Bank Pekao

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

Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2013

Warsaw, March 2014

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Unconsolidated income statement

(In PLN thousand)

	NOTE	2013	2012 RESTARTED
Interest income	7	6 496 123	8 039 332
Interest expense	7	(2 185 599)	(3 387 999)
Net interest income		**4 310 524**	**4 651 333**
Fee and commission income	8	2 415 501	2 414 622
Fee and commission expense	8	(504 204)	(524 145)
Net fee and commission income		**1 911 297**	**1 890 477**
Dividend income	9	**143 779**	**168 534**
Result on financial assets and liabilities held for trading	10	**456 378**	**489 185**
Result on fair value hedge accounting	26	**(17 423)**	**(35 751)**
Gains (losses) on disposal of:	11	**305 139**	**279 253**
loans and other financial receivables		(67)	758
available for sale financial assets and held to maturity investments		308 355	278 798
financial liabilities		(3 149)	(303)
Operating income		**7 109 694**	**7 443 031**
Net impairment losses on financial assets and off-balance sheet commitments:	15	**(622 971)**	**(596 555)**
loans and other financial receivables		(631 837)	(587 798)
off-balance sheet commitments		8 866	(8 757)
Net result on financial activity		**6 486 723**	**6 846 476**
Administrative expenses	12	**(2 911 645)**	**(2 990 834)**
personnel expenses		(1 678 609)	(1 690 625)
other administrative expenses		(1 233 036)	(1 300 209)
Depreciation and amortization	13	**(326 663)**	**(343 289)**
Net result on other provisions		**13 831**	**(16 062)**
Net other operating income and expenses	14	**85 493**	**75 163**
Operating costs		**(3 138 984)**	**(3 275 022)**
Gains (losses) on subsidiaries and associates	16	**69 972**	**(855)**
Gains (losses) on disposal of property, plant and equipment, and intangible assets	17	**18 689**	**22 327**
Profit before income tax		**3 436 400**	**3 592 926**
Income tax expense	18	**(636 400)**	**(667 672)**
Net profit for the period		**2 800 000**	**2 925 254**
Earnings per share (in PLN per share)	19		
basic for the period		10.67	11.15
diluted for the period		10.67	11.15

Notes to the financial statements presented on pages 10 – 136 and annexes to the financial statements presented on pages I - VII constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of comprehensive income

(In PLN thousand)

	NOTE	2013	2012 RESTARTED
Net profit		**2 800 000**	**2 925 254**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		(150)	(135)
Change in fair value of available-for-sale financial assets		(557 838)	760 591
Change in fair value of cash flow hedges		34 832	(40 119)
Tax on items that are or may be reclassified subsequently to profit or loss	18	99 371	(136 889)
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liabilities		(41 504)	2 674
Tax on items that will never be reclassified to profit or loss	18	7 886	(508)
Other comprehensive income (net of tax)		**(457 403)**	**585 614**
Total comprehensive income		**2 342 597**	**3 510 868**

Notes to the financial statements presented on pages 10 – 136 and annexes to the financial statements presented on pages I - VII constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of financial position

(In PLN thousand)

	NOTE	31.12.2013	31.12.2012 RESTARTED	01.01.2012 RESTARTED
ASSETS				
Cash and due from Central Bank	21	4 191 223	9 207 268	4 886 074
Bill of exchange eligible for rediscounting at Central Bank		230	159	100
Loans and advances to banks	22	7 653 801	4 096 454	5 648 899
Financial assets held for trading	23	188 377	614 719	849 711
Derivative financial instruments (held for trading)	24	1 999 346	2 650 577	2 252 962
Loans and advances to customers	25	100 569 013	94 606 879	91 915 458
Hedging instruments	26	250 186	367 890	408 906
Investment (placement) securities	27	34 845 508	28 587 056	29 018 866
1. Available for sale		32 956 784	25 808 501	25 345 366
2. Held to maturity		1 888 724	2 778 555	3 673 500
Assets held for sale	29	32 587	1 564 477	2 015 733
Investments in subsidiaries	30	793 113	793 113	793 268
Investments in associates	31	29 427	29 427	39 345
Intangible assets	32	601 571	644 445	675 747
Property, plant and equipment	33	1 564 688	1 642 140	1 736 128
Investment properties	34	25 981	28 071	58 778
Income tax assets		777 715	620 740	699 219
1. Current tax receivable		97 549	4 981	-
2. Deferred tax assets	18	680 166	615 759	699 219
Other assets	35	1 763 864	1 613 509	1 206 366
TOTAL ASSETS		**155 286 630**	**147 066 924**	**142 205 560**
EQUITY AND LIABILITIES				
Liabilities				
Amounts due to Central Bank	21	985	-	356 386
Amounts due to other banks	37	4 754 732	6 305 678	4 072 409
Financial liabilities held for trading	23	309 742	246 578	-
Derivative financial instruments (held for trading)	24	2 054 385	2 629 496	2 506 700
Amounts due to customers	38	119 868 743	108 104 514	108 004 745
Hedging instruments	26	1 007 884	1 226 781	1 738 549
Fair value hedge adjustments of hedged items due to interest rate risk		2 084	11 328	(17 475)
Debt securities issued	39	2 240 452	3 966 148	2 402 614
Income tax liabilities		-	74 508	192 681
1. Current income tax payable		-	74 508	192 681
2. Deferred tax liabilities		-	-	-
Provisions	40	391 396	373 490	345 368
Other liabilities	41	1 807 524	1 411 793	1 989 316
TOTAL LIABILITIES		**132 437 927**	**124 350 314**	**121 591 293**
Equity				
Share capital	46	262 470	262 470	262 382
Other capital and reserves	47	19 970 192	19 699 944	17 696 570
Retained earnings and profit for the period	47	2 616 041	2 754 196	2 655 315
TOTAL EQUITY		**22 848 703**	**22 716 610**	**20 614 267**
TOTAL LIABILITIES AND EQUITY		**155 286 630**	**147 066 924**	**142 205 560**

Notes to the financial statements presented on pages 10 – 136 and annexes to the financial statements presented on pages I - VII constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of changes in equity

(In PLN thousand)

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES							RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES FROM FINANCIAL INSTRUMENTS	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER		
Note	46	47							47	
Equity as at 1.01.2013 (restarted)	**262 470**	**19 699 944**	**9 137 221**	**1 737 850**	**8 073 570**	**506 966**	**1 388**	**242 949**	**2 754 196**	**22 716 610**
Management options	**-**	**(9 490)**	**-**	**-**	**-**	**-**	**-**	**(9 490)**	**-**	**(9 490)**
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-
Revaluation of management share options	-	(9 490)	-	-	-	-	-	(9 490)	-	(9 490)
Comprehensive income	**-**	**(457 403)**	**-**	**-**	**-**	**(457 253)**	**(150)**	**-**	**2 800 000**	**2 342 597**
Remeasurements of the defined benefit liabilities net of tax	-	(33 618)	-	-	-	(33 618)	-	-	-	(33 618)
Revaluation of available-for-sale investments net of tax	-	(451 849)	-	-	-	(451 849)	-	-	-	(451 849)
Revaluation of hedging financial instruments net of tax	-	28 214	-	-	-	28 214	-	-	-	28 214
Foreign currency translation differences	-	(150)	-	-	-	-	(150)	-	-	(150)
Net profit for the period	-	-	-	-	-	-	-	-	2 800 000	2 800 000
Appropriation of retained earnings	**-**	**736 031**	**-**	**200 000**	**536 031**	**-**	**-**	**-**	**(2 938 155)**	**(2 202 124)**
Dividend paid	-	-	-	-	-	-	-	-	(2 202 124)	(2 202 124)
Profit appropriation	-	736 031	-	200 000	536 031	-	-	-	(736 031)	-
Other	**-**	**1 110**	**-**	**-**	**1 110**	**-**	**-**	**-**	**-**	**1 110**
Sale of shares in PJSC UniCredit Bank	-	1 110	-	-	1 110	-	-	-	-	1 110
Equity as at 31.12.2013	**262 470**	**19 970 192**	**9 137 221**	**1 937 850**	**8 610 711**	**49 713**	**1 238**	**233 459**	**2 616 041**	**22 848 703**

Notes to the financial statements presented on pages 10 – 135 and annexes to the financial statements presented on pages I - VII constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of changes in equity (cont.)

(In PLN thousand)

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES							RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES FROM FINANCIAL INSTRUMENTS	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER		
Note	46	47							47	
Equity as at 1.01. 2012 (as previously reported)	**262 382**	**17 709 907**	**9 126 501**	**1 537 850**	**6 859 286**	**(65 446)**	**1 523**	**250 193**	**2 826 373**	**20 798 662**
Impact of change in accounting policy in respect to bancassurance revenue recognition (Note 3.2)	-	-	-	-	-	-	-	-	(184 395)	(184 395)
Impact of change in accounting policy due to application of amended IAS 19 and changes thereto for the first time (Note 3.2)	-	(13 337)	-	-	-	(13 337)	-	-	13 337	-
Equity as at 1.01. 2012 (restated)	**262 382**	**17 696 570**	**9 126 501**	**1 537 850**	**6 859 286**	**(78 783)**	**1 523**	**250 193**	**2 655 315**	**20 614 267**
Management options	**88**	**3 476**	**10 720**	**-**	**-**	**-**	**-**	**(7 244)**	**-**	**3 564**
Options exercised (share issue)	88	10 720	10 720	-	-	-	-	-	-	10 808
Revaluation of management share options	-	(7 244)	-	-	-	-	-	(7 244)	-	(7 244)
Comprehensive income	**-**	**585 614**	**-**	**-**	**-**	**585 749**	**(135)**	**-**	**2 925 254**	**3 510 868**
Remeasurements of the defined benefit liabilities net of tax	-	2 166	-	-	-	2 166	-	-	-	2 166
Revaluation of available-for-sale investments net of tax	-	616 078	-	-	-	616 078	-	-	-	616 078
Revaluation of hedging financial instruments net of tax	-	(32 495)	-	-	-	(32 495)	-	-	-	(32 495)
Foreign currency translation differences	-	(135)	-	-	-	-	(135)	-	-	(135)
Net profit for the period	-	-	-	-	-	-	-	-	2 925 254	2 925 254
Appropriation of retained earnings	**-**	**1 414 284**	**-**	**200 000**	**1 214 284**	**-**	**-**	**-**	**(2 826 373)**	**(1 412 089)**
Dividend paid	-	-	-	-	-	-	-	-	(1 412 089)	(1 412 089)
Profit appropriation	-	1 414 284	-	200 000	1 214 284	-	-	-	(1 414 284)	-
Equity as at 31.12.2012 (restated)	**262 470**	**19 699 944**	**9 137 221**	**1 737 850**	**8 073 570**	**506 966**	**1 388**	**242 949**	**2 754 196**	**22 716 610**

Notes to the financial statements presented on pages 10 – 135 and annexes to the financial statements presented on pages I - VII constitute an integral part of the unconsolidated financial statements.

Unconsolidated cash flow statement

(In PLN thousand)

	NOTE	2013	2012 RESTARTED
Cash flow from operating activities – indirect method			
Net profit for the period		**2 800 000**	**2 925 254**
Adjustments for:		**3 914 713**	**(2 922 527)**
Depreciation and amortization	13	326 663	343 289
(Gains) losses on investing activities		(309 771)	(282 382)
Dividend received		(143 779)	(168 534)
Interests received		(5 887 863)	(6 806 355)
Interests paid		2 400 867	3 277 954
Income tax		644 593	668 180
Income tax paid		(761 742)	(839 067)
Change in loans and advances to banks		(303 942)	397 483
Change in financial assets held for trading and other financial instruments at fair value through profit or loss		438 267	272 497
Change in derivative financial instruments (assets)		651 231	(397 615)
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank		(1 376 233)	2 775 671
Change in investment (placement)securities		(19 343)	(353 601)
Change in other assets		807 165	98 327
Change in amounts due to banks		(1 644 645)	1 702 462
Change in financial liabilities held for trading		63 164	246 578
Change in derivative financial instruments (liabilities) and other financial instruments at fair value		(575 111)	122 796
Change in amounts due to customers		9 624 815	(2 903 596)
Change in debt securities issued		(205 043)	(38 216)
Change in provisions		17 906	28 122
Change in other liabilities		167 514	(1 066 520)
Net cash flows from operating activities		**6 714 713**	**2 727**
Cash flow from investing activities			
Investing activity inflows		**434 064 585**	**284 420 408**
Sale of investments in subsidiaries		671 287	-
Sale of investment securities		432 440 412	283 595 649
Sale of intangible assets and property, plant and equipment		2 178	2 973
Other investing inflows		950 708	821 786
Investing activity outflows		**(439 094 200)**	**(281 965 101)**
Acquisition of investment securities	27	(438 887 775)	(281 730 299)
Acquisition of intangible assets and property, plant and equipment	32, 33	(206 425)	(234 802)
Net cash flows from investing activities		**(5 029 615)**	**2 455 307**

Notes to the financial statements presented on pages 10 – 136 and annexes to the financial statements presented on pages I - VII constitute an integral part of the unconsolidated financial statements.

Unconsolidated cash flow statement (cont.)

(In PLN thousand)

	NOTE	2013	2012 RESTARTED
Cash flows from financing activities			
Financing activity inflows		**3 649 300**	**4 952 478**
Issue of debt securities	39	3 649 300	4 941 669
Issue of shares		-	10 809
Financing activity outflows		**(7 538 847)**	**(4 852 176)**
Redemption of debt securities		(5 336 723)	(3 440 087)
Dividends and other payments to shareholders		(2 202 124)	(1 412 089)
Net cash flows from financing activities		**(3 889 547)**	**100 302**
Total net cash flows		**(2 204 449)**	**2 558 336**
including: effect of exchange rate fluctuations on cash and cash equivalents held		7 245	(261 385)
Net change in cash and cash equivalents		**(2 204 449)**	**2 558 336**
Cash and cash equivalents at the beginning of the period		**12 819 480**	**10 261 144**
Cash and cash equivalents at the end of the period	48	**10 615 031**	**12 819 480**

Notes to the financial statements presented on pages 10 – 136 and annexes to the financial statements presented on pages I - VII constitute an integral part of the unconsolidated financial statements.

Notes to the financial statements

(In PLN thousand)

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

1. General information

Bank Polska Kasa Opieki Spółka Akcyjna (hereafter referred to as 'Bank Pekao S.A.' or 'the Bank'), with Head Office in Warsaw, at 53/57 Grzybowska Street, 00-950 Warsaw, operates as a public listed company in compliance with binding law regulations, especially the Banking Act, Commercial Code and Bank's Articles of Association.

The Bank was incorporated on 29 October 1929 in the Commercial Register of the District Court in Warsaw and has been continuously in operation since its incorporation.

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

The Bank's statistical REGON number is 000010205.

The entity has been established for an indefinite period of time.

Bank Pekao S.A. is a part of the UniCredit S.p.A. Group with seat in Roma, Italy.

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

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

2. Approval of the Financial Statements

These Unconsolidated Financial Statements were approved for publication by the Bank's Management Board on 10 March 2014.

3. Significant accounting policies

3.1 Statement of compliance

The annual unconsolidated financial statements ('financial statements') of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with further amendments) and respective operating regulations, and in accordance with the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock exchange listing market.

3.2 Basis of preparation of Unconsolidated Financial Statements

General information

The financial statements of Bank Pekao S.A. have been prepared for the period from 1 January 2013 to 31 December 2013. Comparable data have been presented for the period of 1 January 2012 to 31 December 2012. The financial statements of the Bank have been prepared in Polish zloty, and all amounts are presented in PLN thousand, unless indicated otherwise.

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

The unconsolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations. Changes in published standards and interpretations, which became effective from 1 January 2013, had no material impact on the unconsolidated financial statements, except for extending the scope of disclosures and changes in the disclosures structure (Annex 1 to the financial statements).

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

In the opinion of the Bank, amendments to Standards and interpretations will not have a significant influence on the separate financial statement of the Bank, with the exception of IFRS 9 ‘Financial Instrument’.

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

- new categorisation of financial assets,
- new criteria of assets classification to the group of financial assets measured at amortized cost,
- new principles for recognition of changes in fair value measurement of capital investment in financial instruments,
- elimination of the necessity to separate embedded derivatives from financial assets.

The major part of IAS 39 requirements relating to financial liabilities classification and valuation were transferred to IFRS 9 unchanged.

The Standard will be extended by parts concerning principles of measurement at amortized cost as well as principles of hedge accounting application.

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

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

Unconsolidated financial statements of the Bank have been prepared based on the following valuation methods:

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

The Bank also prepares the Consolidated Financial Statements of Bank Pekao S.A. Capital Group.

Notes to the financial statements (cont.)

(In PLN thousand)

Changes in accounting policy and presentation of financial data

In 2013 the Bank introduced the below described changes in its accounting policy. Due to the changes the comparative data presented in these financial statements were restated.

a) Revenue and expenses from sale of insurance products linked to loans ('bancassurance')

In these financial statements the Bank introduced changes in its accounting policy in respect to recognition of revenue from sale of insurance products linked to loans.

Before the change the Bank recognized such revenue upfront at the time when the insurance product is sold.

In accordance with amended accounting policy the Bank splits the remuneration for sale of insurance products linked to loans into separate components, i.e. dividing the remuneration into proportion of fair value of financial instrument and fair value of intermediary service to the sum of those values. The fair values of particular components of the remuneration are determined based on market data to a highest degree.

The particular components of the Bank's remuneration for sale of insurance products linked to loans are recognized in the income statement according to the following principles:

- remuneration from financial instrument – as part of effective interest rate calculation, included in interest income,
- remuneration for intermediary service – upfront at the time when the insurance product in sold, included in fee and commission income.

Additionally the Bank estimates the part of the remuneration which will be refunded in the future (eg. due to early termination of insurance contract, early repayment of loan). The estimate of the provision for future refunds is based on the analysis of historical data and expectations in respect to refunds trend in the future.

In consequence of the application of amended accounting policy the Bank recognized upfront 12% of bancassurance revenue associated with cash loans and 30% of bancassurance revenue associated with mortgage loans in 2013. The remaining portion of bancassurance revenue is amortized over the life of the associated loans as part of effective interest rate.

The introduced changes in the accounting policy in respect to recognition of revenue from sale of insurance products linked to loans more appropriately reflect the substance of the transaction and the characteristics of products offered by the Bank.

The restatement of comparative data for the year 2012 due to this change resulted in a decrease of the net profit for the year 2012 by the amount of PLN 10 735 thousand and a decrease of the total equity by the amount of PLN 195 130 thousand.

b) Actuarial gains and losses

In these financial statements the Bank introduced changes in its accounting policy in respect to the presentation of actuarial gains or losses from the measurement of the defined benefit plans obligations. In accordance with revised IAS 19 'Employee benefits' the Bank introduced a principle of recognition of actuarial gains or losses related to changes in actuarial assumptions in other comprehensive income and not as previously in income statement.

The restatement of comparative data for the year 2012 due to this change resulted in a decrease of the net profit for the year 2012 by the amount of PLN 2 166 thousand and an increase of other capital and reserves (revaluation reserves) by the same amount. The changes had no impact on the total equity as at 31 December 2012.

The impact of the changes in accounting policy on comparative data in statement of financial position, income statement, statement of comprehensive income and cash flow statement are presented in the below tables.

Notes to the financial statements (cont.)

(In PLN thousand)

Statement of financial position

ASSETS	31.12.2012 (BEFORE RESTATEMENT)	RESTATEMENT	31.12.2012 (AFTER RESTATEMENT	01.01.2012 (BEFORE RESTATEMENT)	RESTATEMENT	01.01.2012 (AFTER RESTATEMENT
Loans and advances to customers	94 847 780	(240 901)	94 606 879	92 143 106	(227 648)	91 915 458
Deferred tax assets	569 988	45 771	615 759	655 966	43 253	699 219
Other items of assets	51 844 286	-	51 844 286	49 590 883	-	49 590 883
TOTAL ASSETS	**147 262 054**	**(195 130)**	**147 066 924**	**142 389 955**	**(184 395)**	**142 205 560**

LIABILITIES AND EQUITY						
LIABILITIES						
TOTAL LIABILITIES	**124 350 314**	**-**	**124 350 314**	**121 591 293**	**-**	**121 591 293**

EQUITY						
Share capital	262 470	-	262 470	262 382	-	262 382
Other capital and reserves	19 711 115	(11 171)	19 699 944	17 709 907	(13 337)	17 696 570
Retained earnings and profit for the period	2 938 155	(183 959)	2 754 196	2 826 373	(171 058)	2 655 315
TOTAL EQUITY	**22 911 740**	**(195 130)**	**22 716 610**	**20 798 662**	**(184 395)**	**20 614 267**
TOTAL LIABILITIES AND EQUITY	**147 262 054**	**(195 130)**	**147 066 924**	**142 389 955**	**(184 395)**	**142 205 560**

Notes to the financial statements (cont.)

(In PLN thousand)

Income statement

EQUITY	2012 (BEFORE RESTATEMENT)	RESTATEMENT	2012 (AFTER RESTATEMENT)
Interest income	7 917 577	121 755	8 039 332
Interest expense	(3 387 999)	-	(3 387 999)
Net interest income	**4 529 578**	**121 755**	**4 651 333**
Fee and commission income	2 549 630	(135 008)	2 414 622
Fee and commission expense	(524 145)	-	(524 145)
Net fee and commission income	**2 025 485**	**(135 008)**	**1 890 477**
Dividend income	**168 534**	**-**	**168 534**
Result on financial assets and liabilities held for trading	**489 185**	**-**	**489 185**
Result on fair value hedge accounting	**(35 751)**	**-**	**(35 751)**
Gains (losses) on disposal of:	**279 253**	**-**	**279 253**
loans and other financial receivables	758	-	758
available for sale financial assets and held to maturity investments	278 798	-	278 798
financial liabilities	(303)	-	(303)
Operating income	**7 456 284**	**(13 253)**	**7 443 031**
Net impairment losses on financial assets and off-balance sheet commitments	**(596 555)**	**-**	**(596 555)**
loans and other financial receivables	(587 798)	-	(587 798)
off-balance sheet commitments	(8 757)	-	(8 757)
Net result on financial activity	**6 859 729**	**(13 253)**	**6 846 476**
Administrative expenses	**(2 988 160)**	**(2 674)**	**(2 990 834)**
personnel expenses	(1 687 951)	(2 674)	(1 690 625)
other administrative expenses	(1 300 209)	-	(1 300 209)
Depreciation and amortization	**(343 289)**	**-**	**(343 289)**
Net result on other provisions	**(16 062)**	**-**	**(16 062)**
Net other operating income and expenses	**75 163**	**-**	**75 163**
Operating costs	**(3 272 348)**	**(2 674)**	**(3 275 022)**
Gains (losses) on associates	**(855)**	**-**	**(855)**
Gains (losses) on disposal of property, plant and equipment, and intangible assets	**22 327**	**-**	**22 327**
Profit before income tax	**3 608 853**	**(15 927)**	**3 592 926**
Income tax expense	**(670 698)**	**3 026**	**(667 672)**
Net profit for the period	**2 938 155**	**(12 901)**	**2 925 254**

EARNINGS PER SHARE (IN PLN PER SHARE)			
basic for the period	11.20		11.15
diluted for the period	11.20		11.15

Notes to the financial statements (cont.)

(In PLN thousand)

Statement of comprehensive income

	2012 (BEFORE RESTATEMENT)	RESTATEMENT	2012 (AFTER RESTATEMENT)
Net profit for the period	2 938 155	(12 901)	2 925 254
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences	(135)	-	(135)
Changes in fair value of available-for-sale financial assets	760 591	-	760 591
Changes in fair value of cash flow hedges	(40 119)	-	(40 119)
Tax on items that are or may be reclassified subsequently to profit or loss	(136 889)	-	(136 889)
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liabilities	-	2 674	2 674
Tax on items that never be reclassified to profit or loss	-	(508)	(508)
Other comprehensive income (net of tax)	**583 448**	**2 166**	**585 614**
Total comprehensive income	**3 521 603**	**(10 735)**	**3 510 868**

Notes to the financial statements (cont.)

(In PLN thousand)

Cash flow statement

	2012 (BEFORE RESTATEMENT)	RESTATEMENT	2012 (AFTER RESTATEMENT)
Cash flow from operating activities – indirect method			
Net profit for the period	**2 938 155**	**(12 901)**	**2 925 254**
Adjustments for:	**(2 935 428)**	**12 901**	**(2 922 527)**
Depreciation and amortization	343 289	-	343 289
(Gains) losses on investing activities	(282 382)	-	(282 382)
Dividend received	(168 534)	-	(168 534)
Interests received	(6 806 355)	-	(6 806 355)
Interests paid	3 277 954	-	3 277 954
Income tax	670 698	(2 518)	668 180
Income tax paid	(839 067)	-	(839 067)
Change in loans and advances to banks	397 483	-	397 483
Change in financial assets held for trading and other financial instruments at fair value through profit or loss	272 497	-	272 497
Change in derivative financial instruments (assets)	(397 615)	-	(397 615)
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank	2 762 418	13 253	2 775 671
Change in investment (placement)securities	(353 601)	-	(353 601)
Change in other assets	96 161	2 166	98 327
Change in amounts due to banks	1 702 462	-	1 702 462
Change in financial liabilities held for trading	246 578	-	246 578
Change in derivative financial instruments (liabilities) and other financial instruments at fair value	122 796	-	122 796
Change in amounts due to customers	(2 903 596)	-	(2 903 596)
Change in debt securities issued	(38 216)	-	(38 216)
Change in provisions	28 122	-	28 122
Change in other liabilities	(1 066 520)	-	(1 066 520)
Net cash flows from operating activities	**2 727**	**-**	**2 727**
Cash flow from investing activities			
Net cash flows from investing activities	**2 455 307**	**-**	**2 455 307**
Cash flows from financing activities			
Net cash flows from financing activities	**100 302**	**-**	**100 302**
Total net cash flows	**2 558 336**	**-**	**2 558 336**
including: effect of exchange rate fluctuations on cash and cash equivalents held	(261 385)	-	(261 385)
Net change in cash and cash equivalents	**2 558 336**	**-**	**2 558 336**
Cash and cash equivalents at the beginning of the period	**10 261 144**	**-**	**10 261 144**
Cash and cash equivalents at the end of the period	**12 819 480**	**-**	**12 819 480**

3.3 Accounting estimates

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

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

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

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

Impairment of loans and advances to customers

At each balance sheet date the Bank assesses whether there is any objective evidence (‘trigger’) that loan exposures are impaired. Impairment losses are incurred if, and only if at least one impairment trigger is identified and the event implicating the impairment trigger has a negative impact on the estimated future cash flows of the loan exposure. Whilst the identification of loan exposures impairment the Bank does not consider future events, irrespective of probability of its occurrence.

In the process of impairment assessment the Bank considers all loan exposures, irrespective of the level of risk of particular loan exposures or a group of loan exposures.

The Bank splits the loan exposures into individually significant exposures and individually insignificant exposures. The individually significant exposures are in particular all loan exposures of the borrower, for whom total Bank’s exposure exceeds the threshold value as at balance sheet date and the restructuring loan exposures of debtors being the entrepreneurs within the meaning of the Article 43 of the Civil Code. The individually insignificant exposures are all loan exposures, which are not classified as individually significant exposures.

For all loans exposures, which are impaired, the Bank measures the amount of impairment allowance as the difference between the loan exposure’s carrying amount and the present value of estimated future cash flows, discounted at the loan exposure’s original effective interest rate.

For all individually significant exposures, which are impaired as at balance sheet date, the Bank measures the impairment allowance (impairment loss) as part of individual assessment. The individual assessment is carrying out by the Bank’s employees and consists of individual verification of the impairment occurrence and projection of future cash flows from foreclosure less costs for obtaining and selling the collateral or other resources. The Bank compares the estimated future cash flows applied for measurement of individual impairment allowances with the actual cash flows on a regular basis.

For all individually insignificant exposures, which are impaired as at balance sheet date, the Bank measures the impairment allowance (impairment loss) as part of collective assessment. Each exposure assessed collectively is grouped based on similar credit risk characteristics (on the basis of the borrower’s type, the product’s type, past-due status or other relevant factors impacting on the debtor’s ability to pay all amounts due according to the contractual terms). The future cash flows are estimated on the basis of historical data of cash flows and historical loss experience for exposures with credit risk characteristics similar to those in the group. Historical data, when necessary, are adjusted on the basis of current data to remove the effects of conditions in the historical period that do not exist currently. The recovery rates and the methodology and assumptions used for estimating future cash flows for particular groups of loan exposures are reviewed regularly.

For all loan exposures, for which no impairment triggers have been identified, the Bank measures the allowance for losses incurred, but not reported (‘IBNR’).

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

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

Measurement of derivatives and unquoted debt securities available for sale
The fair value of non-option derivatives and debt securities available for sale that do not have a quoted market price on an active market is measured using valuation models based on discounted cash flows. Options are valued using option valuation models. Variables used for valuation purposes include, where possible, the data from observable markets. However, the Bank also adopts assumptions concerning counterparty's credit risks which affect the valuation of instruments. The adoption of other measurement assumptions may affect the valuation of these financial instruments. The assumptions used for fair value measurement are described in detail in Note 4.7 'Fair value of financial assets and liabilities'.

Provisions for defined benefit plans
The principal actuarial assumptions applied to estimation of provisions for defined benefit plans, as well as the sensitivity analysis were presented in Note 42.

Goodwill
The Bank performs an impairment test of goodwill on a yearly basis or more often if impairment triggers occur. The assessment of goodwill impairment requires an estimate of value in use of all cash-generating units to which the goodwill relates. The principal assumptions applied to an impairment test of goodwill were presented in Note 32.

3.4 Foreign currencies

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

- Bank's Branch in Paris
  The assets and liabilities of the entity are translated into the Polish currency i.e. to the presentation currency as per the closing exchange rate for the balance sheet date. Revenues and expenses in the income statement are recalculated as per average exchange rates calculated on the basis of the exchange rates of the reporting period except for situations where exchange rates fluctuate significantly such that the average exchange rate is not an acceptable approximation of the exchange rate from the transaction date. In such situations revenue and expenses are translated on the basis of the exchange rate from the date of transaction.

  Financial statements of the Bank's Branch in Paris are translated into Polish zloty using the following exchange rates:
  - to translate statement of financial position items as at 31 December 2013 and as at 31 December 2012, average exchange rates announced by the NBP on 31 December 2013 and on 31 December 2012, respectively, have been used:

	31.12.2013	31.12.2012
PLN for EUR 1	4.1472	4.0882

  - for translation of income statement items for the period from 1 January 2013 until 31 December 2013 and for the period from 1 January 2012 until 31 December 2012, arithmetic average values of exchange rates have been used, announced by the NBP as at the last date of each month during the period from 1 January 2013 until 31 December 2013 and during the period from 1 January 2012 until 31 December 2012, respectively, as follows:

	2013	2012
PLN for EUR 1	4.2110	4.1736

  The foreign exchange rate differences from the valuation of Bank's branch net profit at the average weighted exchange rate announced by the NBP are presented in the 'Revaluation reserves' position.

3.5 Income statement

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

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

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

Other operating income/expense
Other operating income includes mainly amounts received for compensation, revenues from operating leases, recovery of debt collection costs, excess payments, miscellaneous income and releases of provision for legal cases. Other operating expenses include mainly the costs of client claims, compensation paid, sundry expenses and costs of provision for litigations.

3.6 Valuation of financial assets and liabilities, derivative financial instruments

Financial assets
Financial assets are classified into the following categories:

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

- Loans and receivables
  Loans and receivables are non-derivative financial assets, with fixed or determinable payments, not quoted on active markets, other than:
  a) those that the entity intends to sell immediately or in the near term which are classified as held for trading and those that the entity designates as at fair value through profit or loss upon initial recognition,
  b) those that the Bank designates upon the initial recognition as available for sale, or
  c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

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

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

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

Dividends from equity instruments are recognized in the profit or loss at the moment the rights to receive such payments are established.
Standardized purchase and sale transactions of financial assets designated at fair value through profit or loss, designated as held for trading (except for derivatives), held to maturity, and available for sale, are recognized and derecognized by the Bank on the settlement date of such transaction, i.e. as at the date of receipt or delivery of such assets.

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

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

Derivative instruments are recognized or derecognized on transaction dates.

Reclassification of financial assets

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

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

The Bank allows the reclassification of financial assets classified as financial assets measured at fair value through profit or loss, if extraordinary circumstances occur, i.e. events that are unusual and highly unlikely to recur in the near term.

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

Impairment of financial assets

Assets measured at amortized cost – loans and advances

At each balance sheet date the Bank assesses whether there is any objective evidence ('triggers') that loans and advances or financial assets held-to-maturity measured at amortized cost ('loan exposures') are impaired. In the process of impairment assessment the Bank considers all loan exposures, irrespective of the level of risk of particular loan exposures or a group of loan exposures.

The Bank splits the loan exposures into individually significant exposures and individually insignificant exposures.

In respect to exposures assessed individually the Bank applies the following list of impairment triggers:

- overdue in repayment of principal, interest or credit fees more than 90 days and more than 2 working days in case of exposure towards banks including credit transactions and reverse repo/sell-buy-backs,
- significant financial difficulties of borrower (including loss of job or other events that could impact on ability to repayment in case of individuals). Significant financial difficulties of economic entity mean financial standing that could threaten timely repayment of liabilities towards the Bank, especially when incurred losses have consumed equity in 50%, excluding projects where losses have been assumed or where external financial support exists (in form of injections to the equity, granting a loan, warranty/guarantee by related company or other third party, conversion of loan into equity, issuance of shares/bonds),
- restructuring, if it is related with granting an advantage, due to economic or legal reasons resulted from financial difficulties of the borrower, that in other circumstances the Bank would not give. The advantage leads to reduction of the Bank's loan exposure, and may include: reduction of the interest rate, temporary interest accruing holidays, cancelling a part or total of the exposures, in this interest or principal,
- lowering by the well-known and accepted rating agency a borrower's rating or country's rating – country of domicile or rating of debt securities issued by the borrower by at least 4 notches including modifiers within one year. Decrease in credit rating alone is not an evidence of impairment trigger but could be confirmation of impairment if it is analyzed together with other available information,
- significant worsening of rating or scoring analysis results. It means the decrease in rating by 4 notches in the scale and at the same time move to non-performing category based only on rating criterion, excluding situations of rating deterioration resulted from seasonality of activity and excluding impact of classification in RMT ('Risk Management Tool') on rating. Decrease in rating alone is not an evidence of impairment trigger but could be confirmation of impairment if it is analyzed together with other available information,
- the Bank has started an execution process or has been informed about execution towards borrower,
- the debt/loan is questioned by the borrower including commencement of legal proceedings,

Notes to the financial statements (cont.)

(In PLN thousand)

- the debt/loan has been due as the credit agreement has been terminated,
- the motion for borrower's bankruptcy has been filled in the court or legal proceedings has been instituted,
- disappearance of active market for given credit exposure resulted from financial difficulties of debtor. This impairment trigger could refer to financial instruments listed on stock exchanges, when due to significant deterioration in financial standing of issuer (eventually bankruptcy), the liquidity of assets trading is so low that reliable price fixing is not possible,
- receivership has been established or debtor has stopped/suspended its activity,
- unknown place of stay and not disclosed assets of the borrower.

In respect to exposures assessed collectively the Bank applies the following list of impairment triggers:

- overdue in repayment of principal, interest or credit fees greater or equal to 90 days,
- significant financial difficulties of retail debtor, including loss of job or other events that could impact on ability to repayment,
- unknown place of stay and not disclosed assets of the retail debtor or sole trader.

In case of identification of impairment triggers for at least one of loan exposures of the borrower, all loan exposures of such borrower are assessed for impairment.

For all loans exposures, which are impaired, the Bank measures the amount of impairment allowance as the difference between the loan exposure's carrying amount and the present value of estimated future cash flows, discounted at the loan exposure's original effective interest rate. The carrying amount of the loan exposure is reduced through use of an allowance account. The amount of the impairment loss is recognized in profit or loss. If, in a subsequent period, the amount of impairment loss decreases, then the previously recognized impairment loss is reversed by adjusting an allowance account. The amount of the reversal is recognized in profit or loss.

For all individually significant exposures, which are impaired as at balance sheet date, the Bank measures the impairment allowance (impairment loss) as part of individual assessment. The individual assessment is carrying out by the Bank's employees and consists of individual verification of the impairment occurrence and projection of future cash flows from foreclosure less costs for obtaining and selling the collateral or other resources. The Bank compares the estimated future cash flows applied for measurement of individual impairment allowances with the actual cash flows on a regular basis.

For all individually insignificant exposures, which are impaired as at balance sheet date, the Bank measures the impairment allowance (impairment loss) as part of collective assessment. Each exposure assessed collectively is grouped based on similar credit risk characteristics on the basis of the borrower's type, the product's type, past-due status or other relevant factors impacting on the debtor's ability to pay all amounts due according to the contractual terms. The future cash flows are estimated on the basis of historical data of cash flows and historical loss experience for exposures with credit risk characteristics similar to those in the group. Historical data, when necessary, are adjusted on the basis of current data to remove the effects of conditions in the historical period that do not exist currently. The recovery rates ('RR') and the methodology and assumptions used for estimating future cash flows for particular groups of loan exposures are reviewed regularly.

For all loan exposures, for which no impairment triggers have been identified, the Bank measures the allowance for losses incurred, but not reported ('IBNR'). As part of IBNR assessment the Bank estimates the loss resulting from events not reported as at balance sheet date and for which no impairment triggers have been identified, but the events occurred prior to balance sheet date and the loss was incurred. While estimating the IBNR, it is assumed that there is a several-months period from the date of emergence of objective impairment trigger to the date of its reporting, i.e. loss identification period ('LIP'). The value of LIP parameter is estimated on the basis of statistical analysis using the historical data. The Bank applies different loss identification periods for different groups of loan exposures, taking into account the client's segment, the product's type and the collateral. The update of LIP parameter is carrying out at least once a year.

The IBNR is measured based on the likelihood that the debtor will be unable to meet its obligations during loss identification period ('PD_LIP') multiplied by impairment loss estimated analogously like collective allowance for value of exposure at default ('EAD'). The value of EAD parameter is estimated on the basis of historical data.

The Bank estimates the value of PD_LIP parameter using the PD measured by Basel models with relevant transformation taking into account the shortening of loss identification period for applied length of LIP and Point-in-Time adjustment. Within the transformation the Bank calibrates the values of PD parameter to the most up to date realized PD_LIP values once a month. The values of PD_LIP as estimated reflect the current economic conditions the best. The model applied to measurement of PD_LIP is of 'Point-In-Time' type.

The values of LIP, PD_LIP, EAD and RR applied for IBNR measurement as well as the methodology and assumptions used for estimating such parameters for particular groups of loan exposures are reviewed regularly.

Financial assets available for sale

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

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

Off-balance sheet commitments

The provisions for off-balance sheet commitments is measured as the difference between the expected value of balance sheet exposure arising from granted off-balance sheet commitment and the present value of estimated future cash flows from that balance sheet exposure at the date of impairment identification. The expected value of balance sheet exposure arising from granted off-balance sheet commitment is measured using the credit conversion factor ('CCF'), estimated on the basis of historical data.

The values of CCF applied for measurement of provisions for off-balance sheet commitments as well as the methodology and assumptions used for estimating such parameters for particular groups of loan exposures are reviewed regularly.

The Bank estimates the future cash flows as part of individual assessment or collective assessment depending on classification of particular off-balance sheet commitments as individually significant exposures or individually insignificant exposures.

Repo and reverse-repo agreements

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

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

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

Derivative financial instruments and hedge accounting

The Bank acquires the derivative financial instruments: currency transactions (spot, forward, currency swap and currency options, CIRS), exchange rate transactions (FRA, IRS, CAP), derivative transactions based on security prices, indices of stock and commodities. Derivative financial instruments are initially recorded at fair value as at the transaction date and subsequently re-measured at fair value at each balance sheet date. The fair value is established on the basis of market quotations for an instrument traded in an active market, as well as on the basis of valuation techniques, including models using discounted cash flows and options valuation models, depending on which valuation method is appropriate.

Notes to the financial statements (cont.)

(In PLN thousand)

Positive valuation of derivative financial instruments is presented in the statement of financial position in the line ‘Derivative financial instruments (held for trading)’ or ‘Hedging instruments’ on an asset side, whereas the negative valuation - ‘Derivative financial instruments (held for trading)’ or ‘Hedging instruments’ on a liabilities side. For financial instruments with an embedded derivative component, if the whole or part of the cash flows related to such a financial instrument changes in a way similar to what would be the case with the embedded derivative instrument on its own, then the embedded derivative instrument is reported separately from the basic contract. This occurs under the following conditions:

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

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

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

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

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

Fair value hedge accounting principles

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

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

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

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

An adjustment for the hedged risk on hedged interest position is amortized in the profit and loss account at the point of ceasing to apply hedge accounting.

Cash flow hedge accounting principles

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

- directly in the caption ‘Revaluation reserves’ in the part constituting the effective hedge,
- in the income statement in the line ‘Result on financial assets and liabilities held for trading’ in the part representing ineffective hedge.

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

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

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

Financial liabilities
The Bank's financial liabilities are classified to the following categories:
- financial liabilities held for trading, valued at fair value,
- financial liabilities not held for trading, valued at amounts payable, measured at amortized cost using the effective interest rate method.

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

De-recognition of financial instruments from the statement of financial position
Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the Bank transfers the contractual rights to receive the cash flows in a transaction in which substantially all risk and rewards of ownership of the financial asset are transferred.

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

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

3.7 Valuation of other items in the Bank's unconsolidated statement of financial position

Investments in subsidiaries, entities under common control and associates

Subsidiaries
Subsidiaries are entities controlled - directly and indirectly by the Bank. Control is the power to govern the entity's financial and operating policies in order to obtain economic benefits. Control is typically demonstrated by holding the majority of voting rights at the governing body of the entity.

Associates
Associates are entities, over which the Bank has a significant influence and which are neither subsidiaries, nor joint ventures. The Bank usually holds from 20% to 50% of voting rights at the governing body of the entity.

Entities under common control
The division of the control in the entities under common control is based on the agreement, defining that the strategic decisions concerning entity's activities require unanimous partners' agreement.

Recognition and measurement
In the Bank's Financial Statements, the investments in subsidiaries, associates and entities under common control are measured at purchase price. The carrying amount of the investment is tested for impairment according to IAS 36 'Impairment of assets'. The impairment is recognized in the income statement under 'Gains (losses) from associates and subsidiaries. Dividends constituting an income from the investments are recognized in the income statement at the payment date.

Notes to the financial statements (cont.)

(In PLN thousand)

Moreover, the capital investments in the entity operating abroad are non-financial assets. Non-financial assets are valued at historical cost in foreign currency, are translated into PLN using the exchange rate at the transaction date. Investments in foreign entity, acquired before the date of adoption of IFRS, are recognized at the carrying amount as at that date.

Recognition of common control transactions at book value

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

The adopted accounting principles are as follows:

The acquirer recognizes the assets and liabilities of the target entity at their existing book value adjusted only as a result of aligning the combining enterprises' accounting policies. Neither goodwill, nor negative goodwill is recognized. The difference between the book value of acquired net assets and the fair value of the amount paid is recognized in the Bank's equity. In applying the book value method of accounting, the data concerning the comparative periods is not restated.

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

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

Intangible assets

Goodwill

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

Other intangible assets

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

These mainly include:
- computer software licenses,
- copyrights,
- costs of completed development works.

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense.

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

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

a) depreciation rates applied for non-current assets:

Buildings and structures and cooperative ownership rights to residential premises and cooperative ownership rights to commercial premises	1.5% – 10.0%
Technical equipment and machines	4.5% – 30.0%
Vehicles	7% – 20.0%

b) amortization rates for intangible assets:

Software licenses, copyrights	12.5% – 50.0%
Costs of completed development projects	33.3%
Other intangibles	20% - 33,3%

c) depreciation rates for investment properties:

Buildings and structures	1.5% – 10.0%

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Provisions
The provisions are recognized when the Bank has a present obligation (legal or constructive) resulting from the past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, the amount of a provision is established by discounting forecasted future cash flows to the present value, using the discount rate reflecting current market estimates of the time value of money and the possible risk associated with the obligation.

The provisions include the provisions relating to long-term employee benefits, in this those measured by an actuary and provisions for restructuring costs. The provision for restructuring costs is recognized when the general recognition criteria for provisions and detailed criteria for recognition of provisions for restructuring cost under IAS 37 'Provisions, contingent liabilities and contingent assets' are met. The amount of employment restructuring provision is calculated by the Bank on the basis of the best available estimates of direct outlays resulting from restructuring activities, which are not connected with the Bank's current activities.

The provisions are charged to the income statement, except for actuarial gains and losses which are recognized in other comprehensive income.

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

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

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

Bank's equity
Equity is comprised of the capital and funds created by the companies of the Bank in accordance with the binding legal regulations and the appropriate laws and Articles of Association. Equity also includes retained earnings and net profit for the period.

Bank's equity comprises of the following:
a) share capital – can be increased through the issue of new shares or through an increase of the nominal value of already issued shares. At the General Shareholder's Meeting the share capital can be increased by means of reserve capital or other capital, if it is in accordance with the Bank's Articles of Association and Corporate Code,
b) reserve capital – created out of the annual net profit write-offs to be called in the event of loss, which may occur due to Bank's operations. Annual write-off should amount to at least 8% of net profit and should be made until the reserve capital reaches 1/3 of share capital value. Share premium formed from agio obtained from the issue of share, reduced by the attributable direct costs incurred with that issue is also a part of reserve capital,
c) revaluation reserve arises from the revaluation of financial instruments classified as available for sale, cash flow hedge derivatives rate, remeasurements of the defined benefit liabilities and the value of deferred tax for items classified as temporary differences recognized as revaluation reserve. In the statement of financial position revaluation reserve is recognized in net value,
d) exchange rate differences include differences arising from the recalculation of the result of a foreign branch at the weighted average exchange rate at the balance sheet date in relation to the average NBP exchange rate,
e) other reserve capital utilized for the purposes defined in the Articles of Association is created from appropriations of profits,
f) capital components:
   - bonds convertible to shares - includes the fair value of financial instruments issued as part of transactions settled in equity instruments, and
   - provision for purchase of parent entity stocks,
g) general banking risk fund in Bank Pekao S.A. is created in accordance with the Banking Act dated 29 August 1997 with subsequent amendments, from profit after tax,

Notes to the financial statements (cont.)

(In PLN thousand)

h) retained earnings from prior periods is created from undistributed result from previous years,
i) net profit/loss, which constitutes of profit/loss for the period. Net profit is after taxation.

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

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

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

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

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

Bank's Pekao S.A. phantom shares-settled share-based payment transaction
The cost of transactions settled with employees in phantom shares is measured by reference to the fair value of the liability as of the balance sheet date.
The fair value of the liability is estimated based upon the Bank's shares price on the WSE as of the balance sheet date and expected number of phantom shares to which full rights will be acquired.
The cost of phantom share-based payments is recognized in personnel expense together with the accompanying increase in the value of liabilities towards employees presented in 'Provisions'.
The accumulated cost recognized for transactions settled in phantom shares for each balance sheet date until the vesting date reflects the extent of elapse of the vesting period and the number of rights to shares the rights to which – in the opinion of the Bank's Management Board for that date based on best available estimates of the number of phantom shares – will be eventually vested.

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

3.8 Income tax

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

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

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

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

3.9 Other

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

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

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

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

Cash and cash equivalents
Cash and cash equivalents in the unconsolidated cash flow statement include ‘Cash and Due from the Central Bank’ as well as loans and receivables from banks with maturities of up to three months.

Segment reporting
Information concerning segment reporting of the Group are presented in Consolidated Financial Statement of the Bank Pekao S.A. Group for the year ended on 31 December 2013.

4. Risk management

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

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

4.1 Organizational structure of risk management

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

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

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

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

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

Assets, Liabilities and Risk Management Committee (ALCO)
The Committee is responsible for reviewing and controlling the risk management function. In particular, the tasks of ALCO include:
- supervision and control over risk management,
- setting guidelines for risk management, capital allocation and optimization of the risk/income ratio.

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

4.2 Credit risk

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

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

The Bank established the following portfolio limits:

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

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

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

Rating models utilized in the credit risk management process

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

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

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

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

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

(In PLN thousand)

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

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

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

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

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

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

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

Rating scale

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

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

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

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

RATING CLASS	MORTGAGE LOANS			CONSUMER LOANS			NON-INSTALLMENT LOANS		
	RANGE OF PD	NOMINAL VALUE		RANGE OF PD	NOMINAL VALUE		RANGE OF PD	NOMINAL VALUE	
		31.12.2013	31.12.2012		31.12.2013	31.12.2012		31.12.2013	31.12.2012
1	0.00% <= PD < 0.19%	4.9%	4.5%	0.00% <= PD < 0.30%	4.8%	4.6%	0.00% <= PD < 0.01%	0.7%	0.6%
2	0.19% <= PD < 0.24%	10.6%	10.0%	0.30% <= PD < 0.50%	6.8%	6.9%	0.01% <= PD < 0.03%	10.2%	9.8%
3	0.24% <= PD < 0.31%	29.5%	26.9%	0.50% <= PD < 0.60%	4.8%	4.8%	0.03% <= PD < 0.04%	2.8%	2.7%
4	0.31% <= PD < 0.40%	41.9%	38.2%	0.60% <= PD < 0.80%	12.1%	12.1%	0.04% <= PD < 0.07%	7.1%	7.4%
5	0.40% <= PD < 0.61%	5.0%	6.5%	0.80% <= PD < 1.30%	17.0%	16.4%	0.07% <= PD < 0.15%	17.3%	16.5%
6	0.61% <= PD < 1.02%	1.1%	5.2%	1.30% <= PD < 2.10%	20.3%	19.7%	0.15% <= PD < 0.25%	18.0%	17.6%
7	1.02% <= PD < 2.20%	1.9%	2.9%	2.10% <= PD < 3.70%	16.7%	16.9%	0.25% <= PD < 0.59%	9.6%	10.0%
8	2.20% <= PD < 6.81%	1.9%	2.2%	3.70% <= PD < 7.20%	7.2%	7.6%	0.59% <= PD < 1.20%	10.3%	13.0%
9	6.81% <= PD < 14.10%	1.0%	1.1%	7.20% <= PD < 15.40%	3.2%	3.2%	1.20% <= PD < 2.58%	5.1%	5.1%
10	14.10% <= PD < 100.00%	2.2%	2.5%	15.40% <= PD < 100.00%	7.1%	7.8%	2.58% <= PD < 100.00%	18.9%	17.3%
Total		**100.0%**	**100.0%**		**100.0%**	**100.0%**		**100.0%**	**100.0%**

Notes to the financial statements (cont.)

(In PLN thousand)

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

RATING CLASS	RANGE OF PD	NOMINAL VALUE	
		31.12.2013	31.12.2012
1	0.00% <= PD < 0.11%	1.4%	1.7%
2	0.11% <= PD < 0.22%	4.1%	4.3%
3	0.22% <= PD < 0.45%	9.7%	10.0%
4	0.45% <= PD < 1.00%	16.5%	16.8%
5	1.00% <= PD < 2.10%	19.3%	19.0%
6	2.10% <= PD < 4.00%	15.8%	15.1%
7	4.00% <= PD < 7.00%	12.8%	12.8%
8	7.00% <= PD < 12.00%	8.4%	8.5%
9	12.00% <= PD < 22.00%	6.8%	6.3%
10	22.00% <= PD < 100.00%	5.2%	5.5%
Total		**100.0%**	**100.0%**

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

RATING CLASS	RANGE OF PD	NOMINAL VALUE	
		31.12.2013	31.12.2012
1	0.00% <= PD < 0.15%	8.7%	7.5%
2	0.15% <= PD < 0.27%	10.8%	5.9%
3	0.27% <= PD < 0.45%	17.9%	8.3%
4	0.45% <= PD < 0.75%	12.9%	7.4%
5	0.75% <= PD < 1.27%	11.9%	9.8%
6	1.27% <= PD < 2.25%	9.0%	15.8%
7	2.25% <= PD < 4.00%	8.5%	14.1%
8	4.00% <= PD < 8.50%	16.7%	20.5%
9	8.50% <= PD < 100.00%	3.6%	10.7%
Total		**100.0%**	**100.0%**

For specialized lending, the Bank adopts slotting criteria approach within internal rating method which uses supervisory categories in the process of assigning risk weigh category.

Percentage distribution of the portfolio exposure to specialized lending (excluding impairment allowances)

SUPERVISORY CATEGORY	NOMINAL VALUE	
	31.12.2013	31.12.2012
High	16.2%	20.6%
Good	76.4%	73.0%
Satisfactory	4.2%	5.2%
Low	3.2%	1.2%
Total	**100.0%**	**100.0%**

Client/transaction rating and credit risk decision-making level
Decision-making level connected with transaction approval is directly dependent upon client’s rating.

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Validation of rating models

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

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

Bank's exposure to credit risk

The maximum credit risk exposure

The table below presents the maximum credit risk exposure for statement of financial position and off-balance sheet positions as at the reporting date.

	31.12.2013	31.12.2012
Due from Central Bank	2 086 607	6 978 869
Loans and advances from banks and from customers (*)	108 223 044	98 703 492
Financial assets held for trading	188 377	614 719
Derivative financial instruments (held for trading)	1 999 346	2 650 577
Hedging instruments	250 186	367 890
Investment securities	34 845 508	28 587 056
Other assets (**)	2 544 883	2 386 870
Balance sheet exposure (***)	**150 137 951**	**140 289 473**
Obligations to grant loans	26 922 182	23 123 943
Other contingent liabilities	12 818 277	11 304 804
Off-balance sheet exposure	**39 740 459**	**34 428 747**
Total	**189 878 410**	**174 718 220**

(*) Loans and advances to customers include bills of exchange eligible for rediscounting at Central Bank.
(**) Includes the following items of the statement of financial position: 'Investments in subsidiaries', 'Investments in associates' and part of 'Other assets' (Accrued income, Interbank and interbranch settlements, Other debtors and Card settlements).
(***) Balance sheet exposure is equal to the carrying amount presented in the statement of financial position.

Notes to the financial statements (cont.)

(In PLN thousand)

Credit risk mitigation methods

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

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

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

The financial effect of pledged collaterals for exposure portfolio with recognized impairment defined individually amounts to PLN 1 352 740 thousand as at 31 December 2013 r. (PLN 828 930 thousand as at 31 December 2012 r.). The level of required impairment allowances for the portfolio would increase by this amount, if the discounted cash flows from collateral were not taken into account during estimation.

Notes to the financial statements (cont.)

(In PLN thousand)

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting agreements or similar agreements, irrespective of whether they are offset in the statement of financial position.

The netting agreements concluded by the Bank are:

- ISDA agreements and similar master netting agreements on derivatives,
- GMRA agreements on repo and reverse-repo transactions.

The netting agreements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the one of the counterparty. In addition, the Bank and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The Bank receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives,
- repo and reverse-repo transactions.

Such collateral is subject to standard industry terms. The collateral in the form of cash stems from an ISDA Credit Support Annex (CSA).

The securities received/given as collateral on repo and reverse-repo transaction can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

Financial assets and financial liabilities subject to enforceable master netting agreements and similar agreements and which may be potentially offset in the statement of financial position.

31.12.2013	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	2 249 532	(1 695 415)	(145 840)	408 277
Reverse-repo transactions	2 130 711	(2 128 726)	(723)	1 262
TOTAL	**4 380 243**	**(3 824 141)**	**(146 563)**	**409 539**

31.12.2013	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	3 062 269	(1 695 415)	(831 035)	535 819
Repo transactions	450 113	(442 179)	-	7 934
TOTAL	**3 512 382**	**(2 137 594)**	**(831 035)**	**543 753**

Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2012	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	3 018 467	(2 109 769)	(182 294)	726 404
Reverse-repo transactions	79 519	(79 519)	-	-
TOTAL	**3 097 986**	**(2 189 288)**	**(182 294)**	**726 404**

31.12.2012	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	3 856 277	(2 109 769)	(1 022 698)	723 810
Repo transactions	1 374 305	(1 371 927)	-	2 378
TOTAL	**5 230 582**	**(3 481 696)**	**(1 022 698)**	**726 188**

The carrying amount of financial assets and financial liabilities disclosed in the above tables have been measured in the statement of financial position on the following bases:

- derivatives – fair value,
- assets and liabilities resulting from repo and reverse-repo transactions – amortized cost.

Reconciliation of the carrying amount of financial assets and financial liabilities subject to enforceable master netting agreements and similar agreements to the amounts presented in the statement of financial position

31.12.2013	NET CARRYING AMOUNT	LINE ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	1 928 749	Derivative financial instruments (held for trading)	1 999 346	70 597	24
	165 954	Hedging instruments	250 186	84 232	26
Reverse-repo transactions	2 130 711	Loans and advances to banks	7 653 801	5 523 090	22
FINANCIAL LIABILITIES					
Derivatives	1 924 386	Derivative financial instruments (held for trading)	2 054 385	129 999	24
	1 007 884	Hedging instruments	1 007 884	-	26
Repo transactions	450 113	Amounts due to other banks	4 754 732	4 304 619	37

Notes to the financial statements (cont.)

(In PLN thousand)

Reconciliation of the carrying amount of financial assets and financial liabilities subject to enforceable master netting agreements and similar agreements to the amounts presented in the statement of financial position

31.12.2012	NET CARRYING AMOUNT	LINE ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	2 468 867	Derivative financial instruments (held for trading)	2 650 577	181 710	24
	187 847	Hedging instruments	367 890	180 043	26
Reverse-repo transactions	79 519	Loans and advances to banks	4 096 454	4 016 935	22
FINANCIAL LIABILITIES					
Derivatives	2 441 057	Derivative financial instruments (held for trading)	2 629 496	188 439	24
	1 226 781	Hedging instruments	1 226 781	-	26
Repo transactions	1 374 305	Amounts due to other banks	6 305 678	4 931 373	37

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

The quality analysis of the Bank's financial assets

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
- not past due	-	-	1 191 694	893 197
- up to 1 month	-	-	101 788	35 781
- between 1 month and 3 months	-	-	457 622	38 386
- between 3 months and 1 year	-	-	443 213	1 444 525
- between 1 year and 5 years	18 089	62 964	2 019 612	1 206 543
- above 5 years	-	-	834 395	835 537
Total gross carrying amount	**18 089**	**62 964**	**5 048 324**	**4 453 969**
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(353 894)	(175 253)
- up to 1 month	-	-	(50 121)	(11 636)
- between 1 month and 3 months	-	-	(132 587)	(19 002)
- between 3 months and 1 year	-	-	(180 945)	(412 768)
- between 1 year and 5 years	(9 788)	(54 000)	(1 160 069)	(779 281)
- above 5 years	-	-	(736 308)	(732 087)
Total allowance for impairment	**(9 788)**	**(54 000)**	**(2 613 924)**	**(2 130 027)**
Net carrying amount of exposure individually impaired	**8 301**	**8 964**	**2 434 400**	**2 323 942**
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
- not past due	-	-	63 262	60 904
- up to 1 month	-	-	34 183	31 489
- between 1 month and 3 months	-	-	30 450	33 577
- between 3 months and 1 year	-	10	395 765	454 184
- between 1 year and 5 years	-	-	1 359 506	1 355 645
- above 5 years	15 662	15 833	554 871	589 311
Total gross carrying amount	**15 662**	**15 843**	**2 438 037**	**2 525 110**
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(34 697)	(30 931)
- up to 1 month	-	-	(17 564)	(16 294)
- between 1 month and 3 months	-	-	(15 992)	(18 012)
- between 3 months and 1 year	-	(10)	(236 622)	(273 714)
- between 1 year and 5 years	-	-	(1 051 931)	(1 048 893)
- above 5 years	(15 662)	(15 833)	(534 101)	(575 742)
Total gross carrying amount	**(15 662)**	**(15 843)**	**(1 890 907)**	**(1 963 586)**
Net carrying amount of exposure collectively impaired	**-**	**-**	**547 130**	**561 524**

Notes to the financial statements (cont.)

(In PLN thousand)

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS (*)			
			CORPORATE		RETAIL	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
- not past due	7 645 771	4 087 779	56 085 618	54 431 685	39 852 292	35 956 484
- up to 30 days	-	-	206 057	175 123	1 299 370	1 336 766
- between 30 days and 60 days	-	-	29 634	21 910	177 009	200 850
- above 60 days	-	-	108 852	13 234	299 214	108 840
Total gross carrying amount	**7 645 771**	**4 087 779**	**56 430 161**	**54 641 952**	**41 627 885**	**37 602 940**
IBNR PROVISION						
- not past due	(271)	(289)	(218 388)	(255 957)	(123 852)	(133 645)
- up to 30 days	-	-	(2 658)	(2 598)	(86 202)	(88 192)
- between 30 days and 60 days	-	-	(1 192)	(689)	(22 057)	(23 276)
- above 60 days	-	-	(599)	(424)	(15 385)	(18 539)
Total gross carrying amount	**(271)**	**(289)**	**(222 837)**	**(259 668)**	**(247 496)**	**(263 652)**
Net carrying amount of exposure with no impairment	**7 645 500**	**4 087 490**	**56 207 324**	**54 382 284**	**41 380 389**	**37 339 288**

(*) Loans and advances to customers include bills of exchange eligible for rediscounting at Central Bank.

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
IMPAIRED EXPOSURE				
Gross carrying amount	33 751	78 807	7 486 361	6 979 079
Allowance for impairment	(25 450)	(69 843)	(4 504 831)	(4 093 613)
Total net carrying amount	**8 301**	**8 964**	**2 981 530**	**2 885 466**
EXPOSURES WITH IMPAIRMENT TRIGGERS FOR WHICH NO IMPAIRMENT HAS BEEN IDENTIFIED				
Gross carrying amount, in this:	-	-	38 589	37 019
Exposure with collateral value included in expected discounted cash flow, in this:	-	-	*38 589*	*37 019*
Past due exposures	-	-	*6 354*	*4 300*
IBNR provision	-	-	(2 765)	(4 288)
Total net carrying amount	**-**	**-**	**35 824**	**32 731**
EXPOSURES WITH NO IMPAIRMENT TRIGGERS				
Gross carrying amount	7 645 771	4 087 779	98 019 457	92 207 873
IBNR provision	(271)	(289)	(467 568)	(519 032)
Total net carrying amount	**7 645 500**	**4 087 490**	**97 551 889**	**91 688 841**

(*) Loans and advances to customers include bills of exchange eligible for rediscounting at Central Bank.

Notes to the financial statements (cont.)

(In PLN thousand)

Classification of exposures to debt securities according to Standard & Poor's ratings as at 31 December 2013

RATING	DEBT SECURITIES				
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS	TOTAL
AA+ to AA-	-	262 534	-	-	262 534
A+ to A-	188 377	17 599 157	1 050 967	5 694 771	24 533 272
BBB+ to BBB-	-	248 865	-	-	248 865
no rating	-	14 836 974(*)	837 757(**)	-	15 674 731
Total	**188 377**	**32 947 530**	**1 888 724**	**5 694 771**	**40 719 402**

(*) including NBP bills in an amount of PLN 14 159 186 thousand
(**) including NBP bills in an amount of PLN 837 757 thousand

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

RATING	DEBT SECURITIES				
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS	TOTAL
A+ to A-	293 566	15 530 743	2 103 774	2 887 530	20 815 613
BBB+ to BBB-	-	248 995	-	-	248 995
no rating	321 153	10 019 744(*)	674 781(**)	-	11 015 678
Total	**614 719**	**25 799 482**	**2 778 555**	**2 887 530**	**32 080 286**

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

Classification of exposures to derivative instruments according to Standard & Poor's ratings as at 31 December 2013

RATING	DERIVATIVE INSTRUMENTS						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			TOTAL
	BANKS	OTHET FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHET FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	8	-	-	-	-	-	8
AA+ to AA-	88 394	-	-	11 492	-	-	99 886
A+ to A-	1 290 956	31 507	-	116 674	-	-	1 439 137
BBB+ to BBB-	193 747	-	1 446	23 945	-	-	219 138
BB+ to BB-	31 553	-	2 861	-	-	-	34 414
B+ do B-	-	-	1 141	-	-	-	1 141
no rating	125 343	19 249	213 141	9 527	4 316	84 232	455 808
Total	**1 730 001**	**50 756**	**218 589**	**161 638**	**4 316**	**84 232**	**2 249 532**

Notes to the financial statements (cont.)

(In PLN thousand)

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

RATING	DERIVATIVE INSTRUMENTS						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			TOTAL
	BANKS	OTHET FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHET FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	16	-	-	-	-	-	16
AA+ do AA-	86 386	-	-	36 970	-	-	123 356
A+ do A-	1 686 769	-	-	116 102	-	-	1 802 871
BBB+ do BBB-	234 706	-	8 550	29 712	-	-	272 968
BB+ do BB-	-	-	2 131	-	-	-	2 131
no rating	267 447	26 441	338 131	5 064	-	180 042	817 125
Total	**2 275 324**	**26 441**	**348 812**	**187 848**	**-**	**180 042**	**3 018 467**

Forbearance

With reference to European Securities and Markets Authority (ESMA) document 2012/853 and instructions issued by European Central Bank in terms of disclosure as far as Forborne exposures, the Bank in cooperation with its mother company has started a process of convergence towards new requirements that will be binding at the reporting date of September 2014.

Forborne exposures are defined as exposures containing measures of renegotiation (Forbearance) i.e. concessions in respect of a debtor who has faced – or is about to face – difficulty in meeting its financial commitments ('financial difficulties').

Based on available data and internal methodologies as far as reclassification to non performing exposures of claims under restructuring and rules for renegotiation of terms and conditions for performing exposures, the Bank presents forborne exposures based on below criteria:

- Forborne exposures performing: claims for which at the date of renegotiation of some conditions of the agreement the exposures were classified as performing with overdue > 30 days and at the reporting date are still classified as performing. Perimeter of claims reported in this category has been identified retrieving history of agreements recorded in Bank's IT Ledger for the last 2 years
- Forborne exposures impaired: all claims under restructuring already reported by the Bank as impaired loans.

Below table report evidences of forborne exposures

	31.12.2013	31.12.2012
LOANS AND ADVANCES		
Non impaired exposures		
Gross amount	408 582	284 012
IBNR provisions	(30 901)	(26 910)
Net amount	377 681	257 102
Impaired exposures		
Gross amount	2 440 750	1 974 870
Impairment allowances	(886 095)	(513 596)
Net amount	1 554 655	1 461 274
Total net amount of forborne exposures	**1 932 336**	**1 718 376**

Credit risk concentration

According to the Banking Act the total exposure of a Bank to the risks associated with the single borrower or a group of borrowers in which entities are related by capital or management may not exceed 25% of a bank's equity. In year 2013 the maximum exposure limits set forth in the Banking Act were not exceeded.

Notes to the financial statements (cont.)

(In PLN thousand)

a) Breakdown by individual entities:

As at 31.12.2013

EXPOSURE TO 10 LARGERST CLIENTS OF THE BANK	% SHARE OF PORTFOLIO
Client 1	2.0%
Client 2	1.4%
Client 3	1.1%
Client 4	1.1%
Client 5	1.0%
Client 6	0.9%
Client 7	0.8%
Client 8	0.8%
Client 9	0.7%
Client 10	0.7%
Total	**10.5%**

b) Concentration by capital groups:

As at 31.12.2013

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE BANK	% SHARE OF PORTFOLIO
Group 1	4.8%
Group 2	2.3%
Group 3	1.2%
Group 4	1.2%
Group 5	1.1%
Total	**10.6%**

c) Breakdown by industrial sectors:

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents the structure of exposures by industrial sectors:

SECTOR DESCRIPTION	31.12.2013	31.12.2012
Services	14.3%	13.9%
Public administration	14.1%	13.6%
Energy	13.6%	14.2%
Real estate	12.2%	13.1%
Financial intermediation	9.5%	9.8%
Construction and timber industry	6.3%	7.0%
Transport	5.5%	4.4%
Manufacture of basic metals and fabricated metal products	5.4%	4.6%
Manufacture of chemical and pharmaceutical products	5.1%	5.7%
Manufacture of food products and beverages	3.3%	3.3%
Telecommunication and IT	2.8%	2.6%
Media and paper industry	2.4%	2.5%
Manufacture of vehicles	1.9%	1.9%
Other sectors	3.6%	3.4%
Total	**100.0%**	**100.0%**

Credit exposures towards Ukraine

In 2013 the Bank disposed all shares in its Ukrainian subsidiary PJSC UniCredit Bank (for details of this transaction please see Note 29).

As at 31 December 2013, the Bank carried the level of net direct balance sheet exposures towards Ukraine amounting to PLN 840 million (0.5% of total Bank Pekao exposures).

Majority of mentioned amount refers to intra group exposures in the form of interbank placements from which 50% will be repaid up to 2015 and 50% up to 2017. The remaining share of exposures refer to two international corporate groups.

The Bank is strictly monitoring evolution of the situation in the country, however the nature of our exposures do not pose any treat in the overall quality of our assets.

The below table presents the Bank's exposure towards the Ukrainian entities as at 31 December 2013.

	31.12.2013
Balance sheet exposure	
Loans and advances to banks	611 436
Loans and advances to customers	244 195
Total gross carrying amount	**855 631**
IBNR / Impairment allowances	(15 825)
Total net carrying amount	**839 806**
Off-balance sheet exposure	
Credit lines granted	3 895
Total gross carrying amount	**3 895**
IBNR	(11)
Total net carrying amount	**3 884**

(In PLN thousand)

4.3 Market risk

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

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

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

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

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

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

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

The main tool for market risk of the trading book measurement is Value at Risk model (VaR). This value corresponds to the level of a one-day loss, which will be incurred with the probability of 1%. VaR value is calculated with historical simulation method based on 2 years of historical observations of market risk factors' dynamics. The set of factors used when calculating VaR consists of all significant market factors that are taken into account for valuation of financial instruments, excluding specific credit risk of an issuer and counterparty. Estimating the impact of changes in market factors on the present value of a given portfolio is performed under the full revaluation (which is a difference between the value of the portfolio after the adjustments in market parameters' levels by historically observed changes of the parameters and the present value of the portfolio). The set of probable changes in the portfolio value (distribution), VaR is defined to be equal to 1% quantile.

The model is subject to continuous, statistical verification by comparing the VaR values to actual and revaluated performance figures Results of analyses carried out in 2013 and 2012 confirmed the adequacy of the model applied.

The table below presents the market risk exposure of the trading portfolio of the Bank measured by Value at Risk in 2013 and 2012:

	31.12.2013	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	34	11	493	2 676
interest rate risk	1 210	808	1 432	2 868
Trading portfolio	1 082	762	1 478	2 917

	31.12.2012	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	55	17	590	2 080
interest rate risk	1 480	616	1 362	5 278
Trading portfolio	1 391	736	1 437	5 268

(In PLN thousand)

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

The table below presents the sensitivity levels of the interest income (NII) to the change of interest rates by 100 b.p. and of economic value of the Bank's equity (EVE) to interest rate change by 200 b.p. assuming perfect elasticity of the Bank's administrated rates to the markets rates changes (excluding current accounts priced in PLN, for which the Bank applies the model adjusting the profile of product's revaluation) as at the end of December 2013 and 2012.

SENSITIVITY IN %	31.12.2013	31.12.2012
NII	(7.69)	(9.14)
EVE	(1.83)	(0.62)

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

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

	31.12.2013	31.12.2012
Currencies total (*)	39	841

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

4.4 Liquidity risk

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

The Bank invests free funds primarily in treasury securities of the Government of the Republic of Poland with high levels of liquidity. At the end of 2013 the share of government securities (including NBP securities) in total securities portfolio was 76% and 21% in total assets. Due to their liquidity characteristics and pledge possibilities, regularly monitored, these financial instruments would assist the Bank to overcome crisis situations.

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

Monitoring the liquidity, the Bank pays special attention to the liquidity in foreign currencies through monitoring, limiting and controlling the liquidity individually for each currency (according to the description above) as well as monitoring demand for the current and future currency liquidity and in case of identification of a such need the Bank hedges using currency swaps. The Bank monitors also the potential influence on the liqudity of placing required collateral deposits for dervative transactions. The adjusted liquidity gaps described below present, inter alia, the adjustments concerning the stability of core deposits and their maturities, and adjustments of flows due to off-balance sheet commitments for financial liabilities and guarantees granted and assets without contractual repayment schedules. The Bank includes as well the adjusted flows stemming from Bank security portfolio and flows resulting from earlier repayment of mortgage loans portfolio These are the main elements differentiating adjusted gaps from unadjusted ones. The maturity tables below present financial liabilities arranged according to contractual maturities.

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

Adjusted liquidity gap

31.12.2013	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Periodic gap	1 383 230	(3 721 046)	12 334 503	21 380 240	(31 981 941)	(605 014)
Cumulated gap		(2 337 816)	9 996 687	31 376 927	(605 014)	

31.12.2012	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Periodic gap	8 082 604	(6 340 903)	13 259 602	19 388 270	(34 942 710)	(553 137)
Cumulated gap		1 741 701	15 001 303	34 389 573	(553 137)	

Notes to the financial statements (cont.)

(In PLN thousand)

Structure of financial liabilities by contractual maturities

31.12.2013	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	1 968 459	1 451 927	12 592	168 225	1 397 852	4 999 055
Amounts due to customers	96 262 673	12 977 722	10 394 565	587 032	20 389	120 242 381
Debt securities issued	1 403 210	607 087	237 973	-	-	2 248 270
Financial liabilities held for trading	-	-	163 892	93 692	52 158	309 742
Total	**99 634 342**	**15 036 736**	**10 809 022**	**848 949**	**1 470 399**	**127 799 448**
OFF-BALANCE SHEET COMMITMENTS (**)						
Off- balance sheet commitments Financial liabilities granted	27 287 840	-	-	-	-	27 287 840
Off- balance sheet commitments Guarantees liabilities granted	12 187 126	-	-	-	-	12 187 126
Total	**39 474 966**	**-**	**-**	**-**	**-**	**39 474 966**

(*) Including Central Bank.

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

31.12.2012	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks	3 663 118	1 187 926	328 922	64 820	1 200 774	6 445 560
Amounts due to customers	82 559 409	12 800 158	12 989 386	347 149	19 442	108 715 544
Debt securities issued	-	813 848	2 899 707	345 195	-	4 058 750
Financial liabilities held for trading	-	-	37 496	131 160	77 922	246 578
Total	**86 222 527**	**14 801 932**	**16 255 511**	**888 324**	**1 298 138**	**119 466 432**
OFF-BALANCE SHEET COMMITMENTS (*)						
Off- balance sheet commitments Financial liabilities granted	23 559 633	-	-	-	-	23 559 633
Off- balance sheet commitments Guarantees liabilities granted	10 956 451	-	-	-	-	10 956 451
Total	**34 516 084**	**-**	**-**	**-**	**-**	**34 516 084**

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

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

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

- Interest Rate Swaps (IRS),
- Forward Rate Agreements (FRA),
- Options for currency and for gold,

(In PLN thousand)

- Interest rate options (Cap/Floor),
- Options based on commodity and equity securities,
- Commodity swaps.

Off-balance derivative transactions settled by the Bank in gross amounts include:
- Cross-Currency Interest Rate Swaps (CIRS),
- Foreign currency forward contracts,
- Foreign currency swaps,
- Securities forwards.

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2013	37 841	82 412	170 399	1 221 097	505 495	**2 017 244**
31.12.2012	25 853	123 149	246 296	1 522 061	878 871	**2 796 230**

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2013						
inflows	9 859 595	6 918 333	6 513 048	4 360 422	4 639 247	**32 290 645**
outflows	9 836 552	6 924 706	6 386 575	4 782 678	4 966 904	**32 897 415**
31.12.2012						
inflows	7 908 137	5 111 905	8 001 591	6 363 959	2 382 595	**29 768 187**
outflows	7 763 752	5 077 752	7 941 583	6 605 418	2 814 431	**30 202 936**

4.5 Operational risk

Qualitative information
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Within operational risk there is also legal risk. Strategic risk, business risk and reputational risk are separate operational risk categories.

Operational risk management is based on internal procedures which are in compliance with the Banking Law, Polish Financial Supervision Authority Resolutions 76/2010 (with further amendments) and 258/2011, the Recommendation M, as well as UniCredit Group standards. Operational risk management includes: identification, assessment, monitoring, mitigation and reporting. Operational risk identification and assessment consist in analysis of internal factors as well as external factors that can significantly affect the achievement of the Bank's objectives. The main measures used for identification and assessment of the operational risk are: internal operational events, external operational events, key risk indicators, scenario analysis and Pekao self-assessment. Monitoring actions are carried out on three control levels: operational control (all employees), risk management control (Financial and Operational Risk Management Department) and internal audit (Internal Audit Department). Operational risk mitigation includes i.a. internal control system, mitigation actions, business continuity plans, contingency plans and also insurance policies.

Organizational structure
The Supervisory Board, the Management Board and the Operational Risk Committee are involved in the operational risk management. The operational risk management process is coordinated by the Financial and Operational Risk Management

Department. All employees of the Bank and the selected specialized units are responsible for the operational risk management in their areas due to diverse nature of the risk demanding expert knowledge.

The Supervisory Board i.a. exercises the supervision of Bank's operational risk management system and its conformity with the Bank's strategy taking into account the operational risk management strategy.

The Management Board is responsible i.a. for preparation, implementation and functioning of the adequate operational risk management system, as well as for effectiveness of the operational risk management system, operational risk internal control system, internal capital estimation, reviewing the estimation process and maintaining the internal capital and for supervision over the effectiveness of these processes.

The Operational Risk Committee supports and performs an advisory role for the Management Board in creating a proper operational risk management process by the application of principles included in the operational risk management strategy.

The Financial and Operational Risk Management Department performs the second level of operational risk control within the scope of operational risk control system in Bank and it is responsible for identification, assessment, monitoring, mitigation and reporting of operational risk.

Reporting

Operational risk reporting system enables an assessment of Bank's operational risk exposure and effective management of this risk, and it also plays a fundamental role in the process of informing the Supervisory Board, the Management Board and top managers about Bank's operational risk exposure. In particular, annual and quarterly reports on the operational risk control includes information concerning operational risk profile, its evolution and utilization of annual loss limit and sublimits, analysis of trends in significant categories of operational risk, as well as review of number and geographical distribution of events, information on recovering of operational losses, cross-credit events and potential losses, information on key risk indicators, information on operational risk capital requirement. Annual and quarterly reports are presented to the Operational Risk Committee, the Management Board and next they are submitted to the Supervisory Board. Reports on key risk indicators monitoring are prepared each month and are distributed to the Operational Risk Coordinators, i.e. employees who are responsible for operational risk coordination in individual divisions, whereas the results of the scenario analyses are presented to the Operational Risk Committee and the Management Board. Moreover, the weekly information on significant internal and external operational events is distributed to the Operational Risk Coordinators and the Internal Audit

Internal validation process

The internal validation is performed at least one a year and it aims at examination of the conformity of the operational risk management system with the regulatory requirements and standards of the UniCredit Group. The internal validation bases on the operational risk management system self-assessment performed by the Financial and Operational Risk Management Department, which results are presented in the Local Validation Report. The internal validation is independently reviewed by the UniCredit Group Internal Validation Department. Next, the internal validation and results of independent review are subject to audit process performed by the Internal Audit Department. Results of operational risk management system internal validation in the Bank are approved by the Management Board.

Capital adequacy requirements and allocation mechanism

Operational risk capital requirement for the Bank is calculated by means of the Advanced Measurement Approach (AMA) according to the UniCredit Group internal model.

The AMA is based on internal loss data, external loss data, scenario analysis data as well as key risk indicators. The calculated overall AMA capital requirement is allocated to UniCredit Group legal entities. The capital requirement allocated by means of the allocation mechanism reflects the risk profile of each legal entity. The adequacy of the operational risk capital requirement allocated for the Bank is assessed as at the end of the June and December.

Quantitative information

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

(In PLN thousand)

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

OPERATING EVENTS BY CATEGORIES	2013	2012
Internal frauds	17.48%	22.09%
External frauds	19.66%	6.79%
Employment practices and workplace safety	10.73%	3.36%
Clients, products and business practices	14.96%	55.45%
Damages to physical assets	15.28%	4.55%
Business disruption and system failures	1.42%	1.17%
Execution, delivery and process management	20.47%	6.59%
Total	**100.00%**	**100.00%**

In 2013, operating losses were fairly evenly distributed between the categories. The largest share was losses from losses on execution, delivery and process management which accounted for 20.47% of total losses (6.59% in 2012).The second category of high losses was external frauds which comprised 19.66% of total losses (6.79% in 2012) and the third category – internal frauds constituted 17.48% of share in total losses (22.09% in 2012).

4.6 Equity management

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

Regulatory capital requirements

The basic measure applied in the measurement of capital adequacy is the capital adequacy ratio. The minimum capital adequacy ratio required by law equals to 8%, both for the Bank and the Group. As at the end of December 2013, the Bank's capital adequacy ratio stood at 18.78%, i.e. more than twice as much as the minimum value required by the law.

Capital adequacy ratio as at 31 December 2012 comply with accounting policy change regarding the recognition of revenue from sale of insurance products linked to loans resulting in a reduction of own funds in the position 'undivided profit/loss from previous years'.

The increase of capital adequacy ratio in December 2013 compared with December 2012 (by 0.27 p.p.) was a result of Bank's equity increase by 4,9%. The total capital requirement increased by 3.4%.

The strengthening of Bank's capital base in 2013 is not only a consequence of the decision, adopted by the Annual General Meeting of Shareholders on the allocation of the 736 million of net profit for 2012 to the Bank's equity.

The calculations of the regulatory capital requirement as at 31 December 2013 and 31 December 2012 were based on the provisions under Resolution No. 76/2010 Polish Financial Supervision Authority of 10 March 2010 on the scope and detailed procedures for determining capital requirements for particular risks with amendments (Official Journal of Polish Financial Supervision Authority from 2010, No 2, item 11, No. 8, item 38, from 2011, No. 8, item 29, No. 9, item 32, No. 11, item 42, No. 13, item 48 and 49 and from 2012, No. 8, item 19).

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

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

(In PLN thousand)

The table below presents the basic data concerning Bank's capital adequacy as at 31 December 2013 and 31 December 2012

	31.12.2013	31.12.2012
Capital (Tier 1)	**18 738 068**	**17 866 215**
Share capital	262 470	262 470
Supplementary capital	9 326 529	9 326 529
Reserve capital	8 654 862	8 127 211
General risk fund for unidentified risk of banking operations	1 937 850	1 737 850
Net profit for present reporting period minus forecasted liabilities and dividends	-	-
Deductions from the core capital:		
Intangible assets	(601 571)	(644 445)
Previous year loss	(183 959)	(183 959)
Unrealized losses from debt instruments available for sale	(187 565)	(1 363)
Unrealized losses from equity instruments available for sale	-	-
Negative amounts in respect of adjustments on revaluation of assets	(7 692)	(15 332)
Capital exposure to financial institutions	(462 856)	(742 746)
Supplementary funds (Tier 2)	**-**	**-**
Unrealized gains from debt instruments available for sale	264 344	561 829
Unrealized gains from equity instruments available for sale	2 633	2 456
Positive foreign currency translation differences	1 238	1 388
Deductions:		
Capital exposure to financial institutions	(268 215)	(565 673)
Total equity	**18 738 068**	**17 866 215**
Capital adequacy ratio	**18.78%**	**18.51%**

Equity

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

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

As at 31 December 2013, the Bank had core capital (Tier 1) in the amount of PLN 18 738 068 thousand.

The core capital is composed of:

- share capital in the amount of PLN 262 470 thousand, expressed in nominal value in accordance with Articles of Association and entry to the Register of Entrepreneurs,
- supplementary capital is created according to the Bank's Articles of Association, from the appropriation of net profits and share premium. The share premium contains agio. Moreover, this position includes change in value of non-controlling interests resulting from an increase of the parent entity's stake in the share capital of the Bank. The supplementary capital amounted to PLN 9 326 529 thousand and comprised of a share premium in the amount of PLN 9 137 221 thousand and other items amounting to PLN 189 308 thousand,
- reserve capital in the amount of PLN 8 654 862 thousand is created from deduction from profits and serves objectives stated in the Bank's Articles of Association,
- general risk fund for unidentified risk of banking operations accounted for PLN 1 937 850 thousand and was created from profit after tax in line with the requirements of the Banking Act dated 29 of August 1997, as amended,
- net profit for present reporting period minus forecasted liabilities and dividends – pursuant to Art. 127 of the Banking Act may be included in core capital in amounts no greater than the amount of profit verified by the auditor. At the end of December 2013, this item did not include any part of the Bank Pekao S.A. profit for 2013.

Notes to the financial statements (cont.)

(In PLN thousand)

Deductions from the core capital:

- intangible assets in the amount of PLN 601 571 thousand, decrease the Bank's core capital, according to Art. 127 of the Banking Act,
- Previous year loss in the amount of PLN 183 959 thousand, decrease the Bank's core capital, according to Art. 127 of the Banking Act, Loss is a result of accounting policy change regarding the recognition of revenue from sale of insurance products linked to loans resulting in a reduction of own funds in the position 'undivided profit/loss from previous years',
- all unrealised losses from debt and equity instruments available for sale according to Resolution No. 325/2011 Polish Financial Supervision Authority of 20 December 2011, as amended reduce the core capital. At the end of December 2013 the unrealised losses from debt and equity instruments available for sale amounted to PLN minus 187 565 thousand and compassed only unrealized losses from debt instruments classified as available for sale,
- negative amounts in respect of adjustments on revaluation of assets in the amount of PLN minus 7 692 thousand, pursuant to § 3 Sec. 1, Point 11 of the Resolution No. 325/2011 Polish Financial Supervision Authority of 20 December 2011. These amounts refer to the risk of valuation models as well as the cost of closing out the position and are valued for trading portfolio positions,
- capital exposure to financial institutions (this refers to capital exposure to domestic banks, foreign banks, lending institutions and financial institutions falling in line with § 6 Sec. 1 Resolution No. 325/2011 Polish Financial Supervision Authority of 20 December 2011) accounted for PLN 731 071 thousand and constituted capital exposures resulted from shares and interests held,
- pursuant to § 3 Sec. 1 Point 1, Sec. 3 and § 5 of the Resolution No. 325/2011 Polish Financial Supervision Authority of 20 December 2011 equity exposure to financial institutions is included in 50% of their amount in deductions from the core capital and the remaining 50% in the supplementary funds. However, if 50% of the equity exposure to financial institutions exceeds the supplementary funds, the difference is deducted from the core capital. Therefore the core capital in connection with this position amounted to PLN 462 856 thousand.

At the end of December 2013 the supplementary funds (Tier 2) amounted to PLN 0.

The supplementary funds are composed of:

- unrealized gains from debt instruments available for sale constitute the majority of the Bank's supplementary funds. At the end of December 2013 amounted to PLN 330 431 thousand whereas unrealised gains from equity securities available for sale amounted to PLN 3 291 thousand. Pursuant to § 4 Sec. 2 of the Resolution No. 325/2011 Polish Financial Supervision Authority of 20 December 2011 unrealised gains from debt and equity instruments available for sale are presented in supplementary funds in 80% of their amount, i.e. PLN 266 977 thousand,
- positive foreign currency translation differences in the amount of PLN 1 238 thousand, pursuant to § 4 Sec. 1 Point 4 of the Resolution No. 325/2011 Polish Financial Supervision Authority of 20 December 2011.

In the deductions of supplementary funds are included capital exposures to financial institutions in the amount of PLN 268 215 thousand (for further explenation please see explanation above – capital exposure to financial institutions).

Internal capital adequacy assessment

The Bank applies capital adequacy assessment methods designed internally. In internal capital adequacy assessment, the Bank takes the following risk types into consideration:

- credit risk (including counterparty credit risk, concentration risk, country risk and residual risk),
- operational risk,
- market risk (banking book and trading book),
- liquidity risk,
- real estate risk,
- macroeconomic risk,
- business risk (including strategic risk),
- compliance risk,
- reputation risk,
- model risk.

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

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

Preferred methods of measuring quantifiable risks and determining the resulting capital requirements are Value at Risk models, based on assumptions derived from the Bank's risk appetite (99.93% confidence level and a one-year time horizon). The models are developed in compliance with the best market practices and regulatory requirements and supplemented with stress tests or scenario analyses. In case of risk types for which such methodologies have not been finally developed or implemented (i.e. credit risk), the Bank uses regulatory models supplemented with stress tests or simplified measurement methods. A consistent methodology for estimating the buffer for macroeconomic and model risks has been developed. The macroeconomic risk capital buffer is determined on the basis of the economic slowdown scenario impact on the Bank's economic capital.

Model risk is assessed qualitatively based on the analysis of data, assumptions and methodologies used. An additional element of the model risk assessment is scenario analyses making it possible to evaluate the impact of potential inconsistencies in the model on its output. Based on the aggregated output, the model risk capital buffer is determined.

The procedure of estimating capital needs starts with the calculation of economic capital, separately for each material quantifiable risk identified by the Bank. Next, economic capital figures for individual risks are aggregated inclusive of diversification effect. The amount is then increased by the capital buffer for model and macroeconomic risks. The sum of economic capital (inclusive of diversification effect) and the capital buffer constitutes the internal capital of the Bank.

4.7 Fair value of financial assets and liabilities

Financial instruments that are measured at fair value in the unconsolidated statement of financial position of the Bank

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

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

As of 31 December 2013 and on 31 December 2012, the Bank classified the financial assets and liabilities measured at fair value into the following three categories based on the valuation level:

- Level 1: mark-to-market applies exclusively to quoted securities,
- Level 2: mark-to-model valuation with model parameterization, based on quotations from active markets for given type of instrument. This method applies to illiquid government, municipal and central bank debt securities, linear and non-linear derivative instruments of interest rate markets (including forward transactions on debt securities), capital instruments, commodities and foreign currency exchange, except for those cases that meet the criteria belonging to Level 3,
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors. This method is applicable to corporate debt securities and for linear and non-linear derivative instruments of interest rate and foreign exchange markets for which credit risk factor (unobservable parameter) is recognized as significant.

Measurement at fair value is performed directly by a unit within Risk Management Division, independent from front-office units. Methodology of fair value measurement, including the changes of its parameterization are subject to approval of ALCO Committee. Adequacy of measurement methods is subject to on-going analysis and periodical reviews in framework of model risk management. Within the same unit, assessment of adequacy and significance of risk factors is performed,

Notes to the financial statements (cont.)

(In PLN thousand)

including assignment of valuation models to appropriate method class, according to established principles of classification. Principles of classification are regulated by internal procedures and subject to approval of the Board Member, responsible for the Financial Division.

31.12.2013	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	**18 053 554**	**17 083 881**	**257 258**	**35 394 693**
Financial assets held for trading	188 377	-	-	188 377
Derivative financial instruments, including:	-	1 996 721	2 625	1 999 346
- Banks	-	1 730 001	-	1 730 001
- Customers	-	266 720	2 625	269 345
Hedging instruments, including::	-	250 186	-	250 186
- Banks	-	161 638	-	161 638
- Customers	-	88 548	-	88 548
Securities available for sale	17 865 177	14 836 974	254 633	32 956 784
Liabilities:	**309 742**	**3 062 269**	**-**	**3 372 011**
Financial liabilities held for trading	309 742	-	-	309 742
Derivative financial instruments, including:	-	2 054 385	-	2 054 385
- Banks	-	1 744 107	-	1 744 107
- Customers	-	310 278	-	310 278
Hedging instruments, including:	-	1 007 884	-	1 007 884
- Banks	-	1 007 884	-	1 007 884
- Customers	-	-	-	-

31.12.2012	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	**15 827 574**	**12 314 767**	**1 299 346**	**29 441 687**
Financial assets held for trading	293 566	-	321 153	614 719
Derivative financial instruments, including:	-	2 626 217	24 360	2 650 577
- Banks	-	2 254 968	20 354	2 275 322
- Customers	-	371 249	4 006	375 255
Hedging instruments, including:	-	367 890	-	367 890
- Banks	-	187 847	-	187 847
- Customers	-	180 043	-	180 043
Securities available for sale	15 534 008	9 320 660	953 833	25 808 501
Liabilities:	**246 578**	**3 831 917**	**24 360**	**4 102 855**
Financial liabilities held for trading	246 578	-	-	246 578
Derivative financial instruments, including:	-	2 605 136	24 360	2 629 496
- Banks	-	2 418 862	1 050	2 419 912
- Customers	-	186 274	23 310	209 584
Hedging instruments, including:	-	1 226 781	-	1 226 781
- Banks	-	1 226 781	-	1 226 781
- Customers	-	-	-	-

Notes to the financial statements (cont.)

(In PLN thousand)

Change in fair value of financial instruments measured by the Bank at fair value according to Level 3

2013	FINANCIAL ASSETS HELD FOR TRADING	ASSETS FROM DERIVATIVES	SECURITIES AVAILABLE FOR SALE	LIABILITIES FROM DERIVATIVES
Opening balance	**321 153**	**24 360**	**953 833**	**24 360**
Increases, including:	18 158 767	12 905	11 540	-
Reclassification	-	12 905	-	-
Acquisition	18 158 767	-	-	-
Gains on financial instruments	-	-	11 540	-
recognized in the income statement	-	-	11 539	-
recognized in revaluation reserves	-	-	1	-
Decreases, including:	(18 479 920)	(34 640)	(710 740)	(24 360)
Reclassification	-	(24 360)	(699 084)	(24 360)
Settlement/redemption	(970 080)	(7 621)	(11 656)	-
Sale	(17 509 840)	-	-	-
Loss on financial instruments	-	(2 659)	-	-
recognized in the income statement	-	(2 659)	-	-
Closing balance	**-**	**2 625**	**254 633**	**-**
Unrealized income from financial instruments held in portfolio until end of period, recognized in:	**-**	**(528)**	**351**	**-**
Income statement:	-	(528)	350	-
net interest income	-	-	350	-
result on financial assets and liabilities held for trading	-	(528)	-	-
Other components income	-	-	1	-

Change in fair value of financial instruments measured by the Bank at fair value according to Level 3

2012	FINANCIAL ASSETS HELD FOR TRADING	ASSETS FROM DERIVATIVES	SECURITIES AVAILABLE FOR SALE	LIABILITIES FROM DERIVATIVES
Opening balance	**247 897**	**26 095**	**874 903**	**26 095**
Increases, including:	22 249 764	24 674	397 536	35 518
Acquisition	22 244 573	-	250 513	-
Derivatives transactions made in 2012	-	11 592	-	24 331
Revenues from financial instruments	5 191	13 082	147 023	11 187
recognized in the income statement	5 191	13 082	57 671	11 187
recognized in revaluation reserves	-	-	89 352	-
Decreases, including:	(22 176 508)	(26 409)	(318 606)	(37 253)
Settlement/redemption	(1 021 666)	(15 894)	(152 064)	(24 325)
Sale	(21 154 842)	-	(166 542)	-
Loss on financial instruments	-	(10 515)	-	(12 928)
recognized in the income statement	-	(10 515)	-	(12 928)
Closing balance	**321 153**	**24 360**	**953 833**	**24 360**
Unrealized income from financial instruments held in portfolio until end of period, recognized in:	**7 790**	**(1 461)**	**135 507**	**1 863**
Income statement:	7 790	(1 461)	99 139	1 863
net interest income	6 495	-	46 141	-
result on financial assets and liabilities held for trading	1 295	(1 461)	13	1 863
result on fair value hedge accounting	-	-	52 985	-
Other components income	-	-	36 368	-

(In PLN thousand)

Transfers from Level 1 to 2 are based on availability of active market quotations as of end of the reporting period.

Transfers from Level 2 to 3 takes place if observable valuation parameter is changed to an unobservable one or if an unobservable parameter is applied, provided the change results in significant impact on the valuation of instrument. Transfer from Level 2 to Level 3 takes place if unobservable valuation parameter is changed to an observable one, or the impact of unobservable parameter becomes insignificant. The transfers between levels take place on date and according to the state at the of reporting period.

In the period from 1 January till to 31 December 2013, there was no transfer of instruments valuated at fair value between Level 1 and Level 2.

In the period from 1 January till to 31 December 2013 linear and non-linear derivative instruments on interest rate and foreign exchange markets were transferred from Level 2 to Level 3 valuation. For transferred instruments credit risk influence (unobservable input) impact became significant at the end of reporting period.

In the period from 1 January till to 31 December 2013 derivative instruments on capital and commodity markets and municipal bonds were transferred from Level 3 to Level 2 valuation. For the transferred instruments unobservable factors were replaced with observable ones.

The impact of estimated parameters on measurement of financial instruments for which the Bank applies fair value valuation according to Level 3 as at 31 December 2013 is as follows:

FINANCIAL ASSET/LIABILITY	FAIR VALUE	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Interest rate derivatives	3 624	Discounted cash flow	PD	18%-32%	158	(30)
		Discounted cash flow	LGD	39%-49%	36	(36)
Corporate debt securities	252 225	Discounted cash flow	Credit spread	0,5%-1,3%	4 620	-

Financial instruments that are not measured at fair value in the unconsolidated statement of financial position of the Bank

The Bank also holds financial instruments which are not presented at fair value in the financial statements. Fair value is defined as the amount, for which an asset could be exchanged or a liability transferred between counterparties in normal condition on the report date.

As of 31 December 2013 and on 31 December 2012, the Bank classified the financial assets and liabilities not measured at fair value in the consolidated statement into the following three categories based on the valuation level:

- Level 1: mark-to-market. Applies to government securities quoted on the liquid market,
- Level 2: mark-to-model valuation with model parameterization, based on quotations from active markets for given type of instrument. This method applies to interbank deposits, own issues, illiquid government, municipal and central bank debt securities and interbank deposits
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors. This method is applicable to corporate debt securities, loans and deposits for which the applied credit risk factor (an unobservable parameter) is recognized significant.

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

Notes to the financial statements (cont.)

(In PLN thousand)

In the case of credits for which no quoted market values are available, the fair values presented are roughly estimated using validation techniques and taking into consideration the assumption, that at the moment the credit is granted its fair value is equal to its carrying amount. Fair value of non-impaired loans is equal to the sum of future expected cash flows, discounted to the balance sheet date. The discount rate is defined as the sum of the appropriate market risk-free rate, increased by the credit risk margin and current sales margin (taking commission fees into consideration) for the given credit products group. Margin is computed on loans granted during last three months divided into credit products group and time to maturity. For the purpose of the fair value of foreign currency loans estimation, margin on PLN loans adjusted by the cross-currency basis swap quotes is used. The fair value of impaired loans is defined as equal to the sum of expected recoveries, discounted with the use of effective interest rate, since the average expected recovery values take the element of credit risk fully into consideration. In case of loans without repayment schedule (loans in current account, overdrafts and credit cards), fair value was assumed as equal to the carrying amount.

For exposures, for which no active market prices are available and market values are unattainable, the Bank does not measure their fair value. Such exposures include companies in the financial sector, associated with the use of the financial and banking infrastructure and payment card services and companies taken-over over as a result of debt restructuring.

Since no quoted market prices are available for deposits, their fair values have been roughly estimated using valuation techniques with the assumption that the fair value of a deposit at the moment of its receipt is equal to its carrying amount. The fair value of term deposits is equal to the sum of future expected cash flows, discounted to the relevant balance sheet date. The cash flow discount rate is defined as the relevant market risk-free rate, increased by the sales margin. Margin is computed on deposits acquired during last three months divided into deposit products group and time to maturity. In case of short term deposits (current deposits, overnights, saving accounts), fair value was assumed as equal to the carrying amount.

The fair value of deposits and loans, apart from mortgage loans denominated in PLN and CHF for whose prepayment model is used, is calculated based on contractual flows.

The mark-to-model valuation of own issue debt instruments is based on the method of discounting the future cash flows. Variable cash flows are estimated based upon rates adopted for specific markets (depending upon issue specifications). Both the fixed and implied cash flows are discounted using interbank money market rates.

31.12.2013	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
ASSETS					
Cash and due from Central Bank	4 191 223	4 191 223	-	-	4 191 223
Receivables from banks	7 653 801	7 654 406	-	4 434 648	3 219 758
Loans and advances to customers (*)	100 569 243	99 737 977	-	7 914 160	91 823 817
Debt securities held to maturity	1 888 724	1 910 920	1 073 161	837 759	-
Total assets	**114 302 991**	**113 494 526**	**1 073 161**	**13 186 567**	**99 234 798**
LIABILITIES					
Amounts due to Central Bank	985	985	-	-	985
Amounts due to other banks	4 754 732	4 809 248	-	2 761 626	2 047 622
Amounts due to customers	119 868 743	119 509 154	-	3 667 699	115 841 455
Debt securities issued	2 240 452	2 240 719	-	2 240 719	-
Total liabilities	**126 864 912**	**126 560 106**	**-**	**8 670 044**	**117 890 062**

(*) Including bills of exchange eligible for rediscount at Central Bank.

Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2012	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
ASSETS					
Cash and due from Central Bank	9 207 268	9 207 268	-	-	9 207 268
Receivables from banks	4 096 454	4 096 780	-	390 561	3 706 219
Loans and advances to customers (*)	94 607 038	93 506 720	-	2 694 327	90 812 393
Debt securities held to maturity	2 778 555	2 827 633	2 152 840	674 793	-
Total assets	**110 689 315**	**109 638 401**	**2 152 840**	**3 759 681**	**103 725 880**
LIABILITIES					
Amounts due to Central Bank	-	-	-	-	-
Amounts due to other banks	6 305 678	6 313 218	-	3 318 897	2 994 321
Amounts due to customers	108 104 514	108 103 980	-	5 104 425	102 999 555
Debt securities issued	3 966 148	3 975 660	-	3 975 660	-
Total liabilities	**118 376 340**	**118 392 858**	**-**	**12 398 982**	**105 993 876**

(*) Including bills of exchange eligible for rediscount at Central Bank.

5. Custody activity

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

In 2013, the Bank acquired a number of new clients from the segment of investment funds, insurance companies and foreign banks. The Bank also maintained its leading position in terms of depositary notes, by handling more than 50% of all programmes.

As at 31 December 2013 the Bank maintained 4 865 securities accounts (in comparison to 4 666 securities accounts as at 31 December 2012).

6. Brokerage activity

Bank Pekao S.A. offers a wide range of capital market products and services via specialized Bank's organizational unit – Dom Maklerski Pekao.

Dom Maklerski Pekao is a specialized organizational unit of the Bank designed to sell capital market products. The objective of the entity is providing the highest quality brokerage services. The comprehensive offering enables clients, especially the individual clients of the Bank to invest in shares, derivatives (futures and options), bonds traded on exchanges and OTC markets. The entity intermediates also in sales of Structured Certificates of Deposit issued by Bank Pekao S.A. and invests in securities offered in IPOs and traded on foreign exchanges. Clients are served in 621 Brokerage Services Spots located in Bank branches throughout Poland and through remote channels of Pekao24Makler (via Internet, mobile service and by phone) fully integrated with the Bank's electronic banking platform Pekao24.

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

Notes to the financial statements (cont.)

(In PLN thousand)

Dom Maklerski Pekao conforms to the Good Practices Code of Brokerage Firms guaranteeing comprehensive services in accordance with highest ethics standards.

The Director of Dom Maklerski Pekao is the Vice-President of the Chamber of Brokerage Houses.

Dom Maklerski Pekao actively participates in capital market development in Poland.

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

	31.12.2013		31.12.2012	
	QUANTITY (PCS)	VALUE	QUANTITY (PCS)	VALUE
CLIENTS' FINANCIAL INSTRUMENTS				
Held on securities accounts	1 350 396 302	4 880 828	1 152 683 241	4 034 473
Equity securities and rights to such financial assets	1 337 023 765	4 380 965	1 152 364 083	3 950 743
Debt instruments and rights to such financial assets	13 372 537	499 863	319 158	83 730

Customers' cash on brokerage accounts

	31.12.2013	31.12.2012
Deposited on cash accounts in brokerage house and paid for securities bought in IPO or on the primary market	225 987	224 580
Other customers' cash	16 359	18 861
Total	**242 346**	**243 441**

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

	31.12.2013	31.12.2012
Receivables from executed transactions, including:	11 731	22 267
Stock Exchange market	11 442	22 258
NewConnect	289	9
Total receivables	**11 731**	**22 267**
Liabilities from executed transactions, including:	8 984	12 711
Stock Exchange market	8 734	12 683
NewConnect	250	28
Total liabilities	**8 984**	**12 711**

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

	31.12.2013	31.12.2012
Receivables from clearing fund	1 593	1 866
Receivables from margin deposits	11 096	12 490
Other receivables	92	268
Total receivables	**12 781**	**14 624**
Amounts due to clearing fund	4	-
Amounts due on margin deposits	-	33
Other liabilities	176	134
Total liabilities	**180**	**167**

(In PLN thousand)

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

	31.12.2013	31.12.2012
Receivables from compensation fund	255	192
Prepaid expenses- system maintenance payments	37	16
Deferred income- benefits from system	(292)	(208)
Total net balance sheet items concerning participation In the compensation fund	**-**	**-**

Settlements with entities running regulated securities markets and commodity exchanges

	31.12.2013	31.12.2012
Amounts due to Warsaw Stock Exchange	111	261
Total liabilities	**111**	**261**

7. Interest income and expense

Interest income

	2013	2012
Loans and other receivables from customers	5 252 792	6 449 832
Interbank placements	168 225	269 999
Reverse repo transactions	93 832	161 693
Investment securities	969 282	1 122 964
Financial assets held for trading	11 992	34 844
Total	**6 496 123**	**8 039 332**

Interest income for 2013 includes income from impaired financial assets in the amount of PLN 336 286 thousand (in 2012 PLN 334 398 thousand).

Total amount of interest income for 2013, measured at amortized cost using the effective interest rate method which applies to financial assets not measured at fair value through profit or loss amounted to PLN 3 876 727 thousand (in 2012 PLN 4 472 075 thousand).

Interest expense

	2013	2012
Deposits from customers	(1 909 684)	(2 985 016)
Interbank deposits	(43 210)	(51 758)
Repo transactions	(103 225)	(168 820)
Loans and advances received	(16 599)	(36 321)
Debt securities issued	(112 881)	(146 084)
Total	**(2 185 599)**	**(3 387 999)**

Total amount of interest expenses for 2013, measured at amortized cost using the effective interest rate method with reference to financial liabilities, which are not valued at fair value through profit or loss amounted to PLN 1 855 202 thousand (in 2012 PLN 3 000 321 thousand).

(In PLN thousand)

8. Fee and commission income and expense

Fee and commission income

	2013	2012
Accounts maintenance, payment orders and cash transactions	705 360	784 563
Payment cards	891 113	893 274
Loans and advances	356 436	378 675
Investment products sales intermediation	231 201	185 513
Securities operations	45 215	45 867
Custody activity	55 913	52 687
Guarantees, letters of credit and similar transactions	52 176	50 496
Other	78 087	23 547
Total	**2 415 501**	**2 414 622**

Fee and commission expense

	2013	2012
Payment cards	(435 524)	(453 339)
Money orders and transfers	(20 771)	(26 250)
Securities operations and derivatives	(9 868)	(8 919)
Custody activity	(8 790)	(8 183)
Acquisition services	(13 225)	(11 576)
Accounts maintenance	(3 422)	(475)
Other	(12 604)	(15 403)
Total	**(504 204)**	**(524 145)**

9. Dividend income

	2013	2012
From subsidiaries	85 170	94 529
From associates	51 858	65 256
From other entities	6 751	8 749
Total	**143 779**	**168 534**

10. Result on financial assets and liabilities held for trading

	2013	2012
Foreign currency exchange result	397 959	467 642
Gains (losses) on derivatives	46 105	6 509
Gains (losses) on securities	12 314	15 034
Total	**456 378**	**489 185**

In 2013, the total change in the fair value of financial instruments valued at fair value through profit or loss, determined with the use of valuation techniques (when no published quotations from active markets are available) amounted to PLN 53 730 thousand (in 2012 PLN 14 055 thousand).

(In PLN thousand)

11. Gains (losses) on disposal

Realized gains

	2013	2012
Loans and other financial receivables	63	975
Available for sale financial assets – debt instruments	308 019	278 513
Available for sale financial assets – equity instruments	-	2
Held to maturity investments	899	283
Debt securities issued	444	381
Total	**309 425**	**280 154**

Realized losses

	2013	2012
Loans and other financial receivables	(130)	(217)
Available for sale financial assets – debt instruments	(563)	-
Debt securities issued	(3 593)	(684)
Total	**(4 286)**	**(901)**

Net realized profit	**305 139**	**279 253**

The change in fair value of financial assets available for sale referred in 2013 directly to equity amounted to PLN 250 382 thousand (decrease), in 2012 PLN 1 039 104 thousand (increase).

The change in fair value of financial assets, related in 2013 from equity to financial income amounted to PLN 307 456 thousand (profit), in 2012 PLN 278 513 thousand (profit).

12. Administrative expenses

Personnel expenses

	2013	2012
Wages and salaries	(1 409 934)	(1 418 043)
Insurance and other charges related to employees	(263 054)	(260 799)
Share-based payments expense	(5 621)	(11 783)
Total	**(1 678 609)**	**(1 690 625)**

Other administrative expenses

	2013	2012
General expenses	(1 078 355)	(1 147 732)
Taxes and charges	(33 773)	(34 759)
Bank Guarantee Fund fee	(105 553)	(95 069)
Financial supervision authority fee (KNF)	(15 355)	(22 649)
Total	**(1 233 036)**	**(1 300 209)**

Total administrative expenses	**(2 911 645)**	**(2 990 834)**

Notes to the financial statements (cont.)

(In PLN thousand)

13. Depreciation and amortization

	2013	2012
Property, plant and equipment	(186 718)	(204 247)
Investment property	(2 114)	(4 191)
Intangible assets	(137 831)	(134 851)
Total	**(326 663)**	**(343 289)**

14. Net other operating income and expenses

Other operating income

	2013	2012
Rental income	29 956	33 813
Miscellaneous income	32 436	17 972
Credit insurance charges	29 715	31 343
Recovery of debt collection costs	22 388	20 511
Excess payments, repayments	14 602	14 903
Refunding of administrative expenses	7 916	8 023
Compensation, penalty fees and fines received (including received compensations from damages in relation to fixed assets)	7 175	1 904
Income from written-off liabilities	2 011	7 678
Releases of impairment allowances for litigation and other assets	204	1 357
Other	5 977	4 468
Total	**152 380**	**141 972**

Other operating expenses

	2013	2012
Credit insurance expense	(27 817)	(27 164)
Reimbursement and deficiencies	(10 186)	(8 269)
Miscellaneous expense	(9 496)	(10 532)
Customers complaints expense	(2 978)	(2 117)
Impairment allowances for litigation and other assets	(2 517)	(868)
Costs of litigation and claims	(2 989)	(3 348)
Compensation, penalty fees and fines paid	(1 370)	(566)
Losses on disposal of other assets	(37)	(5)
Other	(9 497)	(13 940)
Total	**(66 887)**	**(66 809)**

Net other operating income and expenses	**85 493**	**75 163**

Notes to the financial statements (cont.)

(In PLN thousand)

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

2013	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT(**)
		IMPARIMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPARIMENT CHARGES	OTHER (*)		
Impairment of financial assets and off- balance sheet commitments								
Loans and advances to banks valued at amortized cost	70 132	3	750	-	(44 245)	(919)	25 721	44 242
Loans and advances to customers valued at amortized cost	4 616 933	1 365 143	93 545	(322 136)	(682 936)	(95 385)	4 975 164	(682 207)
Financial assets available for sale	101	-	-	-	-	-	101	-
Off-balance sheet commitments	125 379	75 421	361	-	(84 287)	-	116 874	8 866
Total financial assets and off-balance sheet commitments	**4 812 545**	**1 440 567**	**94 656**	**(322 136)**	**(811 468)**	**(96 304)**	**5 117 860**	**(629 099)**
Impairment of other assets								
Investments in subsidiaries and associates	54 482	-	-	-	-	-	54 482	-
Intangible assets	10 961	-	-	-	-	-	10 961	-
Property, plant and equipment	7 394	1 582	-	(2 223)	-	-	6 753	(1 582)
Investment properties	2 154	926	-	-	-	-	3 080	(926)
Other	65 930	2 517	-	(650)	(204)	(4 320)	63 273	(2 313)
Total impairment of other assets	**140 921**	**5 025**	**-**	**(2 873)**	**(204)**	**(4 320)**	**138 549**	**(4 821)**
Total	**4 953 466**	**1 445 592**	**94 656**	**(325 009)**	**(811 672)**	**(100 624)**	**5 256 409**	**(633 920)**

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

(**) 'Impairment of financial assets and off-balance sheet commitments' includes net impairment in the amount of PLN minus 629 099 thousand and proceeds from recovered bad debt in the amount of PLN 6 128 thousand, the total is PLN minus 622 971 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

2012	OPENING BALANCE	INCREASES: IMPARIMENT CHARGES	INCREASES: OTHER (*)	DECREASES: WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	DECREASES: RELEASE OF IMPARIMENT CHARGES	DECREASES: OTHER (*)	CLOSING BALANCE	IMPACT ON INCOME STATEMENT(**)
Impairment of financial assets and off- balance sheet commitments								
Loans and advances to banks valued at amortized cost	72 878	292	2 236	-	(2 222)	(3 052)	70 132	1 930
Loans and advances to customers valued at amortized cost	4 367 980	1 408 497	141 925	(279 563)	(810 551)	(211 355)	4 616 933	(597 946)
Financial assets available for sale	101	-	-	-	-	-	101	-
Off-balance sheet commitments	117 839	75 207	-	-	(66 450)	(1 217)	125 379	(8 757)
Total financial assets and off-balance sheet commitments	**4 558 798**	**1 483 996**	**144 161**	**(279 563)**	**(879 223)**	**(215 624)**	**4 812 545**	**(604 773)**
Impairment of other assets:								
Investments in subsidiaries and associates	68 056	-	-	(13 014)	-	(560)	54 482	-
Intangible assets	10 961	-	-	-	-	-	10 961	-
Property, plant and equipment	7 965	1 094	-	(1 665)	-	-	7 394	(1 094)
Investment properties	550	1 604	-	-	-	-	2 154	(1 604)
Other	67 079	868	-	(69)	(1 357)	(591)	65 930	489
Total impairment of other assets	**154 611**	**3 566**	**-**	**(14 748)**	**(1 357)**	**(1 151)**	**140 921**	**(2 209)**
Total	**4 713 409**	**1 487 562**	**144 161**	**(294 311)**	**(880 580)**	**(216 775)**	**4 953 466**	**(606 982)**

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

(**) 'Impairment of financial assets and off-balance sheet commitments' includes net impairment in the amount of PLN minus 604 773 thousand and proceeds from recovered bad debt in the amount of PLN 8 218 thousand, the total is PLN minus 596 555 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

16. Gains (losses) on subsidiaries and associates

	2013	2012
Profit from disposal of shares in subsidiaries	-	243
Profit from disposal/liquidation of shares in associates	-	(1 098)
Release of impairment allowances for equity investments	69 972	-
Total gains (losses) on subsidiaries and associates	**69 972**	**(855)**

17. Gains (losses) on disposal of property, plant and equipment, and intangible assets

	2013	2012
Gains (losses) on disposal of property, plant and equipment classified as assets held for sale	18 796	19 152
Gains (losses) on de-recognition of property, plant and equipment and intangible assets other than classified as assets held for sale	(107)	3 175
Total gains (losses) on disposal of property plant and equipment and intangible assets	**18 689**	**22 327**

18. Income tax

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

	2013	2012
Profit before income tax	**3 436 400**	**3 592 926**
Tax charge according to applicable tax rate	**652 916**	**682 656**
Permanent differences:	**(16 516)**	**(14 984)**
Non taxable income	(33 497)	(39 208)
Non tax deductible costs	14 080	19 249
Impact of other tax rates applied under a different tax jurisdiction	1 412	2 248
Tax relieves not included in the income statement	293	392
Other	1 196	2 335
Effective income tax charge on gross profit	**636 400**	**667 672**

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

	2013	2012
INCOME STATEMENT		
Current tax	**(595 454)**	**(721 609)**
Current tax charge in the income statement	(591 282)	(715 578)
Adjustments related to the current tax from previous years	903	144
Other taxes (e.g. withholding tax, income tax relating to foreign branch)	(5 075)	(6 175)
Deferred tax	**(40 946)**	**53 937**
Occurrence and reversal of temporary differences	(40 946)	53 937
Tax charge in the Bank's income statement	**(636 400)**	**(667 672)**
EQUITY		
Deferred tax	**99 371**	**(136 889)**
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments, used as cash flows hedges	(6 618)	7 623
revaluation of available for sale financial assets – debt securities	106 031	(144 454)
revaluation of available for sale financial assets – equity securities	(42)	(58)
Tax charge in other comprehensive income	**99 371**	**(136 889)**
Tax charge on items that will never be reclassified to profit or loss	**7 886**	**(508)**
revaluation of the defined benefit liabilities	7 886	(508)
Total tax charge	**(529 143)**	**(805 069)**

Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2013								
	OPENING BALANCE			CHANGES RECOGNIZED IN		OTHER	CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	THE INCOME STATEMENT	IN EQUITY	THE INCOME STATEMENT	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY
DEFFERED TAX LIABILITY									
Accrued income – securities	-	-	-	-	-	-	-	-	-
Accrued income – loans	53 691	53 691	-	20 882	-	-	74 573	74 573	-
Change in revaluation of financial assets	274 379	152 841	121 538	(91 720)	(99 371)	-	83 288	61 121	22 167
Accelerated depreciation	127 816	127 816	-	(528)	-	-	127 288	127 288	-
Investment relief	6 139	6 139	-	(331)	-	-	5 808	5 808	-
Other	49 393	49 393	-	20 437	-	-	69 830	69 830	-
Gross deferred tax liability	**511 418**	**389 880**	**121 538**	**(51 260)**	**(99 371)**	**-**	**360 787**	**338 620**	**22 167**
DEFFERED TAX ASSET									
Accrued expenses - securities	82 733	82 733	-	(62 070)	-	-	20 663	20 663	-
Accrued expenses - deposits and loans	75 558	75 558	-	(35 226)	-	-	40 332	40 332	-
Downward revaluation of financial assets	323 432	323 432	-	(110 243)	-	(1 905)	211 284	211 284	-
Income received to be amortized over time from loans and current accounts	118 753	118 753	-	9 585	-	-	128 338	128 338	-
Loan provisions charges	410 182	410 182	-	93 653	-	-	503 835	503 835	-
Personnel related provisions	75 483	72 863	2 620	3 737	7 886	-	87 106	76 600	10 506
Accruals	4 501	4 501	-	7 945	-	-	12 446	12 446	-
Previous year losses	3 284	3 284	-	(3 284)	-	-	-	-	-
Other	33 251	33 251	-	3 697	-	-	36 948	36 948	-
Gross deferred tax asset	**1 127 177**	**1 124 557**	**2 620**	**(92 206)**	**7 886**	**(1 905)**	**1 040 952**	**1 030 446**	**10 506**
Deferred tax charge	**x**	**x**	**x**	**(40 946)**	**107 257**	**(1 905)**	**x**	**x**	**x**
Net deferred tax assets	**615 759**	**734 677**	**(118 918)**	**x**	**x**	**x**	**680 165**	**691 826**	**(11 661)**
Net deferred tax provision	**-**	**-**	**-**	**x**	**x**	**x**	**-**	**-**	**-**

Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2012							
	OPENING BALANCE			CHANGES RECOGNIZED IN		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	THE INCOME STATEMENT	IN EQUITY	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY
DEFFERED TAX LIABILITY								
Accrued income – securities	22 618	22 618	-	(22 618)	-	-	-	-
Accrued income – loans	99 424	99 424	-	(45 733)	-	53 691	53 691	-
Change in revaluation of financial assets	112 617	112 617	-	40 224	121 538	274 379	152 841	121 538
Accelerated depreciation	121 760	121 760	-	6 056	-	127 816	127 816	-
Investment relief	6 484	6 484	-	(345)	-	6 139	6 139	-
Other	40 353	40 353	-	9 040	-	49 393	49 393	-
Gross deferred tax liability	**403 256**	**403 256**	**-**	**(13 376)**	**121 538**	**511 418**	**389 880**	**121 538**
DEFFERED TAX ASSET								
Accrued expenses - securities	-	-	-	82 733	-	82 733	82 733	-
Accrued expenses - deposits and loans	94 015	94 015	-	(18 457)	-	75 558	75 558	-
Downward revaluation of financial assets	379 307	363 956	15 351	(40 524)	(15 351)	323 432	323 432	-
Income received to be amortized over time from loans and current accounts	128 077	128 077	-	(9 324)	-	118 753	118 753	-
Loan provisions charges	375 540	375 540	-	34 642	-	410 182	410 182	-
Personnel related provisions	83 280	80 152	3 128	(7 289)	(508)	75 483	72 863	2 620
Accruals	2 436	2 436	-	2 065	-	4 501	4 501	-
Previous year losses	6 518	6 518	-	(3 234)	-	3 284	3 284	-
Other	33 302	33 302	-	(51)	-	33 251	33 251	-
Gross deferred tax asset	**1 102 475**	**1 083 996**	**18 479**	**40 561**	**(15 859)**	**1 127 177**	**1 124 557**	**2 620**
Deferred tax charge	**X**	**X**	**X**	**53 937**	**(137 397)**	**X**	**X**	**X**
Net deferred tax assets	**699 219**	**680 740**	**18 479**	**X**	**X**	**615 759**	**734 677**	**(118 918)**
Net deferred tax provision	**-**	**-**	**-**	**X**	**X**	**-**	**-**	**-**

Notes to the financial statements (cont.)

(In PLN thousand)

As at 31 December 2013 and 31 December 2012, there were no temporary differences related to investments in subsidiaries and associates, for which deferred tax liability was not created as a result of meeting the conditions of controlling the terms of temporary differences' reversing and being probable that these differences will not reverse in foreseeable future.

As at 31 December 2013 and 31 December 2012, there were no temporary differences, unused tax losses and unused tax relieves which were not included in the deferred tax assets.

19. Earnings per share

Basic earnings per share

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

Earnings per share

	2013	2012
Net profit	2 800 000	2 925 254
Weighted average number of ordinary shares in the period	262 470 034	262 394 506
Earnings per share (in PLN per share)	10.67	11.15

Diluted earnings per share

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

As at 31 December 2013 there no diluting instruments in the form of convertible bonds in the Bank.

	2013	2012
Net profit	2 800 000	2 925 254
Weighted average number of ordinary shares in the period	262 470 034	262 394 506
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 394 506
Diluted earnings per share (in PLN per share)	10.67	11.15

20. Dividend proposal

The Management Board of the Bank has decided to propose to the Ordinary General Meeting of Shareholders a dividend payment for 2013 in the amount of PLN 9.96 per share. Total dividend proposed to be paid amounts to PLN 2 614 202 thousand. The dividend has not been recognized as liabilities and there are no tax consequences for the Bank.

The final amount of dividend payment is subject to approval of the General Meeting of Shareholders.

(In PLN thousand)

21. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	31.12.2013	31.12.2012
Cash	2 104 604	2 228 386
Current account at Central Bank	2 086 607	6 978 869
Placements	-	-
Other	12	13
Total	**4 191 223**	**9 207 268**

AMOUNTS DUE TO CENTRAL BANK	31.12.2013	31.12.2012
Term deposits	985	-
Total	**985**	**-**

Cash and balances with Central Bank by currencies

31.12.2013	ASSETS	LIABILITIES
PLN	3 637 603	985
EUR	271 158	-
USD	162 712	-
CHF	33 382	-
Other currencies	86 368	-
Total	**4 191 223**	**985**

31.12.2012	ASSETS	LIABILITIES
PLN	8 530 289	-
EUR	336 426	-
USD	192 204	-
CHF	30 915	-
Other currencies	117 434	-
TOTAL	**9 207 268**	**-**

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

Funds in the mandatory reserve account bear interest in the amount of 0.9 of the rediscount rate for bills of exchange amounts 2.75 % as at 31 December 2013 (as at 31 December 2012 this interest rate amounted to 4.50 %).

Notes to the financial statements (cont.)

(In PLN thousand)

22. Loans and advances to banks

Loans and advances to banks by product type

	31.12.2013	31.12.2012
Current accounts and overnight placements	1 566 820	1 964 069
Interbank placements	1 326 016	253 798
Loans and advances	122 357	138 963
Cash collateral	1 094 355	1 333 086
Reverse repo transactions	3 119 010	190 118
Debt securities	136 786	87 395
Cash in transit	314 178	199 157
Total gross amount	**7 679 522**	**4 166 586**
Impairment allowances	(25 721)	(70 132)
Total net amount	**7 653 801**	**4 096 454**

Loans and advances to banks by quality

	31.12.2013	31.12.2012
Loans and advances to banks, including:		
non impaired (gross)	7 645 771	4 087 779
impaired (gross)	33 751	78 807
individual impairment allowances	(9 788)	(54 000)
collective impairment allowances (*)	(15 933)	(16 132)
Total	**7 653 801**	**4 096 454**

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

Loans and advances to banks by contractual maturities

	31.12.2013	31.12.2012
Loans and advances to banks, including:		
up to 1 month	6 554 364	3 027 356
between 1 and 3 months	185 922	786 187
between 3 months and 1 year	392 779	72 238
between 1 and 5 years	352 332	80 913
over 5 years	160 203	120 896
past due	33 922	78 996
Total gross amount	**7 679 522**	**4 166 586**
Impairment allowances	(25 721)	(70 132)
Total net amount	**7 653 801**	**4 096 454**

Loans and advances to banks by currencies

	31.12.2013	31.12.2012
PLN	3 913 545	1 171 416
CHF	22 651	30 893
EUR	2 332 382	2 075 687
USD	1 199 546	657 106
Other currencies	185 677	161 352
Total	**7 653 801**	**4 096 454**

Changes in the level of impairment allowances in 2013 and 2012 are presented in the Note 15.

(In PLN thousand)

23. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by issuer and product structure

31.12.2013	ASSETS	LIABILITIES
Securities issued by State Treasury	188 377	309 742
T- bills	-	-
T- bonds	188 377	309 742
Securities issued by banks	-	-
Securities issued by business entities	-	-
Total	**188 377**	**309 742**

31.12.2012	ASSETS	LIABILITIES
Securities issued by State Treasury	293 566	246 578
T- bills	1 204	-
T- bonds	292 362	246 578
Securities issued by banks	161 664	-
Securities issued by business entities	159 489	-
Total	**614 719**	**246 578**

Financial assets and liabilities held for trading by maturities

31.12.2013	ASSETS	LIABILITIES
Debt securities, including:		
up to 1 month	76 898	-
between 1 and 3 months	1 993	-
between 3 months and 1 year	-	163 892
between 1 and 5 years	55 544	93 692
over 5 years	53 942	52 158
Total	**188 377**	**309 742**

31.12.2012	ASSETS	LIABILITIES
Debt securities, including:		
up to 1 month	161 556	-
between 1 and 3 months	975	-
between 3 months and 1 year	175 674	37 496
between 1 and 5 years	160 512	131 160
over 5 years	116 002	77 922
Total	**614 719**	**246 578**

(In PLN thousand)

Financial assets and liabilities held for trading by currencies

31.12.2013	ASSETS	LIABILITIES
PLN	141 482	309 742
EUR	8 349	-
USD	38 546	-
Total	**188 377**	**309 742**

31.12.2012	ASSETS	LIABILITIES
PLN	580 356	246 578
EUR	6 651	-
USD	27 712	-
Total	**614 719**	**246 578**

24. Derivative financial instruments (held for trading)

Derivative financial instruments at the Bank

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

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

Derivative financial instruments embedded in other instruments

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Other plain vanilla and exotic options embedded in deposits and their close positions are valued using the Monte-Carlo simulation technique assuming Geometric Brownian Motion model of risk factors. Model parameters are determined first of all on the basis of quoted options and futures contracts and in their absence based on statistical measures of the underlying instrument dynamic.

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

Risk involved in financial derivatives

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

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

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

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

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

Fair value of trading derivatives

31.12.2013	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 695 176	1 738 507
Forward Rate Agreements (FRA)	12 574	10 365
Options	16 742	16 359
Other	724	863
Foreign currencies and in gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	15 985	36 098
Currency Forward Agreements	56 866	100 447
Currency Swaps (FX–swap)	122 157	73 061
Options for currency and for gold	58 259	58 287
Transactions based on commodities and equity securities		
Options	5 817	5 818
Swaps	15 046	14 580
Total	**1 999 346**	**2 054 385**

Notes to the financial statements (cont.)

(In PLN thousand)

Fair value of trading derivatives

31.12.2012	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	2 369 206	2 345 058
Forward Rate Agreements (FRA)	10 007	13 582
Options	18 316	17 647
Other	82	48
Foreign currencies and in gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	12 968	78 254
Currency Forward Agreements	77 351	76 746
Currency Swaps (FX–swap)	81 014	17 658
Options for currency and for gold	74 759	73 629
Transactions based on commodities and equity securities		
Options	6 874	6 874
Total	**2 650 577**	**2 629 496**

Nominal value of trading derivatives

31.12.2013	CONTRACTUAL MATURITY					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	2 173 615	4 125 919	13 639 585	50 230 200	10 386 886	80 556 205
Forward Rate Agreements (FRA)	1 075 000	14 750 000	12 850 000	-	-	28 675 000
Options	-	233 753	352 550	2 638 436	195 996	3 420 735
Other	762 979	-	-	-	-	762 979
Foreign currencies and in gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) – currency bought	-	42 359	1 079 014	964 144	-	2 085 517
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	-	44 289	1 087 967	962 366	-	2 094 622
Currency Forward Agreements – currency bought	3 962 115	2 804 400	1 552 650	483 306	-	8 802 471
Currency Forward Agreements – currency sold	3 955 353	2 851 515	1 558 484	510 350	-	8 875 702
Currency Swaps (FX-swap) – currency bought	4 718 267	1 942 043	1 108 129	-	-	7 768 439
Currency Swaps (FX-swap) – currency sold	4 726 152	1 935 766	1 049 208	-	-	7 711 126
Options bought	565 212	767 503	1 583 012	-	-	2 915 727
Options sold	566 726	762 267	1 577 828	-	-	2 906 821
Transactions based on commodities and equity securities						
Options	-	176 615	55 877	82 020	-	314 512
Swaps	-	-	-	748 698	-	748 698
Total	**22 505 419**	**30 436 429**	**37 494 304**	**56 619 520**	**10 582 882**	**157 638 554**

Notes to the financial statements (cont.)

(In PLN thousand)

Nominal value of trading derivatives

31.12.2012	CONTRACTUAL MATURITY UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Interest rate transactions						
Interest Rate Swaps (IRS)	3 691 426	8 471 096	19 640 030	43 216 674	10 407 640	85 426 866
Forward Rate Agreements (FRA)	11 850 000	7 450 000	4 375 000	-	-	23 675 000
Options	-	-	259 240	2 537 027	265 538	3 061 805
Other	194 475	-	-	-	-	194 475
Foreign currencies and in gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) – currency bought	-	-	1 550 075	1 609 274	-	3 159 349
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	-	-	1 623 166	1 587 636	-	3 210 802
Currency Forward Agreements – currency bought	3 332 726	1 252 226	1 994 962	544 358	-	7 124 272
Currency Forward Agreements – currency sold	3 322 468	1 250 173	1 991 940	577 191	-	7 141 772
Currency Swaps (FX-swap) – currency bought	4 418 978	2 971 247	880 609	224 375	-	8 495 209
Currency Swaps (FX-swap) – currency sold	4 403 242	2 963 036	851 853	204 410	-	8 422 541
Options bought	405 506	327 895	420 723	1 969 096	-	3 123 220
Options sold	400 215	316 689	423 854	1 969 096	-	3 109 854
Transactions based on commodities and equity securities						
Options	-	-	352 722	228 712	-	581 434
Total	**32 019 036**	**25 002 362**	**34 364 174**	**54 667 849**	**10 673 178**	**156 726 599**

25. Loans and advances to customers

Loans and advances to customers by product type

	31.12.2013	31.12.2012
Mortgage loans	36 086 703	32 214 911
Current accounts	11 149 641	11 216 247
Operating loans	15 010 351	16 188 866
Investment loans	19 488 173	18 643 436
Payment cards receivables	778 736	747 985
Purchased debt receivables	1 960 318	1 990 056
Other loans and advances	8 978 067	8 655 119
Debt securities	9 473 835	6 844 725
Reverse repo transactions	2 581 676	2 694 482
Cash in transit	36 677	27 985
Total gross amount	**105 544 177**	**99 223 812**
Impairment allowances	(4 975 164)	(4 616 933)
Total net amount	**100 569 013**	**94 606 879**

Notes to the financial statements (cont.)

(In PLN thousand)

Loans and advances to customers by customer type

	31.12.2013	31.12.2012
Corporate	50 257 134	48 548 684
Individuals	43 712 325	39 624 919
Budget entities	11 574 718	11 050 209
Total gross amount	**105 544 177**	**99 223 812**
Impairment allowances	(4 975 164)	(4 616 933)
Total net amount	**100 569 013**	**94 606 879**

Loans and advances to customers by quality

	31.12.2013	31.12.2012
Loans and advances to customers, including:		
non impaired (gross)	98 057 816	92 244 733
impaired (gross)	7 486 361	6 979 079
individual impairment allowances	(2 629 793)	(2 152 061)
collective impairment allowances (*)	(2 345 371)	(2 464 872)
Total	**100 569 013**	**94 606 879**

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

Loans and advances to customers by contractual maturities

	31.12.2013	31.12.2012
Loans and advances to customers, including:		
up to 1 month	16 066 468	16 087 546
between 1 and 3 months	2 702 807	4 255 164
between 3 months and 1 year	10 249 451	10 937 757
between 1 and 5 years	32 989 931	29 207 990
over 5 years	38 640 987	33 841 931
expired	4 894 533	4 893 424
Total gross amount	**105 544 177**	**99 223 812**
Impairment allowances	(4 975 164)	(4 616 933)
Total net amount	**100 569 013**	**94 606 879**

Loans and advances to customers by currencies

	31.12.2013	31.12.2012
PLN	82 913 939	76 747 113
CHF	4 507 192	5 124 188
EUR	11 115 299	10 914 875
USD	1 983 134	1 790 336
Other currencies	49 449	30 367
Total	**100 569 013**	**94 606 879**

Changes in impairment allowances in 2013 and 2012 are presented in the Note 15.

Notes to the financial statements (cont.)

(In PLN thousand)

26. Hedge accounting

As at 31 December 2013 the Bank applies fair value hedge accounting and cash flow hedge accounting.

In the period from 1 January to 31 December 2013 the Bank continued to apply the following hedge accounting:

- fair value hedge accounting for fixed coupon debt securities classified as available-for-sale (AFS) hedged with interest rate swap (IRS) transactions - described in 26.1,
- cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions - described in 26.2,
- cash flow hedge accounting for floating-rate financial assets hedged with interest rate swap (IRS) transactions - described in 26.3,
- fair value hedge accounting for the portfolio of deposits denominated in EUR against interest rate risk hedged with cross-currency interest rate swap (CIRS) transactions - described in 26.4,
- cash flow hedge accounting for a denominated in EUR floating coupon deposits portfolio, hedged with interest rate swap (IRS) transactions - described in 26.5,
- cash flow hedge accounting for variable portfolio of loans in EUR and USD hedged with fx-swap instruments - described in 26.6.

In 2013 the Bank concluded the designation of hedge accounting (cash flow hedge) for the highly probable cash flow in USD (Bank's long position in US dollars) hedged with fx-forward instruments (made as series of fx-spot and fx-swap transactions). The last cash flow related to the hedged item was generated on 24 September 2013.

The table below presents the fair values of hedging derivatives

31.12.2013	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	1 460	158 856
Cross-currency interest rate swaps (CIRS)	84 232	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	51 928	14 472
Cross-currency interest rate swaps (CIRS)	24 183	834 556
Fx-swaps	88 383	-
Total	**250 186**	**1 007 884**

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

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents nominal values of hedging derivatives

31.12.2013	CONTRACTS ACCORDING TO MATURITIES					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	
Fair value hedge accounting						
Interest rate swaps (IRS)	466 860	-	-	633 400	1 183 635	2 283 895
Cross-currency interest rate swaps (CIRS)	-	-	1 510 424	-	-	1 510 424
Cash flow hedge accounting						
Interest rate swaps (IRS)	-	90 000	371 659	620 000	-	1 081 659
Cross-currency interest rate swaps (CIRS)	419 560	323 880	1 343 052	6 222 935	9 606 150	17 915 577
Fx-swaps	1 151 720	3 898 788	2 610 695	-	-	7 661 203
Total	**2 038 140**	**4 312 668**	**5 835 830**	**7 476 335**	**10 789 785**	**30 452 758**

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

The table below presents the amounts recognized in income statement and revaluation reserves related due to cash flow hedge accounting

	2013	2012
Revaluation reserves (deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge - gross value)	(29 487)	(64 318)
Net interest income on hedging derivatives	207 273	316 954
Ineffective portion in changes in fair value of hedging transactions recognized in income statement	673	6 687

The table below presents changes in the revaluation reserves during the period due to cash flow hedge accounting

	2013	2012
Opening balance	**(64 318)**	**(24 199)**
Deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge	34 779	(40 171)
Amount of the deferral of fair value changes of hedging instruments of the effective hedge removed from revaluation reserves and presented in net profit or loss	52	52
Closing balance	**(29 487)**	**(64 318)**

(In PLN thousand)

The table below presents the amounts recognized in income statement related to fair value hedge accounting

TYPE OF GAINS/LOSSES	2013	2012
Gains/losses from revaluation of hedging instruments to fair value	45 259	(76 484)
Gains/losses from revaluation of hedged item associated with hedged risk to fair value	(62 682)	40 733
Result on fair value hedge accounting	**(17 423)**	**(35 751)**
Net interest income of hedging derivatives	(50 134)	(55 078)

26.1 Fair value hedge of fixed-coupon debt securities

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

Hedged item
The hedged items are fixed coupon debt securities classified as AFS, denominated in PLN, EUR and USD.

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

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

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

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

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

Hedged items
Hedged item consists of two separate components, which are cash flows arising from floating-rate assets portfolio and floating-rate liabilities portfolio.

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

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

Period in which the cash flows related to the hedged items are expected to occur
It is expected that the cash flows related to the hedged items will occur until 18 September 2028.

Notes to the financial statements (cont.)

(In PLN thousand)

26.3 Cash flow hedge of floating-rate loans

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

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

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

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

Period in which the cash flows related to the hedged items are expected to occur
It is expected that the cash flows related to the hedged items will occur until 20 November 2017.

26.4 Fair value hedge of interest rate risk for deposit portfolio

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

26.5 Cash flow hedge of floating-rate deposits

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

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

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

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

Period in which the cash flows related to the hedged items are expected to occur
It is expected that the cash flows related to the hedged items will occur until 5 December 2014.

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

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

Hedged items
Loans with variable interest rate risk, denominated in EUR and USD constitute hedged items.

Hedging derivatives
Fx-swap transaction portfolio constitutes the hedging position.

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

Settled part of the swap points on the hedging instrument is transferred from the revaluation reserve in equity and recognized in interest income. Currency revaluation regarding the first capital exchange on the hedging instrument is transferred from the revaluation reserve in equity and recognized in the foreign currency exchange result.

Period in which the cash flows related to the hedged items are expected to occur
It is expected that the cash flows related to the hedged items will occur until 8 December 2014.

Notes to the financial statements (cont.)

(In PLN thousand)

27. Investment (placement) securities

	31.12.2013	31.12.2012
Debt securities available for sale (AFS)	32 947 530	25 799 482
Equity securities available for sale (AFS)	9 254	9 019
Debt securities held to maturity (HTM)	1 888 724	2 778 555
Total	**34 845 508**	**28 587 056**

Debt securities available for sale (AFS)

	31.12.2013	31.12.2012
Securities issued by State Treasury	17 861 691	15 530 743
T-bills	-	-
T-bonds	17 861 691	15 530 743
Securities issued by Central Banks	14 159 186	9 320 660
Securities issued by business entities	248 865	248 995
Securities issued by local governments	677 788	699 084
Total	**32 947 530**	**25 799 482**
including impairment of assets	-	-

Equity securities available for sale (AFS)

	31.12.2013	31.12.2012
Shares	9 254	9 019
Total	**9 254**	**9 019**
including impairment of assets	(101)	(101)

Debt securities held to maturity (HTM)

	31.12.2013	31.12.2012
Securities issued by State Treasury	1 050 967	2 103 774
T- bills	-	116 604
T- bonds	1 050 967	1 987 170
Securities issued by Central Banks	837 757	674 781
Total	**1 888 724**	**2 778 555**
including impairment of assets	-	-

Investment debt securities according to contractual maturities

	31.12.2013	31.12.2012
Debt securities, including:		
up to 1 month	15 476 132	11 014 196
between 1 and 3 months	-	261 787
between 3 months and 1 year	442 157	841 723
between 1 and 5 years	12 701 308	12 067 751
over 5 years	6 216 657	4 392 580
Total	**34 836 254**	**28 578 037**

Notes to the financial statements (cont.)

(In PLN thousand)

Investment debt securities according to currencies

	31.12.2013	31.12.2012
PLN	31 791 545	26 252 841
EUR	1 725 017	1 361 396
USD	1 319 692	963 800
Total	**34 836 254**	**28 578 037**

Changes in investment (placement) securities

	2013	2012
SECURITIES AVAILABLE FOR SALE (AFS)		
Opening balance	**25 808 501**	**25 345 366**
Increases (purchase)	400 588 990	248 754 896
Decreases (sale and redemption)	(393 526 423)	(250 086 274)
Changes in fair value	(650 007)	831 675
Exchange rate differences	(37 279)	(192 818)
Accrued interest	742 615	738 060
Other changes	30 387	417 596
Closing balance	**32 956 784**	**25 808 501**
DEBT SECURITIES HELD UNTIL MATURITY (HTM)		
Opening balance	**2 778 555**	**3 673 500**
Increases (purchase)	38 298 785	32 975 403
Decreases (sale and redemption)	(39 269 991)	(34 034 811)
Accrued interest	41 641	43 566
Other changes	39 734	120 897
Closing balance	**1 888 724**	**2 778 555**
Total investment (placement) securities	**34 845 508**	**28 587 056**

28. Reclassification of securities

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

In 2013 and 2012, the Bank did not reclassify any financial instruments into other categories.

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

The tables below present the information on the reclassified financial assets

	AMOUNT OF RECLASSIFICATION	31.12.2013		31.12.2012	
		CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	1 331 580	78 527	73 941	245 391	239 075
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	602 507	675 946	695 183	672 816	708 233
Total	**1 934 087**	**754 473**	**769 124**	**918 207**	**947 308**

(In PLN thousand)

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

31.12.2013	NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	REVALUATION RESERVE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	-	(39)
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	(23 296)	-
Total	**(23 296)**	**(39)**

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

Net interest income on reclassified financial assets

	2013	2012
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	7 376	17 477
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	20 996	29 299
Total	**28 372**	**46 776**

29. Assets held for sale and discontinued operations

According to IFRS 5 ‘Non-current Assets Held for Sale and Discontinued Operations’, the Bank identifies non-current assets meeting the requirements of IFRS 5 (concerning classification of non-current assets as held for sale) of the item ‘Assets held for sale’.

As at 31 December 2013, non-current assets classified as held for sale included following items classified as held for sale:

- real estate, and
- other property, plant and equipment owned by the Bank.

Assets held for sale:

	31.12.2013	31.12.2012
PJSC UniCredit Bank exposure	-	1 487 136
Property, plant and equipment	32 587	77 341
Total	**32 587**	**1 564 477**

In 2013 the Bank sold its all shares in subsidiary PJSC UniCredit Bank to UniCredit S.p.A. (Parent Entity of the Bank).

The sale transaction of PJSC UniCredit Bank was recognized as intragroup transaction and therefore the result on the transaction was accounted for in the equity of the Bank.

Notes to the financial statements (cont.)

(In PLN thousand)

The above accounting policy is consistent with the policy of UniCredit Group, adopted by the Bank and applicable for business combinations transactions under common control.

Effect of disposal of equity investment in PJSC UniCredit Bank recognized in the equity of the Bank:

	3 QUARTERS 2013
Sales proceeds	671 287
Carrying amount of equity investment disposed (including costs to sell)	(669 917)
Gross result on sale	**1 370**
Income tax expense	(260)
Net result on sale	**1 110**

In 2013 the Bank released the impairment allowance for its equity investment in PJSC UniCredit Bank in the amount of PLN 69 972 thousand (Note 16) in order to remeasure it at fair value less expected costs to sell.

The table below presents changes in the balance of non-current assets held for sale:

ASSETS HELD FOR SALE	2013	2012
Opening balance	**1 564 477**	**2 015 733**
Increases, including:	2 236	74 380
transfer from investments in subsidiaries	850	24 541
transfer from investment properties	-	27 324
exchange rate differences	1 333	-
other changes	53	22 515
Decreases, including:	(1 534 126)	(525 636)
transfer to property, plant and equipment	(255)	-
disposal	(46 031)	(10 427)
exchange rate differences	-	(1 490)
other changes	(704)	(903)
PJSC UniCredit Bank assets	(1 487 136)	(512 816)
Closing balance	**32 587**	**1 564 477**

The effect of disposal of property, plant and equipment and other assets is as follows

	31.12.2013	31.12.2012
Sales revenues	67 602	29 579
Net carrying amount of disposed assets (including costs of sale)	48 806	10 427
Profit/loss on sale before income tax	**18 796**	**19 152**

Notes to the financial statements (cont.)

(In PLN thousand)

30. Investments in subsidiaries

Condensed information about subsidiaries as at 31 December 2013 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT /LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage services	862 764	694 047	135 033	39 330	100.00	56 332
Pekao Faktoring Sp. z o.o.	Lublin	Factoring	939 117	877 704	45 818	10 063	100.00	50 268
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Business consulting	52 139	118	1 230	641	100.00	51 380
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension funds management	67 100	2 918	31 112	13 781	65.00	88 126
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	33 674	4 954	39 515	6 583	100.00	4 500
Pekao Leasing Sp. z o.o. (**)	Warsaw	Lease services	3 259 272	2 765 278	181 090	40 628	36.49	84 658
Centrum Kart S.A.	Warsaw	Additional financial services	46 401	13 719	644	1 645	100.00	17 592
Pekao Telecentrum Sp. z o.o. (in liquidation)	Warsaw	Services	10 445	16	283	172	100.00	8 193
Pekao Bank Hipoteczny S.A.	Warsaw	Banking services	1 752 865	1 445 672	83 810	12 732	100.00	233 823
Pekao Leasing Holding S.A.	Warsaw	Lease services	241 396	66	1 771	27 862	80.10	166 345
Pekao Property S.A.	Warsaw	Real estate development services	60 128	23 739	129	(393)	100.00	24 376
Property Sp. z o.o. (in liquidation)	Warsaw	Real estate management	16 538	672	604	280	100.00	6 998
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	12 526	4 829	11 211	3 887	100.00	522
Total								**793 113**

(*) Data available at the date of financial statement.
(**)Total Bank's share in equity of Pekao Leasing Sp. z o.o. amounted to 87.36% (direct Bank's share amounted to 36.49%, indirect share through Pekao Leasing Holding S.A. amounted to 50.87%).

Notes to the financial statements (cont.)

(In PLN thousand)

Condensed information about subsidiaries as at 31 December 2012 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT/ LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage services	1 072 433	920 002	132 941	30 513	100.00	56 332
Pekao Faktoring Sp. z o.o.	Lublin	Factoring	1 207 030	1 145 510	53 939	10 171	100.00	50 268
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Business consulting	52 759	210	1 960	1 168	100.00	51 380
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension funds management	62 379	3 460	28 085	11 357	65.00	88 126
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	30 127	4 077	38 899	3 912	100.00	4 500
Pekao Leasing Sp. z o.o. (**)	Warsaw	Lease services	3 059 826	2 564 332	227 903	41 867	36.49	84 658
Centrum Kart S.A.	Warsaw	Additional financial services	47 409	13 984	973	2 490	100.00	17 592
Pekao Telecentrum Sp. z o.o.	Warsaw	Services	10 303	46	388	441	100.00	8 193
Pekao Bank Hipoteczny S.A.	Warsaw	Banking services	1 841 305	1 545 498	96 851	15 675	100.00	233 823
Pekao Leasing Holding S.A.	Warsaw	Lease services	239 387	60	1 999	28 107	80.10	166 345
Pekao Property S.A.	Warsaw	Real estate development services	38 830	2 069	1 844	1 567	100.00	24 376
Property Sp. z o.o. (in liquidation)	Warsaw	Real estate management services	16 222	591	646	324	100.00	6 998
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	13 357	6 123	9 477	3 217	100.00	522
Total								**793 113**

(*) Data available at the date of financial statement.
(**) Total Bank's share in equity of Pekao Leasing Sp. z o.o. amounted to 87.36% (direct Bank's share amounted to 36.49%, indirect share through Pekao Leasing Holding S.A. amounted to 50.87%).

Changes in investment into subsidiaries

	2013	2012
Opening balance	**793 113**	**793 268**
Decreases, including:	-	(155)
capital decrease	-	(150)
liquidation	-	(5)
Closing balance	**793 113**	**793 113**

The structure of investments in subsidiaries

	31.12.2013	31.12.2012
Investment in subsidiaries, including:		
banks	233 823	233 823
other financial institutions	519 201	519 201
non-financial institutions	40 089	40 089
Total	**793 113**	**793 113**

Notes to the financial statements (cont.)

(In PLN thousand)

31. Investments in associates

Information about associates as at 31 December 2013 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing services	114 568	18 086	113 276	29 527	34.44	1 875
Pioneer Pekao Investment Management S.A.	Warsaw	Assets Management	329 296	52 462	402 877	98 781	49.00	14 995
Dom Inwestycyjny Xelion Sp. z o.o.	Warsaw	Financial intermediation	46 917	32 664	44 507	2 138	50.00	12 557
CPF Management	Tortola, British Virgin Islands	Advisory services– currently does not provide its services	n/a	n/a	n/a	n/a	40.00	-
Polish Banking System S.A. (in liquidation)	Warsaw	Company in liquidation	n/a	n/a	n/a	n/a	48.90	-
PPU Budpress Sp. z o.o. (in liquidation)	Żyrardów	Company in liquidation	n/a	n/a	n/a	n/a	36.20	-
Total								**29 427**

(*) Data available as at the reporting date.

Information about associates as at 31 December 2012 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing services	117 310	24 914	108 710	25 444	34.44	1 875
Pioneer Pekao Investment Management S.A.	Warsaw	Assets Management	321 098	54 651	364 109	92 419	49.00	14 995
Xelion. Doradcy Finansowi Sp. z o.o.	Warsaw	Financial intermediation	25 391	13 279	26 877	1 422	50.00	12 557
CPF Management	Tortola, British Virgin Islands	Advisory services– currently does not provide its services	n/a	n/a	n/a	n/a	40.00	-
Polish Banking System S.A. (in liquidation)	Warsaw	Company in liquidation	n/a	n/a	n/a	n/a	48.90	-
PPU Budpress Sp. z o.o. (in liquidation)	Żyrardów	Company in liquidation	n/a	n/a	n/a	n/a	36.20	-
Total								**29 427**

(*) Data available as at the reporting date.

Changes in investment in associates

	2013	2012
Opening balance	**29 427**	**39 345**
Decreases	-	(9 918)
sale	-	(8 858)
liquidation	-	(1 060)
Closing balance	**29 427**	**29 427**

Notes to the financial statements (cont.)

(In PLN thousand)

The structure of investments in associates

	31.12.2013	31.12.2012
Investment in associates, including:		
banks	-	-
other financial institutions	29 427	29 427
non-financial institutions	-	-
Total	**29 427**	**29 427**

As at 31 December 2013 and 31 December 2012, the Bank did not have the investment in entities under common control.

32. Intangible assets

	31.12.2013	31.12.2012
Intangible assets, including:	549 896	592 770
research and development expenditures	12 031	15 858
licenses and patents	428 426	433 688
other	1 035	2 460
assets under construction	108 404	140 764
Goodwill	51 675	51 675
Total	**601 571**	**644 445**

The goodwill was transferred to Bank Pekao S.A. on integration with Bank BPH S.A. It represents the goodwill recognized upon acquisition of Pierwszy Komercyjny Bank S.A. in Lublin ('PKBL') by Bank BPH S.A. and relates to those branches of the PKBL which were transferred to Bank Pekao S.A. as a result of integration with Bank BPH S.A. It is determined the smallest identifiable cash-generating units ('CGU'), to which the goodwill has been allocated in the amount of PLN 51 675 thousand.

In respect to the goodwill, the impairment test is performed annually, irrespective of whether there is any indication that it may be impaired.

The impairment test is performed by comparing the carrying amount of the CGU, including the goodwill, with the recoverable amount of the CGU. The recoverable amount is estimated on the basis of value in use of the CGU. The value in use is the present, estimated value of the future cash flows for the period of 5 years, taking into account the residual value of the CGU. The residual value of the CGU is calculated based on an extrapolation of cash flows projections beyond the forecast period using the growth rate of 2.5%. The forecasts of the future cash flows are based on the assumptions included the Bank's budget for 2014 and financial plan for 2015-2018. To discount the future cash flows, it is applied the discount rate of 8.59%, which includes the risk-free rate and the risk premium.

The impairment test performed as at 31 December 2013 showed the surplus of the recoverable amount over the carrying amount of the CGU, and therefore no CGU impairment was recognized.

Notes to the financial statements (cont.)

(In PLN thousand)

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

2013	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
GROSS VALUE					
Opening balance	**90 934**	**1 846 654**	**38 628**	**140 764**	**2 116 980**
Increases, including:	-	127 522	68	97 625	225 215
acquisitions	-	-	-	96 167	96 167
other	-	1 245	-	1 458	2 703
transfer from investments outlays	-	126 277	68	-	126 345
Decreases, including:	(451)	(28 569)	(49)	(129 985)	(159 054)
liquidation	(451)	(28 569)	(49)	-	(29 069)
other	-	-	-	(3 640)	(3 640)
transfer from investments outlays	-	-	-	(126 345)	(126 345)
Closing balance	**90 483**	**1 945 607**	**38 647**	**108 404**	**2 183 141**
ACCUMULATED AMORTIZATION					
Opening balance	**75 076**	**1 412 966**	**25 207**	**-**	**1 513 249**
Amortization	3 827	132 511	1 493	-	137 831
Liquidation	(451)	(28 329)	(49)	-	(28 829)
Other	-	33	-	-	33
Closing balance	**78 452**	**1 517 181**	**26 651**	**-**	**1 622 284**
IMPAIRMENT					
Opening balance	**-**	**-**	**10 961**	**-**	**10 961**
Closing balance	**-**	**-**	**10 961**	**-**	**10 961**
NET VALUE					
Opening balance	**15 858**	**433 688**	**2 460**	**140 764**	**592 770**
Closing balance	**12 031**	**428 426**	**1 035**	**108 404**	**549 896**

Notes to the financial statements (cont.)

(In PLN thousand)

2012	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
GROSS VALUE					
Opening balance	**89 104**	**1 744 481**	**38 089**	**146 506**	**2 018 180**
Increases, including:	1 848	106 863	584	105 170	214 465
acquisitions	-	20	-	103 462	103 482
other	-	-	-	1 708	1 708
transfer from investments outlays	1 848	106 843	584	-	109 275
Decreases, including:	(18)	(4 690)	(45)	(110 912)	(115 665)
liquidation	(18)	(4 491)	(45)	-	(4 554)
other	-	(199)	-	(1 637)	(1 836)
transfer from investments outlays	-	-	-	(109 275)	(109 275)
Closing balance	**90 934**	**1 846 654**	**38 628**	**140 764**	**2 116 980**
ACCUMULATED AMORTIZATION					
Opening balance	**69 561**	**1 290 269**	**23 317**	**-**	**1 383 147**
Amortization	5 533	127 383	1 935	-	134 851
Liquidation	(18)	(4 490)	(45)	-	(4 553)
Other	-	(196)	-	-	(196)
Closing balance	**75 076**	**1 412 966**	**25 207**	**-**	**1 513 249**
IMPAIRMENT					
Opening balance	**-**	**-**	**10 961**	**-**	**10 961**
Closing balance	**-**	**-**	**10 961**	**-**	**10 961**
NET VALUE					
Opening balance	**19 543**	**454 212**	**3 811**	**146 506**	**624 072**
Closing balance	**15 858**	**433 688**	**2 460**	**140 764**	**592 770**

In the period from 1 January to 31 December 2013, the Bank acquired intangible assets in the amount of PLN 96 168 thousand (in 2012 - PLN 103 482 thousand).

In the period from 1 January to 31 December 2013 and in 2012 there have been no intangible assets whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 31 December 2013 the contractual commitments for the acquisition of intangible assets amounted to PLN 21 501 thousand, whereas as at 31 December 2012 - PLN 41 480 thousand.

33. Property, plant and equipment

	31.12.2013	31.12.2012
Non-current assets, including:	1 473 307	1 551 499
land and buildings	1 131 945	1 160 061
machinery and equipment	278 935	319 703
transport vehicles	26 295	37 595
other	36 132	34 140
Non-current assets under construction and prepayments	91 381	90 641
Total	**1 564 688**	**1 642 140**

Notes to the financial statements (cont.)

(In PLN thousand)

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

2013	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
GROSS VALUE						
Opening balance	**2 227 339**	**1 477 861**	**71 741**	**340 618**	**90 641**	**4 208 200**
Increases, including:	42 318	58 096	1 650	10 473	111 915	224 452
acquisitions	-	-	-	-	110 257	110 257
other	-	536	1 650	85	1 658	3 929
transfer from non-current assets under construction	42 318	57 560	-	10 388	-	110 266
Decreases, including:	(30 499)	(110 988)	(4 650)	(22 019)	(111 175)	(279 331)
liquidation and sale	(29 290)	(110 808)	(4 546)	(21 970)	-	(166 614)
transfer to non-current assets held for sale	(855)	-	-	-	-	(855)
other	(354)	(180)	(104)	(49)	(909)	(1 596)
transfer from non-current assets under construction	-	-	-	-	(110 266)	(110 266)
Closing balance	**2 239 158**	**1 424 969**	**68 741**	**329 072**	**91 381**	**4 153 321**
ACCUMULATED DEPRECIATION						
Opening balance	**1 066 286**	**1 152 201**	**34 129**	**306 050**	**-**	**2 558 666**
Increases, including:	66 999	98 186	12 235	8 224	-	185 644
depreciation	66 999	97 838	12 132	8 167	-	185 136
other	-	348	103	57	-	508
Decreases, including:	(28 591)	(108 410)	(3 918)	(21 511)	-	(162 430)
liquidation and sale	(28 154)	(108 244)	(3 815)	(21 490)	-	(161 703)
transfer to non-current assets held for sale	(255)	-	-	-	-	(255)
other	(182)	(166)	(103)	(21)	-	(472)
Closing balance	**1 104 694**	**1 141 977**	**42 446**	**292 763**	**-**	**2 581 880**
IMPAIRMENT						
Opening balance	**992**	**5 957**	**17**	**428**	**-**	**7 394**
Increases	1 527	55	-	-	-	1 582
Decreases	-	(1 955)	(17)	(251)	-	(2 223)
Closing balance	**2 519**	**4 057**	**-**	**177**	**-**	**6 753**
NET VALUE						
Opening balance	**1 160 061**	**319 703**	**37 595**	**34 140**	**90 641**	**1 642 140**
Closing balance	**1 131 945**	**278 935**	**26 295**	**36 132**	**91 381**	**1 564 688**

Notes to the financial statements (cont.)

(In PLN thousand)

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

2012	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
GROSS VALUE						
Opening balance	**2 246 310**	**1 491 350**	**73 000**	**350 336**	**86 316**	**4 247 312**
Increases, including:	42 366	75 234	8 681	7 660	131 375	265 316
acquisitions	-	-	-	-	131 320	131 320
other	-	284	8 681	67	55	9 087
transfer from non-current assets under construction	42 366	74 950	-	7 593	-	124 909
Decreases, including:	(61 337)	(88 723)	(9 940)	(17 378)	(127 050)	(304 428)
liquidation and sale	(16 414)	(88 301)	(9 313)	(17 158)	-	(131 186)
transfer to non-current assets held for sale	(42 933)	(78)	-	-	-	(43 011)
other	(1 990)	(344)	(627)	(220)	(2 141)	(5 322)
transfer from non-current assets under construction	-	-	-	-	(124 909)	(124 909)
Closing balance	**2 227 339**	**1 477 861**	**71 741**	**340 618**	**90 641**	**4 208 200**
ACCUMULATED DEPRECIATION						
Opening balance	**1 034 465**	**1 125 565**	**28 141**	**315 048**	**-**	**2 503 219**
Increases, including:	66 971	114 882	15 395	8 235	-	205 483
depreciation	66 971	113 201	14 775	8 205	-	203 152
other	-	1 681	620	30	-	2 331
Decreases, including:	(35 150)	(88 246)	(9 407)	(17 233)	-	(150 036)
liquidation and sale	(15 549)	(87 949)	(8 786)	(17 054)	-	(129 338)
transfer to non-current assets held for sale	(18 444)	(26)	-	-	-	(18 470)
other	(1 157)	(271)	(621)	(179)	-	(2 228)
Closing balance	**1 066 286**	**1 152 201**	**34 129**	**306 050**	**-**	**2 558 666**
IMPAIRMENT						
Opening balance	**35**	**7 350**	**49**	**448**	**83**	**7 965**
Increases	957	138	-	-	-	1 095
Decreases	-	(1 531)	(32)	(20)	(83)	(1 666)
Closing balance	**992**	**5 957**	**17**	**428**	**-**	**7 394**
NET VALUE						
Opening balance	**1 211 810**	**358 435**	**44 810**	**34 840**	**86 233**	**1 736 128**
Closing balance	**1 160 061**	**319 703**	**37 595**	**34 140**	**90 641**	**1 642 140**

In the period from 1 January to 31 December 2013 the Bank acquired property, plant and equipment in the amount of PLN 110 257 thousand (in 2012 - PLN 131 320 thousand), while the value of property, plant and equipment sold amounted to PLN 1 024 thousand (in 2012 - PLN 794 thousand).

The amount of compensations received from third parties for impairment of loss of property, plant and equipment items recognized in the income statement for 2013 stood at PLN 2 282 thousand (PLN 1 415 thousand in 2012).

In 2013 and 2012 there have been no restrictions to legal titles to property, plant and equipment, nor pledges in place as security for liabilities.

Contractual commitments

As at 31 December 2013 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 68 267 thousand, whereas as at 31 December 2012 - PLN 64 840 thousand.

(In PLN thousand)

34. Investment property

The Bank values investment property using the historical cost model.
The rights to sell the investment property and the rights to transfer related revenues and profits are not a subject to limitations.

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

	2013	2012
GROSS VALUE		
Opening balance	**51 141**	**100 851**
Increases, including:	24	1 832
acquisitions	24	1 812
other	-	20
Decreases, including:	(260)	(51 542)
transfer to non-current assets held for sale	-	(48 704)
other	(260)	(2 838)
Closing balance	**50 905**	**51 141**
ACCUMULATED DEPRECIATION		
Opening balance	**20 916**	**41 523**
Increases, including:	1 188	2 876
depreciation	1 188	2 587
other	-	289
Decreases, including:	(260)	(23 483)
transfer to non-current assets held for sale	-	(21 380)
other	(260)	(2 103)
Closing balance	**21 844**	**20 916**
IMPAIRMENT		
Opening balance	**2 154**	**550**
Increases, including:	926	1 604
impairment charges	926	1 604
Closing balance	**3 080**	**2 154**
NET VALUE		
Opening balance	**28 071**	**58 778**
Closing balance	**25 981**	**28 071**

The fair value of investment property as at 31 December 2013 stood at PLN 39 727 thousand (PLN 47 761 thousand as at 31 December 2012). The fair value of investment property are categorized in Level 3 of the fair value hierarchy. The fair value was measured based on valuations of the property appraisers, having appropriate professional qualifications and recent experience in the location of the properties being valued. The valuations of investment property are based on investment method or profits method, taking into account such unobservable input data as expected rental growth rate, void periods, occupancy rate, discount rate.

(In PLN thousand)

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

	2013	2012
Rental revenues from investment properties	2 737	4 121
Direct operating expenses associated with investment properties (including repair and maintenance costs) which generated rental revenues during the reporting period	(876)	(1 149)
Direct operating expenses associated with investment properties (including repair and maintenance costs) which did not generate rental revenues during the reporting period	-	-

35. Other assets

	31.12.2013	31.12.2012
Prepaid expenses	25 675	32 935
Perpetual usufruct rights	15 706	15 965
Accrued income	37 757	39 265
Interbank and interbranch settlements	2 056	3 821
Other debtors	126 191	144 814
Card settlements	1 556 479	1 376 709
Total	**1 763 864**	**1 613 509**

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

The item 'Other debtors' includes assets for sale in the amount of PLN 3 thousand as at 31 December 2013 (PLN 279 thousand as at 31 December 2012). Assets for sale represent assets taken over for debts. They are presented in a debt value reduced by impairment charge, calculated as a difference between the amount of debt and fair value of taken over assets (if lower than the amount of debt). In case of surplus between the fair value of taken over asset and the amount of debt, the difference is recognized as a liability to debtor.

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

36. Assets pledged as collateral

As at 31 December 2013 the Bank held the financial assets pledged as security for liabilities

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	4 553 357	4 251 825	4 563 231
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	603 348	575 000	-
Lombard and technical loan	bonds	5 379 355	5 271 118	-
Other loans	bonds	312 865	325 000	246 385
Deposits	bonds	216 628	206 450	205 894
Coverage of the Gurantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposit	11 096	11 096	-

Notes to the financial statements (cont.)

(In PLN thousand)

As at 31 December 2012 the Bank held financial assets pledged as security for liabilities

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	5 608 203	5 249 834	5 600 698
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	613 211	560 000	-
Lombard and technical loan	bonds	7 102 603	6 656 034	-
Other loans	bonds	385 307	367 000	276 071
Deposits	bonds	147 251	152 095	142 490

The freeze on securities is a consequence of:

- in case of Repo and Sell-buy-back transactions – binding money market standards for such transactions,
- in case of freeze to the benefit of BFG – binding provisions of the Law on Banking Guaranty Fund BFG,
- in case of Lombard and technical credits – policy and standards, applied by the National Bank of Poland NBP,
- in case of Other loans and Deposits items – terms and conditions of the agreement, entered between Bank Pekao S.A. and its clients,
- in case of freeze to the benefit of KDPW – with the status of the clearing member for brokerage transactions.

37. Amounts due to other banks

Amounts due to other banks by product type

	31.12.2013	31.12.2012
Current accounts and overnight deposits	1 165 320	1 284 672
Interbank deposits and other liabilities	1 322 799	1 242 737
Loans and advances received	1 340 777	1 129 188
Repo transactions	905 238	2 608 219
Cash in transit	20 598	40 862
Total	**4 754 732**	**6 305 678**

Amounts due to other banks by currencies

	31.12.2013	31.12.2012
PLN	2 277 775	3 694 978
CHF	392 790	407 738
EUR	1 950 530	1 817 817
USD	69 641	271 537
Other currencies	63 996	113 608
Total	**4 754 732**	**6 305 678**

Notes to the financial statements (cont.)

(In PLN thousand)

38. Amounts due to customers

Amounts due to customers by entity and product type

	31.12.2013	31.12.2012
Amounts due to corporate, including:	59 913 656	49 159 989
current accounts and overnight deposits	23 349 161	20 443 434
term deposits and other liabilities	36 564 495	28 716 555
Amounts due to budget entities, including:	5 822 045	5 642 413
current accounts and overnight deposits	4 893 607	4 614 170
term deposits and other liabilities	928 438	1 028 243
Amounts due to individuals, including:	50 315 303	48 059 100
current accounts and overnight deposits	27 395 838	25 974 741
term deposits and other liabilities	22 919 465	22 084 359
Repo transactions	3 668 011	5 104 425
Cash in transit	149 728	138 587
Total	**119 868 743**	**108 104 514**

Amounts due to customers by currencies

	31.12.2013	31.12.2012
PLN	101 596 625	92 133 352
CHF	173 546	187 028
EUR	10 389 108	9 322 700
USD	7 072 255	5 871 802
Other currencies	637 209	589 632
Total	**119 868 743**	**108 104 514**

39. Debt securities issued

Debt securities issued by type

	31.12.2013	31.12.2012
Certificates of deposit	2 240 452	3 966 148
Total	**2 240 452**	**3 966 148**

The Bank redeems its own debt securities issued on a timely basis.

Debt securities issued by currencies

	31.12.2013	31.12.2012
PLN	2 240 452	3 926 786
EUR	-	17 138
USD	-	22 224
Total	**2 240 452**	**3 966 148**

Notes to the financial statements (cont.)

(In PLN thousand)

Changes in debt securities issued

	2012	2012
Opening balance	**3 966 148**	**2 402 614**
Increase (issuance)	3 649 300	4 941 669
Decrease (redemption)	(4 314 694)	(3 217 217)
Decrease (partial redemption)	(1 022 028)	(222 870)
Foreign currency exchange differences	986	(3 673)
Other	(39 260)	65 625
Closing balance	**2 240 452**	**3 966 148**

40. Provisions

Changes in provisions in the reporting period

2013	PROVISIONS FOR LITIGATION AND CLAIM	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**55 043**	**152 393**	**125 379**	**40 675**	**373 490**
Provision charges/revaluation	7 426	16 221	75 421	15 548	114 616
Provision utilization	(8 262)	(5 813)	-	(19 908)	(33 983)
Provision releases	(21 257)	-	(84 287)	-	(105 544)
Foreign currency exchange differences	(274)	-	361	85	172
Other changes	-	42 188	-	457	42 645
Closing balance	**32 676**	**204 989**	**116 874**	**36 857**	**391 396**
Short term	6 159	10 925	66 159	9 249	92 492
Long term	26 517	194 064	50 715	27 608	298 904

2012	PROVISIONS FOR LITIGATION AND CLAIM	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**44 796**	**147 638**	**117 839**	**35 095**	**345 368**
Provision charges/revaluation	24 304	13 519	75 207	12 871	125 901
Provision utilization	(5 243)	-	-	(10 784)	(16 027)
Provision releases	(8 242)	-	(66 450)	-	(74 692)
Foreign currency exchange differences	(27)	-	(1 217)	(475)	(1 719)
Other changes	(545)	(8 764)	-	3 968	(5 341)
Closing balance	**55 043**	**152 393**	**125 379**	**40 675**	**373 490**
Short term	21 412	6 642	80 676	27 303	136 033
Long term	33 631	145 751	44 703	13 372	237 457

Litigation provisions

Provisions for litigation and claims include court, administrative and other legal proceedings. The provisions were estimated in the amount of expected outflow of resources embodying economic benefits**.**

Provisions for defined benefit plans

Detailed information in respect to provisions for defined benefit plans were presented in Note 42.

(In PLN thousand)

Other provisions

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

41. Other liabilities

	31.12.2013	31.12.2012
Deferred income	103 409	135 828
Provisions for holiday leave	49 823	50 009
Provisions for other employee-related liabilities	173 815	149 677
Provisions for administrative costs	84 021	45 937
Other costs to be paid	59 719	30 356
Other creditors	186 220	193 418
Interbank and interbranch settlements	983 499	592 622
Card settlements	167 018	213 946
Total	**1 807 524**	**1 411 793**

42. Defined benefit plans

Based on internal regulations in respect to remuneration, the employees of the Bank or their families are entitled to defined benefits other than remuneration:

a) retirement benefits,
b) death-in-service benefits.

The present value of such obligations is measured by an independent actuary using the projected unit credit method.

The amount of the retirement benefits and death-in-service benefits is dependent on length of service and amount of remuneration. The expected amount of the benefits is discounted actuarially, taking into account the financial discount rate and the probability of an individual get to the retirement age or die while working respectively. The financial discount rate is determined by reference to market yields at the end of reporting period on government bonds. The probability of an individual get to the retirement age or die while working is determined using the multiple decrement model, taking into consideration the following risks: possibility of dismissal from service, risk of total disability to work and risk of death.

These defined benefit plans expose the Bank to actuarial risk, such as:

- interest rate risk – the decrease in market yields on government bonds would increase the defined benefit plans obligations,
- remuneration risk – the increase in remuneration of the Bank's employees would increase the defined benefit plans obligations,
- longevity risk – the increase in life expectancy of the Bank's employees would increase the defined benefit plans obligations.

The principal actuarial assumptions as at 31 December 2013 are as follows:

- the discount rate at the level of 4.48% (5.50% as at 31 December 2012),
- the future salary growth rate at the level of 2.50% (2.80% as at 31 December 2012),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Bank,
- the mortality adopted in accordance with Life Expectancy Tables for men and women, published the Central Statistical Office, adequately adjusted on the basis of historical data of the Bank.

(In PLN thousand)

Reconciliation of the present value of defined benefit plans obligations

The following table presents a reconciliation from the opening balances to closing balances for the present value of defined benefit plans obligations.

	2013	2012
Balance as at 1 January	**152 393**	**147 638**
Current service cost	7 748	7 712
Interest expense	8 473	8 481
Remeasurements of the defined benefit obligations:	41 504	(2 674)
actuarial gains and losses arising from changes in demographic assumptions	12 231	(13 482)
actuarial gains and losses arising from changes in financial assumptions	15 596	4 870
actuarial gains and losses arising from experience adjustments	13 677	5 938
Contributions paid by the employer	(5 129)	(8 764)
Balance as at 31 December	**204 989**	**152 393**

Sensitivity analysis

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result of a change in the respective actuarial assumptions by one percent as at 31 December 2013.

	DEFINED BENEFIT PLANS OBLIGATIONS	
	1 PERCENT INCREASE	1 PERCENT DECREASE
Discount rate	(20 255)	24 267
Future salary growth rate	25 594	(21 652)

Maturity of defined benefit plans obligations

The following table presents the maturity profile of the defined benefit plans obligations.

	31.12.2013	31.12.2012
The weighted average duration of the defined benefit plans obligations (in years)	13.5	13.6

43. Share -based payment

The UniCredit Group incentive programs

In the current and comparative reporting periods the following incentive programs granted to employees of the Bank by the UniCredit Group existed:

- The long-term UniCredit Group Incentive Program 2007 in respect to share options. The rights to exercise the option were acquired in 2011. Strike price is EUR 7.094. The option will expire in 2017.
- The long-term UniCredit Group Incentive Program 2008 in respect to share options. The rights to exercise the option were acquired in 2012. Strike price is EUR 4.185. The option will expire in 2018.
- Employee Share Ownership Plan that offers to eligible UniCredit Group employees the possibility to buy UniCredit ordinary shares with the following advantages: granting of free ordinary shares (‘Discount shares’ and ‘Matching Shares’ or rights to ‘Matching Shares’) measures on the basis of the shares purchased by each participant. The granting of free ordinary shares is subordinated to vesting conditions stated in the rules of the Plan.

(In PLN thousand)

- The long-term UniCredit Group Incentive Program 2011-2013 granted in April 2011 in respect to ordinary shares and share options. Due to the failure to meet the conditions of the Program, the rights to ordinary shares and share options were not granted.

The fair value of share options and shares of UniCredit S.p.A. was established based on the Hull and White model. The fair value of the preference rights to take up the shares of the Bank's parent entity granted until 31 December 2012 amounted to PLN 4 883 thousand as at 31 December 2012.

The fair value of granted rights to shares under Employee Share Ownership Plan until 31 December 2013 amounted to PLN 332 thousand as at 31 December 2013.

The remuneration expenses for 2013 relating to the incentive programs granted to the emloyees of the Bank by UniCredit Group amounted to PLN 186 thousand (in 2012 - PLN 2 757 thousand).

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

2013	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	5 963 582	17.36/29.42	297 688	-
Granted during the year	-	-	-	-
Redeemed during the year	3 790 427	17.36/29.42	297 688	-
Exercised during the year	-	-	-	-
Terminated during the year	-	-	-	-
Relocation of employees between Group's entities (decreases)	-	-	-	-
Existing at the period-end	2 173 155	17.36/29.42	-	-
Executable at the period-end	-	-	-	-

(*)The value of PLN 17.36 relates to the stock options program 2008, whereas the value of PLN 29.42 relates to the stock options program 2007.

2012	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	6 078 748	7.39/17.11/29.00	256 381	-
Granted during the year	-	-	146 612	-
Redeemed during the year	-	-	85 594	-
Exercised during the year	-	-	-	-
Terminated during the year	-	-	-	-
Relocation of employees between Group's entities (decreases)	115 166	7.39/17.11/29.00	19 711	-
Existing at the period-end	5 963 582	7.39/17.11/29.00	297 688	-
Executable at the period-end	-	-	-	-

(*)The value of PLN 7.39 relates to the stock options program 2011, whereas the values of PLN 17.11 and PLN 29.00 relate to the stock option program 2008 and 2007 respectively.

The table below presents the conditions of Employee Share Ownership Plan.

	FREE SHARES 1ST ELECTION WINDOW	FREE SHARES 2ND ELECTION WINDOW
Date of Free Shares delivery to Group employees	5 February 2013	5 August 2013
Vesting Period Start-Date	31 January 2013	31 July 2013
Vesting Period End-Date	31 January 2014	31 July 2014
'Discount Shares' Fair Value (per unit in EUR)	4.35	3.78

Notes to the financial statements (cont.)

(In PLN thousand)

System of Variable Remuneration for the Management Team

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

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

During the reporting period ending on 31 December 2013 the Bank had the following share-based payments transactions:

	System 2011, System 2012 and System 2013
Transaction type in the light of IFRS 2	Cash-settled share based payments
Start date of the assessment period	System 2011: 1 January 2011 System 2012: 1 January 2012 System 2013: 1 January 2013
Program announcement date	System 2011: April 2011 System 2012: April 2012 System 2013: April 2013
Program granting date in line with the definition of IFRS 2	System 2011: 1 June 2012 System 2012: 12 June 2012 System 2013: date of the General Shareholders Meeting held to approve the financial statements for 2013
Number of instruments granted	System 2011: 87 901 System 2012: 80 003 System 2013: to be settled at the program granting date in line with the definition of IFRS 2
Maturity date	System 2011: 31 July 2016 System 2012: 31 July 2017 System 2013: 31 July 2018
Vesting date for System 2011	For participants below the Management Board: • 50% after 2 years from program granting date • 50% after 3 years from program granting date For participants starting from the Management Board: • 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date
Vesting date for System 2012	For participants below the Management Board: • 20% after 2 years from program granting date • 40% after 3 years from program granting date • 40% after 4 years from program granting date For participants starting from the Management Board: • 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date
Vesting date for System 2013	For participants below the Management Board: • 20% after 2 years from program granting date • 40% after 3 years from program granting date • 40% after 4 years from program granting date For participants starting from the Management Board: • 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date
Vesting conditions	Compliance assessment Continuous employment Reaching the aim based on financial results of the Bank for a given period

Notes to the financial statements (cont.)

(In PLN thousand)

	System 2011, System 2012 and System 2013
Program settlement	On the vesting date, the participant will receive a cash payment amounting to the number the possessed phantom shares times the arithmetic mean of the Bank's share prices at the Warsaw Stock Exchange in the calendar month preceding the month of cash-settlement.

For the System 2011 and the System 2012 the fair value of the program was estimated based upon the Bank's shares price on the WSE as of the balance sheet date and expected number of phantom shares to which the rights will be acquired.

For the System 2013, as of 31 December 2013 the Bank prepared the program valuation, presuming that the phantom shares were granted on 31 December 2013. This value will be changed at the actual date of granting the program.

The system of variable remuneration realized in the form of phantom shares is a program settled in cash, and therefore its fair value is adjusted on each balance sheet date until the the program settlement, which in case of this program coincides with the vesting date.

The carrying amount of liabilities for cash-settled phantom shares amounted to PLN 25 909 thousand as at 31 December 2013 (as at 31 December 2012 – PLN 12 301 thousand). The total intrinsic value of liabilities for vested rights to phantom shares amounted to PLN 21 765 thousand as at 31 December 2013 (as at 31 December 2012 – PLN 8 227 thousand).

The remuneration expenses for 2013 relating to the system of variable remuneration in the form of phantom shares amounted to PLN 15 111 thousand (in 2012 - PLN 9 026 thousand).

The table below presents changes in the number of Bank's phantom shares.

	2013	2012
Opening balance	87 901	-
Granted during the year	80 003	87 901
Redeemed during the year	-	-
Exercised during the year	-	-
Terminated during the year	-	-
Existing at the period-end	167 904	87 901

The table above does not present the number of shares granted in respect of System 2013. This number will be determined in 2014 after approval of the financial statements for 2013 by the General Shareholder's Meeting. The hypothetical number of shares determined on the basis of the base value of the granted bonus to each of the program participants and arithmetic mean of the Bank's share price on the WSE in December 2013 amounts to 75 224.

Incentive program of Bank Pekao S.A.

In 2012 the Bank terminated the realization of the incentive program granting to the member of management bodies, members of managerial team and key employees of Bank Pekao Group the right to acquire the shares of the Bank according to the rules defined in the Regulation of the Incentive program in Bank Pekao S.A.

The incentive program was realized from 1 January 2006 to 31 December 2012. All rights to take up the shares were realized.

The table below presents changes in the number of share options and weighted average exercise prices of share options:

	2013		2012	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE (*)	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE (*)
Opening balance	-	-	87 905	123.06
Granted during the year	-	-	-	-
Redeemed during the year	-	-	-	-
Exercised during the year	-	-	87 905	160.14
Terminated during the year	-	-	-	-
Existing at the period-end	-	-	-	-
Executable at the period-end	-	-	-	-

(*)Weighted average price exercise prices of share options for 2012 was PLN 160.14 .

(In PLN thousand)

44. Operating and finance leases

Bank as a Lessor

In operating lease of buildings classified as investment properties Bank acts as a lessor.

The amount of future minimum lease payments expected to be received under non-cancellable operating lease can be summarized as follows:

	31.12.2013	31.12.2012
Up to 1 year	9 504	11 113
Between 1 and 5 years	13 147	5 252
Over 5 years	11 168	626
Total	**33 819**	**16 991**

The amount of the minimum operating lease payments classified as income in 2013 amounted to PLN 28 094 thousand (PLN 30 842 thousand in 2012).

Bank as a Lessee

The Bank is a lessee of buildings' lease contracts classified as operating lease.

The amount of future minimum lease payments expected to be paid under non-cancellable operating lease can be summarized as follows:

	31.12.2013	31.12.2012
Up to 1 year	111 469	128 082
Between 1 and 5 years	239 043	236 667
Over 5 years	179 940	208 474
Total	**530 452**	**573 223**

The amount of the minimum operating lease payments recognized as an expense in 2013 amounted to PLN 212 943 thousand (expense in 2012 amounted to PLN 212 788 thousand).

The lease agreements are usually entered into for an indefinite period. In case of lease agreements concluded for an indefinite term, the minimum lease payments are determined based upon notice of termination periods ensuing from relevant contracts. The notice period is usually fixed at 3 or 6 months. Lease agreements are denominated in PLN as well as in foreign currencies. Payments are made in PLN, regardless of the contract currency.

Finance leases

In addition, the Bank as a lessee of cars concludes finance lease contracts with its subsidiary Pekao Leasing Sp. z o.o. his contract gives the Bank opportunity to buy an asset after termination of lease contract.

The carrying amount of net assets being subject of finance lease contracts as at 31 December 2013 amounted to PLN 26 290 thousand and as at 31 December 2012 amounted to PLN 37 588 thousand.

	31.12.2013	31.12.2012
Gross liabilities on finance leases	40 461	58 381
Unrealized financial costs	(10 944)	(17 027)
Present value of minimum lease payments	**29 517**	**41 354**

The amount of future minimum lease payments under finance lease by maturity dates can be summarized as follows:

	31.12.2013	31.12.2012
Up to 1 year	18 358	27 262
Between 1 and 5 years	22 103	31 119
Total	**40 461**	**58 381**

(In PLN thousand)

45. Contingent commitments

Litigation

In the entire year of 2013 the total value of the litigation subject in the ongoing court proceedings against the Bank was 19 052 804 PLN (in 2012 it was 18 710 321 PLN).

In 2013 there were no proceedings before the court or state administration organs related to the receivables or payables of the Bank in which the pursued claim value (amount to be paid) is at least 10% of the Bank's equity.

The most significant court litigation against the Bank, per its value, ongoing as at 31 December 2013, is the litigation brought via the plaint of private individuals against the Bank and the Pekao S.A. Central Brokerage House for the payment of 306 622 PLN as compensation for the damage arising from the purchase of stocks and the injury resulting from the execution process. In the opinion of the defendant, the plaint is groundless.

It is continuing the proceedings against the Bank – initiated in 2013 - resulting from the guarantee's beneficiary lawsuit for pay the amount of PLN 43 760 thousand from the realization of banking guarantee. Based on the current knowledge as regard factual and legal aspects of this case, no provisions were established as at 31 December 2013.

Subject to still ongoing court dispute is the litigation – already presented in the financial statements of 2011 and 2012 – resulting from the Bank's minority shareholder lawsuit to repeal resolutions 8 and 24 of the Annual General Shareholder Meeting of 19 April 2011 on the approval of the Bank Capital Group consolidated financial statements for 2010 and granting the vote of approval to the Management Board Member. Compliant to the legally valid decision of the Circuit Court in Warsaw of 4 November 2013, the present value of the proceedings is 692 PLN, instead of the amount of 18 000 000 PLN quoted by the plaintiff.

After 31 December 2013, but before the approval of the financial statements, the Bank received a suit of the guarantee's beneficiaries for pay the amount of PLN 32 750 thousand from the realization of banking guarantee. Based on the current knowledge as regard factual and legal aspects of this case, no provisions were established as at 31 December 2013.

As at 31 December 2013, the Bank created provisions for litigation against the Bank, which according to legal opinion are associated with a risk of outflow of funds related to the fulfillment of court rulings. The value of provisions, created as at 31 December 2013 amounted to PLN 32 676 thousand (PLN 55 043 thousand as at 31 December 2012).

Financial off – balance commitments granted

Financial commitments granted by entities

	31.12.2013	31.12.2012
Financial commitments to:		
financial entities	3 430 534	2 126 701
non - financial entities	22 465 144	20 687 992
budget entities	1 392 162	744 940
Total	**27 287 840**	**23 559 633**

Notes to the financial statements (cont.)

(In PLN thousand)

Off – balance guarantees issued

Guarantees issued by entities

	31.12.2013	31.12.2012
Liabilities to financial entities, including:	1 942 219	1 612 457
guarantees	1 939 603	1 597 997
confirmed export letters of credit	2 616	14 460
Liabilities to non-financial entities, including:	10 145 263	9 274 400
guarantees	4 938 823	5 497 004
securities' underwriting guarantees	5 146 660	3 775 430
sureties	59 780	1 966
Liabilities to budget entities, including:	99 644	69 594
guarantees	17 434	3 094
securities' underwriting guarantees	82 210	66 500
Total	**12 187 126**	**10 956 451**

Notes to the financial statements (cont.)

(In PLN thousand)

Securities underwriting

As at 31 December 2013, the following securities programs have been in place, covered by underwriting:

NAME OF ISSUER	TYPE OF SECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT ITSELF	CONTRACT LIFE
Client 1	bonds	1 150 000	23.07.10 - 30.06.15
Client 2	bonds	540 000	29.07.12 - 15.12.17
Client 3	bonds	60 000	29.07.12 - 15.12.17
Client 4	bonds	4 400	19.12.13 - 30.06.14
Client 5	bonds	1 020 000	21.06.12 - 31.12.17
Client 6	bonds	7 500	13.09.12 - 31.12.14
Client 7	bonds	186 720	06.12.12 - 31.03.16
Client 8	bonds	185 100	28.12.12 - 31.03.15
Client 9	bonds	72 300	28.12.12 - 31.03.15
Client 10	bonds	200 000	01.07.11 - 20.12.14
Client 11	bonds	105 130	19.03.13 - 30.06.15
Client 12	bonds	20 000	19.03.13 - 30.06.15
Client 13	bonds	39 780	06.05.13 - 30.09.14
Client 14	bonds	12 310	06.05.13 - 30.09.14
Client 15	bonds	25 767	24.05.13 - 31.01.15
Client 16	bonds	72 780	29.04.13 - 30.12.14
Client 17	bonds	20 000	29.04.13 - 31.03.15
Client 18	bonds	174 060	20.05.13 - 30.12.15
Client 19	bonds	3 450	16.08.13 - 31.12.15
Client 20	bonds	16 000	09.09.13 - 31.12.14
Client 21	bonds	80 000	16.09.13 - 10.06.16
Client 22	bonds	100 000	23.09.13 - 30.06.14
Client 23	bonds	84 500	28.10.13 - 30.12.16
Client 24	bonds	96 860	31.10.13 - 30.06.15
Client 25	bonds	19 070	31.10.13 - 30.06.15
Client 26	bonds	565 000	22.10.13 - 30.12.15
Client 27	bonds	50 000	22.10.13 - 30.11.15
Client 28	bonds	2 600	07.11.13 - 31.12.14
Client 29	bonds	20 000	22.11.13 - 31.12.15
Client 30	bonds	45 010	28.11.13 - 30.09.14
Client 31	bonds	1 770	28.11.13 - 30.09.14
Client 32	bonds	5 000	03.12.13 - 31.12.14
Client 33	bonds	2 000	12.12.13 - 31.12.14
Client 34	bonds	2 600	11.12.13 - 31.12.14
Client 35	bonds	2 000	23.12.13 - 31.12.14
Client 36	bonds	9 700	20.12.13 - 31.12.14
Client 37	bonds	6 960	20.12.13 - 31.12.15
Client 38	bonds	4 400	19.12.13 - 31.12.14
Client 39	bonds	47 655	23.12.13 - 31.03.14
Client 40	bonds	8 448	23.12.13 - 31.10.14
Client 41	bonds	160 000	17.12.13 - 23.07.15

Securities covered by the Bank underwriting are classified as securities with unlimited marketability, unquoted on stock exchanges and not subject to regulated over-the-counter trading.

Notes to the financial statements (cont.)

(In PLN thousand)

As at 31 December 2012, the following securities programs have been in place, covered by underwriting:

NAME OF ISSUER	TYPE OF SECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT ITSELF	CONTRACT LIFE
Client 1	bonds	772 000	23.07.10 - 30.06.15
Client 2	bonds	410 900	15.11.10 - 31.10.13
Client 3	bonds	540 000	29.07.12 - 15.12.17
Client 4	bonds	60 000	29.07.12 - 15.12.17
Client 5	bonds	71 710	25.08.11 - 30.06.13
Client 6	bonds	13 500	22.08.11 - 31.12.13
Client 7	bonds	2 500	19.08.11 - 30.12.13
Client 8	bonds	10 000	27.09.11 - 31.12.13
Client 9	bonds	58 770	20.12.11 - 30.03.13
Client 10	bonds	10 000	20.12.11 - 30.03.13
Client 11	bonds	2 310	20.12.11 - 31.03.13
Client 12	bonds	37 000	03.01.12 - 15.08.13
Client 13	bonds	3 440	19.01.12 - 30.12.13
Client 14	bonds	22 850	15.05.12 - 30.12.13
Client 15	bonds	22 000	07.03.12 - 30.03.13
Client 16	bonds	1 020 000	21.06.12 - 31.12.17
Client 17	bonds	4 000	10.09.12 - 30.09.13
Client 18	bonds	21 000	13.09.12 - 31.12.14
Client 19	bonds	241 150	06.12.12 - 31.03.16
Client 20	bonds	318 800	28.12.12 - 31.03.15
Client 21	bonds	200 000	01.07.11 - 20.12.14

Securities covered by the Bank underwriting are classified as securities with unlimited marketability, unquoted on stock exchanges and are not a subject to regulated off-the-floor trading.

Off-balance commitment received

Commitments received by entities

	31.12.2013	31.12.2012
Financial commitments from:	111 792	894 798
financial entities	111 792	894 798
non - financial entities	-	-
budget entities	-	-
Guarantees from:	9 117 092	7 123 202
financial entities	1 105 746	476 759
non - financial entities	7 302 774	5 948 881
budget entities	708 572	697 562
Total	**9 228 884**	**8 018 000**

Moreover, the Bank has the ability to obtain financing from National Bank of Poland secured by government securities.

Notes to the financial statements (cont.)

(In PLN thousand)

46. Share capital

Shareholding structure

CLASS/ISSUE	TYPE OF SHARES	NUMBER OF SHARES	NOMINAL VALUE OF CLASS/ISSUE	NET PROFIT/LOSS	DATE OF REGISTRATION	DIVIDEND RIGHTS (FROM DATE)
A	Common bearer stock	137 650 000	137 650	Fully paid-up	21.12.1997	01.01.1998
B	Common bearer stock	7 690 000	7 690	Fully paid-up	06.10.1998	01.01.1998
C	Common bearer stock	10 630 632	10 631	Fully paid-up	12.12.2000	01.01.2000
D	Common bearer stock	9 777 571	9 777	Fully paid-up	12.12.2000	01.01.2000
E	Common bearer stock	373 644	374	Fully paid-up	29.08.2003	01.01.2003
F	Common bearer stock	621 411	621	Fully paid-up	29.08.2003	19.05.2006 16.05.2007
G	Common bearer stock	603 377	603	Fully paid-up	29.08.2003	15.05.2008
H	Common bearer stock	359 840	360	Fully paid-up	12.08.2004	01.01.2004
I	Common bearer stock	94 763 559	94 764	Fully paid-up	29.11.2007	01.01.2008
Total number of Shares (pcs)		**262 470 034**				
Total share capital in PLN thousand			**262 470**			
Nominal value per share = PLN 1.00						

Change in the number of shares (pcs):

2013	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262 470 034	262 470 034
Closing balance	262 470 034	262 470 034

2012	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	**262 382 129**	**262 382 129**
Issue of G- Class shares (realization of the Bank's program of management share option plan)	87 905	87 905
Closing balance	**262 470 034**	**262 470 034**

Notes to the financial statements (cont.)

(In PLN thousand)

47. Other capital and reserves, retained earnings and profit for the period

The table below presents the structure of the Bank's equity:

	31.12.2013	31.12.2012
Reserve capital, including:	9 326 529	9 326 529
issue of shares above face value	9 137 221	9 137 221
other	189 308	189 308
Revaluation reserve, including:	49 713	506 966
remeasurements of the defined benefit liabilities	(55 295)	(13 791)
deferred tax	10 506	2 620
revaluation of financial assets portfolio available for sale	146 156	703 994
deferred tax	(27 769)	(133 759)
revaluation of financial hedging instruments portfolio	(29 487)	(64 318)
deferred tax	5 602	12 220
Foreign currency translation differences	1 238	1 388
General Banking Risk Fund	1 937 850	1 737 850
Other reserve capital	8 610 711	8 073 570
Bonds convertible into shares- capital component	28 819	32 734
Provisions for liabilities from dominant entity shares buyout – capital element	332	5 907
Funds for brokerage activities	15 000	15 000
Total other capital	**19 970 192**	**19 699 944**
Profit (loss) from previous periods	(183 959)	(171 058)
Net profit for the period	2 800 000	2 925 254
Total retained earnings and profit for the period	**2 616 041**	**2 754 196**
Total	**22 586 233**	**22 454 140**

From 1982 to 1984 and from 1988 to 1996, the Bank operated in a hyperinflationary economic environment.

IAS 29 'Financial Reporting in Hyperinflationary Economies' requires restatement of each component of owners' equity (except for retained earnings and revaluation surplus) by applying a general price index for the period of hyperinflation. This retrospective application would have resulted in an increase in share capital and other reserves and a decrease in retained earnings in equivalent amounts. This restatement would not have any effect on the total amount of the Bank's equity.

48. Additional information to the cash flow statement

Cash and cash equivalents

	31.12.2013	31.12.2012
Cash and amounts due from Central Bank	4 191 223	9 207 268
Loans and receivables from banks with maturity up to 3 months	6 423 808	3 612 212
Cash and Cash equivalents presented in the cash flow statement	**10 615 031**	**12 819 480**

Restricted availability cash and cash equivalents as at 31 December 2013 amounted to PLN 3 661 336 thousand (PLN 3 601 110 thousand as at 31 December 2012).

Notes to the financial statements (cont.)

(In PLN thousand)

49. Related party transactions

Transactions between the Bank and related parties are typical transactions arising from current operating activities conducted by the Bank. Such transactions mainly include loans, deposits, foreign currency transactions and guarantees.

Significant transactions with related parties
In 2013 the Bank sold its all shares in subsidiary PJSC UniCredit Bank to UniCredit S.p.A. (Parent Entity of the Bank). The detailed description of the transaction is presented in Note 29.

The credit granting process applicable to the Bank's management and entities related to the Bank
According to the Banking Act, credit transactions with Members of the Banks Management Board and Supervisory Board, persons holding managerial positions at the Bank, with the entities related financially or organizationally therewith, shall be effected according to Regulation adopted by the Supervisory Board of the Bank.

The Regulation provides detailed decision-making procedures, applicable to transactions with such persons and entities, also defining the decision-making levels authorized to take decisions. In particular, the transactions with the Members of the Bank's Management Board or Supervisory Board or with an entity related therewith financially or organizationally, are subject to decisions taken by the Bank's Management Board and Supervisory Board.

Members of the Bank's Management Board and entities related therewith financially or organizationally may take advantage of credit products offered by the Bank on standard terms and conditions of the Bank. In particular, the Bank may not offer more advantageous credit interest rates to such persons or entities.

Credit risk assessment is performed using the methodology applied by the Bank, tailored to the client's segment and type of transaction.

In case of entities related to the Bank, the standard credit procedures are applied, with transaction-related decisions taken exclusively at level of the Bank's Head Office.

Notes to the financial statements (cont.)

(In PLN thousand)

Related party transactions

Related party transactions as at 31 December 2013

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank's parent entity	4 812	-	-	-	52 758	-	358
Entities of UniCredit Group excluding of Pekao S.A. Group entities	1 151 361	-	303 574	4 114	1 099 066	772 939	1 686
Bank Pekao S.A. Group entities							
Subsidiaries							
Pekao Leasing Sp. z o.o.	1 316 378	-	691	174	24 171	20	206
Pekao Faktoring Sp. z o.o.	838 982	-	-	11	3 180	-	-
Centralny Dom Maklerski Pekao S.A.	-	-	-	303	674 969	-	514
Pekao Fundusz Kapitałowy Sp. z o.o.	-	-	-	-	46 975	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	-	87	32 173	-	-
Pekao Telecentrum Sp. z o.o. (in liquidation)	-	-	-	-	10 443	-	-
Centrum Kart S.A.	-	-	-	283	28 933	-	8 956
Pekao Financial Services Sp. z o. o.	-	-	-	4	9 266	-	-
Pekao Bank Hipoteczny S.A.	-	136 786	2 261	1	44 641	2 934	42
Pekao Leasing Holding S.A.	-	-	-	-	164	-	-
Property Sp. z o.o. (in liquidation)	-	-	-	-	3 000	-	-
Pekao Property S.A.	5 211	-	-	6 231	5 569	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	-	-	61	2 680	-	3 860
FPB – Media Sp. z o. o.	11 717	-	-	-	295	-	-
Associates						**-**	
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	3	22 905	-	8
Pioneer Pekao Investment Management S.A.	-	-	-	-	148 571	-	3
Pioneer Pekao TFI S.A. (PPIM S.A subsidiary)	-	-	-	16 145	133 659	-	22
Krajowa Izba Rozliczeniowa S.A.	-	-	-	-	13 176	-	-
Total of Bank Pekao S.A. Group entities	**2 172 288**	**136 786**	**2 952**	**23 303**	**1 204 770**	**2 954**	**13 611**
Key management personnel of the Bank and UniCredit S.p.A.	6 922	-	-	-	22 972	-	-
Total	**3 335 383**	**136 786**	**306 526**	**27 417**	**2 379 566**	**775 893**	**15 655**

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by contractual maturity

31.12.2013	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	4 812	-	-	-	-	-	4 812
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	481 226	14 171	953	302 393	352 618	-	1 151 361
Bank Pekao S.A. Group entities							
Subsidiaries	281 968	-	10 875	785 403	993 135	100 907	2 172 288
Associates	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	6 514	-	-	54	354	6 922
Total	**768 006**	**20 685**	**11 828**	**1 087 796**	**1 345 807**	**101 261**	**3 335 383**

(*) Current receivables include Nostro account and cash collaterals

Liabilities due to loans and deposits by contractual maturity

31.12.2013	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	52 758	-	-	-	-	-	52 758
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	281 448	355 062	450 113	12 443	-	-	1 099 066
Bank Pekao S.A. Group entities							
Subsidiaries	671 799	74 829	110 556	5 105	24 170	-	886 459
Associates	20 132	36 011	126 286	135 882	-	-	318 311
Key management personnel of the Bank and UniCredit S.p.A.	1 391	18 316	2 565	600	100	-	22 972
Total	**1 027 528**	**484 218**	**689 520**	**154 030**	**24 270**	**-**	**2 379 566**

(*) Current receivables include Loro account and cash collaterals

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currency

31.12.2013	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	3 521	1 291	-	-	-	4 812
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	517 756	614 246	6	-	19 353	1 151 361
Bank Pekao S.A. Group entities						
Subsidiaries	501 696	3 256	5 749	1 661 587	-	2 172 288
Associates	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	6 922	-	6 922
Total	**1 022 973**	**618 793**	**5 755**	**1 668 509**	**19 353**	**3 335 383**

Liabilities due to loans and deposits by currency

31.12.2013	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	169			52 589		52 758
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	490 171	21	-	600 684	8 190	1 099 066
Bank Pekao S.A. Group entities						
Subsidiaries	13 708	23 615	937	847 236	963	886 459
Associates	-	-	-	318 311	-	318 311
Key management personnel of the Bank and UniCredit S.p.A.	2 447	500	-	13 438	6 587	22 972
Total	**506 495**	**24 136**	**937**	**1 832 258**	**15 740**	**2 379 566**

Notes to the financial statements (cont.)

(In PLN thousand)

Related party transactions as at 31 December 2012

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank's parent entity	424 449	-	-	588	57 621	-	9 744
Entities of UniCredit Group excluding of Pekao S.A. Group entities	817 569	-	375 503	4 563	780 550	929 295	849
Bank Pekao S.A. Group entities							
Subsidiaries							
Public Joint Stock Company UniCredit Bank	909 787	-	-	-	161	-	707
Pekao Leasing Sp. z o.o.	1 277 262	-	977	477	62 784	4	296
Pekao Faktoring Sp. z o.o.	1 077 190	-	-	16	310 349	-	-
Centralny Dom Maklerski Pekao S.A.	-	-	-	31	839 704	-	363
Pekao Fundusz Kapitałowy Sp. z o.o.	-	-	-	1	47 587	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	-	75	13 251	-	-
Pekao Telecentrum Sp. z o.o.	-	-	-	-	10 275	-	-
Centrum Kart S.A.	-	-	-	211	30 374	-	9 276
Pekao Financial Services Sp. z o. o.	-	-	-	4	2 750	-	-
Pekao Bank Hipoteczny S.A.	-	101 571	517	-	86 966	8 697	65
Pekao Leasing Holding S.A.	-	-	-	-	101	-	-
Property Sp. z o.o. (in liquidation)	-	-	-	6 230	3 097	-	-
Pekao Property S.A.	-	-	-	-	577	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	-	-	15	5 271	-	3 679
Jana Kazimierza Development Sp. z o.o.	24 129	-	-	416	3 108	-	-
Metropolis Sp. z o. o.	1 196	-	-	-	1 464	-	-
FPB – Media Sp. z o. o.	12 363	-	-	-	238	-	-
Associates							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	6	8 155	-	12
Pioneer Pekao Investment Management S.A.	-	-	-	81	142 481	-	19
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	2	-	-	17 630	103 914	-	21
Krajowa Izba Rozliczeniowa S.A.	-	-	-	-	19 700	-	-
Total of Bank Pekao S.A. Group entities	**3 301 929**	**101 571**	**1 494**	**25 193**	**1 692 307**	**8 701**	**14 438**
Key management personnel of the Bank and UniCredit S.p.A.	7 360	-	-	-	12 674	-	-
Total	**4 551 307**	**101 571**	**376 997**	**30 344**	**2 543 152**	**937 996**	**25 031**

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by contractual maturity

31.12.2012	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	424 449	-	-	-	-	-	424 449
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	772 809	1 392	671	1 497	41 200	-	817 569
Bank Pekao S.A. Group entities							
Subsidiaries	345 682	25 319	1 016 292	887 653	990 014	36 967	3 301 927
Associates	-	-	-	-	2	-	2
Key management personnel of the Bank and UniCredit S.p.A.	-	6 949	-	6	36	369	7 360
Total	**1 542 940**	**33 660**	**1 016 963**	**889 156**	**1 031 252**	**37 336**	**4 551 307**

(*) Current receivables include Nostro account and cash collaterals

Liabilities due to loans and deposits by contractual maturity

31.12.2012	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	57 621	-	-	-	-	-	57 621
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	288 610	241 692	-	250 248	-	-	780 550
Bank Pekao S.A. Group entities							
Subsidiaries	850 491	442 569	14 037	93 550	17 410	-	1 418 057
Associates	7 711	82 393	43 445	140 701	-	-	274 250
Key management personnel of the Bank and UniCredit S.p.A.	487	10 093	40	2 054	-	-	12 674
Total	**1 204 920**	**776 747**	**57 522**	**486 553**	**17 410**	**-**	**2 543 152**

(*) Current receivables include Loro account and cash collaterals

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currency

31.12.2012	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	365 734	58 715	-	-	-	424 449
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	565 844	3 057	6	228 203	20 459	817 569
Bank Pekao S.A. Group entities						
Subsidiaries	810 758	721 237	19 206	1 750 725	1	3 301 927
Associates	-	-	-	2	-	2
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	7 360	-	7 360
Total	**1 742 336**	**783 009**	**19 212**	**1 986 290**	**20 460**	**4 551 307**

Liabilities due to loans and deposits by currency

31.12.2012	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	-	-	-	57 621	-	57 621
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	44 939	4	-	731 411	4 196	780 550
Bank Pekao S.A. Group entities						
Subsidiaries	13 352	35 775	745	1 367 566	619	1 418 057
Associates	-	-	-	274 250	-	274 250
Key management personnel of the Bank and UniCredit S.p.A.	539	515	-	11 617	3	12 674
Total	**58 830**	**36 294**	**745**	**2 442 465**	**4 818**	**2 543 152**

Notes to the financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2013 to 31 December 2013

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	84	(151)	1 152	(2 503)	1 975	(9 263)
Entities of UniCredit Group excluding of Pekao S.A. Group entities	62 913	(22 191)	7 568	(389)	40 324	(7 098)
Pekao S.A. Group entities						
Subsidiaries						
Public Joint Stock Company UniCredit Bank (*)	16 529	-	6	(23)	-	-
Centralny Dom Maklerski Pekao S.A.	-	(8 589)	1 568	(14)	3 095	(2 504)
Pekao Leasing Sp. z o.o.	39 962	(7 157)	1 777	-	1 863	(244)
Pekao Faktoring Sp. z o.o.	21 386	(43)	1 086	-	175	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(507)	880	-	11	-
Pekao Fundusz Kapitałowy Sp. z o.o.	-	(1 230)	8	-	12	-
Centrum Kart S.A.	-	(643)	35	-	1 114	(62 780)
Pekao Telecentrum Sp. z o.o. (in liquidation)	-	(282)	2	-	3	-
Pekao Financial Services Sp. z o.o.	-	(149)	57	-	62	-
Pekao Bank Hipoteczny S.A.	4 287	(1 796)	660	-	155	(6 644)
Pekao Leasing Holding S.A.	-	(10)	7	-	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	(63)	9	(11 421)	4 085	(32 227)
Property Sp. z o.o. (in liquidation)	-	(88)	2	-	-	-
Pekao Property S.A.	1 545	(44)	96	-	71	-
FPB - Media Sp .z o.o.	435	-	5	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(4 716)	512	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(3 923)	205 325	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	(393)	43	(26)	165	-
Krajowa Izba Rozliczeniowa S.A.	-	(207)	107	-	-	(9 366)
Total of Pekao S.A. Group entities	**84 144**	**(29 840)**	**212 185**	**(11 484)**	**10 811**	**(113 765)**
Key management personnel of the Bank and UniCredit S.p.A.	297	(573)	8	-	-	-
Total	**147 438**	**(52 755)**	**220 913**	**(14 376)**	**53 110**	**(130 126)**

(*) From 1 January 2013 to the disposal date i.e. 15 July 2013.

Notes to the financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2012 to 31 December 2012

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	580	(469)	1 072	(3 938)	2 817	(7 863)
Entities of UniCredit Group excluding of Pekao S.A. Group entities	107 796	(31 777)	10 450	(1 323)	7 021	(97 817)
Pekao S.A. Group entities						
Subsidiaries						
Public Joint Stock Company UniCredit Bank	41 641	-	485	(43)	-	-
Centralny Dom Maklerski Pekao S.A.	-	(10 932)	1 647	(15)	3 374	(2 457)
Pekao Leasing Sp. z o.o.	48 032	(8 158)	1 010	-	979	(25)
Pekao Faktoring Sp. z o.o.	28 681	(43)	735	-	99	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(500)	776	-	7	-
Pekao Fundusz Kapitałowy Sp. z o.o.	-	(1 960)	6	-	11	-
Centrum Kart S.A.	-	(973)	38	-	1 195	(61 758)
Pekao Telecentrum Sp. z o.o.	-	(523)	1	-	2	-
Pekao Financial Services Sp. z o.o.	-	(178)	47	-	42	(1)
Pekao Bank Hipoteczny S.A.	10 616	(750)	1 201	-	155	(8 209)
Pekao Leasing Holding S.A.	-	(3)	6	-	-	-
Holding Sp. z o.o. (in liquidation)	-	-	1	-	13	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	(202)	4	(10 109)	4 208	(35 439)
Metropolis Sp. z o.o.	72	(3)	4	-	-	-
Property Sp. z o.o. (in liquidation)	-	(146)	2	-	-	-
Pekao Property S.A.	-	(9)	2	-	92	-
Jana Kazimierza Development Sp. z o.o.	2 023	(107)	248	(17)	-	-
FPB - Media Sp .z o.o.	503	-	5	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(471)	505	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(2 534)	173 013	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	(309)	45	(44)	165	-
Krajowa Izba Rozliczeniowa S.A.	-	(828)	65	-	-	(9 853)
Pirelli Pekao Real Estate Sp. z o.o.	-	(116)	16	-	-	-
Total of Pekao S.A. Group entities	**131 568**	**(28 745)**	**179 862**	**(10 228)**	**10 342**	**(117 742)**
Key management personnel of the Bank and UniCredit S.p.A.	209	(695)	3	-	-	(12)
Total	**240 153**	**(61 686)**	**191 387**	**(15 489)**	**20 180**	**(223 434)**

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial commitments and guarantees as at 31 December 2013

NAME OF ENTITY	GRANTED		RECEIVED
	FINANCIAL	GUARANTEES	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	62 569	353 654	48 345
Entities of UniCredit Group excluding of Bank Pekao S.A. Group	732 287	273 410	113 807
Bank Pekao S.A. Group entities			
Subsidiaries			
Pekao Leasing Sp. z o.o.	174 408	659 849	-
Pekao Faktoring Sp. z o.o.	258 025	-	-
Centralny Dom Maklerski Pekao S.A.	453	127	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	60	-	-
Centrum Kart S.A.	64	-	-
Pekao Financial Services Sp. z o. o.	40	933	-
Pekao Bank Hipoteczny S.A.	500 070	492 897	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	1 541	-	-
Pekao Property Sp. z o. o.	-	76	-
Associates			
Dom Inwestycyjny Xelion Sp. z o.o.	30	-	-
Pioneer Pekao Investment Management S.A.	15	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	61	-	-
Krajowa Izba Rozliczeniowa S.A.	-	500	-
Total of Pekao S.A. Group entities	**934 767**	**1 154 382**	**-**
Key management personnel of the Bank and UniCredit S.p.A.	261	-	-
Total	**1 729 884**	**1 781 446**	**162 152**

As of 31 December 2013, the Bank did not have off-balance sheet financial commitments received from related parties.

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial commitments and guarantees by contractual maturity

31.12.2013	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – Bank's parent entity	24 000	-	-	38 569	-	-	62 569
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	362 120	180 829	-	189 123	215	-	732 287
Bank Pekao S.A. Group entities							
Subsidiaries	-	338	-	675 873	258 450	-	934 661
Associates	-	-	-	-	106	-	106
Key management personnel of the Bank and UniCredit S.p.A.	20	-	5	-	226	10	261
Total	**386 140**	**181 167**	**5**	**903 565**	**258 997**	**10**	**1 729 884**
GUARANTEES ISSUED							
UniCredit S.p.A. – Bank's parent entity	67 076	76 743	-	-	99 139	110 696	353 654
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	641	-	44 397	37 951	190 421	273 410
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	-	1 060	162 817	990 005	1 153 882
Associates	-	-	-	500	-	-	500
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	-	-	-	-
Total	**67 076**	**77 384**	**-**	**45 957**	**299 907**	**1 291 122**	**1 781 446**
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	3 000	-	-	13 904	11 742	19 699	48 345
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	29 967	463	980	65 182	14 768	2 447	113 807
Total	**32 967**	**463**	**980**	**79 086**	**26 510**	**22 146**	**162 152**

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial commitments and guarantees by currency

31.12.2013	EUR	USD	CHF	PLN	OHTER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – Bank's parent entity	38 569	-	-	24 000	-	62 569
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	29 652	-	-	702 635	-	732 287
Bank Pekao S.A. Group entities						
Subsidiaries	166 303	4 093	338	762 433	1 494	934 661
Associates	-	-	-	106	-	106
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	261	-	261
Total	**234 524**	**4 093**	**338**	**1 489 435**	**1 494**	**1 729 884**
GUARANTEES ISSUED						
UniCredit S.p.A. – Bank's parent entity	11 872	-	-	341 782	-	353 654
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	15 342	-	-	258 068	-	273 410
Bank Pekao S.A. Group entities						
Subsidiaries	162 817	-	464 970	526 095	-	1 153 882
Associates	-	-	-	500	-	500
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	-	-	-
Total	**190 031**	**-**	**464 970**	**1 126 445**	**-**	**1 781 446**
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	44 895	-	-	3 450	-	48 345
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	20 728	-	-	86 510	6 569	113 807
Total	**65 623**	**-**	**-**	**89 960**	**6 569**	**162 152**

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial commitments and guarantees as at 31 December 2012

NAME OF ENTITY	GRANTED	
	FINANCIAL	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	38 181	273 072
Entities of UniCredit Group excluding of Bank Pekao S.A. Group	54 363	380 850
Bank Pekao S.A. Group entities		
Subsidiaries		
Public Joint Stock Company UniCredit Bank	-	16 766
Pekao Leasing Sp. z o.o.	165 680	2 690
Pekao Faktoring Sp. z o.o.	18 490	-
Centralny Dom Maklerski Pekao S.A.	629	125
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	60	-
Centrum Kart S.A.	93	-
Pekao Financial Services Sp. z o. o.	40	923
Pekao Bank Hipoteczny S.A.	500 143	688 386
Centrum Bankowości Bezpośredniej Sp. z o.o.	37	-
Metropolis Sp. z o.o.	410	-
FPB - Media Sp. z o.o.	39	-
Associates		
Dom Inwestycyjny Xelion Sp. z o.o.	30	-
Pioneer Pekao Investment Management S.A.	32	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	136	-
Krajowa Izba Rozliczeniowa S.A.	-	500
Total of Pekao S.A. Group entities	**685 819**	**709 390**
Key management personnel of the Bank and UniCredit S.p.A.	184	-
Total	**778 547**	**1 363 312**

As of 31 December 2012, the Bank did not have financial commitments and guarantee off balance sheet items received from related parties.

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial commitments and guarantees by contractual maturity

31.12.2012	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – Bank's parent entity	-	-	-	38 181	-	-	38 181
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	818	-	-	52 693	852	-	54 363
Bank Pekao S.A. Group entities							
Subsidiaries	339	410	18 394	165 860	500 618	-	685 621
Associates	-	-	-	44	154	-	198
Key management personnel of the Bank and UniCredit S.p.A.	30	-	55	9	90	-	184
Total	**1 187**	**410**	**18 449**	**256 787**	**501 714**	**-**	**778 547**
GUARANTEES ISSUED							
UniCredit S.p.A. – Bank's parent entity	-	51	1 362	26 381	136 408	108 870	273 072
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	2 152	19 990	21 449	27 117	310 142	380 850
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	17 269	1 840	1 898	687 883	708 890
Associates	-	-	-	500	-	-	500
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	-	-	-	-
Total	**-**	**2 203**	**38 621**	**50 170**	**165 423**	**1 106 895**	**1 363 312**

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial commitments and guarantees by currency

31.12.2012	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – Bank's parent entity	38 181	-	-	-	-	38 181
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	12 878	-	-	41 485	-	54 363
Bank Pekao S.A. Group entities						
Subsidiaries	127	930	339	682 722	1 503	685 621
Associates	-	-	-	198	-	198
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	184	-	184
Total	**51 186**	**930**	**339**	**724 589**	**1 503**	**778 547**
GUARANTEES ISSUED						
UniCredit S.p.A. – Bank's parent entity	14 719	-	-	258 353	-	273 072
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	27 119	-	-	353 681	50	380 850
Bank Pekao S.A. Group entities						
Subsidiaries	28 030	16 766	660 902	3 192	-	708 890
Associates	-	-	-	500	-	500
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	-	-	-
Total	**69 868**	**16 766**	**660 902**	**615 726**	**50**	**1 363 312**

Notes to the financial statements (cont.)

(In PLN thousand)

Remuneration of Bank's Management Board and Supervisory Board Members

	VALUE OF BENEFITS	
	2013	2012
Management Board of the Bank		
Short-term employee benefits (*)	14 359	15 087
Other long-term benefits (**)	2 245	2 250
Benefits resulting from the termination of employment relationship	-	-
Share-based payments (***)	7 011	5 857
Total	**23 615**	**23 194**
Supervisory Board of the Bank		
Short-term employee benefits (*)	835	931
Share-based payments (***)	-	-
Total	**835**	**931**

(*) Short-term employee benefits include: base salary, bonuses and other benefits, which will be cleared within 12 months from the date of the balance sheet.
(**) The item 'Other long term benefits' includes: provisions for long term motivation schemes and deferred bonus payments.
(***) The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the time settlement of fair value of share options and shares, including phantom shares, granted to the members of the Bank's Management Board, as presented in the Note 43.

Bank's Management Board and Supervisory Board Members did not receive any remuneration from subsidiaries and associated entities in 2013 and 2012.

50. Repo and reverse repo transactions

The Bank increases its funds through the sale of financial instruments with the repurchase promise granted (repo and sell-buy back) at the same price increased by interest.

Securities composing the balance sheet portfolio of the Bank as well as securities with obligation of resale (reverse repo and buy-sell back transactions) may be a subject to repo and sell-buy back transactions.

Securities composing the balance sheet portfolio of the Bank and treated as repo and sell-buy back transactions are not derecognized from the statement of financial position due to the fact that the Bank holds all benefits and risk deriving from these assets.

Notes to the financial statements (cont.)

(In PLN thousand)

	31.12.2013		31.12.2012	
	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RELATED LIABILITIES	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RELATED LIABILITIES
Financial assets held for trading				
up to 1 month	-	-	55 553	55 606
Total financial assets held for trading	**-**	**-**	**55 553**	**55 606**
Financial assets available for sale				
up to 1 month	4 025 978	4 038 319	4 833 622	4 830 418
between 1 and 3 months	527 379	524 912	702 569	698 212
Total financial assets available for sale	**4 553 357**	**4 563 231**	**5 536 191**	**5 528 630**
Financial assets held to maturity				
up to 1 month	-	-	16 459	16 462
Total financial assets held to maturity	**-**	**-**	**16 459**	**16 462**
Financial assets purchased under reverse repo and buy-sell back				
up to 1 month	10 021	10 018	2 079 999	2 081 794
between 1 and 3 months	-	-	20 122	20 073
between 3 and 6 months	-	-	10 175	10 080
Total financial assets purchased under reverse repo and buy-sell back	**10 021**	**10 018**	**2 110 296**	**2 111 947**
Total	**4 563 378**	**4 573 249**	**7 718 499**	**7 712 645**

The Bank purchases financial instruments with the obligations of repurchase or resale (reverse-repo and buy-sell back) at the same price increased by interest.

Securities treated as repo and sell-buy back transactions are not derecognized from the statement of financial position due to the fact that the Bank holds all the benefits and the risk deriving from these assets.

	31.12.2013		31.12.2012	
	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGING ASSETS	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGING ASSETS
Loans and advances from banks				
up to 1 month	3 119 010	3 115 331	190 118	190 058
Total loans and advances from banks	**3 119 010**	**3 115 331**	**190 118**	**190 058**
Loans and advances from customers				
up to 1 month	2 581 676	2 579 440	2 694 481	2 697 472
Total loans and advances from customers	**2 581 676**	**2 579 440**	**2 694 481**	**2 697 472**
Total	**5 700 686**	**5 694 771**	**2 884 599**	**2 887 530**

Financial assets which are subject to reverse repo and buy-sell back transactions constitute collateral accepted by the Bank, which the Bank has the right to sell or pledge.

	31.12.2013	31.12.2012
Fair value of assets pledged as collaterals, in this:	5 694 771	2 887 530
Short sale	309 742	246 578
Reverse repo transactions/ buy-sell-back	10 021	2 110 296

(In PLN thousand)

51. Company Social Benefits Fund ('ZFŚS')

The Social Benefits Fund Act of 4 March 1994 with subsequent amendments introduced the requirement to create a Company's Social Benefits Fund by all employers employing over 20 employees. The Bank has created the ZFŚS Fund and is making periodic charges to the ZFŚS Fund in amounts required by the Act. The basic aim of the ZFŚS Fund is to subsidize social assistance in benefit of the employees, former employees (pensioners and the retired) and entitled members of their families.

The liabilities of the ZFŚS Fund represent the accumulated value of charges made by the Company towards the ZFŚS Fund decreased by the amount of non-returnable expenditures of the ZFŚS Fund.

In the statement of financial position, the Bank netted the ZFŚS Fund assets against the ZFŚS Fund value, due to the fact that the assets of the ZFŚS Fund do not represent the assets of the Bank. For this reason the amount pertaining to the ZFŚS Fund in the unconsolidated statement of financial position as at 31 December 2013 and 31 December 2012 was nil.

The table below presents the assets according to type and book value, the balance of the Fund and costs related to ZFŚS

	31.12.2013	31.12.2012
Loans granted to employees	41 326	37 179
Cash at ZFŚS account	7 694	11 874
ZFŚS assets	**49 020**	**49 053**
ZFŚS value	**49 020**	**49 053**
	2013	**2012**
Deductions made to ZFŚS during fiscal period	24 942	25 583

52. Subsequent events

After 31 December 2013, but before the approval of the financial statements, the Bank refused to realize the call of the guarantee's beneficiary for pay the amount of PLN 85 200 thousand from the guarantee. Based on the current knowledge as regard factual and legal aspects of this case, no provisions were established as at 31 December 2013.

Signatures of all Management Board Members

Date	Name/Surname	Position/Function	Signature
10.03.2014	Luigi Lovaglio	President of the Management Board, CEO	
10.03.2014	Diego Biondo	Vice-President of the Management Board	
10.03.2014	Andrzej Kopyrski	Vice-President of the Management Board	
10.03.2014	Grzegorz Piwowar	Vice-President of the Management Board	
10.03.2014	Stefano Santini	Vice-President of the Management Board	
10.03.2014	Marian Ważyński	Vice-President of the Management Board	

Annexes to the financial statements

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

Annex 1

New standards, interpretations and amendments to published standards that have been approved and published by the European Union and are effective from 1 January 2013

- **IFRS 1 (amendment)** 'First-time Adoption of International Financial Reporting Standards'

  The amendments allow entities that apply IFRS for the first time a prospective application of IAS 39 or IFRS 9 as well as §10A IAS 20 as far as loans granted by the government and owned at the moment of transition to IFRS are concerned.

  The Bank claims that the standard's amendment had no material impact on its financial statements in the period of its first application.

- **IFRS 1 (amendment)** 'First-time Adoption of International Financial Reporting Standards'

  The amendment has replaced the fixed date: '1 January 2004' as the date of adopting IFRSs for the first time with a 'date of adopting IFRSs for the first time' in order to provide relief for first-time adopters of IFRSs from restatement transactions that occurred before their date of transition to IFRSs. Moreover, the amendment has provided guidance on re-application of IFRSs for entities emerging from severe hyperinflation.

  The Bank claims that the standard's amendment had no material impact on its consolidated financial statements in the period of its first application.

- **IFRS 7 (amendment)** 'Financial Instruments: Disclosures'

  The standard requires entities to provide disclosures in their financial statements that enable users to better estimate the impact or potential impact of offsetting financial assets and financial liabilities on financial standing of the entity.

  The Bank claims that the standard's amendment, except for extending the scope of disclosures in respect to potential offsetting of financial assets and financial liabilities, had no material impact on its financial statements in the period of its first application.

- **IFRS 13** 'Fair Value Measurement'

  The standard establishes framework for fair value measurement and requires disclosure of information on fair value measurement. The standard does not establish when an asset, liability or entity's own equity instruments should be measured at fair value. On opposite, the measurement and the disclosure's required by the standard is to be applied when other standards require or permit fair value measurement (with few exceptions).

  The Bank claims that the new standard, except for extending the scope of disclosures in respect to fair value, had no material impact on its financial statements in the period of its first application.

Annexes to the financial statements

- **IAS 1 (amendment)** 'Presentation of Financial Statements'

  The changes serve clearer presentation of the increasing number of components of other comprehensive income as well as help users of the financial statements to distinguish the components of other comprehensive income, which may be then reclassified to profit or loss from the items which cannot be reclassified in such a way.

  The Bank claims that the standard's amendment, except for the changes in the disclosures structure, had no material impact on its financial statements in the period of its first application.

- **IAS 12 (amendment)** 'Income Taxes'

  The amendment specifies how the deferred tax assets and deferred tax liabilities should be measured in case of investment properties measured with fair value model in IAS 40 'Investment Property'. The revised standard withdraws the interpretation of SIC-21 'Income tax – Recovery of Revalued Non-depreciable Assets'.

  The Bank claims that the standard's amendment had no material impact on its unconsolidated financial statements in the period of its first application.

- **IAS 19 (amendment)** 'Employee Benefits'

  The changes should help users of the financial statements to better understand the way in which the defined employee benefits impact on the financial situation, financial results and cash flows of the entity. This standard is to regulate the employee benefits accounting as well as the relevant disclosures.

  The Bank claims that the standard's amendment, except for the changes in the disclosures structure and extending the scope of disclosures in respect to defined benefit plans, had no material impact on its financial statements in the period of its first application.

- **IFRIC 20** 'Stripping Costs in the Production Phase of a Surface Mine'

  IFRS 20 clarifies accounting for costs associated with the process of removing waste from a surface mine in order to gain access to mineral ore deposits.

  The Bank claims that the new interpretation had no material impact on its financial statements in the period of its first application.

- **Annual Improvements to International Financial Reporting Standards (2013)**

  The improvements is to streamline and clarify the standards.

  The Bank claims that the improvements had no material impact on its financial statements in the period of its first application.

Annexes to the financial statements (cont.)

Annex 2

New standards, interpretations and amendments to published standards that have been approved and published by the European Union but are not yet binding.

- **IFRS 10** 'Consolidated Financial Statements'

  Date of application: the first financial year beginning after 31 December 2013.

  The standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The IFRS 10 supersedes IAS 27 'Consolidated and Separate Financial Statements' and SIC-12 'Consolidation - Special Purpose Entities'. The IFRS 10 defines the principle of control established the basis for determining which entities are to be consolidated. The IFRS presents the additional guidelines useful in determining the existence of the control when it is hard to define.

  Based on the analysis performed the Bank claims that the new standard will not have a material impact on its financial statements in the period of its first application.

- **IFRS 11** 'Joint Arrangements'

  Date of application: the first financial year beginning after 31 December 2013.

  The standard establishes more realistic reflection of joint arrangements, concentrating on rights and obligations resulting from those arrangements, and not on its legal form. The standard addresses inconsistencies in financial reporting of joint arrangements by introduction of homogenous method of accounting of interest in jointly controlled entities.
  IFRS 11 requires accounting of interests in joint arrangements only under the equity method, thus eliminating the proportionate consolidation. The existence of an independent legal entity is not a fundamental classification condition. Transitional provisions vary depending on the method of classification of joint arrangements under IAS 31.

  Based on the analysis performed the Bank claims that the new standard will not have a material impact on its financial statements in the period of its first application.

- **IFRS 12** 'Disclosure of Interests in Other Entities'

  Date of application: the first financial year beginning after 31 December 2013.

  The standard establishes new and complex principles for disclosure of entity's interests in other entities, including subsidiaries, joint ventures, associates and other entities that are not consolidated.

  Based on the analysis performed the Bank claims that the new standard will not have a material impact on its financial statements in the period of its first application, except for extending the scope of disclosures.

- **IAS 27** 'Separate Financial Statements'

  Date of application: the first financial year beginning after 31 December 2013.

  The standard establishes principles for the presentation and disclosures to be applied in accounting for investments in subsidiaries, associates and joint ventures. The standard supersedes the previous version of IAS 27 'Consolidated and Separate Financial Statements'.

  Based on the analysis performed the Bank claims that the new standard will not have a material impact on its financial statements in the period of its first application.

Annexes to the financial statements (cont.)

- **IAS 28** 'Investments in Associates and Joint Ventures'

  Date of application: the first financial year beginning after 31 December 2013.

  The new standard refers to accounting for investments in associates and establishes the requirements for the application of the equity method for investments in associates and joint ventures. The standard will supersede the previous version of IAS 28 'Investments in Associates'.

  Based on the analysis performed the Bank claims that the new standard will not have a material impact on its financial statements in the period of its first application.

- **IAS 32 (amendment)** 'Financial Instruments: Presentation'

  Date of application: the first financial year beginning after 31 December 2013.

  The aim of this Standard is to address inconsistencies in requirements concerning the offsetting criteria for financial assets and financial liabilities.

  The Bank claims that the standard's amendment, except for extending the scope of disclosures, will not have a material impact on its financial statements in the period of its first application.

- **IAS 36 (amendment) '**Impairment of Assets'

  Date of application: the first financial year beginning after 31 December 2013.

  When developing IFRS 13 'Fair Value Measurement', the IASB decided to amend IAS 36 to require disclosures about the recoverable amount of impaired assets.
  The amendments clarify the IASB's original intention: the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs to sell.

  The Bank is currently analyzing the impact of the standard's amendment on the financial statements. Based on the preliminary analysis performed the Bank claims that the standard's amendment will not have a material impact on its financial statements in the period of its first application.

- **IAS 39 (amendment) '**Financial Instruments: Recognition and Measurement'

  Date of application: the first financial year beginning after 31 December 2013.

  The amendment allows to continuously apply hedge accounting in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

  The Bank is currently analyzing the impact of the standard's amendment on the financial statements. Based on the preliminary analysis performed the Bank claims that the standard's amendment will not have a material impact on its financial statements in the period of its first application.

Annexes to the financial statements (cont.)

Annex 3

New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and not yet approved by the European Union.

- **IFRS 9** 'Financial Instruments'

  Date of application: the first financial year beginning after 31 December 2017.

  New regulations compose a part of changes superseding IAS 39 'Financial Instruments: Recognition and Measurement'.
  Main changes resulting from the new standard include:
  - New categorisation of financial assets,
  - New criteria of assets classification to the group of financial assets measured at amortized cost,
  - New principles on recognition of changes in fair value measurement of investments in equity instruments,
  - Elimination of the need to separate embedded derivatives from financial assets.

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

  The Bank is currently assessing the impact of the IFRS 9 application on its financial statement, however due to the nature of the Bank, it is expected that these changes will have a significant impact on the Bank's financial instruments valuation and presentation.
  The real impact of IFRS 9 first application will be possible to be estimated after the publication of the final, complete version of the standard.

- **IFRS 14** 'Regulatory deferral accounts'

  Date of application: the first financial year beginning after 31 December 2015.

  The aim of this standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities.

  The Bank claims that the new standard will not have a material impact on its financial statements in the period of its first application.

- **IAS 19 (amendment) '**Employee benefits'

  Date of application: the first financial year beginning after 1 July 2014.

  The amendment applies to contributions from employees or third parties to defined benefit plans. The aim of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of remuneration.

  The Bank claims that the standard's amendment will not have a material impact on its financial statements in the period of its first application.

Annexes to the financial statements (cont.)

- **Improvements to IFRS 2010-2012**

  Date of application: the first financial year beginning after 1 July 2014.

  The annual improvements to IFRS 2010-2012 principally aim to solve inconsistencies and specify vocabulary.

  The Bank claims that the improvements will not have a material impact on its financial statements in the period of its first application.

- **Improvements to IFRS 2011-2013**

  Date of application: the first financial year beginning after 1 July 2014.

  The annual improvements to IFRS 2011-2013 principally aim to solve inconsistencies and specify vocabulary.

  The Bank claims that the improvements will not have a material impact on its financial statements in the period of its first application.

- **IFRIC 21** 'Levies'

  Date of application: the first financial year beginning after 31 December 2013.

  IFRIC 21 is an interpretation of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The interpretation clarifies the obligating event for the recognition of a liability for a levy.

  Based on the analysis performed the Bank claims that the new interpretation will not have a material impact on its financial statements in the period of its first application.

Annexes to the financial statements (cont.)

Annex 4

Glossary

IFRS – International Financial Reporting Standards – the standards, interpretations and their structure adopted by the International Accounting Standards Board (IASB.)

IAS – International Accounting Standards – previous name of the standards forming part of the current IFRS.

IFRIC – International Financial Reporting Interpretations Committee – the committee operating under the International Accounting Standards Board publishing interpretations of IFRS.

CIRS – Currency Interest Rate Swap – the transaction exchange of principal amounts and interest payments in different currencies between two counterparties.

IRS – Interest Rate Swap – the agreement between two counterparties, under which the counterparties pay each other (at specified intervals during the contract life) interest on contractual principal of the contract, charged at a different interest rate.

FRA – Forward Rate Agreement – the contract under which two counterparties fix the interest rate that will apply in the future for a specified amount expressed in currency of the transaction for a predetermined period.

CAP – the financial agreement, which limits the risk borne by lender on a variable interest rate, exposed to the potential loss as a result of increase in interest rates. Cap option is a series of call options on interest rates, in which the issuer guarantees the buyer the compensation of the additional interest costs, that the buyer must pay if the interest rate on loan increases above the fixed interest rate.

FLOOR –the financial agreement, which limits the risk of incurring losses resulting from decrease in interest rates by the lender providing the loan at a variable interest rate. Floor option is a series of put options on interest rates, in which the issuer guarantees the interest to be paid on the loan if the interest rate on the loan decreases below the fixed interest rate.

IBNR – Incurred But Not Reported losses.

PD – Probability Default – the parameter used in Internal Ratings-Based Approach which determines the likelihood that the debtor will be unable to meet its obligation. PD is a financial term describing the likelihood of a default over an one year time horizon.

LGD – Loss Given Default – the percentage of loss over the total exposure when bank's counterparty goes to default.

EAD – Exposure At Default.

EL – Expected Loss.

CCF – Credit Conversion Factor.

A-IRB – Advanced Internal Ratings-Based Approach – advanced method where all parameters of risk (PD, LGD, EAD) are estimated by the bank using its own quantitative model for calculating the risk weighted assets (RWA).

VaR – Value at Risk – the risk measure by which the market value of an asset or portfolio may be reduced for a given assumptions, probability and time horizon.

EaR – Earnings at Risk – the maximum decrease of earnings, relative to specific goal, which might occur due to impact of market risk on specific risk factors for the given time horizon and confidence level.

ICAAP – Internal Capital Adequacy Assessment Process – the process of assessing internal capital adequacy.