26	355	-	3 561
CENTRUM HAFFNERA Sp. z o.o.	-	-	442	4	4	-	-	-
Centrum Majkowskiego Sp. z o.o.	-	-	81	3	3	-	-	-
Centrum Obsługi Biznesu Sp. z o.o.	31 158	31 158	17 263	650	650	210	210	146
Centrum Operacyjne Sp. z o.o.	-	-	22	1	1	-	-	-
Kamienica Morska Sp. z o.o. in liquidation	-	-	815	3	3	-	-	-
Kolej Gondolowa Jaworzyna Krynicka SA	3 526	3 526	3 982	104	104	60	60	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	20 168	1	1	144	144	-
Promenada Sopocka Sp. z o.o.	46 512	46 512	2 694	585	585	31	31	-
Sopot Zdrój Sp. z o.o.	223 943	223 943	5 147	2 832	2 832	42	42	-
Total	305 208	305 139	50 812	4 534	4 209	889	487	3 707

31 December 2012

Entity	Receivables	including loans	Liabilities	Total income	including interest and fee and commission	Total expense	including interest and fee and commission	Off-balance sheet liabilities granted
Agencja Inwestycyjna CORP-SA SA	61	-	-	690	-	86	-	-
Bank Pocztowy SA	-	-	91	93	78	1 160	285	1 409
CENTRUM HAFFNERA Sp. z o.o.	-	-	296	7	7	-	-	-
Centrum Majkowskiego Sp. z o.o.	-	-	593	6	6	-	-	-
Centrum Obsługi Biznesu Sp. z o.o.	30 010	30 010	18 975	1 015	1 015	626	569	144
Centrum Operacyjne Sp. z o.o.	-	-	21	3	3	-	-	-
Kamienica Morska Sp. z o.o.	-	-	11	6	6	-	-	-
Kolej Gondolowa Jaworzyna Krynicka SA	4 235	4 235	343	291	291	50	43	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	19 402	2	2	299	299	-
Promenada Sopocka Sp. z o.o.	43 857	43 857	5 225	1 205	1 205	721	152	-
Sopot Zdrój Sp. z o.o.	212 691	212 691	1 816	5 911	5 911	2 785	3	-
Total	290 854	290 793	46 773	9 229	8 524	5 727	1 351	1 553

Spółka Dystrybucyjna Banku Poczтового Sp. z o.o. was not presented in the table due to lack of mutual transactions with the Bank.

34. Personal related party transactions

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

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

35. Remuneration – PKO Bank Polski SA key management

a) short-term employee benefits

Remuneration received from PKO Bank Polski SA

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

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

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

* The amount includes remuneration from associates.

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b) post-employment benefits

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

c) other long-term benefits

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

d) benefits due to termination of employment

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

e) share-based payments

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

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

	30.06.2013	31.12.2012
The Management Board members	97	149
The Supervisory Board members of the Bank	2 283	2 314
Total	2 380	2 463

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

Remuneration received by members of the Management Board and the Supervisory Board of the PKO Bank Polski SA Group subsidiaries

	01.01 - 30.06.2013	01.01 - 30.06.2012
Short-term employee benefits		
The Management Board	8 610	10 271
The Supervisory Board	93	91
Total	8 703	10 362

36. The principles for determining the variable salary components policy for key management personnel in the Group

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

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

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

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

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

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

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

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As at 30 June 2013, the provision for variable salary components for key management personnel amounted to PLN 15 million, of which PLN 5 million related to remuneration of the Bank's Management Board. Under current regulations, in the first half of 2013, not deferred component was paid out - cash for key management personnel in the Bank except for the Bank's Management Board in the amount of PLN 3 million.

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

37. Changes to the entities of the Group

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

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

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

- Bankowy Fundusz Leasingowy SA (a subsidiary of PKO Bank Polski SA) changed its name to PKO Leasing SA and was registered with the National Court Register on 27 March 2013,
- Bankowy Leasing Sp. z o.o. changed its name to PKO Bankowy Leasing Sp. z o.o. and was registered with the National Court Register on 28 March 2013.

2) Increase in the share capital of PKO Leasing SA

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

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

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

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

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

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

4) Changes to the Qualia Development Sp. z o.o. Group

In the first half of 2013, the following events took place in the Qualia Development Sp. z o.o. Group:

- a) on 17 January 2013, by the Partners' Resolution of Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k., the amount of limited partner's - Qualia Development Sp. z o.o. contribution and the limited partnership amount was increased from PLN 1 thousand to PLN 441 thousand. The above mentioned changes were registered with the National Court Register on 13 February 2013,
- b) on 17 January 2013, by the Partners' Resolution of Qualia spółka z ograniczoną odpowiedzialnością - Jurata Sp. k., the amount of limited partner's - Qualia Development Sp. z o.o. contribution and the limited partnership amount was increased from PLN 1 thousand to PLN 2 551 thousand. The above mentioned changes were registered with the National Court Register on 13 February 2013,
- c) on 12 April 2013 all the terms and conditions of the agreement relating to the purchase of 44% of shares in the share capital of Sarnia Dolina Sp. z o.o. by Qualia Development Sp. z o.o. from Przedsiębiorstwo Robót Inżynieryjnych 'Pol-Aqua' SA were met; thus Qualia Development Sp. z o.o. became the sole shareholder of Sarnia Dolina Sp. z o.o. The above mentioned change was registered with the National Court Register on 16 May 2013,
- d) on 17 April 2013 Gięda Nieruchomości Wartościowych Sp. z o.o. was registered with the National Court Register; the Company's share capital amounts to PLN 5 thousand and consists of 100 shares at nominal value of PLN 50 each - 99 shares at total nominal value of PLN 4 950 were taken up by Qualia Development Sp. z o.o. and 1 share was taken up by Qualia Sp. z o.o.,
- e) on 16 May 2013 an increase in the share capital of Sarnia Dolina Sp. z o.o. of PLN 6 924 thousand was registered with the National Court Register. As a result of the above mentioned increase, the share capital of the Company amounts to PLN 6 974 thousand and consists of 13 948 shares, each of PLN 500 nominal value. The shares in the increased Company's share capital were acquired by Qualia Development SA (from 12 April 2013 the sole shareholder of the Company),
- f) the following additional contributions were made:
 - PKO Bank Polski SA made additional contribution to Qualia Development Sp. z o.o. in the amount of PLN 1 251 thousand,
 - Qualia Development Sp. z o.o. made additional contribution to Sarnia Dolina Sp. z o.o. in the amount of PLN 157.5 thousand,
 - Qualia Development Sp. z o.o. made additional contribution to Qualia - Residence Sp. z o.o. in the amount of PLN 73 thousand.

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

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

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

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

Detailed information regarding above mentioned agreement is included in Note 38 'The acquisition of the Nordea Bank AB (publ) Group entities by PKO Bank Polski SA'.

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

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

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

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

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

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

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

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

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

1) Nordea Bank Polska SA

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

2) Nordea Polska Towarzystwo Ubezpieczeń na Życie SA

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

3) Nordea Finance Polska SA

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

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

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

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

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

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

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

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The closing of the Transaction depends on the terms of closing of the transaction specified in the Agreement (suspensive conditions) which include, in particular:

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

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

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

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

39. Fair value of financial assets and financial liabilities

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

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

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

1) Level 1: Prices quoted on the active markets

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

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

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

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

- a) equity instruments measured at fair value through profit and loss and available for sale whose fair value is estimated in the following manner:
 - price of the last transaction concluded on the market, unless in the period between the date of the transaction and the end of reporting period there were significant changes in market conditions which might affect the price,
 - at valuation performed by a specialised external entity providing services of this kind,
- b) debt instruments measured at fair value through profit and loss and whose fair value is estimated in the following manner:
 - the method based on market prices of securities (the market value method),
 - the method based on market interest rate quotation (the yield curve method),
 - the method based on market prices of securities with similar financial characteristics (the reference asset value method),

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- c) debt instruments available for sale, whose fair value is estimated in the following manner:
- the method based on market prices of securities (the market value method),
 - the method based on market interest rate quotation (the yield curve method), adjusted for a risk margin equal to the margin specified in the issue terms. Material change in the market interest rates is reflected in the change in the fair value of such instruments,
 - the method based on market prices of securities with similar financial characteristics (the reference asset value method),
 - in case of securities whose fair value cannot be established with the use of the methods mentioned above, the fair value is determined based on the internal valuation model,
- d) derivative instruments for which fair value is estimated using techniques based on i.a. discounted cash flows models, options and yield curves models,
- e) debt securities in issue – financial instruments measured at fair value through profit and loss.

This group includes:

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

3) Level 3: Other valuation techniques

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

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

Assets and liabilities measured at fair value as at 30.06.2013	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	3 376 991	2 784 702	592 289	-
Debt securities	3 365 140	2 772 851	592 289	-
Shares in other entities	10 998	10 998	-	-
Investment certificates	853	853	-	-
Derivative financial instruments	3 324 374	6 044	3 318 330	-
Hedging instruments	224 780	-	224 780	-
Trade instruments	3 099 594	6 044	3 093 550	-
Financial assets designated upon initial recognition at fair value through profit and loss	12 661 245	1 761 214	10 900 031	-
Debt securities	12 661 245	1 761 214	10 900 031	-
Investment securities available for sale	13 720 351	9 581 026	3 980 332	158 993
Debt securities	13 515 542	9 527 930	3 980 332	7 280
Equity securities	204 809	53 096	-	151 713
Financial assets measured at fair value – total	33 082 961	14 132 986	18 790 982	158 993
Derivative financial instruments	3 684 673	1 655	3 683 018	-
Hedging instruments	660 870	-	660 870	-
Trade instruments	3 023 803	1 655	3 022 148	-
Debt securities in issue	423 193	-	423 193	-
Financial instruments measured at fair value through profit and loss	423 193	-	423 193	-
Financial liabilities measured at fair value – total	4 107 866	1 655	4 106 211	-

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Assets and liabilities measured at fair value as at 31.12.2012	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	277 566	277 566	-	-
Debt securities	273 576	273 576	-	-
Shares in other entities	3 237	3 237	-	-
Investment certificates	713	713	-	-
Rights issues	40	40	-	-
Derivative financial instruments	3 860 561	1 486	3 859 075	-
Hedging instruments	498 130	-	498 130	-
Trade instruments	3 362 431	1 486	3 360 945	-
Financial assets designated upon initial recognition at fair value through profit and loss	12 629 711	1 322 226	11 307 485	-
Debt securities	12 629 711	1 322 226	11 307 485	-
Investment securities available for sale	12 205 130	7 763 609	4 338 831	102 690
Debt securities	12 043 537	7 697 426	4 338 831	7 280
Equity securities	161 593	66 183	-	95 410
Financial assets measured at fair value - total	28 972 968	9 364 887	19 505 391	102 690
Derivative financial instruments	3 964 098	696	3 963 402	-
Hedging instruments	224 373	-	224 373	-
Trade instruments	3 739 725	696	3 739 029	-
Debt securities in issue	368 622	-	368 622	-
Financial instruments measured at fair value through profit and loss	368 622	-	368 622	-
Financial liabilities measured at fair value - total	4 332 720	696	4 332 024	-

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

01.01 -30.06.2013	Investment securities available for sale
As at the beginning of the period	102 679
Total gains or losses	5 174
total in other comprehensive income	5 174
taking up shares in the Company's increased share capital	51 140
As at the end of the period	158 993

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

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

Where there is no market value of financial instruments available, their fair values have been estimated with use of various valuation techniques. The fair value of financial instruments was measured using a model based on estimating the present value of future cash flows by discounting future cash flows using relevant interest rates. All model calculations include certain simplifying assumptions and therefore are sensitive to those assumptions.

Set out below is a summary of the main methods and assumptions used for estimation of fair values of financial instruments which are not presented at fair value.

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

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

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

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

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

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

The fair value of debt securities issued by PKO Finance AB has been estimated using Bloomberg data.

Interbank placements and deposits have been estimated based on the expected future cash flows discounted using the current interbank interest rates.

Receivables on financial lease have been estimated based on expected future cash flows discounted using internal rate of return for lease transactions of the same kind, concluded by the Group in the period directly preceding the balance date.

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

	30.06.2013		31.12.2012	
	carrying amount	fair value	carrying amount	fair value
Cash and balances with the central bank	5 658 046	5 658 046	10 289 451	10 289 451
Amounts due from banks	3 243 295	3 242 326	3 392 486	3 387 187
Loans and advances to customers	149 100 583	143 789 191	143 875 644	141 556 017
<i>housing loans</i>	73 305 079	70 007 485	70 564 433	69 665 325
<i>corporate loans</i>	54 074 415	53 111 774	50 654 164	50 398 091
<i>consumer loans</i>	19 654 323	18 604 255	20 583 096	19 421 917
<i>debt securities</i>	2 066 766	2 065 677	2 073 951	2 070 684
Securities held to maturity	49 624	49 912	46 971	46 687
Other financial assets	556 273	556 273	758 419	758 419
Amounts due to the central bank	3 858	3 858	3 128	3 128
Amounts due to banks	3 876 976	3 876 672	3 733 947	3 733 701
Amounts due to customers	149 242 633	149 231 410	146 193 570	146 188 433
<i>due to corporate entities</i>	28 036 784	28 036 933	31 868 251	31 868 263
<i>due to State budget entities</i>	4 451 268	4 451 268	3 458 897	3 458 897
<i>due to retail clients</i>	116 754 581	116 743 209	110 866 422	110 861 273
Debt securities in issue	10 516 047	10 715 661	9 902 161	10 369 806
Subordinated debt	1 624 355	1 607 752	1 631 256	1 638 663
Other financial liabilities	4 204 956	4 204 956	1 554 160	1 554 160

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

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

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS

41. Risk management in the Group

Risk management is one the most important internal processes both in PKO Bank Polski SA and other entities of the PKO Bank Polski SA Group, particularly in KREDOBANK SA and the PKO Leasing SA Group. Risk management aims at ensuring an appropriate level of security and profitability of business activity in the changing legal and economic environment and the level of the risks plays an important role in the planning process.

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

The process of banking risk management in the Group consists of the following stages:

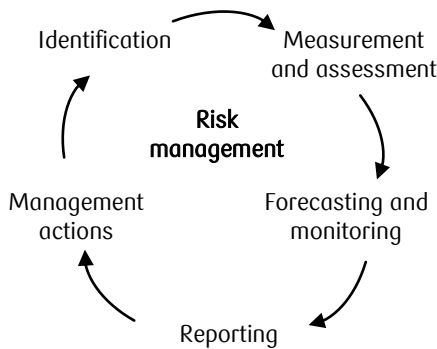
- risk identification – the identification of actual and potential sources of risk and estimation of the significance of the potential influence of a given type of risk on the financial situation of the Group. Within the risk identification process, types of risk perceived as material in the Bank's activity, the entities of the Group and the whole Group's activity are identified,
- risk measurement and assessment – defining risk assessment tools adequate to the type and significance of the risk, data availability and quantitative risk assessment by means of determined tools, as well as risk assessment aimed at identifying the scale or scope of risk, taking into account the achievement of goals of risk management. Within risk measurement, stress-test are being conducted on the basis of assumption providing a fair risk assessment,

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- risk forecasting and monitoring – preparing risk level forecasts and monitoring deviations from forecasts or adopted reference points (e.g. limits, thresholds, plans, measurements from the previous period, issued recommendations and suggestions). Risk monitoring is performed with the frequency adequate to the materiality and volatility of a specific risk type,
- risk reporting – periodic informing the authorities of the Bank about the results of risk assessment, taken actions and recommendations. Scope, frequency and the form of reporting are adjusted to the managing level of the recipients,
- management actions – including, among others, issuing internal regulations, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management. The objective of taking management actions is to form the risk management and the risk level.

The risk management process is described on the chart below:



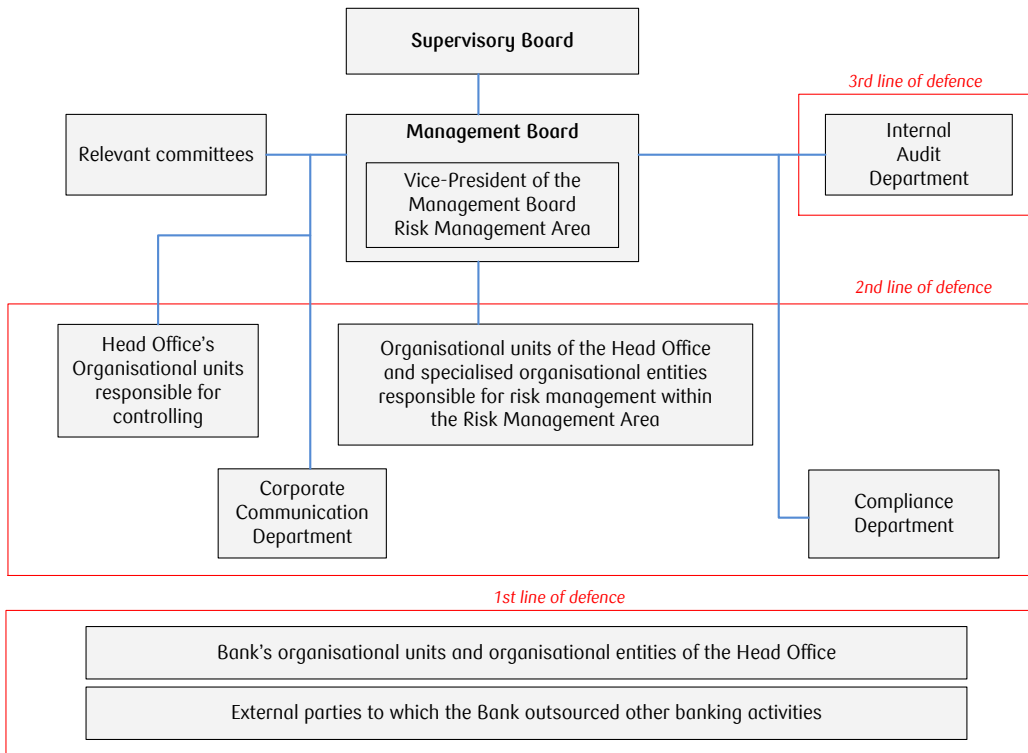
Risk management in the Group is based especially on the following principles:

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

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

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

The organisation of risk management chart



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SPÓŁKA AKCYJNA GROUP FOR THE SIX-MONTH PERIOD
ENDED 30 JUNE 2013 (IN PLN THOUSAND)**



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

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

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

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

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

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

The first line of defence is being performed, in particular, in the organisational units of the Bank, the organisational units of the Head Office and entities of the Group and concerns the activities of those units, cells and entities which may generate risk. The units, cells and entities of the Group are responsible for identifying risks, designing and implementing appropriate controls, unless controls have been implemented as part of the activities taken in the second line of defence. At the same time the Group entities are obliged to have comparable and cohesive systems of risk evaluation and control in the Bank and in the Group entities, taking into account the specific business characteristic of each entity and market conditions on which it operates.

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

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

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

The Banking Risk Division is responsible for:

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

The Model Validation Office is responsible for:

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

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

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

The Restructuring and Debt Collection Centre is responsible for:

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

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

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Risk management is supported by the following committees:

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

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

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

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

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

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

The ORC gives operational risk management opinions and recommendations for the Group entities, which are submitted to the companies of the PKO Bank Polski SA Group as part of the Bank's corporate governance over those entities.

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

The Bank supervises activities of the individual subsidiaries of the PKO Bank Polski SA Group. As part of this supervision, the Bank sets out and approves development strategies of the entities, including the level of the risk. The Bank also supervises the entities' risk management systems and provides support in the development of these systems. Additionally, it reflects business risk of the particular entities in the risk reporting and risk monitoring system of the entire Group.

The principles of management of certain types of risk in the entities of the Group are defined by internal regulations implemented by those entities, after consulting the Bank's opinion and having taken into account the recommendations issued to the entities by the Bank. The internal regulations of the entities concerning risk management allow for consistent and comparable assessment of particular types of risk within the Bank and entities of the Group, as well as reflect the specific nature of the entity's activity and the market on which it operates.

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

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

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

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

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

Identification of significant types of risk

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

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

Based on quantitative and qualitative information, an assessment of significance of given types of risk is performed in the Bank periodically. As a result of assessment, a given type of risk is being classified as significant/insignificant. Similar assessment is concluded periodically in the Group entities. Monitoring is conducted if significant change in activities or in the profile of the Bank or the PKO Bank Polski SA Group entities took place.

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Credit risk management

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

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

The Bank and subsidiaries of the Group apply the following principles of credit risk management:

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

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

The Group entities, which have significant credit risk levels (the KREDOBANK SA Group, the PKO Leasing SA Group, the BTK SA Group, 'Inter-Risk Ukraina' Sp. z d.o.) manage their credit risk individually, but the methods used by them for credit risk assessment and measurement are adjusted to the methods used by PKO Bank Polski SA, taking into account the specific nature of the activities of these companies.

Any changes to the solutions used by the Group's subsidiaries are agreed every time with the Bank's units responsible for risk management.

The PKO Leasing SA Group, the BTK SA Group, the KREDOBANK SA Group and „Inter-Risk Ukraina” Sp. z d.o. Group measure credit risk regularly and the results of such measurements are submitted to the Bank.

The KREDOBANK SA Group, the PKO Leasing SA Group and the BTK Group have units responsible for risk in their organisational structures, which are in particular responsible for:

- developing methods of credit risk assessment, recognising provisions and allowances,
- controlling and monitoring credit risk during the lending process,
- the quality and efficiency of restructuring and enforcement of the amounts due from clients.

In these companies, the credit decision limits depend primarily on: the amount of the exposure to a given client, the amount of an individual credit transaction and the period of credit transaction.

The process of credit decision-making at the KREDOBANK SA Group, the PKO Leasing SA Group and the BTK SA Group is supported by credit committees, which are involved in the case of transactions which generate increased credit risk.

Appropriate organisational units of the Banking Risk Division participate in managing the credit risk in the Group entities by giving their opinions on projects and periodically reviewing internal regulations of these companies relating to the assessment of credit risk and preparation of recommendations relating to amendments in the drafts of regulations. The Bank supports implementation of the recommended changes in principles for assessing credit risk in the Group entities.

Measurement of credit risk

Credit risk measurement methods

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Forecasting and monitoring of credit risk

The Group's exposure to credit risk

Amounts due from banks	Exposure	
	30.06.2013	31.12.2012
Amounts due from banks impaired, of which:	31 666	29 373
assessed on an individual basis	31 438	29 373
Amounts due from banks not impaired, of which:	3 244 164	3 392 495
not past due	3 244 164	3 392 495
Gross total	3 275 830	3 421 868
Impairment allowances	(32 535)	(29 382)
Net total by carrying amount	3 243 295	3 392 486

Loans and advances to customers	Exposure	
	30.06.2013	31.12.2012
Loans and advances impaired, of which:	14 169 147	13 445 809
assessed on an individual basis	6 603 210	6 506 653
Loans and advances not impaired, of which:	142 177 220	137 206 100
not past due	138 274 139	132 358 709
past due	3 903 081	4 847 391
past due up to 4 days	883 818	1 791 011
past due over 4 days	3 019 263	3 056 380
Gross total	156 346 367	150 651 909
Impairment allowances	(7 245 784)	(6 776 265)
Net total by carrying amount	149 100 583	143 875 644

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Investment securities available for sale - debt securities	Exposure	
	30.06.2013	31.12.2012
Debt securities impaired, of which:	-	5 536
assessed on an individual basis	-	5 536
Debt securities not impaired, of which:	13 515 542	12 043 537
not past due	13 515 542	12 043 537
with external rating	9 850 021	7 953 371
with internal rating	3 665 521	4 090 166
Gross total	13 515 542	12 049 073
Impairment allowances	-	(5 536)
Net total by carrying amount	13 515 542	12 043 537

Level of exposure to credit risk

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

Items of the statement of financial position	30.06.2013	31.12.2012
Current account in the central bank	2 838 595	7 550 898
Amounts due from banks	3 243 295	3 392 486
Trading assets - debt securities	3 365 140	273 576
issued by the State Treasury	3 281 200	216 521
issued by local government bodies	43 441	26 673
issued by non-financial institutions	29 980	15 064
issued by financial institutions	9 308	13 947
issued by banks	1 211	1 371
Derivative financial instruments	3 324 374	3 860 561
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	12 661 245	12 629 711
issued by central banks	10 394 854	9 995 300
issued by the State Treasury	2 011 806	2 377 883
issued by local government bodies	254 585	256 528
Loans and advances to customers	149 100 583	143 875 644
financial sector (other than banks)	1 322 640	720 944
corporate loans	1 322 640	720 944
non-financial sector	140 096 598	135 490 122
housing loans	73 300 153	70 564 433
corporate loans	46 236 216	43 441 331
consumer loans	19 654 323	20 583 096
debt securities	905 906	901 262
public sector	7 681 345	7 664 578
corporate loans	6 515 559	6 491 889
debt securities	1 160 860	1 172 689
housing loans	4 926	-
Investment securities - debt securities	13 515 542	12 043 537
issued by the State Treasury	9 777 979	7 902 479
issued by local government bodies	2 639 446	2 780 212
issued by non-financial institutions	1 031 194	1 309 954
issued by banks	66 923	50 892
Investment securities held to maturity	49 624	46 971
issued by the State Treasury	29 392	27 843
issued by banks	20 232	19 128
Other assets - other financial assets	556 273	758 419
Total	188 654 671	184 431 803
Off-balance sheet items	30.06.2013	31.12.2012
Irrevocable liabilities granted	7 781 062	7 871 614
Guarantees granted	6 049 997	6 535 055
Guarantees of issue	3 969 789	3 469 465
Letters of credit granted	352 041	372 615
Total	18 152 889	18 248 749

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

	30.06.2013	31.12.2012
Amounts due from banks	31 438	29 373
Loans and advances to customers	6 603 210	6 506 653
Financial sector, corporate loans	38 336	36 113
Non-financial sector	6 558 665	6 464 331
corporate loans	4 632 407	4 594 172
housing loans	1 799 207	1 765 592
consumer loans	127 051	104 567
Public sector, corporate loans	6 209	6 209
Investment securities available for sale	109	5 639
issued by financial entities	9	8
issued by non-financial entities	100	5 631
Total	6 634 757	6 541 665

Allowances for credit losses

The PKO Bank Polski SA Group performs a monthly review of loan exposures in order to identify loan exposures threatened with impairment, measure the impairment of loan exposures and record impairment charges or provisions. The process of determining the impairment charges and provisions consists of the following stages:

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

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

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

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

The PKO Bank Polski SA Group applies three methods of estimating impairment:

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

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

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

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

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

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

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

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

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

The structure of the loan portfolio and loan exposures impairment allowances of the PKO Bank Polski SA Group are presented in Note 18 'Loans and advances to customers'.

Concentration of credit risk within the Group

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

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

Concentration by the largest business entities

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

As at 30 June 2013 and as at 31 December 2012, concentration limits had not been exceeded. As at 30 June 2013, the level of concentration risk in the Group with respect to individual exposures was low - the largest exposure to a single entity was equal to 9.6% and 8.9% of own consolidated funds. Among 20 largest borrowers of the Group there are exclusively clients of PKO Bank Polski SA.

Concentration by the largest capital groups

The greatest exposure of the PKO Bank Polski SA Group towards a group of borrowers amounted to 1.58% of the Group loan portfolio. The 5 largest capital groups include only clients of PKO Bank Polski SA.

As at 30 June 2013, the concentration of risk by the capital groups was low. The greatest exposure of the Group amounted to 14.8% and 10.1% of consolidated own funds.

Concentration by industry

As compared with 31 December 2012 the exposure of the Group in industry sectors has increased by near PLN 3.3 billion. The total exposure in the four largest industry sectors: 'Industrial processing', 'Wholesale and retail trade (...)', 'Maintenance of real estate' and 'Construction' amounted to approx. 61% of the total loan portfolio covered by an analysis of the sector.

Concentration by geographical regions

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

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

Concentration of credit risk by currency

As at 30 June 2013, the share of exposure in convertible currencies, other than PLN, in the total loan portfolio of the Group amounted to 21.8%. An increase in share of loans denominated in foreign currencies in the first half of 2013 is a result of an increase in foreign exchange rates and an increase in new sales of loans offered to corporate clients granted in foreign currencies.

The greatest part of the Group's currency exposures are those in CHF and they relate mainly to the currency loan portfolio of the Bank. In case of particular Group entities, the situation is different, i.e. for the PKO Leasing SA Group and BTK SA, the greatest currency exposures are those in EUR (95% and 86% of currency loan portfolio of these Groups, respectively). Whereas, for the KREDOBANK SA Group and the Inter-Risk Ukraina Sp. z d.o. Group - USD denominated loans constitutes the largest part (58% and 77% of the currency loan portfolio of these Groups, respectively).

Significant concentration risk was identified in the Inter-Risk Ukraina Sp. z d.o. Group, and resulted from the character of the Ukrainian market, where due to weak local currency the majority of loans are granted in a foreign currency.

Other types of concentration

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

As at 30 June 2013 and as at 31 December 2012, these limits have not been exceeded.

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Credit risk reporting

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

Management actions concerning credit risk

Basic credit risk management tools used by the Bank include:

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

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

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

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

The policy regarding legal collateral is defined by internal regulations of the Group's subsidiaries.

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

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

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

When signing a leasing agreement, the PKO Leasing SA Group, as a proprietor of leased objects, treats them as collateral.

Interest rate risk management

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

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

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Measurement of interest rate risk

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

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

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

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

Two types of scenarios are used by the Bank:

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

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

Forecasting and monitoring of interest rate risk

As at 30 June 2013 and 31 December 2012, the exposure of the PKO Bank Polski SA Group to the interest rate risk comprised mainly of the exposure of the Bank. Interest rate risk generated by the Group entities with regard to PLN, EUR and CHF did not have a significant effect on the interest rate risk of the entire Group and therefore did not significantly affect its risk profile. Interest rate risk with regard to USD was significantly altered by exposure of the Group entities, in which the biggest part has the exposure of KREDOBANK SA.

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

Name of sensitivity measure	30.06.2013	31.12.2012
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)*	157 634	64 451
Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress-test)**	497 097	270 818

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to approx. PLN 18 852 thousand as at 30 June 2013 and PLN 14 287 thousand as at 31 December 2012.

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

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

Reporting of the interest rate risk

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

Management decisions as regards interest rate risk

The main tools used in interest rate risk management in the Group include:

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

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

Methods of interest rate risk management in the Group's subsidiaries are defined by internal regulations implemented by those entities which are characterised by significant values of interest rate risk measure outcomes. These regulations are developed after consultation with the Bank and include recommendations issued by the Bank for the Group entities.

Currency risk management

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

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

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Measurement of currency risk

The Group measures currency risk using the Value at Risk (VaR) model and stress tests.

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

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

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

Forecasting and monitoring of currency risk

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

Name of sensitivity measure	30.06.2013	31.12.2012
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)*	642	628
Change in FX rates by 20% (in PLN thousand) (stress-test)**	20 937	32 581

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk as well as the specific nature of the market on which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day VaR, which amounted to approx. PLN 392 thousand as at 30 June 2013 and approx. PLN 614 thousand as at 31 December 2012.

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

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

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

Currency position	30.06.2013	31.12.2012
EUR	478	(13 818)
USD	(167 328)	(153 155)
CHF	(18 884)	(20 180)
GBP	(342)	4 653
Other (Global Net)	17 168	15 609

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

Reporting of currency risk

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

Management decisions concerning currency risk

The main tools used in currency risk management in the Group include:

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

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

Methods of currency risk management in the Group's subsidiaries are defined by internal regulations implemented by these entities, which are characterised by high level of currency risk measure outcomes. The regulations are defined after consultation with the Bank and taking into account recommendations issued by the Bank to the entities.

Liquidity risk management

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

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

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

Measurement of liquidity risk

The Group makes use of the following liquidity risk measures:

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

Forecasting and monitoring of liquidity risk

Liquidity gaps presented below include the sum of Bank's adjusted liquidity gap (adjusted i.a. the Bank's statement of financial position items in terms of the following: core balances on deposits of non-financial sector and their maturity, core balances on loans in current accounts for non-financial entities and their maturity and liquid securities and their maturity) and contractual liquidity gap of the other Group entities.

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
30.06.2013								
The Group - adjusted gap in real terms	4 605 112	14 448 179	(918 022)	(32 695)	(4 985 795)	9 140 891	16 100 477	(38 358 147)
The Group - cumulative adjusted gap in real terms	4 605 112	19 053 291	18 135 269	18 102 574	13 116 779	22 257 670	38 358 147	-
31.12.2012								
The Group - adjusted gap in real terms	10 386 244	6 857 506	25 124	3 044 679	2 005 333	9 159 462	11 851 101	(43 329 449)
The Group - cumulative adjusted gap in real terms	10 386 244	17 243 750	17 268 874	20 313 553	22 318 886	31 478 348	43 329 449	-

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

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

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

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

As at 30 June 2013 the level of core balances on deposits constituted approx. 94.3% of all deposits in the Bank (excluding interbank market), which means a increase by approximately 1.0 p.p. as compared to the end of 2012.

Reporting of liquidity risk

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

Management decisions concerning liquidity risk

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

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

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

Methods of liquidity risk management in the subsidiaries of the Group are defined by internal regulations implemented by the entities which are characterised by high levels of liquidity risk measure outcomes.

* The PKO Bank Polski SA Group's liquidity gap in real terms has been determined as the sum of PKO Bank Polski SA's liquidity gap in real terms and contractual liquidity gaps of the remaining entities of the PKO Bank Polski SA Group.

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These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank to the entities.

Commodity price risk management

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

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

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

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

Price risk of equity securities management

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

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

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

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

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

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

Other price risks

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

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

Derivative instruments risk management

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

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

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

Measurement of derivative instruments risk

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

In the measurement of the other Group entities' derivative-related risk, information on the companies' positions in specific instruments is used, as indicated by the Bank.

Forecasting and monitoring of derivative instruments risk

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

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

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Reporting of derivative instruments risk

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

Management decisions concerning risk of derivative instruments

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

- written procedures for derivative risk management,
- limits and thresholds set for the risk related to derivative instruments,
- master agreements specifying, i.a., settlement mechanisms.

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

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

Methods of derivative risk management in the Group's subsidiaries are defined by internal regulations implemented by these entities which take up a position in derivative instruments or plan to take positions in such instruments. These regulations are developed after consultation with the Bank and take into account the recommendations issued by the Bank for the entities.

Positions taken by the other Group entities in particular derivative instruments are determined using similar methods to those used for positions taken by the Bank in such instruments, taking into account the specific nature of the business conducted by the entities.

Operational risk management

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

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

Measurement of operational risk

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

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

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

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

Forecasting and monitoring of operational risk

The Bank regularly monitors:

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

In 2012, the dominant impact on the operational risk profile of the Group was exercised by the following 3 entities: PKO Bank Polski SA, the PKO Leasing SA Group and KREDOBANK SA. The other Group entities, considering their significantly smaller scale and type of activity, generate only reduced operational risk. The Group's subsidiaries manage operational risk according to principles of risk management in PKO Bank Polski SA, considering their specific nature and scale of activity.

Reporting of operational risk

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

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

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

Management decisions concerning operational risk

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

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

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

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

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

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

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

The Group entities manage the operational risk in accordance with the rules implemented in PKO Bank Polski SA, taking into account the specific nature and scale of the business conducted by individual entities.

Compliance risk management

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

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

Appropriate organisational units or designated employees are responsible for finding systemic solutions in the area of ensuring the Group entities compliance with the binding regulations and operating standards. The rules concerning the process of compliance risk management adopted by the all Group entities are inherent within the PKO Bank Polski SA Group.

Compliance risk management involves in particular the following:

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

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

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

Identification and assessment of compliance risk is mainly based on:

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

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

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Monitoring of compliance risk is conducted with the use of information submitted by the Companies and consists of:

- the analysis of non-compliance events in the Group, the reasons for their occurrence and their effects,
- the assessment of amendments in key legal regulations which have an impact on the Group's activity,
- the assessment of actions taken by the Group in respect of managing compliance risk.

Reporting of information concerning compliance risk includes both the Bank, and the Group entities. Reports prepared quarterly contain information, including cases of non-compliance, passed by the Group entities. Reports are addressed to the Bank's Management Board, the Bank's Supervisory Board, and the Supervisory Board's Audit Committee. Reports contain among others the information on:

- the results of identifying and assessing compliance risk,
- the non-compliance events,
- the key amendments in regulatory environment.

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

Business risk management

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

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

Business risk measurement

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

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

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

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

Forecasting and monitoring of business risk

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

Monitoring of business risk includes in particular:

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

Reporting of business risk

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

Management decisions concerning business risk

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

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

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Reputation risk management

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

Reputation risk management in the Bank includes mainly:

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

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

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

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

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

If DAO recognises reputation risk in Companies as significant, according to separate internal regulations of the Bank related to identification and monitoring of significant risk types, the way of reputation risk management in Companies will be determined by the applicable internal regulations implemented by Companies.

Model risk management

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

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

Identification and assessment of model risk

Identification of model risk in the Bank mainly consists of:

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

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

The model risk evaluation is aimed at determining the scale of threats associated with the occurrence of the model risk. Assessment of the risk level of particular elements important from the model's point of view, risk assessment on the level of a single model and aggregate assessment of the model risk level is carried out in the Bank. Ratings may be aggregated mainly at the level of the Bank, particular risk types or classes of models, particular processes of model life-cycle. The model risk assessment is performed at least once a year and at the moment of appearing of new models, change the scale or business profile of the Bank.

Model risk monitoring

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

Model risk reporting

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

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

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Management actions concerning model risk

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

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

Macroeconomic changes risk management

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

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

Identification and assessment of risk of macroeconomic changes

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

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

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

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

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

Macroeconomic changes risk monitoring

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

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

Macroeconomic changes risk reporting

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

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

Management actions concerning risk of macroeconomic changes

Management actions in particular consist of:

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

Complex stress-tests

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

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

- credit risk,
- market risk,
- liquidity risk,

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- operational risk,
- business risk.

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

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

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

42. Capital adequacy

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

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

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

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

The main measures of capital adequacy are:

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

As at 30 June 2013 compared with 31 December 2012, the Group's capital adequacy ratio increased by 0.44 pp. to the level of 13.51%, mainly due to an increase in the Group's own funds calculated for the purposes of capital adequacy compared with the increase of capital requirements.

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

Own funds for the capital adequacy purposes

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

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

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

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

Basic funds are reduced by deducting the following items:

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

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

- 1) subordinated liabilities,
- 2) unrealised gains on debt and equity instruments classified as available for sale – in the amount of 80% of their pre-tax value,
- 3) positive currency translation differences from foreign operations.

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

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

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

In addition, the following items are included in the calculation of consolidated own funds of the Group:

- 1) goodwill of subsidiaries,
- 2) non-controlling interests.

As at 30 June 2013, the Group's own funds increased by PLN 1 194 569 thousand, mainly as a result of including in the funds the Bank's profit from the previous year and the Bank's net profit for 2012, net of dividend paid (of PLN 1 431 150 thousand). Compared with the balance as at the end of 2012, the value of the Group's loss from previous years decreased by PLN 47 425 thousand. Simultaneously, the value of items reducing own funds in respect of unrealised losses on debt and equity securities and other receivables in the investment securities available for sale portfolio increased by PLN 139 415 thousand, equity exposures by PLN 56 268 thousand, and intangible assets by PLN 49 545 thousand, with a decrease in the value of foreign exchange losses of PLN 11 205 thousand and in unrealised profits on debt and equity instruments in the investment securities available for sale portfolio of PLN 21 455 thousand compared with the balance as the end of 2012.

The structure of the Group's own funds is presented in the table below:

GROUP'S OWN FUNDS	30.06.2013	31.12.2012
Basic funds (Tier 1)	20 080 649	18 788 075
Share capital	1 250 000	1 250 000
Reserve capital	16 781 613	15 364 728
Other reserves	3 469 107	3 437 957
General banking risk fund for unidentified banking activities risk	1 070 000	1 070 000
Unappropriated profits from previous years, profit in the course of approval less any expected charges	(55 915)	(103 340)
Unrealised losses on debt and equity instruments and other receivables classified as available for sale	(216 519)	(77 104)
Assets valuation adjustments in trading portfolio	(437)	(504)
Intangible assets, of which:	(1 983 545)	(1 934 000)
goodwill of subordinated entities	(221 118)	(222 438)
Equity exposures	(126 249)	(98 115)
Negative currency translation differences from foreign operations	(110 004)	(121 209)
Non-controlling interest	2 598	(338)
Supplementary funds (Tier 2)	1 522 970	1 573 276
Subordinated liabilities classified as supplementary funds	1 600 700	1 600 700
Unrealised profits on debt and equity instruments classified as available for sale (up to 80% of their values before tax)	48 332	69 787
Positive currency translation differences from foreign operations	187	904
Equity exposures	(126 249)	(98 115)
Short-term equity (Tier 3)	81 942	129 641
TOTAL OWN FUNDS	21 685 561	20 490 992

Capital requirements (Pillar 1)

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

- in respect of credit risk - using the standard method,
- in respect of the Bank's operational risk - using the advanced method (AMA), and for the Group entities - the basic index approach (BIA),
- in respect of market risk - using the basic methods.

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

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

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

Capital requirements	30.06.2013	31.12.2012
Credit risk	11 667 699	11 387 017
credit risk (banking book)	11 508 963	11 223 185
counterparty risk (trading book)	158 736	163 832
Market risk	525 965	494 551
equity securities price risk	634	586
specific risk of debt instruments	411 426	412 110
general risk of interest rates	113 905	81 855
Operational risk	644 861	659 587
Total capital requirements	12 838 525	12 541 155
Capital adequacy ratio	13.51%	13.07%

An increase in the capital requirement in the first half of 2013 in respect of credit risk by approx. PLN 281 million (an increase by approx. 2.5%) resulted mainly from an increase in the volume of loan portfolio (statement of financial position and off-balance-sheet exposures) by approx. 3.5%.

In the first half of 2013 there was a slight increase in the capital requirement in respect of market risk by approx. 6%, to the level of PLN 526 million, mainly due to changes in the Group's exposures arising from derivative instruments and the State Treasury instruments.

A slight decrease in the requirement for operational risk by ca. 2% to the level of PLN 645 million is due to a decrease in the requirement of the Bank calculated under the advanced measurement approach (AMA) and change of the basis for calculating the requirement using the basic index approach (BIA) for the Group entities, which, for the requirement for 2012, was the average gross profit of the entities for the years 2009-2011, while for the first half of 2013 it was the average gross profit of the Group entities for the years 2010-2012.

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

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

Internal capital (Pillar 2)

The principles of calculation of internal capital in the PKO Bank Polski SA Group were presented in the annual consolidated financial statements of the PKO Bank Polski SA Group for 2012.

Disclosures (Pillar 3)

In accordance with § 6 of the Resolution No. 385/2008 of the Polish Financial Supervision Authority dated 17 December 2008, on the detailed principles and methods for banks to disclose qualitative and quantitative information concerning capital adequacy and the scope of the information to be announced (PFSA's Journal of Laws 2008 of 31 December 2008, No. 8, item 39 with subsequent amendments), PKO Bank Polski SA, which is the parent company within the meaning of § 3 of the Resolution, publishes information about capital adequacy in a separate document on an annual basis, not later than within 30 days of the date of authorisation of the annual financial statements by the Ordinary General Shareholders' Meeting.

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

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

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EVENTS AFTER THE REPORTING PERIOD

43. Events after the reporting period

1. Due to performance of the contract for the share purchase of the entities of the Nordea Group in Poland:
 - a. PKO Bank Polski SA submitted applications to the Competition and Consumer Protection Office (11 July 2013), the Polish Financial Supervision Authority (11 July 2013) and the Ukrainian Antimonopoly Committee (12 July 2013),
 - b. on 8 August 2013, the Extraordinary General Shareholders' Meeting of Nordea Bank Polska SA passed resolution i.a.:
 - on the single issue of 20 million registered subscription warrants of A series entitling its holder to take up, on terms specified in the resolution, a total of not more than 20 million registered ordinary shares of N series of this Bank at total nominal value of PLN 100 million and a conditional increase of share capital of Nordea Bank Polska SA by an amount not higher than PLN 100 million through the issue of N series shares to grant rights to take up shares of this series for holders of subscription warrants that will be issued pursuant to this Resolution; entitled to take up subscription warrants of A series will be only entity on whose demand to subscribe for sale of Nordea Bank Polska SA shares, shareholders of this Bank, holding not less than 99% of votes at the General Shareholders' Meeting (Resolution No. 3) will answer,
 - on the conditional appointment to the Supervisory Board of Nordea Bank Polska SA of representatives of PKO Bank Polski SA Misters: Zbigniew Jagiełło, Jakub Papierski, Bartosz Drabikowski, Piotr Alicki, Paweł Borys and Jarosław Orlikowski, with effect at 12.00 AM on the last day call for subscribe for sale of shares of the above mentioned Bank, announced by PKO Bank Polski SA (Resolution No. 2).
2. On 19 July 2013, there was a transfer of assets of OFE Polsat to PKO BP Bankowy OFE and thus the merger process of above mentioned Open Pension Funds was completed. Savings collected by Members of OFE Polsat were converted and fully transferred to accounts of these Members of PKO BP Bankowy OFE.
3. On 31 July 2013, the Extraordinary General Shareholders' Meeting of PKO Leasing SA (a subsidiary of the Bank) passed a resolution on the acquisition of 100% shares in a capital company established with registered office in Sweden. Main activity of the Company will be leasing business. There are ongoing works related to the establishment of the above mentioned Company.
4. On 21 August 2013, the Extraordinary General Shareholders' Meeting of Qualia Development Sp. z o.o. (a subsidiary of the Bank) passed a resolution on share capital increase of PLN 20 348 thousands and return of capital contributions of PKO Bank Polski SA in the amount of PLN 215 460 thousands. All shares in the increased share capital of the Company will be taken up by PKO Bank Polski SA.

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

Signatures of all Members of the Management Board

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

Signature of person responsible for
maintaining the books of account

26.08.2013

Danuta Szymańska
Director of the Accounting Division

.....
(signature)