*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 2012

**Warsaw, March 2013**

# Table of content

# Unconsolidated income statement

(In PLN thousand)

| | NOTE | 2012 | 2011 |
|---|---|---|---|
| Interest income | 7 | 7 917 577 | 7 002 384 |
| Interest expense | 7 | (3 387 999) | (2 734 165) |
| **Net interest income** | | **4 529 578** | **4 268 219** |
| Fee and commission income | 8 | 2 549 630 | 2 656 786 |
| Fee and commission expense | 8 | (524 145) | (463 701) |
| **Net fee and commission income** | | **2 025 485** | **2 193 085** |
| **Dividend income** | 9 | **168 534** | **195 673** |
| **Result on financial assets and liabilities held for trading** | 10 | **489 185** | **561 289** |
| **Result on fair value hedge accounting** | 25 | **(35 751)** | **(15 757)** |
| **Gains (losses) on other financial instruments at fair value through profit or loss** | 11 | **-** | **(501)** |
| **Gains (losses) on disposal of:** | 12 | **279 253** | **75 450** |
| loans and other financial receivables | | 758 | (31) |
| available for sale financial assets and held to maturity investments | | 278 798 | 76 762 |
| financial liabilities | | (303) | (1 281) |
| **Operating income** | | **7 456 284** | **7 277 458** |
| **Net impairment losses on financial assets and off-balance sheet commitments** | 15 | **(596 555)** | **(497 872)** |
| loans and other financial receivables | | (587 798) | (515 677) |
| available for sale financial assets and held to maturity investments | | - | - |
| off-balance sheet commitments | | (8 757) | 17 805 |
| **Net result on financial activity** | | **6 859 729** | **6 779 586** |
| **Administrative expenses** | 13 | **(2 988 160)** | **(3 027 834)** |
| personnel expenses | | (1 687 951) | (1 728 929) |
| other administrative expenses | | (1 300 209) | (1 298 905) |
| **Depreciation and amortization** | | **(343 289)** | **(347 908)** |
| **Net result on other provisions** | | **(16 062)** | **(5 106)** |
| **Net other operating income and expenses** | 14 | **75 163** | **50 054** |
| **Operating costs** | | **(3 272 348)** | **(3 330 794)** |
| **Gains (losses) on associates and subsidiaries** | 16 | **(855)** | **-** |
| **Gains (losses) on disposal of property, plant and equipment, and intangible assets** | | **22 327** | **660** |
| **Profit before income tax** | | **3 608 853** | **3 449 452** |
| **Income tax expense** | 17 | **(670 698)** | **(623 079)** |
| **Net profit for the period** | | **2 938 155** | **2 826 373** |
| **Earnings per share (in PLN per share)** | 18 | | |
| basic for the period | | 11.20 | 10.77 |
| diluted for the period | | 11.20 | 10.77 |

Notes to the financial statements presented on pages 10 – 132 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 | 2012 | 2011 |
|---|---|---|---|
| **Net profit** | | **2 938 155** | **2 826 373** |
| **Other comprehensive income** | | | |
| Foreign currency translation differences | | (135) | (1 442) |
| Change in fair value of available-for-sale financial assets | | 760 591 | (57 782) |
| Change in fair value of cash flow hedges | | (40 119) | (49 270) |
| Income tax expenses on other comprehensive income | 17 | (136 889) | 20 340 |
| **Other comprehensive income (net)** | | **583 448** | **(88 154)** |
| **Total comprehensive income** | | **3 521 603** | **2 738 219** |

Notes to the financial statements presented on pages 10 – 132 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 | 31.12.2012 | 31.12.2011 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and due from Central Bank | 20 | 9 207 268 | 4 886 074 |
| Debt securities eligible for rediscounting at Central Bank | | 159 | 100 |
| Loans and advances to banks | 21 | 4 096 454 | 5 648 899 |
| Financial assets held for trading | 22 | 614 719 | 849 711 |
| Derivative financial instruments (held for trading) | 23 | 2 650 577 | 2 252 962 |
| Other financial instruments at fair value through profit or loss | | - | - |
| Loans and advances to customers | 24 | 94 847 780 | 92 143 106 |
| Hedging instruments | 25 | 367 890 | 408 906 |
| Investment securities | 26 | 28 587 056 | 29 018 866 |
| 1. Available for sale | | 25 808 501 | 25 345 366 |
| 2. Held to maturity | | 2 778 555 | 3 673 500 |
| Assets held for sale | 28 | 1 564 477 | 2 015 733 |
| Investments in subsidiaries | 29 | 793 113 | 793 268 |
| Investments in associates | 30 | 29 427 | 39 345 |
| Intangible assets | 31 | 644 445 | 675 747 |
| Property, plant and equipment | 32 | 1 642 140 | 1 736 128 |
| Investment properties | 33 | 28 071 | 58 778 |
| Income tax assets | 17 | 574 969 | 655 966 |
| 1. Current tax receivable | | 4 981 | - |
| 2. Deferred tax assets | | 569 988 | 655 966 |
| Other assets | 34 | 1 613 509 | 1 206 366 |
| **TOTAL ASSETS** | | **147 262 054** | **142 389 955** |
| **EQUITY AND LIABILITIES** | | | |
| **Liabilities** | | | |
| Amounts due to Central Bank | 20 | - | 356 386 |
| Amounts due to other banks | 36 | 6 305 678 | 4 072 409 |
| Financial liabilities held for trading | 22 | 246 578 | - |
| Derivative financial instruments (held for trading) | 23 | 2 629 496 | 2 506 700 |
| Amounts due to customers | 37 | 108 104 514 | 108 004 745 |
| Hedging instruments | 25 | 1 226 781 | 1 738 549 |
| Fair value hedge adjustments of hedged items due to interest rate risk | 25 | 11 328 | (17 475) |
| Debt securities issued | 38 | 3 966 148 | 2 402 614 |
| Income tax liabilities | 17 | 74 508 | 192 681 |
| 1. Current income tax payable | | 74 508 | 192 681 |
| 2. Deferred tax liabilities | | - | - |
| Provisions | 39 | 373 490 | 345 368 |
| Other liabilities | 40 | 1 411 793 | 1 989 316 |
| **TOTAL LIABILITIES** | | **124 350 314** | **121 591 293** |
| **Equity** | | | |
| Share capital | 44 | 262 470 | 262 382 |
| Other capital and reserves | 45 | 19 711 115 | 17 709 907 |
| Retained earnings and profit for the period | | 2 938 155 | 2 826 373 |
| **TOTAL EQUITY** | | **22 911 740** | **20 798 662** |
| **TOTAL EQUITY AND LIABILITIES** | | **147 262 054** | **142 389 955** |

Notes to the financial statements presented on pages 10 – 132 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 EXCHANGE RATES TRANSLATION DIFFERENCES | OTHER | | |
| Note | 44 | 45 | | | | | | | | |
| **Equity as at 1.01.2012** | **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** |
| **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** | **-** | **583 448** | **-** | **-** | **-** | **583 583** | **(135)** | **-** | **2 938 155** | **3 521 603** |
| 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 | - | - | - | - | - | - | - | - | 2 938 155 | 2 938 155 |
| **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** | **262 470** | **19 711 115** | **9 137 221** | **1 737 850** | **8 073 570** | **518 137** | **1 388** | **242 949** | **2 938 155** | **22 911 740** |

Notes to the financial statements presented on pages 10 – 132 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 EXCHANGE RATES TRANSLATION DIFFERENCES | OTHER | | |
| Note | 44 | 45 | | | | | | | | |
| **Equity as at 1.01.2011** | **262 364** | **17 019 353** | **9 124 344** | **1 437 850** | **6 191 904** | **21 266** | **2 965** | **241 024** | **2 552 022** | **19 833 739** |
| **Management options** | **18** | **11 326** | **2 157** | **-** | **-** | **-** | **-** | **9 169** | **-** | **11 344** |
| Options exercised (share issue) | 18 | 2 157 | 2 157 | - | - | - | - | - | - | 2 175 |
| Revaluation of management share options | - | 9 169 | - | - | - | - | - | 9 169 | - | 9 169 |
| **Comprehensive income** | **-** | **(88 154)** | **-** | **-** | **-** | **(86 712)** | **(1 442)** | **-** | **2 826 373** | **2 738 219** |
| Revaluation of available-for-sale investments net of tax | - | (46 803) | - | - | - | (46 803) | - | - | - | (46 803) |
| Revaluation of hedging financial instruments net of tax | - | (39 909) | - | - | - | (39 909) | - | - | - | (39 909) |
| Foreign currency translation differences | - | (1 442) | - | - | - | - | (1 442) | - | - | (1 442) |
| Net profit for the period | - | - | - | - | - | - | - | - | 2 826 373 | 2 826 373 |
| **Appropriation of retained earnings** | **-** | **767 382** | **-** | **100 000** | **667 382** | **-** | **-** | **-** | **(2 552 022)** | **(1 784 640)** |
| Dividend paid | - | - | - | - | - | - | - | - | (1 784 640) | (1 784 640) |
| Profit appropriation | - | 767 382 | - | 100 000 | 667 382 | - | - | - | (767 382) | - |
| **Equity as at 31.12.2011** | **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** |

Notes to the financial statements presented on pages 10 – 132 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 | 2012 | 2011 |
|---|---|---|---|
| **Cash flow from operating activities – indirect method** | | | |
| **Net profit for the period** | | **2 938 155** | **2 826 373** |
| **Adjustments:** | | **(2 935 428)** | **(6 835 858)** |
| Depreciation | | 341 686 | 347 907 |
| (Gains) losses on investing activities | | (282 382) | (77 440) |
| Dividend payments received | | (159 785) | (185 343) |
| Interests received | | (6 806 355) | (6 054 392) |
| Interests expense | | 3 277 954 | 2 644 446 |
| Income tax (from income statement) | | 670 698 | 623 080 |
| Income tax expense | | (839 067) | (576 153) |
| Change in loans and advances to banks | | 397 483 | 1 296 033 |
| Change in financial assets held for trading and other financial instruments at fair value through profit or loss | | 272 497 | 147 613 |
| Change in derivative financial instruments (assets) | | (397 615) | (638 808) |
| Change in loans and advances to customers and debt securities eligible for rediscounting at Central Bank | | 2 762 418 | (10 240 140) |
| Change in investment securities | | (362 350) | (855 122) |
| Change in other assets | | 97 764 | (84 362) |
| Change in amounts due to banks | | 1 702 462 | (1 862 763) |
| Change in liabilities held for trading | | 246 578 | (114 228) |
| Change in derivative financial instruments (liabilities) and other financial instruments at fair value | | 122 796 | 913 841 |
| Change in amounts due to customers | | (2 903 596) | 6 223 445 |
| Change in debt securities issued | | (38 216) | (17 386) |
| Change in provisions | | 28 122 | 13 504 |
| Change in other liabilities | | (1 066 520) | 1 660 410 |
| **Net cash flows from operating activities** | | **2 727** | **(4 009 485)** |
| **Cash flow from investing activities** | | | |
| **Investing activity inflows** | | **284 420 408** | **315 800 204** |
| Sale of investment securities | | 283 595 649 | 314 962 436 |
| Sale of intangible assets and property, plant and equipment | | 2 973 | 3 659 |
| Other investing inflows | | 821 786 | 834 109 |
| **Investing activity outflows** | | **(281 965 101)** | **(312 931 454)** |
| Acquisition of investment securities | | (281 730 299) | (312 644 204) |
| Acquisition of intangible assets and property, plant and equipment | | (234 802) | (287 250) |
| **Net cash flows from investing activities** | | **2 455 307** | **2 868 750** |

Notes to the financial statements presented on pages 10 – 132 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 | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| **Financing activity inflows** | | **4 952 478** | **2 077 337** |
| Issue of debt securities | | 4 941 669 | 2 075 162 |
| Issue of shares | | 10 809 | 2 175 |
| **Financing activity outflows** | | **(4 852 176)** | **(2 198 136)** |
| Redemption of debt securities | | (3 440 087) | (413 496) |
| Dividends and other payments to shareholders | | (1 412 089) | (1 784 640) |
| **Net cash flows from financing activities** | | **100 302** | **(120 799)** |
| **Total net cash flows** | | **2 558 336** | **(1 261 534)** |
| including: effect of exchange rate fluctuations on cash and cash equivalents held | | (261 385) | 359 521 |
| **Net change in cash and cash equivalents** | | **2 558 336** | **(1 261 534)** |
| **Cash and cash equivalents at the beginning of the period** | | **10 261 144** | **11 522 678** |
| **Cash and cash equivalents at the end of the period** | 46 | **12 819 480** | **10 261 144** |

Notes to the financial statements presented on pages 10 – 132 and annexes to the financial statements presented on pages I - VII constitute an integral part of the unconsolidated financial statements.

# Notes to 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 Economic Division of the National Court Registry in Warsaw under the reference number KRS: 0000014843.

The Bank's statistical REGON number is REGON 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.

## 2. Approval of the Financial Statements

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

## 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 2009, No. 152, item 1223, as amended) and respective operating regulations, and in accordance with the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock exchange listing market.

# Notes to financial statements (cont.)

(In PLN thousand)

## 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 2012 to 31 December 2012. Comparable data have been presented for the period of 1 January 2011 to 31 December 2011. 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 2012, had no impact on the unconsolidated financial statements (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:

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

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

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

The 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.

During the period covered by the financial statements the Bank did not introduce significant changes in the accounting policy concerning valuation of assets and liabilities and profit measurement in comparison with previous period.

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,
- 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 financial statements (cont.)

(In PLN thousand)

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

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

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

**Impairment of non-current assets**
At each balance sheet date the 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.

# Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

**Other**
The 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 assumptions used when calculating share-based payments are described in the Note 41.

## 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 statem.

  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 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 2012 and as at 31 December 2011, average exchange rates announced by the NBP on 31 December 2012 and on 31 December 2011, respectively, have been used:

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| PLN for EUR 1 | 4.0882 | 4.4168 |

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

| | 2012 | 2011 |
|---|---|---|
| PLN for EUR 1 | 4.1736 | 4.1401 |

  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.

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.

# Notes to financial statements (cont.)

(In PLN thousand)

**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:

- 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, penalties and fines, revenues from operating leases and releases of provision for legal cases. Other operating expenses include mainly the costs of client claims, compensation paid and costs of provision for litigations.

# Notes to financial statements (cont.)

(In PLN thousand)

## 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.

  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.

# Notes to financial statements (cont.)

(In PLN thousand)

- 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 and 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.

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.

# Notes to financial statements (cont.)

(In PLN thousand)

**Impairment of financial assets**

***Assets valued at amortized cost-loans and receivables***

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

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

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

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

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

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

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

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

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

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

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

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

***Financial assets available for sale***

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

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

**Off-balance sheet liabilities**

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

**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, stock and commodity indices. Derivative financial instruments are initially recorded at fair value as at the transaction date and subsequently re-measured at fair value at each balance sheet date. The fair value is established on the basis of market quotations for an instrument traded in an active market, as well as on the basis of valuation techniques, including models using discounted cash flows and options valuation models, depending on which valuation method is appropriate. Positive valuation of derivative financial instruments is presented in the caption 'Derivative financial instruments available for sale' as an asset, and as a liability side if the change in the fair value is negative. For financial instruments with an embedded derivative component, if the whole or part of the cash flows related to such a financial instrument changes in a way similar to what would be the case with the embedded derivative instrument on its own, then the embedded derivative instrument is reported separately from the basic contract. This occurs under the following conditions:

- the financial instrument is not included in assets held for trading or in assets designated at fair value through the profit or loss 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'.

# Notes to financial statements (cont.)

(In PLN thousand)

***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 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. 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.

# Notes to financial statements (cont.)

(In PLN thousand)

**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.

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.

# Notes to financial statements (cont.)



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.

**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.

# Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

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

a) depreciation rates applied for non-current assets:

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

b) amortization rates for intangible assets:

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

c) depreciation rates for investment properties:

| | |
|---|---|
| Buildings and structures | 1.5% – 10.0% |

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

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

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

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

Lease payments from agreements, which meet the conditions of finance lease agreements are depreciated in the way specified for the Bank's tangible assets. However, if the transfer of ownership of an asset is not certain, than the tangible assets used on the basis of finance lease agreements are depreciated through the shorter of periods: expected useful life or lease tenure.

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

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

# Notes to financial statements (cont.)

(In PLN thousand)

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

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

The amount of employment restructuring provision is calculated by the 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.

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

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

Accrued expenses include accrued costs resulting from services provided for the 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, exchange rate differences resulting from foreign branch net profit recalculation at average weighted exchange rate as at the balance sheet date in relation to average NBP exchange rate 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) other reserve capital utilized for the purposes defined in the Articles of Association is created from appropriations of profits,
e) 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,
f) 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,
g) retained earnings from prior periods is created from undistributed result from previous years,
h) net profit/loss, which constitutes of profit/loss for the period. Net profit is after taxation.

# Notes to financial statements (cont.)

(In PLN thousand)

**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 41).

***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 and White model.

The expenses related to the rights granted are recognized in 'Wages and salaries' costs 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 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 2012.

# 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.

# Notes to financial statements (cont.)

(In PLN thousand)

## 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.

# Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

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

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

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

1. For the retail clients, the Bank has developed three separate models applicable for:

- mortgage loans,
- consumer loans,
- non-installment loans (limits).

2. For the SME clients, the Bank uses models selected depending on the scope of information available. The models for SME are dedicated for:

- full accounting records SME,
- simplified accounting records SME,
- private entrepreneurs.

3. The Bank divides clients belonging to corporate segment (except for finacial institutions, municipalities and clients requiring specialist finansing) into the following groups:

- clients with income not exceeding PLN 30 million,
- clients with income exceeding PLN 30 million.

# Notes to financial statements (cont.)

(In PLN thousand)

***Rating scale***

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

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

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

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

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

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

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

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

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

# Notes to financial statements (cont.)

(In PLN thousand)

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

Percentage distribution for special-purpose loans portfolio exposure (excluding impairment provisions)

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

***Client/transaction rating and credit risk decision-making level***

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.

***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 UCI 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.

**Exposure to credit risk**

***The maximum credit risk exposure***

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

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Due from Central Bank | 6 978 869 | 2 649 847 |
| Loans and advances from banks and from customers | 98 944 393 | 97 792 105 |
| Financial assets held for trading | 614 719 | 849 711 |
| Derivative financial instruments (held for trading) | 2 650 577 | 2 252 962 |
| Other financial instruments at fair value through profit or loss | - | - |
| Hedging instruments | 367 890 | 408 906 |
| Investment securities | 28 587 056 | 29 018 866 |
| Other assets | 2 386 870 | 1 956 287 |
| **Balance sheet exposure** | **140 530 374** | **134 928 684** |
| Obligations to grant loans | 23 123 943 | 26 591 221 |
| Other contingent liabilities | 11 304 804 | 9 730 547 |
| **Off-balance sheet exposure** | **34 428 747** | **36 321 768** |
| **Total** | **174 959 121** | **171 250 452** |

# Notes to 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 828 930 thousand as at 31 December 2012 r. (PLN 675 360 thousand as at 31 December 2011 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 financial statements (cont.)

(In PLN thousand)

***Overall characteristics of monitoring process***

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

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

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

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

***Overall characteristics of provisioning model***

The 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:

1. 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,
2. assessment of future cash flows, discounted using the effective interest rate, generated both from collateral and Client operations,
3. calculation and registration of loan loss provision in the IT system.

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

If an impairment trigger is not recognized, the Bank establishes provisions for incurred but not reported losses 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 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 | |
|---|---|---|---|---|
| | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 |
| GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED | | | | |
| - not past due | - | 1 181 | 893 197 | 888 747 |
| - up to 1 month | - | - | 35 781 | 297 548 |
| - between 1 month and 3 months | - | - | 38 386 | 16 030 |
| - between 3 months and 1 year | - | - | 1 444 525 | 404 568 |
| - between 1 year and 5 years | 62 964 | 62 964 | 1 206 543 | 843 849 |
| - above 5 years | - | - | 835 537 | 914 258 |
| **Total gross carrying amount** | **62 964** | **64 145** | **4 453 969** | **3 365 000** |
| ALLOWANCE FOR IMPAIRMENT | | | | |
| - not past due | - | (1 181) | (175 253) | (118 035) |
| - up to 1 month | - | - | (11 636) | (165 886) |
| - between 1 month and 3 months | - | - | (19 002) | (6 829) |
| - between 3 months and 1 year | - | - | (412 768) | (129 548) |
| - between 1 year and 5 years | (54 000) | (54 000) | (779 281) | (599 269) |
| - above 5 years | - | - | (732 087) | (769 271) |
| **Total allowance for impairment** | **(54 000)** | **(55 181)** | **(2 130 027)** | **(1 788 838)** |
| | | | | |
| **Net carrying amount of exposure individually impaired** | **8 964** | **8 964** | **2 323 942** | **1 576 162** |
| | | | | |
| GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED | | | | |
| - not past due | - | - | 60 904 | 54 993 |
| - up to 1 month | - | - | 31 489 | 26 223 |
| - between 1 month and 3 months | - | - | 33 577 | 26 925 |
| - between 3 months and 1 year | 10 | - | 454 184 | 436 513 |
| - between 1 year and 5 years | - | - | 1 355 645 | 1 275 233 |
| - above 5 years | 15 833 | 16 632 | 589 311 | 626 405 |
| **Total gross carrying amount** | **15 843** | **16 632** | **2 525 110** | **2 446 292** |
| ALLOWANCE FOR IMPAIRMENT | | | | |
| - not past due | - | - | (30 931) | (32 226) |
| - up to 1 month | - | - | (16 294) | (16 663) |
| - between 1 month and 3 months | - | - | (18 012) | (17 198) |
| - between 3 months and 1 year | (10) | - | (273 714) | (295 742) |
| - between 1 year and 5 years | - | - | (1 048 893) | (1 064 826) |
| - above 5 years | (15 833) | (16 628) | (575 742) | (622 183) |
| **Total gross carrying amount** | **(15 843)** | **(16 628)** | **(1 963 586)** | **(2 048 838)** |
| | | | | |
| **Net carrying amount of exposure collectively impaired** | **-** | **4** | **561 524** | **397 454** |

# Notes to 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 | |
| | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 |
| **GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT** | | | | | | |
| - not past due | 4 087 779 | 5 641 000 | 54 431 685 | 56 214 981 | 36 197 385 | 32 298 764 |
| - up to 30 days | - | - | 175 123 | 332 815 | 1 336 766 | 1 383 133 |
| - between 30 days and 60 days | - | - | 21 910 | 146 791 | 200 850 | 196 710 |
| - above 60 days | - | - | 13 234 | 15 353 | 108 840 | 111 347 |
| **Total gross carrying amount** | **4 087 779** | **5 641 000** | **54 641 952** | **56 709 940** | **37 843 841** | **33 989 954** |
| | | | | | | |
| **IBNR PROVISION** | | | | | | |
| - not past due | (289) | (1 069) | (255 957) | (238 302) | (133 645) | (129 998) |
| - up to 30 days | - | - | (2 598) | (4 379) | (88 192) | (102 949) |
| - between 30 days and 60 days | - | - | (689) | (1 467) | (23 276) | (30 719) |
| - above 60 days | - | - | (424) | (913) | (18 539) | (21 577) |
| **Total gross carrying amount** | (289) | **(1 069)** | **(259 668)** | **(245 061)** | **(263 652)** | **(285 243)** |
| | | | | | | |
| **Net carrying amount of exposure with no impairment** | **4 087 490** | **5 639 931** | **54 382 284** | **56 464 879** | **37 580 189** | **33 704 711** |

(*) Receivables from banks and receivables from customers include net investments in debt securities 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 (*) | |
|---|---|---|---|---|
| | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 |
| **IMPAIRED EXPOSURE** | | | | |
| Gross carrying amount | 78 807 | 80 777 | 6 979 079 | 5 811 292 |
| Allowance for impairment | (69 843) | (71 809) | (4 093 613) | (3 837 676) |
| **Total net carrying amount** | **8 964** | **8 968** | **2 885 466** | **1 973 616** |
| **EXPOSURES WITH IMPAIRMENT TRIGGERS FOR WHICH NO IMPAIRMENT HAS BEEN IDENTIFIED** | | | | |
| Gross carrying amount, in this: | - | - | 37 019 | 49 082 |
| *Exposure with collateral value included in expected discounted cash flow, in this:* | - | - | *37 019* | *49 082* |
| *Past due exposures* | - | - | *4 300* | *15 576* |
| IBNR provision | - | - | (4 288) | (7 035) |
| **Total net carrying amount** | **-** | **-** | **32 731** | **42 047** |
| **EXPOSURES WITH NO IMPAIRMENT TRIGGERS** | | | | |
| Gross carrying amount | 4 087 779 | 5 641 000 | 92 448 774 | 90 650 812 |
| IBNR provision | (289) | (1 069) | (519 032) | (523 269) |
| **Total net carrying amount** | **4 087 490** | **5 639 931** | **91 929 742** | **90 127 543** |

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

# Notes to financial statements (cont.)

(In PLN thousand)

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

| RATING | DEBT SECURITIES | | | | | |
|---|---|---|---|---|---|---|
| | HELD FOR TRADING | DESIGNATED TO FAIR VALUE THROUGH PROFIT & LOSS | AVAILABLE FOR SALE | HELD TO MATURITY | REPO TRANSACTIONS | TOTAL |
| A- to A+ | 293 566 | - | 15 530 743 | 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 debt securities according to Standard & Poor's ratings as at 31 December 2011

| RATING | DEBT SECURITIES | | | | | |
|---|---|---|---|---|---|---|
| | HELD FOR TRADING | DESIGNATED TO FAIR VALUE THROUGH PROFIT & LOSS | AVAILABLE FOR SALE | HELD TO MATURITY | REPO TRANSACTIONS | TOTAL |
| A- do A+ | 601 813 | - | 14 749 285 | 2 998 019 | 3 755 536 | 22 104 653 |
| no rating | 247 898 | - | 10 587 824 (*) | 675 481 (**) | - | 11 511 203 |
| **Total** | **849 711** | **-** | **25 337 109** | **3 673 500** | **3 755 536** | **33 615 856** |

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

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

| RATING | DERIVATIVE INSTRUMENTS | | | | | | |
|---|---|---|---|---|---|---|---|
| | TRADING DERIVATIVES | | | DERIVATIVE HEDGING INSTRUMENTS | | | TOTAL |
| | BANKS | OTHET FINANCIAL INSTITUTIONS | NON-FINANCIAL ENTITIES | BANKS | OTHET FINANCIAL INSTITUTIONS | NON-FINANCIAL ENTITIES | |
| AA- do AA+ | 121 952 | - | - | 10 015 | - | - | 131 967 |
| A- do A+ | 1 247 134 | 8 652 | - | 61 123 | - | - | 1 316 909 |
| BBB+ do BBB- | 136 187 | - | 57 | 22 275 | - | - | 158 519 |
| BB+ do BB- | 91 408 | - | - | - | - | - | 91 408 |
| B+ do B- | - | - | 1 578 | - | - | - | 1 578 |
| no rating | 264 234 | 14 454 | 367 306 | 2 182 | - | 313 311 | 961 487 |
| **Total** | **1 860 915** | **23 106** | **368 941** | **95 595** | **-** | **313 311** | **2 661 868** |

# Notes to financial statements (cont.)

(In PLN thousand)

**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 2012 the maximum exposure limits set forth in the Banking Act were not exceeded.

a) Breakdown by individual entities:

As at 31.12.2012

| EXPOSURE TO 10 LARGERST CLIENTS OF THE BANK | % SHARE OF PORTFOLIO |
|---|---|
| Client 1 | 2.3% |
| Client 2 | 1.1% |
| Client 3 | 1.0% |
| Client 4 | 1.0% |
| Client 5 | 0.9% |
| Client 6 | 0.8% |
| Client 7 | 0.7% |
| Client 8 | 0.7% |
| Client 9 | 0.7% |
| Client 10 | 0.7% |
| **Total** | **9.9%** |

7.4% of the exposure is accounted for by the State Treasury, while 92.6% pertain to exposure to large corporate clients. None of the exposures mentioned above were classified as non-performing.

b) Concentration by capital groups:

As at 31.12.2012

| EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE BANK | % SHARE OF PORTFOLIO |
|---|---|
| Group 1 | 3.3% |
| Group 2 | 2.4% |
| Group 3 | 1.8% |
| Group 4 | 1.3% |
| Group 5 | 1.2% |
| **Total** | **10.0%** |

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).

# Notes to financial statements (cont.)

(In PLN thousand)

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.

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

| SECTOR DESCRIPTION | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Energy | 14.2% | 10.8% |
| Services | 13.9% | 16.4% |
| Public administration | 13.6% | 14.0% |
| Real estate | 13.1% | 12.3% |
| Financial intermediation | 9.8% | 8.8% |
| Construction and timber industry | 7.0% | 8.0% |
| Manufacture of chemical and pharmaceutical products | 5.7% | 5.2% |
| Manufacture of basic metals and fabricated metal products | 4.6% | 5.5% |
| Transport | 4.4% | 3.6% |
| Manufacture of food products and beverages | 3.3% | 3.1% |
| Telecommunication and IT | 2.6% | 2.9% |
| Manufacture of pulp, paper and paper products, publishing and printing | 2.5% | 2.9% |
| Manufacture of vehicles | 1.9% | 2.2% |
| Other sectors | 3.4% | 4.3% |
| **Total** | **100.0%** | **100.0%** |

## 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 economic capital of the Bank resulting from marketchanges.
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.

# Notes to financial statements (cont.)

(In PLN thousand)

**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. It is calculated on the assumption of the linear interpolation of the distribution function between its set points and without any further assumptions to its functional form.

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

| | 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 |

| | 31.12.2011 | MINIMUM VALUE | AVERAGE VALUE | MAXIMUM VALUE |
|---|---|---|---|---|
| Foreign exchange risk | 38 | 10 | 325 | 2 641 |
| Interest rate risk | 1 858 | 1 159 | 2 046 | 3 287 |
| Trading portfolio | 1 856 | 1 166 | 2 119 | 3 398 |

**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.

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

The table below presents the sensitivity levels of the interest income (NII) to 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 2012 and 2011.

| SENSITIVITY IN % | 31.12.2012 | 31.12.2011 |
|---|---|---|
| NII | (9.14) | (7.89) |
| EVE | (0.62) | (2.72) |

# Notes to financial statements (cont.)

(In PLN thousand)

**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:

| CURRENCY | 31.12.2012 | 31.12.2011 |
|---|---|---|
| USD | 466 | 406 |
| EUR | 362 | 42 |
| CHF | 16 | 99 |
| Other | 58 | 33 |
| **Currencies total (*)** | **841** | **432** |

(*) 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 primarily in treasury securities of the Government of the Republic of Poland with high levels of liquidity. 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. In accordance with the banking supervisory recommendations, the Bank introduced 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.

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.

(In PLN thousand)

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 (even under extreme liquidity) and in case of identification of a such need the Bank hedges using FX-swaps and CIRS. The Bank monitors also the potential influence of placing required margin deposits on the liquidity in case of PLN depreciation.

The adjusted liquidity gaps described below present, inter alia, the adjustments concerning the stability of core deposits and their maturities, and adjustments of flows due to off-balance sheet commitments for financial liabilities granted and guarantees liabilities granted. The 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

| 31.12.2012 | UP TO 1 MONTH | BETWEEN 1 AND 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | OVER 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| Assets | 46 473 399 | 4 564 022 | 24 347 390 | 37 199 852 | 34 677 391 | 147 262 054 |
| Liabilities | 31 805 757 | 10 845 790 | 14 031 910 | 20 082 025 | 70 496 572 | 147 262 054 |
| Net off-balance sheet items | (6 614 789) | (49 838) | 2 999 569 | 2 357 493 | 754 425 | (553 140) |
| **Periodic gap** | **(8 052 853)** | **(6 331 606)** | **13 315 049** | **19 475 320** | **(35 064 756)** | **(553 140)** |
| **Cumulated gap** | | **1 721 247** | **15 036 296** | **34 511 616** | **(553 140)** | |

| 31.12.2011 | UP TO 1 MONTH | BETWEEN 1 AND 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | OVER 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| Assets | 42 893 742 | 5 036 046 | 24 479 142 | 35 888 940 | 34 092 085 | 142 389 955 |
| Liabilities | 29 694 832 | 9 392 169 | 13 950 226 | 22 546 226 | 66 806 502 | 142 389 955 |
| Net off-balance sheet items | (7 140 800) | (555 245) | 3 543 669 | 2 001 311 | 739 875 | (1 411 190) |
| **Periodic gap** | **6 058 110** | **(4 911 368)** | **14 072 585** | **15 344 025** | **(31 974 542)** | **(1 411 190)** |
| **Cumulated gap** | | **1 146 742** | **15 219 327** | **30 563 352** | **(1 411 190)** | |

# Notes to financial statements (cont.)

(In PLN thousand)

Structure of financial liabilities by contractual maturities

| 31.12.2012 | UP TO 1 MONTH | BETWEEN 1 AND 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | OVER 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| **BALANCE SHEET LIABILITIES** | | | | | | |
| Amounts due to banks | 3 662 578 | 1 185 034 | 320 829 | 26 595 | 1 110 642 | 6 305 678 |
| Amounts due to customers | 82 678 846 | 12 553 612 | 12 525 433 | 331 308 | 15 315 | 108 104 514 |
| Debt securities issued | - | 805 335 | 2 826 292 | 334 521 | - | 3 966 148 |
| Financial liabilities held for trading | - | - | 37 496 | 131 160 | 77 922 | 246 578 |
| **Total** | **86 341 424** | **14 543 981** | **15 710 050** | **823 584** | **1 203 879** | **118 622 918** |
| **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'.

| 31.12.2011 | UP TO 1 MONTH | BETWEEN 1 AND 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | OVER 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| **BALANCE SHEET LIABILITIES** | | | | | | |
| Amounts due to banks (*) | 2 322 435 | 28 141 | 306 225 | 605 179 | 1 166 815 | 4 428 795 |
| Amounts due to customers | 83 540 937 | 12 517 138 | 11 478 399 | 452 966 | 15 305 | 108 004 745 |
| Debt securities issued | 2 | 417 465 | 1 402 824 | 582 323 | - | 2 402 614 |
| Financial liabilities held for trading | - | - | - | - | - | - |
| **Total** | **85 863 374** | **12 962 744** | **13 187 448** | **1 640 468** | **1 182 120** | **114 836 154** |
| **OFF-BALANCE SHEET COMMITMENTS (**)** | | | | | | |
| Off- balance sheet commitments Financial liabilities granted | 26 964 427 | - | - | - | - | 26 964 427 |
| Off- balance sheet commitments Guarantees liabilities granted | 9 271 650 | - | - | - | - | 9 271 650 |
| **Total** | **36 236 077** | **-** | **-** | **-** | **-** | **36 236 077** |

(*) 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'.

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

# Notes to financial statements (cont.)

(In PLN thousand)

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 |
|---|---|---|---|---|---|---|
| **31.12.2012** | 25 853 | 123 149 | 246 296 | 1 522 061 | 878 871 | **2 796 230** |
| **31.12.2011** | 101 479 | 71 431 | 173 665 | 1 205 407 | 620 792 | **2 172 774** |

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

| | UP TO 1 MONTH | BETWEEN 1 AND 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | OVER 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| **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** |
| **31.12.2011** | | | | | | |
| inflows | 18 768 914 | 6 060 237 | 7 736 017 | 9 000 133 | 2 305 670 | **43 870 971** |
| outflows | 18 803 671 | 6 175 994 | 7 834 439 | 9 308 161 | 3 055 606 | **45 177 871** |

## 4.5 Operational risk

**Qualitative information**

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

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

**Organizational structure**

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

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

# Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

**Reporting**

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

**Internal validation process**

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

**Capital adequacy requirements and allocation mechanism**

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

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

# Notes to financial statements (cont.)

(In PLN thousand)

**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:

- 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 | 2012 | 2011 |
|---|---|---|
| Internal frauds | 22.09% | 4.88% |
| External frauds | 6.79% | 38.40% |
| Employment practices and workplace safety | 3.36% | 28.18% |
| Clients, products and business practices | 55.45% | 13.91% |
| Damages to physical assets | 4.55% | 5.26% |
| Business disruption and system failures | 1.17% | 0.52% |
| Execution, delivery and process management | 6.59% | 8.85% |
| **Total** | **100.00%** | **100.00%** |

In 2012, operational risk for Bank Pekao S.A. resulted primarily from clients, products and business practices, which accounted for 55.45% of total losses (13.91% in 2011). The second category of high losses were internal frauds which comprised 22.09% (4.88% in 2011) of total losses and the third category – external frauds, constituted 6.79% of share in total losses in 2012 (38.4% in 2011).

## 4.6 Business risk

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

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

## 4.7 Real estate risk

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

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

## 4.8 Financial investments risk

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

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

## 4.9 Macroeconomic risk

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

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

## 4.10 Model risk

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

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

## 4.11 Reputation risk

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

## 4.12 Compliance risk

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

## 4.13 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.

# Notes to financial statements (cont.)

(In PLN thousand)

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

The capital management strategy defines the objectives and general rules of the management and monitoring of 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.

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 2012, the Bank's capital adequacy ratio stood at 18.67%, i.e. more than twice as much as the minimum value required by the law.

The increase of capital adequacy ratio in December 2012 compared with December 2011 (by 2.03 p.p.) was a result of Bank's equity increase by 13%. The total capital requirement increased insignificantly (by ca. 0.6%).

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

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

The Bank is using the standard method to calculate the capital requirements related to credit risk (in compliance with Enclosure No. 4 to Resolution No. 76/2010 KNF as amended), 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 as amended).

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).

# Notes to financial statements (cont.)

(In PLN thousand)

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

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| **Capital (Tier 1)** | **18 050 174** | **15 985 247** |
| Share capital | 262 470 | 262 382 |
| Supplementary capital | 9 326 529 | 9 315 808 |
| Reserve capital | 8 127 211 | 6 920 171 |
| General risk fund for unidentified risk of banking operations | 1 737 850 | 1 537 850 |
| Net profit for present reporting period minus forecasted liabilities and dividends | - | - |
| **Deductions from the core capital:** | | |
| Intangible assets | (644 445) | (675 747) |
| Unrealized losses from debt instruments available for sale | (1 363) | (109 908) |
| Unrealized losses from equity instruments available for sale | - | - |
| Negative amounts in respect of adjustments on revaluation of assets | (15 332) | - |
| Capital exposure to financial institutions | (742 746) | (1 265 309) |
| **Supplementary funds (Tier 2)** | **-** | **-** |
| Unrealized gains from debt instruments available for sale | 561 829 | 40 436 |
| Unrealized gains from equity instruments available for sale | 2 456 | 2 213 |
| Positive foreign currency translation differences | 1 388 | 1 523 |
| **Deductions:** | | |
| Capital exposure to financial institutions | (565 673) | (44 172) |
| **Total equity** | **18 050 174** | **15 985 247** |
| **Capital adequacy ratio** | **18.67%** | **16.64%** |

**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 2012, the Bank had core capital (Tier 1) in the amount of PLN 18 050 174 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 8 127 211 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 1 737 850 thousand and was created from profit after tax in line with the requirements of the Banking Act dated 29 of August 1997, as amended,
- 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 2012, this item did not include any part of the Bank Pekao S.A. profit for 2012.

# Notes to financial statements (cont.)

(In PLN thousand)

Deductions from the core capital:

- intangible assets in the amount of PLN 644 445 thousand, decrease the Bank's core capital, according to Art. 127 of the Banking Act,
- all unrealised losses from debt and equity instruments available for sale according to Resolution No. 325/2011 Polish Financial Supervision Authority of 20.12.2011, as amended reduce the core capital. At the end of December 2012 the unrealised losses from debt and equity instruments available for sale amounted to PLN minus 1 363 thousand and compassed only unrealized losses from debt instruments classified as available for sale,
- negative amounts in respect of adjustments on revaluation of assets in the amount of PLN minus 15 332 thousand, pursuant to § 3 Sec. 1, Point 11 of the Resolution No. 325/2011 Polish Financial Supervision Authority of 20.12.2011. 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 20.12.2011) accounted for PLN 1 308 420 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 20.12.2011 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 742 746 thousand.

At the end of December 2012 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 2012 amounted to PLN 702 287 thousand whereas unrealised gains from equity securities available for sale amounted to PLN 3 070 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 564 285 thousand,
- positive foreign currency translation differences in the amount of PLN 1 388 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 565 673 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),
- market risk of the trading book (including interest rate risk in trading book, foreign exchange risk, risk of changes in stock prices and risk of changes in commodity prices),
- interest rate risk in the banking book,
- liquidity risk (including liquidity mismatch risk, liquidity contingency risk, market liquidity risk, operational liquidity risk, refinancing risk and liquidity risk associated with hedging deposits),
- operational risk,
- business risk (including strategic risk),
- real estate risk,
- financial investment risk,
- reputation risk,
- compliance risk,
- model risk,
- macroeconomic risk.

# Notes to financial statements (cont.)

(In PLN thousand)

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, liquidity, strategic and reputation risk),
- capital buffer estimation assessment – applied in case of risks which can not be easily quantified, but it is possible to assess their overall impact (model risk, risk of changes in macroeconomic conditions),
- quantitative assessment – applied in case of risks which may be measured with the use of economic capital (other risk types).

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

The amount of economic capital required to cover the model risk is estimated using the scenario analysis (including data limitations, incorrect assumptions, methods or manner of their implementation) for each model applied in the Bank. The procedure starts with the calculation of economic capital, separately for each material, quantifiable risk identified by the Bank. In the next step economic capital amounts for individual risks are aggregated into one aggregated economic capital amount including the diversification effect. Taking diversification effect into account, the total aggregated economic capital should not be greater (is equal or smaller) than the sum of economic capital amounts calculated for specific risk types. Subsequently, taking into consideration capital buffer for model and macroeconomic risk, total internal capital is calculated.

(In PLN thousand)

## 4.14 Fair value of financial assets and liabilities

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

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

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

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

| 31.12.2012 | METHOD 1 | METHOD 2 | METHOD 3 | TOTAL |
|---|---|---|---|---|
| **Assets:** | **15 827 574** | **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 |
| Other financial instruments at fair value through profit or loss | - | - | - | - |
| Hedging instruments, including:: | - | 367 890 | - | 367 890 |
| - Banks | - | 187 847 | - | 187 847 |
| - Customers | - | 180 043 | - | 180 043 |
| Securities available for sale | 15 534 008 | 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 financial statements (cont.)

(In PLN thousand)

| 31.12.2011 | METHOD 1 | METHOD 2 | METHOD 3 | TOTAL |
|---|---|---|---|---|
| **Assets:** | **15 351 100** | **12 356 950** | **1 148 895** | **28 856 945** |
| Financial assets held for trading | 601 814 | - | 247 897 | 849 711 |
| Derivative financial instruments, including: | - | 2 226 867 | 26 095 | 2 252 962 |
| - Banks | - | 1 837 496 | 23 419 | 1 860 915 |
| - Customers | - | 389 371 | 2 676 | 392 047 |
| Other financial instruments at fair value through profit or loss | - | - | - | - |
| Hedging instruments, including: | - | 408 906 | - | 408 906 |
| - Banks | - | 95 595 | - | 95 595 |
| - Customers | - | 313 311 | - | 313 311 |
| Securities available for sale | 14 749 286 | 9 721 177 | 874 903 | 25 345 366 |
| **Liabilities:** | **-** | **4 219 154** | **26 095** | **4 245 249** |
| Financial liabilities held for trading | - | - | - | - |
| Derivative financial instruments, including: | - | 2 480 605 | 26 095 | 2 506 700 |
| - Banks | - | 2 269 602 | 1 025 | 2 270 627 |
| - Customers | - | 211 003 | 25 070 | 236 073 |
| Hedging instruments, including: | - | 1 738 549 | - | 1 738 549 |
| - Banks | - | 1 725 328 | - | 1 725 328 |
| - Customers | - | 13 221 | - | 13 221 |

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

| 2012 | FINANCIAL ASSETS HELD FOR TRADING | ASSETS FROM DERIVATIVES | SECURITIES AVAILABLE FOR SALE | LIABILITIES FROM DERIVATIVES |
|---|---|---|---|---|
| **Opening balance** | **247 897** | **26 095** | **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 from financial instruments | - | - | 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 comprehensive income statement** | **7 790** | **(1 461)** | **135 507** | **1 863** |
| recognized in 'Interest income' | 6 495 | - | 46 141 | - |
| recognized in 'Result on financial assets and liabilities held for trading' | 1 295 | (1 461) | 13 | 1 863 |
| Recognized in 'Result on fair value hedge accounting' | - | - | 52 985 | - |
| recognized in 'Revaluation reserves from financial instruments' | - | - | 36 368 | - |

# Notes to financial statements (cont.)

(In PLN thousand)

| 2011 | FINANCIAL ASSETS HELD FOR TRADING | ASSETS FROM DERIVATIVES | SECURITIES AVAILABLE FOR SALE | LIABILITIES FROM DERIVATIVES |
|---|---|---|---|---|
| **Opening balance** | **197 404** | **63 580** | **336 227** | **63 250** |
| Increases, including: | 22 116 453 | 47 636 | 646 548 | 54 956 |
| Acquisition | 22 114 040 | - | 578 911 | - |
| Derivatives transactions made in 2011 | - | 42 470 | - | 46 512 |
| Revenues from financial instruments | 2 413 | 5 166 | 67 637 | 8 444 |
| recognized in the income statement | 2 413 | 5 166 | 47 294 | 8 444 |
| recognized in Revaluation reserves from financial instruments | - | - | 20 343 | - |
| Decreases, including: | (22 065 960) | (85 121) | (107 872) | (92 111) |
| Settlement/redemption | (272 127) | (32 836) | (78 015) | (29 910) |
| Sale | (21 793 833) | - | (29 857) | - |
| Loss on financial instruments | - | (52 285) | - | (62 201) |
| recognized in the income statement | - | (52 285) | - | (62 201) |
| **Closing balance** | **247 897** | **26 095** | **874 903** | **26 095** |
| **Unrealized income from financial instruments held in portfolio until end of period, recognized in comprehensive income statement** | **2 488** | **(46 030)** | **65 053** | **47 931** |
| recognized in ‘Interest income’ | 2 347 | - | 44 711 | - |
| recognized in ‘Result on financial assets and liabilities held for trading’ | 141 | (46 030) | - | 47 931 |
| recognized in “Result on fair value hedge accounting’ | - | - | 27 103 | - |
| recognized in ‘Revaluation reserves from financial instruments’ | - | - | (6 761) | - |

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

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

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

The 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 settled between interested and well informed but unrelated parties to the transaction at arm’s length.

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

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

# Notes to financial statements (cont.)

(In PLN thousand)

The fair value of central investment credits in 2011 is presented on net basis, inclusive of the fair value of the NBP refinancing credit used for financing such investments. When gross value is used, the adjustment to fair value stands at PLN 25 million in case of credits for central investments, and PLN 23 million in case of refinancing credits. Both the central investment credit and NBP refinancing credit used for financing such investments were repaid before 31 December 2012.

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

| 31.12.2012 | CARRYING AMOUNT | FAIR VALUE | INCREASE/DECREASE OF FAIR VALUE OVER CARRYING AMOUINT |
|---|---|---|---|
| **Assets** | | | |
| Cash and due from Central Bank | 9 207 268 | 9 207 268 | - |
| Receivables from banks | 4 096 454 | 4 096 780 | 326 |
| Financial assets held for trading | 614 719 | 614 719 | - |
| Assets from derivatives | 2 650 577 | 2 650 577 | - |
| Other financial instruments recognized at fair value through profit or loss | - | - | - |
| Loans and advances to customers (*) | 94 847 939 | 93 747 621 | (1 100 318) |
| Hedging instruments | 367 890 | 367 890 | - |
| Securities available for sale (**) | 25 802 747 | 25 802 747 | - |
| Securities held to maturity | 2 778 555 | 2 827 633 | 49 078 |
| **Total** | **140 366 149** | **139 315 235** | **(1 050 914)** |

(*) Including bills of exchange eligible for rediscounting at Central Bank.
(**)Subtracted by the Bank's exposures in the carrying amount of PLN 5 754 thousand, for which the Bank is unable to determine their fair value.

| 31.12.2011 | CARRYING AMOUNT | FAIR VALUE | INCREASE/DECREASE OF FAIR VALUE OVER CARRYING AMOUINT |
|---|---|---|---|
| **Assets** | | | |
| Cash and due from Central Bank | 4 886 074 | 4 885 916 | (158) |
| Receivables from banks | 5 648 899 | 5 649 003 | 104 |
| Financial assets held for trading | 849 711 | 849 711 | - |
| Assets from derivatives | 2 252 962 | 2 252 962 | - |
| Other financial instruments recognized at fair value through profit or loss | - | - | - |
| Loans and advances to customers (*) | 92 143 206 | 91 513 860 | (629 346) |
| Hedging instruments | 408 906 | 408 906 | - |
| Securities available for sale (**) | 25 340 070 | 25 340 070 | - |
| Securities held to maturity | 3 673 500 | 3 690 601 | 17 101 |
| **Total** | **135 203 328** | **134 591 029** | **(612 299)** |

(*)Including bills of exchange eligible for rediscounting at Central Bank.
(**) Subtracted by the Bank's exposures in the carrying amount of PLN 5 296 thousand, for which the Bank is unable to determine their fair value.

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

In case of deposits received by the Bank, the adjustment to fair value as at 31 December 2012 was at PLN minus 534 thousand (against PLN minus 3 142 thousand as at 31 December 2011) for deposits from clients, and PLN 7 540 thousand (against PLN minus 2 402 thousand as at 31 December 2011) for deposits from banks.

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

In case of debt securities in issue, the adjustment to fair value as at 31 December was at PLN 9 512 thousand (against PLN minus 24 745 thousand as at 31 December 2011).

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

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

## 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 custody and investment services, insurance companies, investment and pension funds, as well as non-financial institutions. The Bank provides custody 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 2012, the Bank acquired a number of new clients from the segment of foreign custody banks and stockbroking companies, registered as remote members of the Warsaw Stock Exchange GPW, for the benefit of which the Bank serves as a clearing agent. The Bank also maintained its leading position in terms of depositary notes, by handling more than 50% of all programmes.

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

# Notes to financial statements (cont.)

(In PLN thousand)

## 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 650 Accepting Orders Points 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).

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

| 31.12.2012 | QUANTITY (PCS) | VALUE |
|---|---|---|
| Financial instruments of clients, including: | | |
| Held on securities accounts | | |
| Equity securities and rights to such financial assets | 1 152 364 083 | 3 950 743 |
| Debt instruments and rights to such financial assets | 319 158 | 83 730 |
| Stored in a form of document | | |
| Equity securities and rights to such financial assets | - | - |
| Debt instruments and rights to such financial assets | - | - |
| Commodities and rights to such assets | - | - |

| 31.12.2011 | QUANTITY (PCS) | VALUE |
|---|---|---|
| Financial instruments of clients, including: | | |
| Held on securities accounts | | |
| Equity securities and rights to such financial assets | 1 030 780 951 | 3 582 447 |
| Debt instruments and rights to such financial assets | 9 462 930 | 1 342 051 |
| Stored in a form of document | | |
| Equity securities and rights to such financial assets | - | - |
| Debt instruments and rights to such financial assets | - | - |
| Commodities and rights to such assets | - | - |

# Notes to financial statements (cont.)

(In PLN thousand)

Customers' cash on brokerage accounts – Dom Maklerski Pekao

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Invested in debt securities issued by the State Treasury | - | - |
| Deposited on cash accounts in brokerage house and paid for securities bought in IPO or on the primary market | 224 580 | 214 932 |
| Other customers' cash | 18 861 | 17 737 |
| Transferred from clearing fund | - | - |
| **Total** | **243 441** | **232 669** |

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

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Receivables from executed transactions, including: | 22 267 | 12 074 |
| Stock Exchange market | 22 258 | 11 636 |
| OTC market | - | - |
| NewConnect | 9 | 438 |
| Receivables from representing other banks conducting brokerage activities and brokerage houses on regulated securities markets | - | - |
| Receivables from affiliation | - | - |
| Receivables from automatic loans realized through the National Depository of Securities | - | - |
| **Total receivables** | **22 267** | **12 074** |
| Liabilities from executed transactions, including: | 12 711 | 11 570 |
| Stock Exchange market | 12 683 | 11 296 |
| OTC market | - | - |
| NewConnect | 28 | 274 |
| Liabilities from representing other banks conducting brokerage activities and brokerage houses on regulated securities markets | - | - |
| Liabilities from affiliation | - | - |
| Liabilities from automatic loans realized through the National Depository of Securities | - | - |
| **Total liabilities** | **12 711** | **11 570** |

# Notes to financial statements (cont.)

(In PLN thousand)

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

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Receivables from clearing fund | 1 866 | 1 548 |
| Receivables from margin deposits | 12 490 | 11 577 |
| Other receivables | 268 | 318 |
| **Total receivables** | **14 624** | **13 443** |
| Amounts due to clearing fund | - | - |
| Amounts due on margin deposits | 33 | - |
| Other liabilities | 134 | 168 |
| **Total liabilities** | **167** | **168** |

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

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Receivables from compensation fund | 192 | 83 |
| Prepaid expenses- system maintenance payments | 16 | 11 |
| Deferred income- benefits from system | (208) | (94) |
| Amounts due to compensation fund | - | - |
| **Total net balance sheet items concerning participation In the compensation fund** | **-** | **-** |

Settlements with entities running regulated securities markets and commodity exchanges

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Receivables from Warsaw Stock Exchange | - | - |
| Receivables from BondSpot | - | - |
| **Total receivables** | **-** | **-** |
| Amounts due to Warsaw Stock Exchange | 261 | 176 |
| Amounts due to BondSpot | - | - |
| **Total liabilities** | **261** | **176** |

# Notes to financial statements (cont.)

(In PLN thousand)

## 7. Interest income and expense

**Interest income**

| | 2012 | 2011 |
|---|---|---|
| Loans, advances and other receivables from customers | 6 328 077 | 5 464 303 |
| Placements in other banks | 269 999 | 279 759 |
| Reverse repo transactions | 161 693 | 111 645 |
| Investment securities | 1 122 964 | 1 115 742 |
| Financial assets held for trading | 34 844 | 30 108 |
| Financial assets designated to fair value through profit or loss | - | 827 |
| **Total** | **7 917 577** | **7 002 384** |

Interest income for 2012 includes income from impaired financial assets in the amount of PLN 334 398 thousand (in 2011 PLN 234 886 thousand).

Total amount of interest income for 2012, measured at amortized cost using the effective interest rate method which applies to financial assets not measured at fair value through profit or loss amounted to PLN 4 350 320 thousand (in 2011 PLN 3 794 265 thousand).

**Interest expense**

| | 2012 | 2011 |
|---|---|---|
| Customers' deposits | (2 985 016) | (2 472 683) |
| Other banks' deposits | (51 758) | (48 504) |
| Repo transactions | (168 820) | (118 648) |
| Received Loans | (36 321) | (61 771) |
| Debt securities issued | (146 084) | (32 559) |
| **Total** | **(3 387 999)** | **(2 734 165)** |

Total amount of interest expenses for 2012 , measured at amortized cost using the effective interest rate method with reference to financial liabilities, which are not valued at fair value through profit or loss amounted to PLN 3 000 321 thousand (in 2011 PLN 2 400 166 thousand).

# Notes to financial statements (cont.)

(In PLN thousand)

## 8. Fee and commission income and expense

### Fee and commission income

| | 2012 | 2011 |
|---|---|---|
| Customer accounts maintenance, payment orders and cash transactions | 784 563 | 848 016 |
| Payment cards | 893 274 | 812 408 |
| Loans and advances | 513 683 | 568 319 |
| Investment products sales intermediation | 185 513 | 218 542 |
| Securities operations | 45 867 | 49 417 |
| Custody activity | 52 687 | 59 242 |
| Guarantees, letters of credit and similar transactions | 50 496 | 58 151 |
| Other | 23 547 | 42 691 |
| **Total** | **2 549 630** | **2 656 786** |

### Fee and commission expense

| | 2012 | 2011 |
|---|---|---|
| Payment cards | (453 339) | (394 221) |
| Bank drafts and transfers | (26 250) | (25 841) |
| Securities and derivative financial instruments operations | (8 919) | (9 742) |
| Custody activity | (8 183) | (8 580) |
| Intermediation services | (11 576) | (9 267) |
| Accounts maintenance | (475) | (535) |
| Other | (15 403) | (15 515) |
| **Total** | **(524 145)** | **(463 701)** |

## 9. Dividend income

| | 2012 | 2011 |
|---|---|---|
| From subsidiaries | 94 529 | 118 260 |
| From associates | 65 256 | 67 083 |
| From other entities | 8 749 | 10 330 |
| **Total** | **168 534** | **195 673** |

## 10. Result on financial assets and liabilities held for trading

| | 2012 | 2011 |
|---|---|---|
| Foreign currency exchange result | 467 642 | 508 230 |
| Gains (losses) on derivatives | 6 509 | 45 951 |
| Gains (losses) on securities | 15 034 | 7 108 |
| **Total** | **489 185** | **561 289** |

In 2012, the total change in the fair value of financial instruments valued at fair value through profit or loss, determined with the use of valuation techniques (when no published quotations from active markets are available) amounted to PLN 14 055 thousand (in 2011 PLN 56 165 thousand).

(In PLN thousand)

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

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

# 12. Gains (losses) on disposal

**Realized gains**

| | 2012 | 2011 |
|---|---|---|
| Loans and other financial receivables | 975 | 130 |
| Available for sale financial assets – debt instruments | 278 513 | 72 853 |
| Available for sale financial assets – equity instruments | 2 | 99 |
| Held to maturity investments | 283 | 3 884 |
| Debt securities issued | 381 | 96 |
| **Total** | **280 154** | **77 062** |

**Realized losses**

| | 2012 | 2011 |
|---|---|---|
| Loans and other financial receivables | (217) | (161) |
| Available for sale financial assets – debt instruments | - | (74) |
| Available for sale financial assets – equity instruments | - | - |
| Held to maturity investments | - | - |
| Debt securities issued | (684) | (1 377) |
| **Total** | **(901)** | **(1 612)** |

| | | |
|---|---|---|
| **Net realized profit** | **279 253** | **75 450** |

The change in fair value of financial assets available for sale referred in 2012 directly to equity amounted to PLN 1 039 104 thousand (increase), in 2011 PLN 12 242 thousand (increase).

The change in fair value of financial assets, related in 2012 from equity to financial income amounted to PLN 278 513 thousand (profit), in 2011 PLN 72 779 thousand (profit).

# Notes to financial statements (cont.)

(In PLN thousand)

## 13. Administrative expenses

### Personnel expenses

| | 2012 | 2011 |
|---|---|---|
| Wages and salaries | (1 415 369) | (1 467 960) |
| Insurance and other charges related to employees | (260 799) | (249 863) |
| Share-based payments expense | (11 783) | (11 106) |
| **Total** | **(1 687 951)** | **(1 728 929)** |

### Other administrative expenses

| | 2012 | 2011 |
|---|---|---|
| Other administrative expenses | (1 147 732) | (1 156 015) |
| Taxes and charges | (34 759) | (34 592) |
| Bank Guarantee Fund fee | (95 069) | (87 931) |
| Polish Financial Supervision Authority fee | (22 649) | (20 367) |
| **Total** | **(1 300 209)** | **(1 298 905)** |

| | | |
|---|---|---|
| **Total administrative expenses** | **(2 988 160)** | **(3 027 834)** |

## 14. Net other operating income and expenses

### Other operating income

| | 2012 | 2011 |
|---|---|---|
| Rental income and other (miscellaneous income) | 44 206 | 45 991 |
| Credit insurance charges | 31 343 | 27 467 |
| Recovery of debt collection costs | 20 511 | 17 987 |
| Refund of administrative costs | 8 023 | 9 439 |
| Income from written-off liabilities | 7 678 | 1 259 |
| Releases of impairment of litigation and other assets | 1 357 | 1 609 |
| Compensation, penalty fees and fines received | 489 | 53 |
| Other | 28 365 | 23 308 |
| **Total** | **141 972** | **127 113** |

### Other operating expenses

| | 2012 | 2011 |
|---|---|---|
| Credit insurance costs | (27 164) | (29 152) |
| Revenue adjustments for prior periods and inventory deficiencies | (8 269) | (10 792) |
| Customers complaints expense | (2 117) | (3 429) |
| Impairment of litigations receivables and other assets | (868) | (7 454) |
| Costs of litigation and claims | (3 348) | (3 859) |
| Compensation, penalty fees and fines paid | (566) | (1 366) |
| Losses on disposal of other assets | (5) | (38) |
| Other | (24 472) | (20 969) |
| **Total** | **(66 809)** | **(77 059)** |

| | | |
|---|---|---|
| **Net other operating income and expenses** | **75 163** | **50 054** |

# Notes to financial statements (cont.)

(In PLN thousand)

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

| 2012 | OPENING BALANCE | INCREASES | | DECREASES | | | CLOSING BALANCE | IMPACT ON NET RESULT (**) |
|---|---|---|---|---|---|---|---|---|
| | | IMPARIMENT CHARGES | OTHER (*) | WRITE-OFFS OF ASSETS FROM THE 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 | 72 878 | 292 | 2 236 | - | (2 222) | (3 052) | 70 132 | 1 930 |
| Derivative financial instruments | - | - | - | - | - | - | - | - |
| 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 | - |
| Impairment of 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 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' balance 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 financial statements (cont.)

(In PLN thousand)

| 2011 | OPENING BALANCE | INCREASES | | DECREASES | | | CLOSING BALANCE | IMPACT ON NET RESULT (**) |
|---|---|---|---|---|---|---|---|---|
| | | 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 | 78 477 | 628 | 11 226 | (3 428) | (11 839) | (2 186) | 72 878 | 11 211 |
| Derivative financial instruments | 480 | - | - | - | - | (480) | - | - |
| Loans and advances to customers valued at amortized cost | 3 990 139 | 1 180 150 | 212 069 | (250 783) | (645 777) | (117 818) | 4 367 980 | (534 373) |
| Financial assets available for sale | 459 | - | - | - | - | (358) | 101 | - |
| Impairment of off-balance sheet commitments | 128 492 | 51 967 | 7 152 | - | (69 772) | - | 117 839 | 17 805 |
| **Total financial assets and off-balance sheet commitments** | **4 198 047** | **1 232 745** | **230 447** | **(254 211)** | **(727 388)** | **(120 842)** | **4 558 798** | **(505 357)** |
| | | | | | | | | |
| **Impairment of other assets:** | | | | | | | | |
| Investments in associates | 68 056 | - | - | - | - | - | 68 056 | - |
| Intangible assets | 10 961 | - | - | - | - | - | 10 961 | - |
| Property, plant and equipment | 7 405 | 1 391 | - | - | - | (831) | 7 965 | (1 391) |
| Investment properties | 550 | - | - | - | - | - | 550 | - |
| Other | 92 562 | 7 454 | - | (30 251) | (1 609) | (1 077) | 67 079 | (5 845) |
| **Total impairment of other assets** | **179 534** | **8 845** | **-** | **(30 251)** | **(1 609)** | **(1 908)** | **154 611** | **(7 236)** |
| | | | | | | | | |
| **Total** | **4 377 581** | **1 241 590** | **230 447** | **(284 462)** | **(728 997)** | **(122 750)** | **4 713 409** | **(512 593)** |

(*) Including foreign exchange differences and transfers between positions
(**)'Impairment of financial assets and off-balance sheet commitments' balance includes net impairment in the amount of PLN minus 505 357 thousand and proceeds from recovered bad debt in the amount of PLN 7 485 thousand, the total is PLN minus 497 872 thousand.

(In PLN thousand)

## 16. Gains (losses) on associates and subsidiaries

| | 2012 | 2011 |
|---|---|---|
| Profit from disposal of shares in associates | 243 | - |
| Profit from disposal/liquidation of shares in subsidiaries | (1 098) | - |
| **Total gains (losses) on associates and subsidiaries** | **(855)** | **-** |

## 17. 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.

| | 2012 | 2011 |
|---|---|---|
| **Profit before income tax** | **3 608 853** | **3 449 452** |
| **Tax charge according to applicable tax rate at 19%** | **685 682** | **655 396** |
| **Permanent differences:** | **(14 984)** | **(32 317)** |
| Non taxable income | (39 208) | (41 656) |
| Non tax deductible costs | 19 249 | 10 513 |
| Impact of other tax rates applied under a different tax jurisdiction | 2 248 | (1 146) |
| Tax relieves not included in the income statement | 392 | 292 |
| Other | 2 335 | (320) |
| **Effective income tax charge on gross profit** | **670 698** | **623 079** |

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

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

| | 2012 | 2011 |
|---|---|---|
| **INCOME STATEMENT** | | |
| **Current income tax** | **(721 609)** | **(753 276)** |
| Current tax charge disclosed In the income statement | (715 578) | (745 684) |
| Adjustments related to the current tax from previous years | 144 | 156 |
| Other taxes (for example withholding tax, income tax relating to foreign branch) | (6 175) | (7 748) |
| **Deferred income tax** | **50 911** | **130 197** |
| Occurrence and reversal of temporary differences | 50 911 | 130 197 |
| **Tax charge disclosed in the Bank's income statement** | **(670 698)** | **(623 079)** |
| **EQUITY** | | |
| **Deferred income tax** | **(136 889)** | **20 340** |
| Income and costs disclosed in other comprehensive income: | | |
| revaluation of financial instruments, used as cash flows hedges | 7 623 | 9 361 |
| revaluation of available for sale financial assets – debt securities | (144 454) | 11 502 |
| revaluation of available for sale financial assets – with equity rights | (58) | (523) |
| **Tax charge presented in other comprehensive income** | (136 889) | **20 340** |
| **Total tax charge** | **(807 587)** | **(602 739)** |

# Notes to 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 | 84 824 | 84 824 | - | (11 842) | - | 72 982 | 72 982 | - |
| Loan provisions charges | 375 540 | 375 540 | - | 34 642 | - | 410 182 | 410 182 | - |
| Personnel related provisions | 83 280 | 83 280 | - | (7 797) | - | 75 483 | 75 483 | - |
| 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** | **1 059 222** | **1 043 871** | **15 351** | **37 535** | **(15 351)** | **1 081 406** | **1 081 406** | **-** |
| **Deferred tax charge** | **X** | **X** | **X** | **50 911** | **(136 889)** | **X** | **X** | **X** |
| **Net deferred tax assets** | **655 966** | **640 615** | **15 351** | **X** | **X** | **569 988** | **691 526** | **(121 538)** |
| **Net deferred tax provision** | **-** | **-** | **-** | **X** | **X** | **-** | **-** | **-** |

# Notes to financial statements (cont.)

(In PLN thousand)

| | CHANGES IN TEMPORARY DIFFERENCES IN 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 14 963 | 14 963 | - | 7 655 | - | 22 618 | 22 618 | - |
| Accrued income – loans | 129 875 | 129 875 | - | (30 451) | - | 99 424 | 99 424 | - |
| Change in revaluation of financial assets | 181 104 | 176 115 | 4 989 | (63 498) | (4 989) | 112 617 | 112 617 | - |
| Accelerated depreciation | 117 995 | 117 995 | - | 3 765 | - | 121 760 | 121 760 | - |
| Investment relief | 6 910 | 6 910 | - | (426) | - | 6 484 | 6 484 | - |
| Other | 25 707 | 25 707 | - | 14 646 | - | 40 353 | 40 353 | - |
| **Gross deferred tax liability** | **476 554** | **471 565** | **4 989** | **(68 309)** | **(4 989)** | **403 256** | **403 256** | **-** |
| **DEFFERED TAX ASSET** | | | | | | | | |
| Accrued expenses - securities | - | - | - | - | - | - | - | - |
| Accrued expenses - deposits and loans | 127 339 | 127 339 | - | (33 324) | - | 94 015 | 94 015 | - |
| Downward revaluation of financial assets | 285 457 | 285 457 | - | 78 499 | 15 351 | 379 307 | 363 956 | 15 351 |
| Income received to be amortized over time from loans and current accounts | 103 003 | 103 003 | - | (18 179) | - | 84 824 | 84 824 | - |
| Loan provisions charges | 333 680 | 333 680 | - | 41 860 | - | 375 540 | 375 540 | - |
| Personnel related provisions | 85 203 | 85 203 | - | (1 923) | - | 83 280 | 83 280 | - |
| Accruals | 9 851 | 9 851 | - | (7 415) | - | 2 436 | 2 436 | - |
| Previous year losses | 894 | 894 | - | 5 624 | - | 6 518 | 6 518 | - |
| Other | 36 556 | 36 556 | - | (3 254) | - | 33 302 | 33 302 | - |
| **Gross deferred tax asset** | **981 983** | **981 983** | **-** | **61 888** | **15 351** | **1 059 222** | **1 043 871** | **15 351** |
| **Deferred tax charge** | **X** | **X** | **X** | **130 197** | **20 340** | **X** | **X** | **X** |
| **Net deferred tax assets** | **505 429** | **510 418** | **-** | **X** | **X** | **655 966** | **640 615** | **15 351** |
| **Net deferred tax provision** | **-** | **-** | **4 989** | **X** | **X** | **-** | **-** | **-** |

# Notes to financial statements (cont.)

(In PLN thousand)

As at 31 December 2012 and 31 December 2011, there were no temporary differences related to investments in subsidiaries, branches and associates, for which deferred tax liability was not created as a result of meeting the conditions of controlling the terms of temporary differences' reversing and being probable that these differences will not reverse in foreseeable future.

As at 31 December 2012 and 31 December 2011, there were no temporary differences, unused tax losses and unused tax relieves which were not included in the deferred tax assets.

## 18. 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

| | 2012 | 2011 |
|---|---|---|
| Net profit | 2 938 155 | 2 826 373 |
| Weighted average number of ordinary shares in the period | 262 394 506 | 262 367 442 |
| Earnings per share (in PLN per share) | 11.20 | 10.77 |

**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.

There are diluting instruments in the Bank in the form of convertible bonds based on the G-class shares issue described in Note 41. For calculation purposes it is assumed that these instruments will be converted into shares.

| | 2012 | 2011 |
|---|---|---|
| Net profit | 2 938 155 | 2 826 373 |
| Weighted average number of ordinary shares in the period | 262 394 506 | 262 367 442 |
| Adjustments to the number of shares for the purpose of calculation of diluted earnings per share | - | 87 905 |
| Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share | 262 394 506 | 262 455 347 |
| Diluted earnings per share (in PLN per share) | 11.20 | 10.77 |

## 19. Dividend proposal

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

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

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

# Notes to financial statements (cont.)

(In PLN thousand)

## 20. Cash and balances with Central Bank

| CASH AND DUE FROM CENTRAL BANK | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Cash | 2 228 386 | 2 236 214 |
| Current account at Central Bank | 6 978 469 | 2 005 741 |
| Placements | - | 631 000 |
| Interest | 400 | 13 106 |
| Other | 13 | 13 |
| **Total** | **9 207 268** | **4 886 074** |

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

Cash and balances with Central Bank by currencies

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

| 31.12.2011 | ASSETS | LIABILITIES |
|---|---|---|
| PLN | 4 232 688 | 356 386 |
| EUR | 345 354 | - |
| USD | 191 072 | - |
| CHF | 25 190 | - |
| Other currencies | 91 770 | - |
| **TOTAL** | **4 886 074** | **356 386** |

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

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

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

(In PLN thousand)

## 21. Loans and advances to banks

Loans and advances to banks by product type

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Current accounts and overnights | 1 964 049 | 1 161 682 |
| Interbank placements | 252 613 | 118 279 |
| Loans and advances | 104 462 | 189 445 |
| Cash collateral | 1 332 991 | 2 065 677 |
| Repo transactions | 190 028 | 1 971 558 |
| Debt securities | 86 515 | 1 180 |
| Interest accrued | 36 771 | 29 442 |
| Receivables in transit | 199 157 | 184 514 |
| **Total gross amount** | **4 166 586** | **5 721 777** |
| Impairment allowances | (70 132) | (72 878) |
| **Total net amount** | **4 096 454** | **5 648 899** |

Loans and advances to banks by quality

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Loans and advances to banks, including: | | |
| gross value of non-impaired receivables | 4 087 779 | 5 641 000 |
| gross value of impaired receivables | 78 807 | 80 777 |
| individual impairment charges | (54 000) | (55 181) |
| collective impairment charges (*) | (16 132) | (17 697) |
| **Total** | **4 096 454** | **5 648 899** |

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

Loans and advances to banks by contractual maturities

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Loans and advances to banks, including: | | |
| up to 1 month | 3 025 713 | 4 998 038 |
| between 1 and 3 months | 785 656 | 561 546 |
| between 3 months and 1 year | 72 022 | 6 436 |
| between 1 and 5 years | 80 913 | 46 718 |
| over 5 years | 86 515 | - |
| expired | 78 996 | 79 597 |
| Interest accrued | 36 771 | 29 442 |
| **Total gross amount** | **4 166 586** | **5 721 777** |
| Impairment allowances | (70 132) | (72 878) |
| **Total net amount** | **4 096 454** | **5 648 899** |

Loans and advances to banks by currencies

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| PLN | 1 171 416 | 2 346 842 |
| CHF | 30 893 | 23 151 |
| EUR | 2 075 687 | 2 956 619 |
| USD | 657 106 | 194 914 |
| Other currencies | 161 352 | 127 373 |
| **Total** | **4 096 454** | **5 648 899** |

Changes in the level of impairment charges in 2012 and 2011 are presented in the Note 15.

(In PLN thousand)

## 22. Financial assets and liabilities held for trading

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

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

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

Financial assets and liabilities held for trading by maturities

| 31.12.2012 | ASSETS | LIABILITIES |
|---|---|---|
| Debt securities, including: | | |
| up to 1 month | 161 556 | - |
| 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** |

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

# Notes to financial statements (cont.)

(In PLN thousand)

Financial assets and liabilities held for trading by currencies

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

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

## 23. 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 priceis 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.

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-Scholes model. The model is parameterized based upon market quotations of at-the-money options as at standard quoted maturities.

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

**Derivative financial instruments embedded in other instruments**

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

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

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

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

# Notes to financial statements (cont.)

(In PLN thousand)

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.

# Notes to 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 |
| Transactions in foreign currencies and in gold | | |
| 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** |

| 31.12.2011 | ASSETS | LIABILITIES |
|---|---|---|
| Interest rate transactions | | |
| Interest Rate Swaps (IRS) | 1 702 291 | 1 754 943 |
| Forward Rate Agreements (FRA) | 2 818 | 2 743 |
| Options | 7 096 | 6 578 |
| Other | 208 | 155 |
| Transactions in foreign currencies and in gold | | |
| Cross-Currency Interest Rate Swaps (CIRS) | 105 130 | 53 742 |
| Currency Forward Agreements | 166 657 | 90 595 |
| Currency Swaps (fx–swap) | 132 195 | 507 632 |
| Options for currency and for gold | 111 806 | 65 551 |
| Transactions based on commodities and equity securities | | |
| Options | 24 761 | 24 761 |
| **Total** | **2 252 962** | **2 506 700** |

# Notes to financial statements (cont.)

(In PLN thousand)

Nominal value of trading derivatives

| 31.12.2012 | 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) | 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 |
| Transactions in foreign currencies and in gold | | | | | | |
| 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** |

| 31.12.2011 | 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) | 5 259 401 | 4 580 580 | 17 067 383 | 54 781 509 | 14 470 825 | 96 159 698 |
| Forward Rate Agreements (FRA) | 3 700 000 | 3 450 000 | 9 950 000 | 600 000 | - | 17 700 000 |
| Options | - | 15 900 | 83 388 | 749 812 | 323 118 | 1 172 218 |
| Other | 511 345 | - | - | - | - | 511 345 |
| Transactions in foreign currencies and in gold | | | | | | |
| Cross-Currency Interest Rate Swaps (CIRS) – currency bought | - | - | 421 250 | 2 956 827 | - | 3 378 077 |
| Cross-Currency Interest Rate Swaps (CIRS) – currency sold | - | - | 323 241 | 3 006 097 | - | 3 329 338 |
| Currency Forward Agreements – currency bought | 8 271 999 | 1 532 819 | 1 708 405 | 657 096 | - | 12 170 319 |
| Currency Forward Agreements – currency sold | 8 261 024 | 1 532 984 | 1 684 314 | 651 403 | - | 12 129 725 |
| Currency Swaps (fx-swap) – currency bought | 10 189 098 | 3 986 364 | 4 521 798 | 224 375 | - | 18 921 635 |
| Currency Swaps (fx-swap) – currency sold | 10 339 119 | 4 027 878 | 4 615 344 | 220 840 | - | 19 203 181 |
| Options bought | 717 227 | 1 322 625 | 1 142 822 | 144 215 | - | 3 326 889 |
| Options sold | 713 315 | 1 289 280 | 1 074 224 | 144 215 | - | 3 221 034 |
| Transactions based on commodities and equity securities | | | | | | |
| Options | - | 32 064 | 590 184 | 846 974 | - | 1 469 222 |
| **Total** | **47 962 528** | **21 770 494** | **43 182 353** | **64 983 363** | **14 793 943** | **192 692 681** |

# Notes to financial statements (cont.)

(In PLN thousand)

## 24. Loans and advances to customers

Loans and advances to customers by product type

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Mortgage | 32 150 033 | 27 957 006 |
| Overdrafts | 11 204 992 | 11 327 485 |
| Operating loans | 16 166 162 | 17 864 672 |
| Investment loans | 18 599 296 | 19 993 485 |
| Payment cards receivables | 747 952 | 706 358 |
| Purchased receivables | 1 981 210 | 2 275 859 |
| Other loans and advances | 8 790 827 | 8 592 326 |
| Debt securities | 6 791 337 | 5 681 677 |
| Repo transactions | 2 692 280 | 1 782 916 |
| Interest accrued | 312 639 | 320 015 |
| Receivables in transit | 27 985 | 9 287 |
| **Total gross amount** | **99 464 713** | **96 511 086** |
| Impairment allowances | (4 616 933) | (4 367 980) |
| **Total net amount** | **94 847 780** | **92 143 106** |

Loans and advances to customers by customer type

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Receivables from corporate | 48 467 048 | 49 679 439 |
| Receivables from individuals | 39 699 214 | 35 757 195 |
| Receivables from budget entities | 10 985 812 | 10 754 437 |
| Interest accrued | 312 639 | 320 015 |
| **Total gross amount** | **99 464 713** | **96 511 086** |
| Impairment allowances | (4 616 933) | (4 367 980) |
| **Total net amount** | **94 847 780** | **92 143 106** |

Loans and advances to customers by quality

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Loans and advances to customers, including: | | |
| gross value of non impaired receivables | 92 485 634 | 90 699 794 |
| gross value of impaired receivables | 6 979 079 | 5 811 292 |
| individual impairment charges | (2 152 061) | (1 781 499) |
| collective impairment charges (*) | (2 464 872) | (2 586 481) |
| **Total** | **94 847 780** | **92 143 106** |

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

# Notes to financial statements (cont.)

(In PLN thousand)

Loans and advances to customers by contractual maturities

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Loans and advances to customers, including: | | |
| up to 1 month | 15 898 063 | 15 401 356 |
| between 1 and 3 months | 4 275 897 | 3 301 224 |
| between 3 months and 1 year | 11 024 944 | 9 296 692 |
| between 1 and 5 years | 29 275 490 | 31 263 210 |
| over 5 years | 33 834 522 | 32 644 764 |
| expired | 4 843 158 | 4 283 825 |
| Interest accrued | 312 639 | 320 015 |
| **Total gross amount** | **99 464 713** | **96 511 086** |
| Impairment allowances | (4 616 933) | (4 367 980) |
| **Total net amount** | **94 847 780** | **92 143 106** |

Loans and advances to customers by currencies

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| PLN | 76 988 014 | 71 544 487 |
| CHF | 5 124 188 | 6 052 047 |
| EUR | 10 914 875 | 11 729 906 |
| USD | 1 790 336 | 2 749 115 |
| Other currencies | 30 367 | 67 551 |
| **Total** | **94 847 780** | **92 143 106** |

Changes in impairment balances in 2012 and 2011 are presented in the Note 15.

(In PLN thousand)

## 25. Hedge accounting

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

In 2012 The Bank continues to apply following hedging relationships:

- fair value hedge accounting for fixed-rate debt securities classified as available-for-sale hedged with interest rate swap (IRS) transactions – described in 25.1,
- cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions – described in 25.2,
- cash flow hedge accounting for floating-rate financial assets with interest rate swap (IRS) transactions – described in 25.3,
- fair value hedge accounting for interest rate risk for deposits portfolio denominated in EUR hedged with cross-currency interest rate swap (CIRS) transactions – described in 25.4,
- cash flow hedge accounting for floating-rate deposit portfolio denominated in EUR hedged with interest rate swap (IRS) transactions – described in 25.5,
- cash flow hedge accounting for highy probable cash flow denominated in USD (long position in USD for the Bank) hedged with foreign exchange forward transactions (a series of fx-spot and fx-swap transactions) – described in 25.6.

In 2012 the Bank:

- designated to the hedge accounting the hedging relationship – cash flow hedge accounting for floating-rate loan portfolio denominated in EUR and USD hedged with fx-swap transactions – description in 25.7,
- prolonged the cash flow hedge accounting for highy probable cash flow in USD (long position in USD for the Bank) hedged with fx-forward transactions (a series of fx-spot and fx-swap transactions). It is expected that cash flows related to the hedged items will occur until 11 March 2013.

Fair values of hedging derivatives

| 31.12.2012 | ASSETS | LIABILITIES |
|---|---|---|
| Fair value hedge accounting | | |
| interest rate swaps (IRS) | - | 270 343 |
| cross-currency interest rate swaps (CIRS) | 180 042 | - |
| Cash flow hedge accounting | | |
| interest rate swaps (IRS) | 68 317 | 69 097 |
| cross-currency interest rate swaps (CIRS) | 75 036 | 887 341 |
| fx-swaps | 44 495 | - |
| **Total** | **367 890** | **1 226 781** |
| **31.12.2011** | **ASSETS** | **LIABILITIES** |
| Fair value hedge accounting | | |
| interest rate swaps (IRS) | - | 216 267 |
| cross-currency interest rate swaps (CIRS) | 313 312 | - |
| Cash flow hedge accounting | | |
| interest rate swaps (IRS) | 55 438 | 101 931 |
| cross-currency interest rate swaps (CIRS) | 40 156 | 1 343 026 |
| fx-swaps | - | 77 325 |
| **Total** | **408 906** | **1 738 549** |

# Notes to financial statements (cont.)

(In PLN thousand)

## Nominal values of hedging derivatives

| 31.12.2012 | CONTRACTS ACCORDING TO MATURITIES | | | | | TOTAL |
|---|---|---|---|---|---|---|
| | UP TO 1 MONTH | BETWEEN 1 AND 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 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** |

| 31.12.2011 | 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) | - | - | 462 716 | 1 151 631 | 879 176 | 2 493 523 |
| cross-currency interest rate swaps (CIRS) | - | - | 173 534 | 2 367 013 | - | 2 540 547 |
| Cash flow hedge accounting | | | | | | |
| interest rate swaps (IRS) | 50 000 | - | 500 334 | 2 390 460 | 175 000 | 3 115 794 |
| cross-currency interest rate swaps (CIRS) | - | - | 2 122 570 | 8 224 643 | 5 361 276 | 15 708 489 |
| fx-swaps | - | 1 156 186 | - | - | - | 1 156 186 |
| **Total** | **50 000** | **1 156 186** | **3 259 154** | **14 133 747** | **6 415 452** | **25 014 539** |

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

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

(In PLN thousand)

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

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

Amounts recognized in income statement related to fair value hedge accounting

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

## 25.1 Fair value hedge of fixed-coupon debt securities

***Description of hedging relationship***

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

***Hedged items***

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

***Hedging derivatives***

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

***Financial Statement presentation***

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

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

# Notes to financial statements (cont.)

(In PLN thousand)

## 25.2 Cash flow hedge of floating-rate loans and floating-rate deposits

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

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

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

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

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

## 25.3 Cash flow hedge of floating-rate loans

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

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

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

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

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

(In PLN thousand)

## 25.4 Fair value hedge of interest rate risk for deposit portfolio

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

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

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

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

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

## 25.5 Cash flow hedge of floating-rate deposits

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

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

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

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

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

# Notes to financial statements (cont.)

(In PLN thousand)

## 25.6 Cash flow hedge of projected inflow denominated in foreign currency

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

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

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

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

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

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

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

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

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

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

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

# Notes to financial statements (cont.)

(In PLN thousand)

## 26. Investment (placement) securities

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Debt securities available for sale (AFS) | 25 799 482 | 25 337 109 |
| Equity securities available for sale (AFS) | 9 019 | 8 257 |
| Debt securities held to maturity (HTM) | 2 778 555 | 3 673 500 |
| **Total** | **28 587 056** | **29 018 866** |

Debt securities available for sale (AFS)

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Securities issued by State Treasury | 15 530 743 | 14 749 285 |
| T-bills | - | - |
| T-bonds | 15 530 743 | 14 749 285 |
| Securities issued by Central Banks | 9 320 660 | 9 718 216 |
| Securities issued by banks | - | 166 507 |
| Securities issued by business entities | 248 995 | 38 632 |
| Securities issued by local governments | 699 084 | 664 469 |
| **Total** | **25 799 482** | **25 337 109** |
| including impairment of assets | - | - |

Equity securities available for sale (AFS)

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Shares | 9 019 | 8 257 |
| **Total** | **9 019** | **8 257** |
| including impairment of assets | (101) | (101) |

Debt securities held to maturity (HTM)

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Securities issued by State Treasury | 2 103 774 | 2 998 019 |
| T- bills | 116 604 | 154 765 |
| T- bonds | 1 987 170 | 2 843 254 |
| Securities issued by Central Banks | 674 781 | 675 481 |
| **Total** | **2 778 555** | **3 673 500** |
| including impairment of assets | - | - |

# Notes to financial statements (cont.)

(In PLN thousand)

Investment debt securities according to contractual maturities

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Debt securities, including: | | |
| up to 1 month | 11 014 196 | 10 393 698 |
| between 1 and 3 months | 261 787 | 142 937 |
| between 3 months and 1 year | 841 723 | 2 981 729 |
| between 1 and 5 years | 12 067 751 | 8 347 088 |
| over 5 years | 4 392 580 | 7 145 157 |
| **Total** | **28 578 037** | **29 010 609** |

Investment debt securities according to currencies

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| PLN | 26 252 841 | 26 583 541 |
| EUR | 1 361 396 | 671 610 |
| USD | 963 800 | 1 755 458 |
| **Total** | **28 578 037** | **29 010 609** |

Changes in investment (placement) securities

| | 2012 | 2011 |
|---|---|---|
| DEBT SECURITIES AVAILABLE FOR SALE (AFS) | | |
| **Opening balance** | **25 345 366** | **25 920 038** |
| Increases (purchase) | 248 754 896 | 281 142 722 |
| Decreases (sale and redemption) | (250 086 274) | (283 068 539) |
| Changes in fair value | 831 675 | 4 297 |
| Exchange rate differences | (192 818) | 295 051 |
| Accrued interest | 738 060 | 653 925 |
| Other changes | 417 596 | 397 872 |
| **Closing balance** | **25 808 501** | **25 345 366** |
| DEBT SECURITIES HELD UNTIL MATURITY (HTM) | | |
| **Opening balance** | **3 673 500** | **4 509 822** |
| Increases (purchase) | 32 975 403 | 31 501 481 |
| Decreases (sale and redemption) | (34 034 811) | (32 557 323) |
| Impairment charges | - | - |
| Exchange rate differences | - | 7 538 |
| Accrued interest | 43 566 | 23 878 |
| Other changes | 120 897 | 188 104 |
| **Closing balance** | **2 778 555** | **3 673 500** |
| **Total investment (placement) securities** | **28 587 056** | **29 018 866** |

# Notes to financial statements (cont.)

(In PLN thousand)

## 27. Reclassification of securities

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

In 2012 and 2011, the 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

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

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

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

# Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

Net interest income on reclassified financial assets

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

## 28. 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 2012, non-current assets classified as held for sale included following items classified as held for sale:

- exposure in subsidiary PJSC UniCredit Bank,
- real estate, and
- other property, plant and equipment owned by the Bank.

# Notes to financial statements (cont.)

(In PLN thousand)

Assets held for sale:

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| PJSC UniCredit Bank exposure | 1 487 136 | 1 999 952 |
| Property, plant and equipment | 77 341 | 15 781 |
| **Total** | **1 564 477** | **2 015 733** |

As at 31 December 2011, the exposure in PJSC UniCredit Bank in Ukraine constitutes:

- shares in PJSC UniCredit Bank amounting to PLN 577 349 thousand,
- granted loans and advances and interbank placements totaling to PLN 909 787 thousand,
- off-balance sheet commitments, in this letter of credit amounting to PLN 16 766 thousand.

Bank plans to concentrate its activities on local market and in connection with this the whole exposure in Ukraine will be disposed. The Bank intends to dispose its exposure in Ukraine upon receiving all the necessary approvals.

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

| ASSETS HELD FOR SALE | 2012 | 2011 |
|---|---|---|
| **Opening balance** | **2 015 733** | **2 456 104** |
| Increases, including: | 74 380 | 2 116 |
| transfer from investments in subsidiaries | 24 541 | - |
| transfer from investment properties | 27 324 | - |
| exchange rate differences | - | 1 723 |
| other changes | 22 515 | 393 |
| Decreases, including: | (525 636) | (442 487) |
| transfer to property, plant and equipment | - | (8 685) |
| disposal | (10 427) | (94) |
| exchange rate differences | (1 490) | (667) |
| other changes | (903) | (23 786) |
| PJSC UniCredit Bank assets /Open Joint Stock Company UniCredit Bank/ | (512 816) | (409 255) |
| **Closing balance** | **1 564 477** | **2 015 733** |

The disposals have been settled as follows:

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Sales revenues | 29 584 | 700 |
| Net carrying amount of disposed assets (including costs of sale) | 12 787 | 94 |
| **Profit/loss on sale before income tax** | **16 797** | **606** |

# Notes to financial statements (cont.)

(In PLN thousand)

## 29. Investments in subsidiaries

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 | 47 312 | 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 liguidation) | Warsaw | Real estate management | 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%).

# Notes to financial statements (cont.)

(In PLN thousand)

Condensed information about subsidiaries as at 31 December 2011 (*)

| 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 | 940 453 | 772 602 | 164 644 | 46 027 | 100.00 | 56 332 |
| Pekao Faktoring Sp. z o.o. | Lublin | Factoring | 866 500 | 804 488 | 46 384 | 10 664 | 100.00 | 50 268 |
| Pekao Fundusz Kapitałowy Sp. z o.o. | Warsaw | Business consulting | 52 864 | 191 | 2 008 | 1 292 | 100.00 | 51 380 |
| Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. | Warsaw | Pension funds management | 57 113 | 3 552 | 30 317 | 12 049 | 65.00 | 88 126 |
| Pekao Financial Services Sp. z o.o. | Warsaw | Transferable agent | 35 012 | 5 461 | 43 571 | 7 414 | 100.00 | 4 500 |
| Pekao Leasing Sp. z o.o. (**) | Warsaw | Lease services | 3 162 618 | 2 667 161 | 225 509 | 42 001 | 36.49 | 84 658 |
| Centrum Kart S.A. | Warsaw | Additional financial services | 47 846 | 13 613 | 835 | 3 690 | 100.00 | 17 592 |
| Pekao Telecentrum Sp. z o.o. | Cracow | Services | 9 818 | 2 | 388 | 350 | 100.00 | 8 193 |
| Pekao Bank Hipoteczny S.A. | Warsaw | Banking services | 1 986 672 | 1 706 841 | 103 768 | 17 274 | 100.00 | 233 823 |
| Pekao Leasing Holding S.A. | Warsaw | Lease services | 214 794 | 38 | 1 225 | 3 844 | 80.10 | 166 345 |
| Holding Sp. z o.o. (in liquidation) | Warsaw | Non-financial holding | 304 | 83 | 3 | (84) | 100.00 | 5 |
| Pekao Property S.A. | Warsaw | Real estate development services | 37 518 | 2 106 | 2 532 | 1 228 | 100.00 | 24 376 |
| Property Sp. z o.o. (in liquidation) | Warsaw | Real estate management | 15 803 | 494 | 631 | 388 | 100.00 | 6 998 |
| Centrum Bankowości Bezpośredniej Sp. z o.o. | Cracow | Call-center services | 13 851 | 6 253 | 7 571 | 3 680 | 100.00 | 672 |
| **Total** | | | | | | | | **793 268** |

(*) 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

| | 2012 | 2011 |
|---|---|---|
| **Opening balance** | **793 268** | **793 268** |
| Decreases, including: | (155) | - |
| capital decrease | (150) | - |
| liquidation | (5) | - |
| **Closing balance** | **793 113** | **793 268** |

## The structure of investments in subsidiaries

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Investment in subsidiaries, including: | | |
| banks | 233 823 | 233 823 |
| other financial institutions | 519 201 | 519 201 |
| non-financial institutions | 40 089 | 40 244 |
| **Total** | **793 113** | **793 268** |

# Notes to financial statements (cont.)

(In PLN thousand)

## 30. Investments in associates

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 |
| Dom Inwestycyjny Xelion Sp. z o.o. (ex. 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 | - | - | - | - | 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 2011 (*)

| 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 | 123 068 | 24 606 | 109 220 | 31 515 | 34.44 | 1 875 |
| Pioneer Pekao Investment Management S.A. | Warsaw | Assets Management | 347 619 | 59 670 | 452 040 | 127 250 | 49.00 | 14 995 |
| Xelion. Doradcy Finansowi Sp. z o.o. | Warsaw | Financial intermediation | 18 748 | 8 058 | 42 801 | 1 404 | 50.00 | 12 557 |
| Pirelli Pekao Real Estate Sp. z o.o. | Warsaw | Real estate development | 30 902 | 11 064 | 5 787 | (15 609) | 25.00 | 8 858 |
| CPF Management | Tortola, British Virgin Islands | Advisory services– currently does not provide its services | - | - | - | - | 40.00 | - |
| Cental Poland Fund LLC (**) | Wilmington, Delaware, USA | Investment Fund | 1 021 | 46 | - | (28) | 53.19 | 1 060 |
| 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** | | | | | | | | **39 345** |

(*) Data available as at the reporting date
(**) Amounts in USD as at 19.12.2011, the carrying amount in PLN.

# Notes to financial statements (cont.)

(In PLN thousand)

Changes in investment in associates

| | 2012 | 2011 |
|---|---|---|
| **Opening balance** | **39 345** | **39 345** |
| Increases | - | - |
| Decreases | (9 918) | - |
| sale | (8 858) | - |
| liquidation | (1 060) | - |
| **Closing balance** | **29 427** | **39 345** |

The structure of investments in associates

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Investment in associates, including: | | |
| banks | - | - |
| other financial institutions | 29 427 | 30 487 |
| non-financial institutions | - | 8 858 |
| **Total** | **29 427** | **39 345** |

As at 31 December 2012 and 31 December 2011, the Bank did not have the investment in entities under common control.

## 31. Intangible assets

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Intangible assets, including: | 592 770 | 624 072 |
| research and development expenditures | 15 858 | 19 543 |
| licenses and patents | 433 688 | 454 212 |
| other | 2 460 | 3 811 |
| expenditures on intangible assets and advances to expenditures on intangible assets | 140 764 | 146 506 |
| Goodwill | 51 675 | 51 675 |
| **Total** | **644 445** | **675 747** |

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

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

At 31 December 2012 the Bank carried out a test for impairment of PKBL. The impairment was not recognized.

# Notes to financial statements (cont.)

(In PLN thousand)

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

| 2012 | RESEARCH AND DEVELOPMENT COSTS | LICENSES AND PATENTS | OTHER (*) | TOTAL |
|---|---|---|---|---|
| GROSS VALUE | | | | |
| **Opening balance** | **89 104** | **1 744 481** | **184 595** | **2 018 180** |
| Increases, including: | 1 848 | 106 863 | 105 754 | 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) | (110 957) | (115 665) |
| liquidation | (18) | (4 491) | (45) | (4 554) |
| other | - | (199) | (110 912) | (111 111) |
| **Closing balance** | **90 934** | **1 846 654** | **179 392** | **2 116 980** |
| ACCUMULATED AMORTIZATION | | | | |
| **Opening balance** | **69 561** | **1 290 269** | **23 317** | **1 383 147** |
| Amortization for the period | 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 DEDUCTIONS | | | | |
| **Opening balance** | **-** | **-** | **10 961** | **10 961** |
| **Closing balance** | **-** | **-** | **10 961** | **10 961** |
| NET VALUE | | | | |
| **Opening balance** | **19 543** | **454 212** | **150 317** | **624 072** |
| **Closing balance** | **15 858** | **433 688** | **143 224** | **592 770** |

(*)The item covers mainly investment outlays.

# Notes to financial statements (cont.)

(In PLN thousand)

| 2011 | RESEARCH AND DEVELOPMENT COSTS | LICENSES AND PATENTS | OTHER (*) | TOTAL |
|---|---|---|---|---|
| GROSS VALUE | | | | |
| **Opening balance** | **87 874** | **1 560 794** | **231 314** | **1 879 982** |
| Increases, including: | 1 230 | 184 528 | (35 592) | 150 166 |
| acquisitions | - | 67 | 147 740 | 147 807 |
| other | - | 287 | 2 072 | 2 359 |
| transfer from investments outlays | 1 230 | 184 174 | (185 404) | - |
| Decreases, including: | - | (841) | (11 127) | (11 968) |
| liquidation | - | (841) | - | (841) |
| other | - | - | (11 127) | (11 127) |
| **Closing balance** | **89 104** | **1 744 481** | **184 595** | **2 018 180** |
| ACCUMULATED AMORTIZATION | | | | |
| **Opening balance** | **64 019** | **1 164 625** | **20 700** | **1 249 344** |
| Amortization for the period | 5 542 | 126 154 | 2 617 | 134 313 |
| Liquidation | - | (789) | - | (789) |
| Other | - | 279 | - | 279 |
| **Closing balance** | **69 561** | **1 290 269** | **23 317** | **1 383 147** |
| IMPAIRMENT DEDUCTIONS | | | | |
| **Opening balance** | **-** | **-** | **10 961** | **10 961** |
| **Closing balance** | **-** | **-** | **10 961** | **10 961** |
| NET VALUE | | | | |
| **Opening balance** | **23 855** | **396 169** | **199 653** | **619 677** |
| **Closing balance** | **19 543** | **454 212** | **150 317** | **624 072** |

(*)The item covers mainly investment outlays.

In 2012 and in 2011 there have been no restrictions to legal titles to intangible assets pledged as collateral.

# Notes to financial statements (cont.)

(In PLN thousand)

## 32. Property, plant and equipment

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Non-current assets, including: | 1 551 499 | 1 649 895 |
| land and buildings | 1 160 061 | 1 211 810 |
| machinery and equipment | 319 703 | 358 435 |
| transport vehicles | 37 595 | 44 810 |
| other | 34 140 | 34 840 |
| Non-current assets in progress and prepayments for non-current assets under construction | 90 641 | 86 233 |
| **Total** | **1 642 140** | **1 736 128** |

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

| 2012 | LANDS AND BUILDINGS | MACHINERY AND EQUIPMENT | MEANS OF TRANSPORTATION | OTHER | TOTAL |
|---|---|---|---|---|---|
| GROSS VALUE | | | | | |
| **Opening balance** | **2 246 310** | **1 491 350** | **73 000** | **350 336** | **4 160 996** |
| Increases, including: | 42 366 | 75 234 | 8 681 | 7 660 | 133 941 |
| acquisitions | - | - | - | - | - |
| transfer from non-current assets under construction | 42 366 | 74 950 | - | 7 593 | 124 909 |
| other | - | 284 | 8 681 | 67 | 9 032 |
| Decreases, including: | (61 337) | (88 723) | (9 940) | (17 378) | (177 378) |
| 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) | (3 181) |
| **Closing balance** | **2 227 339** | **1 477 861** | **71 741** | **340 618** | **4 117 559** |
| 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 for the period | 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 DEDUCTIONS | | | | | |
| **Opening balance** | **35** | **7 350** | **49** | **448** | **7 882** |
| Increases | 957 | 138 | - | - | 1 095 |
| Decreases | - | (1 531) | (32) | (20) | (1 583) |
| **Closing balance** | **992** | **5 957** | **17** | **428** | **7 394** |
| NET VALUE | | | | | |
| **Opening balance** | **1 211 810** | **358 435** | **44 810** | **34 840** | **1 649 895** |
| **Closing balance** | **1 160 061** | **319 703** | **37 595** | **34 140** | **1 551 499** |

# Notes to financial statements (cont.)

(In PLN thousand)

| 2011 | LANDS AND BUILDINGS | MACHINERY AND EQUIPMENT | MEANS OF TRANSPORTATION | OTHER | TOTAL |
|---|---|---|---|---|---|
| GROSS VALUE | | | | | |
| **Opening balance** | **2 216 815** | **1 420 854** | **76 328** | **353 911** | **4 067 908** |
| Increases, including: | 56 108 | 161 767 | 15 397 | 16 714 | 249 986 |
| acquisitions | - | - | - | - | - |
| transfer from non-current assets under construction | 43 407 | 161 360 | - | 16 258 | 221 025 |
| other | 12 701 | 407 | 15 397 | 456 | 28 961 |
| Decreases, including: | (26 613) | (91 271) | (18 725) | (20 289) | (156 898) |
| liquidation and sale | (26 354) | (91 046) | (18 725) | (19 963) | (156 088) |
| transfer to non-current assets held for sale | - | - | - | (109) | (109) |
| other | (259) | (225) | - | (217) | (701) |
| **Closing balance** | **2 246 310** | **1 491 350** | **73 000** | **350 336** | **4 160 996** |
| ACCUMULATED DEPRECIATION | | | | | |
| **Opening balance** | **981 019** | **1 101 925** | **33 025** | **326 517** | **2 442 486** |
| Increases, including: | 77 391 | 113 937 | 13 090 | 8 551 | 212 969 |
| depreciation for the period | 75 547 | 113 094 | 12 898 | 8 044 | 209 583 |
| other | 1 844 | 843 | 192 | 507 | 3 386 |
| Decreases, including: | (23 945) | (90 297) | (17 974) | (20 020) | (152 236) |
| liquidation and sale | (23 881) | (90 136) | (17 974) | (19 699) | (151 690) |
| transfer to non-current assets held for sale | - | - | - | (109) | (109) |
| other | (64) | (161) | - | (212) | (437) |
| **Closing balance** | **1 034 465** | **1 125 565** | **28 141** | **315 048** | **2 503 219** |
| IMPAIRMENT DEDUCTIONS | | | | | |
| **Opening balance** | **35** | **6 626** | **235** | **509** | **7 405** |
| Increases | - | 1 307 | - | - | 1 307 |
| Decreases | - | (583) | (186) | (61) | (830) |
| **Closing balance** | **35** | **7 350** | **49** | **448** | **7 882** |
| NET VALUE | | | | | |
| **Opening balance** | **1 235 761** | **312 303** | **43 068** | **26 885** | **1 618 017** |
| **Closing balance** | **1 211 810** | **358 435** | **44 810** | **34 840** | **1 649 895** |

As at 31 December 2012, the amount of expenditures in the item ‘property, plant and equipment under construction’ stood at PLN 90 640 thousand (PLN 86 233 thousand as at 31 December 2011).

The amount of compensations received from third parties for impairment of loss of property, plant and equipment items recognized in the income statement for 2012 stood at PLN 1 415 thousand (PLN 1 148 thousand in 2011).

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

**Contractual liabilities**

As at 31 December 2012, the Bank signed agreements with counterparties for the future purchase of intangible assets totaling PLN 41 480 thousand, including PLN 23 780 thousand in 2013 and property, plant and equipment totaling PLN 64 840 thousand, including PLN 27 512 thousand in 2013 (as at 31 December 2011, the Bank signed agreements with counterparties for the future purchase of intangible assets totaling PLN 46 147 thousand, including PLN 46 147 thousand in 2012 and property, plant and equipment totaling PLN 16 556 thousand, including PLN 14 882 thousand in 2012).

(In PLN thousand)

## 33. 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

| | 2012 | 2011 |
|---|---|---|
| GROSS VALUE | | |
| **Opening balance** | **100 851** | **95 430** |
| Increases, including: | 1 832 | 5 421 |
| acquisitions | 1 812 | - |
| transfer from property plant and equipment | - | 95 |
| other | 20 | 5 326 |
| Decreases, including: | (51 542) | - |
| transfer to non-current assets held for sale | (48 704) | - |
| other | (2 838) | - |
| **Closing balance** | **51 141** | **100 851** |
| ACCUMULATED DEPRECIATION | | |
| **Opening balance** | **41 523** | **37 006** |
| Increases, including: | 2 876 | 4 824 |
| acquisitions | 2 587 | 2 622 |
| transfer from property plant and equipment | - | - |
| other | 289 | 2 202 |
| Decreases, including: | (23 483) | (307) |
| transfer to non-current assets held for sale | (21 380) | - |
| other | (2 103) | (307) |
| **Closing balance** | **20 916** | **41 523** |
| IMPAIRMENT DEDUCTIONS | | |
| **Opening balance** | **550** | **550** |
| Decreases, including: | 1 604 | - |
| transfer to non-current assets held for sale | 1 604 | - |
| **Closing balance** | **2 154** | **550** |
| NET VALUE | | |
| **Opening balance** | **58 778** | **57 874** |
| **Closing balance** | **28 071** | **58 778** |

The fair value of investment property as at 31 December 2012 stood at PLN 47 761 thousand (PLN 109 440 thousand as at 31 December 2011). Fair value was made on the assessment of a property surveyor holding a recognized and relevant professional qualification.

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

| | 2012 | 2011 |
|---|---|---|
| Rental revenues from investment properties | 4 121 | 4 318 |
| Direct operating expenses associated with investment properties (including repair and maintenance costs) which generated rental revenues during the reporting period | (1 149) | (1 109) |
| Direct operating expenses associated with investment properties (including repair and maintenance costs) which did not generate rental revenues during the reporting period | - | - |

(In PLN thousand)

## 34. Other assets

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Prepaid expenses | 32 935 | 43 879 |
| Perpetual usufruct rights | 15 965 | 38 807 |
| Accrued income | 39 265 | 47 202 |
| Interbank and interbranch settlements | 3 821 | 176 |
| Other debtors | 1 521 244 | 1 076 296 |
| Assets for sale | 279 | 6 |
| **Total** | **1 613 509** | **1 206 366** |

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

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

The 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.

## 35. Assets pledged as collateral

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

| TYPE OF TRANSACTION | PLEDGE INSTRUMENT | CARRYING AMOUNT OF ASSETS USED TO PLEDGE LIABILITIES | NOMINAL VALUE OF ASSETS USED TO PLEDGE LIABILITIES | VALUE OF LIABILITIES SUBJECT TO PLEDGE |
|---|---|---|---|---|
| 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 |

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

| TYPE OF TRANSACTION | PLEDGE INSTRUMENT | CARRYING AMOUNT OF ASSETS USED TO PLEDGE LIABILITIES | NOMINAL VALUE OF ASSETS USED TO PLEDGE LIABILITIES | VALUE OF LIABILITIES SUBJECT TO PLEDGE |
|---|---|---|---|---|
| Repo transactions | bonds | 4 064 582 | 4 125 831 | 4 064 362 |
| Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund | bonds | 588 241 | 560 000 | - |
| Lombard and technical loan | bonds | 6 959 866 | 6 903 947 | - |
| Other loans | bonds | 486 111 | 500 000 | 334 328 |

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 PLN thousand)

## 36. Amounts due to other banks

Amounts due to other banks by product type

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Current accounts and overnight deposits | 1 284 561 | 619 609 |
| Deposits from other banks and other liabilities | 1 241 498 | 339 983 |
| Loans and advances received | 1 127 892 | 1 203 098 |
| Repo transactions | 2 608 219 | 1 882 259 |
| Interest accrued | 2 646 | 2 683 |
| Funds in transit | 40 862 | 24 777 |
| **Total** | **6 305 678** | **4 072 409** |

Amounts due to other banks by currencies

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| PLN | 3 694 978 | 1 673 660 |
| CHF | 407 738 | 459 105 |
| EUR | 1 817 817 | 1 320 504 |
| USD | 271 537 | 570 172 |
| Other currencies | 113 608 | 48 968 |
| **Total** | **6 305 678** | **4 072 409** |

## 37. Amounts due to customers

Amounts due to customers by entity and product type

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Amounts due to corporate, including: | 49 159 989 | 50 506 551 |
| current accounts and overnight deposits | 20 379 338 | 18 690 659 |
| term deposits and other liabilities | 28 669 627 | 31 711 630 |
| interest accrued | 111 024 | 104 262 |
| Amounts due to budget entities, including: | 5 642 413 | 5 384 833 |
| current accounts and overnight deposits | 4 611 350 | 3 712 079 |
| term deposits and other liabilities | 1 027 635 | 1 665 302 |
| interest accrued | 3 428 | 7 452 |
| Amounts due to individuals, including: | 48 059 100 | 47 140 036 |
| current accounts and overnight deposits | 25 723 129 | 26 362 287 |
| term deposits and other liabilities | 22 084 160 | 20 588 364 |
| interest accrued | 251 811 | 189 385 |
| Repo transactions, including: | 5 104 425 | 4 615 494 |
| forward transactions | 5 099 736 | 4 609 733 |
| interest accrued | 4 689 | 5 761 |
| Funds in transit | 138 587 | 357 831 |
| **Total** | **108 104 514** | **108 004 745** |

# Notes to financial statements (cont.)

(In PLN thousand)

Amounts due to customers by currencies

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| PLN | 92 133 352 | 89 248 171 |
| CHF | 187 028 | 167 282 |
| EUR | 9 322 700 | 8 968 840 |
| USD | 5 871 802 | 8 206 572 |
| Other currencies | 589 632 | 1 413 880 |
| **Total** | **108 104 514** | **108 004 745** |

## 38. Debt securities issued

Debt securities issued by type

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Bonds | - | 2 |
| Certificates of deposit | 3 907 679 | 2 390 059 |
| Interest accrued | 58 469 | 12 553 |
| **Total** | **3 966 148** | **2 402 614** |

There have been no instances of default on repayment of principal or interest or redemption of its own securities by the Bank.

Debt securities issued by currencies

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| PLN | 3 926 786 | 2 359 283 |
| EUR | 17 138 | 18 590 |
| USD | 22 224 | 24 741 |
| **Total** | **3 966 148** | **2 402 614** |

Changes in debt securities issued

| | 2012 | 2011 |
|---|---|---|
| **Opening balance** | **2 402 614** | **737 800** |
| Increase (issuance) | 4 941 669 | 2 075 162 |
| Decrease (repurchase) | (3 217 217) | (389 942) |
| Decrease (partial payment) | (222 870) | (23 554) |
| Foreign currency exchange differences | (3 673) | 6 598 |
| Other changes | 65 625 | (3 450) |
| **Closing balance** | **3 966 148** | **2 402 614** |

# Notes to financial statements (cont.)

(In PLN thousand)

## 39. Provisions

Roll-forward of provisions in the reporting period

| 2012 | PROVISIONS FOR LITIGATION AND CLAIM | PROVISONS FOR RETIREMENT BENEFITS | 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 |

| 2011 | PROVISIONS FOR LITIGATION AND CLAIM | PROVISONS FOR RETIREMENT BENEFITS | PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED | OTHER PROVISIONS | TOTAL |
|---|---|---|---|---|---|
| **Opening balance** | **40 809** | **125 618** | **128 492** | **36 945** | **331 864** |
| Provision charges/revaluation | 6 226 | 29 177 | 51 967 | 19 341 | 106 711 |
| Provision utilization | - | - | - | (22 087) | (22 087) |
| Provision releases | (1 120) | - | (69 772) | - | (70 892) |
| Foreign currency exchange differences | 79 | - | 7 152 | 401 | 7 632 |
| Other changes | (1 198) | (7 157) | - | 495 | (7 860) |
| **Closing balance** | **44 796** | **147 638** | **117 839** | **35 095** | **345 368** |
| **Short term** | 10 739 | 8 764 | 89 635 | 12 463 | 121 601 |
| **Long term** | 34 057 | 138 874 | 28 204 | 22 632 | 223 767 |

### Litigation provision

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

### Provisions for retirement benefits

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

### Other provisions

Other provisions include in particular provisions for employee incentive programs and provisions for employment restructuring concerning planned liquidation of the Branch in Paris.

# Notes to financial statements (cont.)

(In PLN thousand)

## 40. Other liabilities

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Deferred income | 135 828 | 142 999 |
| Provisions for holiday leave | 50 009 | 50 187 |
| Provisions for other employee-related liabilities | 149 677 | 179 976 |
| Provisions for administrative costs | 45 937 | 34 554 |
| Other costs to be paid | 30 356 | 19 528 |
| Other creditors | 407 364 | 460 966 |
| Interbank and interbranch settlements | 592 622 | 1 101 106 |
| **Total** | **1 411 793** | **1 989 316** |

## 41. Share-based payment

**Incentive program of Bank Pekao S.A.**

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

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

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

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

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

# Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

**The UniCredit Group incentive program**

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

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

The fair value of share options and performance shares of UniCredit S.p.A. were established following the Hull and White model.

The fair value of the pre-emptive rights to embrace the shares of the Bank's parent entity granted until 31 December 2012 amounted to PLN 4 883 thousand as at 31 December 2012. It is amortized over the vesting period.

The year 2012 personnel expenses increased by the amount of PLN 2 757 thousand with respect to that (in 2011 - PLN 8 627 thousand).

# Notes to financial statements (cont.)

(In PLN thousand)

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

| 2012 | STOCK OPTIONS | | PERFORMANCE SHARES | |
|---|---|---|---|---|
| | NUMBER | WEIGHTED AVERAGE EXECUTION PRICE (*) | NUMBER | WEIGHTED AVERAGE EXECUTION PRICE |
| Opening balance | 6 078 748 | 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 applies to the stock options program of UniCredit S.p.A. in 2011, for stock options program in 2008 it amounts to PLN 17.11, and for 2007 – PLN 29.00.

| 2011 | STOCK OPTIONS | | PERFORMANCE SHARES | |
|---|---|---|---|---|
| | NUMBER | WEIGHTED AVERAGE EXECUTION PRICE (*) | NUMBER | WEIGHTED AVERAGE EXECUTION PRICE |
| Opening balance | 2 503 578 | 7.98/18.48/31.33 | 852 083 | - |
| Granted during the year | 3 797 929 | - | 2 002 911 | - |
| Redeemed during the year | 222 759 | 7.98/18.48/31.33 | 195 168 | - |
| Exercised during the year | - | - | 95 534 | - |
| Terminated during the year | - | - | - | - |
| Existing at the period-end | 6 078 748 | 7.98/18.48/31.33 | 2 564 292 | - |
| Existing at the period-end – after reverse stock split (**) | - | - | 256 381 | - |
| Executable at the period-end | - | - | - | - |

(*) The value of PLN 7.98 applies to the stock options program of UniCredit S.p.A. in 2011, for stock options program in 2008 it amounts to PLN 18.48, and for 2007 – PLN 31.33.

(**) In December 2011 UniCredit S.p.A. finished the process of reverse stock split, in a result of which the number of shares was recalculated in ratio of 10 for 1, rounded down to an integer.

**System of Variable Remuneration for the Management Team**

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

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

# Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

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

(In PLN thousand)

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

| | 2012 | 2011 |
|---|---|---|
| Opening balance | - | - |
| Granted during the year | 87 901 | - |
| Redeemed during the year | - | - |
| Exercised during the year | - | - |
| Terminated during the year | - | - |
| Existing at the period-end | 87 901 | - |

The table above does not present the number of shares granted in respect of System 2012. This number will be determined in 2013 after approval of the financial statements for 2012 by the General Shareholder's Meeting. The hypothetical number of shares determined on the basis of the base value of the granted bonus to each of the program participants and arithmetic mean of the Bank's share price on the WSE in December 2012 amounts to 72 936.

# 42. Operating and finance leases

**Operating and finance leases**

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:

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Up to one year | 11 113 | 12 465 |
| Between 1 and 5 years | 5 252 | 10 888 |
| Over 5 years | 626 | 204 |
| **Total** | **16 991** | **23 557** |

The amount of the minimum operating lease payments classified as income in 2012 amounted to PLN 30 842 thousand (PLN 31 053 thousand in 2011).

**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:

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Up to one year | 128 082 | 136 503 |
| Between 1 and 5 years | 236 667 | 269 881 |
| Over 5 years | 208 474 | 257 250 |
| **Total** | **573 223** | **663 634** |

The amount of the minimum operating lease payments recognized as an expense in 2012 amounted to PLN 212 788 thousand (expense in 2011 amounted to PLN 206 671 thousand).

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

(In PLN thousand)

**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 2012 amounted to PLN 37 588 thousand and as at 31 December 2011 amounted to PLN 44 809 thousand.

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Gross liabilities on finance leases | 58 381 | 61 492 |
| Unrealized financial costs | (17 027) | (15 191) |
| **Present value of minimum lease payments** | **41 354** | **46 301** |

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

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Up to one year | 27 262 | 27 618 |
| Between 1 and 5 years | 31 119 | 33 874 |
| Over 5 years | - | - |
| **Total** | **58 381** | **61 492** |

## 43. Contingent liabilities

**Litigation**

As at 31 December 2012, there were no court or administrative proceedings held by public administration bodies in relation to liabilities or receivables of the Bank or its subsidiaries, with the claim amount (for cash payment) for at least 10% of the Bank's equity.

In 2012 the total value of legal proceedings against the Bank amounted to PLN 18 710 321 thousand (as at 31 December 2011 PLN 18 717 976 thousand).

The most significant legal proceedings against the Bank as at 31 December 2012 are described below:

- Legal proceeding resulting from minority shareholder lawsuit to repeal resolution No 8 and No 24 of the Annual General Meeting of 19 April 2011 on the approval of the Pekao Group consolidated financial statements for 2010 and acknowledgement of the fulfillment of duties by one of the members of the Management Board in 2010. Indicated by the plaintiff amount in dispute amounts to PLN 18 000 000 thousand. In the opinion of the Bank both the claim and amount in dispute are groundless,
- Claim against the Bank and Centralny Dom Maklerski Pekao S.A. lodged by private individuals, which relates to the alleged damage arising as a result of shares purchased and execution process. The total amount in dispute is PLN 306 622 thousand. In the opinion of the Bank the suit and amount in dispute are groundless.

As at 31 December 2012, the Bank created provisions for litigation against the 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 2012 amounted to PLN 55 043 thousand (as at 31 December 2011 PLN 44 796 thousand).

**Financial commitments**

Financial commitments by entities

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Financial commitments to: | | |
| financial entities | 2 126 701 | 3 696 942 |
| non - financial entities | 20 687 992 | 22 420 059 |
| budget entities | 744 940 | 847 426 |
| **Total** | **23 559 633** | **26 964 427** |

# Notes to financial statements (cont.)

(In PLN thousand)

**Guarantees**

Guarantees by entities

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Liabilities to financial entities, including: | 1 612 457 | 1 551 792 |
| guarantees | 1 597 997 | 1 539 456 |
| confirmed export letters of credit | 14 460 | 12 336 |
| Liabilities to non-financial entities, including: | 9 274 400 | 7 631 006 |
| guarantees | 5 497 004 | 6 274 776 |
| securities' underwriting guarantees | 3 775 430 | 1 356 230 |
| sureties | 1 966 | - |
| Liabilities to budget entities, including: | 69 594 | 88 852 |
| guarantees | 3 094 | 10 252 |
| securities' underwriting guarantees | 66 500 | 78 600 |
| **Total** | **10 956 451** | **9 271 650** |

**Securities underwriting**

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 not subject to regulated over-the-counter trading.

# Notes to financial statements (cont.)

(In PLN thousand)

As at 31 December 2011, 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 | 61 540 | 26.03.10 - 30.04.12 |
| Client 1 | bonds | 14 550 | 27.10.10 - 30.04.12 |
| Client 3 | bonds | 6 640 | 31.05.10 - 28.02.12 |
| Client 4 | bonds | 608 000 | 23.07.10 - 30.06.15 |
| Client 5 | bonds | 410 900 | 15.11.10 - 31.10.13 |
| Client 6 | bonds | 25 200 | 16.12.10 - 30.12.17 |
| Client 7 | bonds | 43 180 | 04.04.11 - 31.12.12 |
| Client 8 | bonds | 101 970 | 25.08.11 - 30.06.13 |
| Client 9 | bonds | 48 000 | 22.08.11 - 31.12.13 |
| Client 10 | bonds | 14 500 | 19.08.11 - 30.12.13 |
| Client 11 | bonds | 30 600 | 27.09.11 - 31.12.12 |
| Client 12 | bonds | 63 750 | 20.12.11 - 30.03.13 |
| Client 13 | bonds | 6 000 | 20.12.11 - 31.03.13 |

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

**Off - Balance Sheet commitments received**

Off – Balance Sheet commitments by entities

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Financial commitments from: | 894 798 | 2 768 300 |
| financial entities | 894 798 | 2 768 300 |
| non - financial entities | - | - |
| budget entities | - | - |
| Guarantees from: | 7 123 202 | 9 019 291 |
| financial entities | 476 759 | 570 947 |
| non - financial entities | 5 948 881 | 5 669 220 |
| budget entities | 697 562 | 2 779 124 |
| **Total** | **8 018 000** | **11 787 591** |

Additionally, the Bank can to obtain financing from the National Bank of Poland pledged on securities.

# Notes to financial statements (cont.)

(In PLN thousand)

## 44. 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<br>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):

| 2012 | ISSUED AND FULLY PAID-UP SHARES | TOTAL |
|---|---|---|
| **Opening balance** | **262 382 129** | **262 382 129** |
| Issue of G- Class shares (realization of the Bank's program of management share option plan) | 87 905 | 87 905 |
| **Closing balance** | **262 470 034** | **262 470 034** |

| 2011 | ISSUED AND FULLY PAID-UP SHARES | TOTAL |
|---|---|---|
| **Opening balance** | **262 364 326** | **262 364 326** |
| Issue of G- Class shares (realization of the Bank's program of management share option plan) | 17 803 | 17 803 |
| **Closing balance** | **262 382 129** | **262 382 129** |

(In PLN thousand)

# 45. Other capital and reserves, retained earnings and profit for the period

The table below presents the structure of the Bank's equity:

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Reserve capital, including: | 9 326 529 | 9 315 808 |
| issue of shares above face value | 9 137 221 | 9 126 501 |
| other | 189 308 | 189 307 |
| Revaluation reserve, including: | 519 525 | (63 923) |
| revaluation of financial assets portfolio available for sale | 703 994 | (56 597) |
| deferred tax | (133 759) | 10 753 |
| revaluation of financial hedging instruments portfolio | (64 318) | (24 200) |
| deferred tax | 12 220 | 4 598 |
| foreign currency translation differences | 1 388 | 1 523 |
| General Banking Risk Fund | 1 737 850 | 1 537 850 |
| Other reserve capital | 8 073 570 | 6 859 286 |
| Bonds convertible into shares- capital component | 32 734 | 38 355 |
| Provisions for liabilities from dominant entity shares buyout – capital element | 5 907 | 7 531 |
| Funds for brokerage activities | 15 000 | 15 000 |
| **Total other capital** | **19 711 115** | **17 709 907** |
| Profit (loss) from previous periods | - | - |
| Net profit for the period | 2 938 155 | 2 826 373 |
| **Total** | **22 649 270** | **20 536 280** |

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.

# 46. Additional information to the cash flow statement

### Cash and cash equivalents

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Cash and amounts due from Central Bank | 9 207 268 | 4 886 074 |
| Loans and receivables from banks with maturity up to 3 months | 3 612 212 | 5 375 070 |
| **Cash and Cash equivalents presented in the cash flow statement** | **12 819 480** | **10 261 144** |

Restricted availability cash and cash equivalents as at 31 December 2012 amounted to PLN 3 601 110 thousand (PLN 3 469 124 thousand as at 31 December 2011).

# Notes to financial statements (cont.)

(In PLN thousand)

## 47. Related party transactions

Bank Pekao S.A. is a parent entity of Bank Pekao S.A. Group while UniCredit S.p.A. is a parent entity of the Bank. All of the transactions between the Bank and related parties were routine transactions, carried out in the ordinary course of operations and encompassed mainly loans, deposits and foreign currency transactions

**The credit granting process applicable to the Bank's management and entities related to the Bank**
According to the Banking Act and UniCredit Group internal regulations, credit transactions with Members of the Bank Management Board and Supervisory Board, persons holding managerial positions at the Bank, with the entities related financially or organizationally therewith, as well as with persons being 'corporate officers' of UniCredit Group shall be effected in compliance with the By-Laws, adopted by the Bank Supervisory Board.

The By-Laws provide detailed decision-making procedures, applicable to transactions with such persons and entities, also defining the decision-making levels, authorized to take decisions and their respective scopes of competence. In particular, transactions with Members of the Bank Management Board or Supervisory Board or with an entity related therewith financially or organizationally, are subject to decisions taken by the Bank Management Board and Supervisory Board.

Members of the Bank Management and entities related therewith financially or organizationally may take advantage of credit products offered by the Bank on standard terms and conditions of the Bank. In particular, the Bank may not offer more advantageous credit interest rates to such persons or entities.

Credit risk assessment is effected using the methodology applied by the Bank, in compliance with the client's segment and type of transaction.

In case of entities related to the Bank, standard credit procedures are applied, with transaction-related decisions taken exclusively at level of the Bank Head Office.

# Notes to financial statements (cont.)

(In PLN thousand)

**Related party transactions**

The table below presents 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 |
|---|---|---|---|---|---|---|---|
| **Bank's parent entity** | | | | | | | |
| UniCredit S.p.A. | 424 449 | - | - | 588 | 57 621 | - | 9 744 |
| Entities of UniCredit Group exclusive 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. (ex. Xelion. Doradcy Finansowi Sp. z o.o.) | - | - | - | 6 | 8 155 | - | 12 |
| Pioneer Pekao Investment Management S.A. | - | - | - | 81 | 142 481 | - | 19 |
| Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.) | 2 | - | - | 17 630 | 103 914 | - | 21 |
| Krajowa Izba Rozliczeniowa S.A. | - | - | - | - | 19 700 | - | - |
| **Total 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 Staff of the Bank | 7 360 | - | - | - | 12 674 | - | - |
| **Total** | **4 551 307** | **101 571** | **376 997** | **30 344** | **2 543 152** | **937 996** | **25 031** |

# Notes to financial statements (cont.)

(In PLN thousand)

## Receivables from loans and deposits by maturity dates

| 31.12.2012 | CURRENT (*) | UP TO 1 MONTH | BETWEEN 1 AND 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 1AND 5 YEARS | OVER 5 YEARS | INTEREST | TOTAL |
|---|---|---|---|---|---|---|---|---|
| UniCredit S.p.A. – parent entity | 424 449 | - | - | - | - | - | - | 424 449 |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities | 772 809 | 1 387 | 671 | 1 497 | 40 882 | - | 323 | 817 569 |
| Bank Pekao S.A. Group entities | | | | | | | | |
| Subsidiaries | 345 682 | 25 190 | 1 015 637 | 886 514 | 989 948 | 36 967 | 1 989 | 3 301 927 |
| Associates | - | - | - | - | 2 | - | - | 2 |
| Key management Staff of the Bank | - | 6 948 | - | 6 | 35 | 369 | 2 | 7 360 |
| **Total** | **1 542 940** | **33 525** | **1 016 308** | **888 017** | **1 030 867** | **37 336** | **2 314** | **4 551 307** |

(*) Current receivables include Nostro and cash flow hedge accounts.

## Liabilities due to loans and deposits by maturity dates

| 31.12.2012 | CURRENT (*) | UP TO 1 MONTH | BETWEEN 1 AND 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 1AND 5 YEARS | OVER 5 YEARS | INTEREST | TOTAL |
|---|---|---|---|---|---|---|---|---|
| UniCredit S.p.A. – parent entity | 57 621 | - | - | - | - | - | - | 57 621 |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities | 288 610 | 241 620 | - | 250 065 | - | - | 255 | 780 550 |
| Bank Pekao S.A. Group entities | | | | | | | | |
| Subsidiaries | 850 435 | 442 294 | 13 931 | 93 234 | 17 407 | - | 756 | 1 418 057 |
| Associates | 7 711 | 81 828 | 43 100 | 140 500 | - | - | 1 111 | 274 250 |
| Key management Staff of the Bank | 487 | 10 039 | 34 | 2 054 | - | - | 60 | 12 674 |
| **Total** | **1 204 864** | **775 781** | **57 065** | **485 853** | **17 407** | **-** | **2 182** | **2 543 152** |

(*) Current liabilities include Loro and current account of other entities

# Notes to financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currencies

| 31.12.2012 | EUR | USD | CHF | PLN | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| UniCredit S.p.A. – parent entity. | 365 734 | 58 715 | - | - | - | 424 449 |
| Entities of UniCredit Group exclusive 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 Staff of the Bank | - | - | - | 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 currencies

| 31.12.2012 | EUR | USD | CHF | PLN | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| UniCredit S.p.A. – parent entity | - | - | - | 57 621 | - | 57 621 |
| Entities of UniCredit Group exclusive 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 Staff of the Bank | 539 | 515 | - | 11 617 | 3 | 12 674 |
| **Total** | **58 830** | **36 294** | **745** | **2 442 465** | **4 818** | **2 543 152** |

# Notes to financial statements (cont.)

(In PLN thousand)

Related party transactions as at 31 December 2011

| 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 |
|---|---|---|---|---|---|---|---|
| **Bank's parent entity** | | | | | | | |
| UniCredit S.p.A. | 113 892 | - | - | - | 58 584 | - | 17 065 |
| Entities of UniCredit Group exclusive of Pekao S.A. Group entities | 851 220 | - | 261 211 | 2 598 | 1 999 647 | 1 025 915 | 112 |
| **Bank Pekao S.A. Group entities** | | | | | | | |
| **Subsidiaries** | | | | | | | |
| Public Joint Stock Company UniCredit Bank | 1 422 603 | - | - | - | 133 | - | 1 342 |
| Pekao Leasing Sp. z o.o. | 1 290 318 | - | 765 | 100 | 37 928 | 2 | 438 |
| Pekao Faktoring Sp. z o.o. | 742 828 | - | - | 26 | 2 587 | - | - |
| Centralny Dom Maklerski Pekao S.A. | - | - | - | 760 | 690 461 | - | 310 |
| Pekao Fundusz Kapitałowy Sp. z o.o. | - | - | - | - | 47 606 | - | - |
| Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. | - | - | - | 102 | 9 949 | - | - |
| Pekao Telecentrum Sp. z o.o. | - | - | - | - | 9 790 | - | - |
| Centrum Kart S.A. | - | - | - | 28 | 30 955 | - | 8 927 |
| Pekao Financial Services Sp. z o. o. | - | - | - | 4 | 4 449 | - | - |
| Pekao Bank Hipoteczny S.A. | 101 060 | 166 507 | 95 937 | - | 29 318 | 50 | 70 |
| Pekao Leasing Holding S.A. | - | - | - | - | 100 | - | - |
| Property Sp. z o.o. (in liquidation) | - | - | - | 6 230 | 3 229 | - | - |
| Holding Sp. z o. o. (in liquidation) | - | - | - | - | 296 | - | - |
| Pekao Property S.A. | - | - | - | - | 534 | - | - |
| Centrum Bankowości Bezpośredniej Sp. z o.o. | - | - | - | 1 385 | 5 329 | - | 4 722 |
| Jana Kazimierza Development Sp. z o.o. | 28 207 | - | - | - | 2 701 | - | - |
| Metropolis Sp. z o.o. | - | - | - | - | 447 | - | - |
| FPB - Media Sp. z o.o. | 13 964 | - | - | - | 137 | - | - |
| **Associates** | | | | | | | |
| Pirelli Pekao Real Estate Sp. z o.o. | - | - | - | - | 4 109 | - | - |
| Xelion. Doradcy Finansowi Sp. z o.o. | - | - | - | 45 | 9 512 | - | - |
| Pioneer Pekao Investment Management S.A. | - | - | - | 49 | 3 719 | - | - |
| Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.) | - | - | - | 12 048 | 14 896 | - | - |
| Krajowa Izba Rozliczeniowa S.A. | - | - | - | 2 | 26 231 | - | 3 |
| **Total of Bank Pekao S.A. Group entities** | **3 598 980** | **166 507** | **96 702** | **20 779** | **934 416** | **52** | **15 812** |
| Key management Staff of the Bank | 3 489 | - | - | - | 12 873 | - | - |
| **Total** | **4 567 581** | **166 507** | **357 913** | **23 377** | **3 005 520** | **1 025 967** | **32 989** |

# Notes to financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by maturity dates

| 31.12.2011 | CURRENT (*) | UP TO 1 MONTH | BETWEEN 1 AND 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 1AND 5 YEARS | OVER 5 YEARS | INTEREST | TOTAL |
|---|---|---|---|---|---|---|---|---|
| UniCredit S.p.A. – parent entity | 113 892 | - | - | - | - | - | - | 113 892 |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities | 795 624 | 974 | 1 040 | 8 928 | 44 168 | - | 486 | 851 220 |
| Bank Pekao S.A. Group entities | | | | | | | | |
| Subsidiaries | 272 467 | 101 005 | 774 978 | 326 380 | 2 080 760 | 41 149 | 2 241 | 3 598 980 |
| Associates | - | - | - | - | - | - | - | - |
| Key management Staff of the Bank | - | 3 064 | - | 1 | 38 | 385 | 1 | 3 489 |
| **Total** | **1 181 983** | **105 043** | **776 018** | **335 309** | **2 124 966** | **41 534** | **2 728** | **4 567 581** |

(*) Current receivables include Nostro and cash flow hedge accounts.

Liabilities due to loans and deposits by maturity dates

| 31.12.2011 | CURRENT (*) | UP TO 1 MONTH | BETWEEN 1 AND 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 1AND 5 YEARS | OVER 5 YEARS | INTEREST | TOTAL |
|---|---|---|---|---|---|---|---|---|
| UniCredit S.p.A. – parent entity | 58 584 | - | - | - | - | - | - | 58 584 |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities | 992 472 | 472 522 | 1 406 | 327 681 | 204 272 | - | 1 294 | 1 999 647 |
| Bank Pekao S.A. Group entities | | | | | | | | |
| Subsidiaries | 739 406 | 20 170 | 78 311 | 7 584 | 30 071 | - | 407 | 875 949 |
| Associates | 6 959 | 42 769 | 8 030 | 500 | - | - | 209 | 58 467 |
| Key management Staff of the Bank | 897 | 8 162 | 3 500 | 200 | 32 | - | 82 | 12 873 |
| **Total** | **1 798 318** | **543 623** | **91 247** | **335 965** | **234 375** | **-** | **1 992** | **3 005 520** |

(*) Current liabilities include Loro and current account of other entities.

# Notes to financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currencies

| 31.12.2011 | EUR | USD | CHF | PLN | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| UniCredit S.p.A. – parent entity | 108 042 | 2 924 | - | 2 926 | - | 113 892 |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities | 806 800 | 2 709 | 6 | 8 847 | 32 858 | 851 220 |
| Bank Pekao S.A. Group entities | | | | | | |
| Subsidiaries | 939 347 | 1 218 502 | 49 737 | 1 391 393 | 1 | 3 598 980 |
| Associates | - | - | - | - | - | - |
| Key management Staff of the Bank | - | - | - | 3 489 | - | 3 489 |
| **Total** | **1 854 189** | **1 224 135** | **49 743** | **1 406 655** | **32 859** | **4 567 581** |

Liabilities due to loans and deposits by currencies

| 31.12.2011 | EUR | USD | CHF | PLN | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| UniCredit S.p.A. – parent entity | - | - | - | 58 584 | - | 58 584 |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities | 357 928 | 2 | - | 738 367 | 903 350 | 1 999 647 |
| Bank Pekao S.A. Group entities | | | | | | |
| Subsidiaries | 9 025 | 9 411 | 20 512 | 836 545 | 456 | 875 949 |
| Associates | - | - | - | 58 467 | - | 58 467 |
| Key management Staff of the Bank | 230 | 576 | - | 12 067 | - | 12 873 |
| **Total** | **367 183** | **9 989** | **20 512** | **1 704 030** | **903 806** | **3 005 520** |

# Notes to financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2012 to 31 December 2012

| NAME OF ENTITY | INTEREST INCOME | INTERES EXPENSE | FEE AND COMMISSION INCOME | FEE AND COMMISSION EXPENSE | DERIVATIVES VALUATION AND OTHER INCOME | DERIVATIVES VALUATION AND OTHER EXPENSE |
|---|---|---|---|---|---|---|
| **Bank's parent entity** | | | | | | |
| UniCredit S.p.A. | 580 | (469) | 1 072 | (3 938) | 2 817 | (7 863) |
| Entities of UniCredit Group exclusive 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. (subsidiary of PPIM S.A.) | - | (2 534) | 173 013 | - | - | - |
| Dom Inwestycyjny Xelion Sp. z o.o. (ex. Xelion. Doradcy Finansowi 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 Staff of the Bank | 209 | (695) | 3 | - | - | (12) |
| **Total** | **240 153** | **(61 686)** | **191 387** | **(15 489)** | **20 180** | **(223 434)** |

# Notes to financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2011 to 31 December 2011

| NAME OF ENTITY | INTEREST INCOME | INTERES EXPENSE | FEE AND COMMISSION INCOME | FEE AND COMMISSION EXPENSE | DERIVATIVES VALUATION AND OTHER INCOME | DERIVATIVES VALUATION AND OTHER EXPENSE |
|---|---|---|---|---|---|---|
| **Bank's parent entity** | | | | | | |
| UniCredit S.p.A. | 5 202 | (259) | 204 | (4 167) | 2 748 | (8 184) |
| Entities of UniCredit Group exclusive of Pekao S.A. Group entities | 114 437 | (36 031) | 4 408 | (4 206) | 7 072 | (122 190) |
| **Pekao S.A. Group entities** | | | | | | |
| **Subsidiaries** | | | | | | |
| Public Joint Stock Company UniCredit Bank | 68 421 | - | 5 560 | (44) | - | - |
| Centralny Dom Maklerski Pekao S.A. | - | (10 929) | 1 899 | (29) | 4 492 | (2 629) |
| Pekao Leasing Sp. z o.o. | 50 323 | (9 359) | 1 058 | - | 37 640 | - |
| Pekao Faktoring Sp. z o.o. | 18 932 | (6) | 605 | - | 85 | - |
| Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. | - | (396) | 1 353 | - | 11 | - |
| Pekao Fundusz Kapitałowy Sp. z o.o. | - | (2 008) | 4 | - | 11 | - |
| Centrum Kart S.A. | - | (835) | 41 | - | 1 196 | (61 298) |
| Pekao Telecentrum Sp. z o.o. | - | (389) | 2 | - | 2 | - |
| Pekao Financial Services Sp. z o.o. | - | (188) | 39 | - | 39 | - |
| Pekao Bank Hipoteczny S.A. | 18 544 | (808) | 1 594 | - | 153 | (8 410) |
| Pekao Leasing Holding S.A. | - | (5) | 5 | - | - | - |
| Holding Sp. z o.o. (in liquidation) | - | (3) | 1 | - | 21 | - |
| Centrum Bankowości Bezpośredniej Sp. z o.o. | - | (116) | 5 | (8 258) | 4 083 | (34 270) |
| Metropolis Sp. z o.o. | - | (20) | 53 | - | - | - |
| Property Sp. z o.o (in liquidation) | - | (131) | 2 | - | - | - |
| Pekao Property S.A. | - | (6) | 4 | - | 66 | - |
| Jana Kazimierza Development Sp. z o.o. | 2 832 | (60) | 399 | - | - | - |
| FPB - Media Sp.z o.o. | 551 | - | 5 | - | - | - |
| **Associates** | | | | | | |
| Pioneer Pekao Investment Management S.A. | - | (5 372) | 617 | - | - | - |
| Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.) | - | (4 270) | 205 435 | - | 1 058 | - |
| Xelion. Doradcy Finansowi Sp. z o.o. | - | (474) | 26 | (63) | 149 | - |
| Krajowa Izba Rozliczeniowa S.A. | - | (620) | 15 | - | - | (11 485) |
| Pirelli Pekao Real Estate Sp. z o.o. | - | (77) | 17 | - | 3 | - |
| **Total of Pekao S.A. Group entities** | **159 603** | **(36 072)** | **218 739** | **(8 394)** | **49 009** | **(118 092)** |
| Key management Staff of the Bank | 195 | (533) | 3 | - | - | (12) |
| **Total** | **279 437** | **(72 895)** | **223 354** | **(16 767)** | **58 829** | **(248 478)** |

# Notes to financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial liabilities and guarantees as at 31 December 2012

| NAME OF ENTITY | GRANTED | |
|---|---|---|
| | FINANCIAL | GUARANTEES |
| **Bank's parent entity** | | |
| UniCredit S.p.A. | 38 181 | 273 072 |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group | 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. (ex. Xelion. Doradcy Finansowi Sp. z o.o.) | 30 | - |
| Pioneer Pekao Investment Management S.A. | 32 | - |
| Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.) | 136 | - |
| Krajowa Izba Rozliczeniowa S.A. | - | 500 |
| **Total of Pekao S.A. Group entities** | **685 819** | **709 390** |
| Key management Staff of the Bank | 184 | - |
| **Total** | **778 547** | **1 363 312** |

As of 31 December 2012, the Bank did not have financial and guarantee off balance sheet items received from related parties.

# Notes to financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial liabilities and guarantees granted by contractual maturity

| 31.12.2012 | CURRENT | UP TO 1 MONTH | BETWEEN 1 AND 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 1AND 5 YEARS | OVER 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES GRANTED** | | | | | | | |
| UniCredit S.p.A. – Bank's parent entity | - | - | - | 38 181 | - | - | 38 181 |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities | 818 | - | - | 52 693 | 852 | - | 54 363 |
| Bank Pekao S.A. Group entities | | | | | | | |
| Subsidiaries | 339 | 410 | 18 394 | 165 860 | 500 618 | - | 685 621 |
| Associates | - | - | - | 44 | 154 | - | 198 |
| Key management Staff of the Bank | 30 | - | 55 | 9 | 90 | - | 184 |
| **Total** | **1 187** | **410** | **18 449** | **256 787** | **501 714** | **-** | **778 547** |
| | | | | | | | |
| **GUARANTEES GRANTED** | | | | | | | |
| UniCredit S.p.A. – Bank's parent entity | - | 51 | 1 362 | 26 381 | 136 408 | 108 870 | 273 072 |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities | - | 2 152 | 19 990 | 21 449 | 27 117 | 310 142 | 380 850 |
| Bank Pekao S.A. Group entities | | | | | | | |
| Subsidiaries | - | - | 17 269 | 1 840 | 1 898 | 687 883 | 708 890 |
| Associates | - | - | - | 500 | - | - | 500 |
| Key management Staff of the Bank | - | - | - | - | - | - | - |
| **Total** | **-** | **2 203** | **38 621** | **50 170** | **165 423** | **1 106 895** | **1 363 312** |

# Notes to financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial liabilities and guarantees granted by contractual maturity

| 31.12.2012 | EUR | USD | CHF | PLN | OHTER | TOTAL |
|---|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES GRANTED** | | | | | | |
| UniCredit S.p.A. – Bank's parent entity | 38 181 | - | - | - | - | 38 181 |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities | 12 878 | - | - | 41 485 | - | 54 363 |
| Bank Pekao S.A. Group entities | | | | | | |
| Subsidiaries | 127 | 930 | 339 | 682 722 | 1 503 | 685 621 |
| Associates | - | - | - | 198 | - | 198 |
| Key management Staff of the Bank | - | - | - | 184 | - | 184 |
| **Total** | **51 186** | **930** | **339** | **724 589** | **1 503** | **778 547** |
| | | | | | | |
| **GUARANTEES GRANTED** | | | | | | |
| UniCredit S.p.A. – Bank's parent entity | 14 719 | - | - | 258 353 | - | 273 072 |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities | 27 119 | - | - | 353 681 | 50 | 380 850 |
| Bank Pekao S.A. Group entities | | | | | | |
| Subsidiaries | 28 030 | 16 766 | 660 902 | 3 192 | - | 708 890 |
| Associates | - | - | - | 500 | - | 500 |
| Key management Staff of the Bank | - | - | - | - | - | - |
| **Total** | **69 868** | **16 766** | **660 902** | **615 726** | **50** | **1 363 312** |

# Notes to financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial liabilities and guarantees as at 31 December 2011

| NAME OF ENTITY | GRANTED | | RECEIVED |
|---|---|---|---|
| | FINANCIAL | GUARANTEES | FINANCIAL |
| **Bank's parent entity** | | | |
| UniCredit S.p.A. | 64 701 | 188 638 | - |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group | 710 554 | 304 095 | 2 208 613 |
| **Bank Pekao S.A. Group entities** | | | |
| **Subsidiaries** | | | |
| Public Joint Stock Company UniCredit Bank | - | 109 265 | - |
| Pekao Leasing Sp. z o.o. | 190 535 | 892 | - |
| Pekao Faktoring Sp. z o.o. | 357 271 | - | - |
| Centralny Dom Maklerski Pekao S.A. | 642 | 135 | - |
| Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. | 60 | - | - |
| Centrum Kart S.A. | 100 | - | - |
| Pekao Financial Services Sp. z o. o. | 40 | 997 | - |
| Pekao Bank Hipoteczny S.A. | 399 119 | 738 657 | - |
| Centrum Bankowości Bezpośredniej Sp. z o.o. | 35 | - | - |
| **Associates** | | | |
| Pirelli Pekao Real Estate Sp. z o.o. | 180 | - | - |
| Xelion. Doradcy Finansowi Sp. z o.o. | 29 | - | - |
| Pioneer Pekao Investment Management S.A. | 32 | - | - |
| Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.) | 135 | - | - |
| Krajowa Izba Rozliczeniowa S.A. | - | 500 | - |
| **Total of Pekao S.A. Group entities** | **948 178** | **850 446** | **-** |
| Key management Staff of the Bank | 286 | - | - |
| **Total** | **1 723 719** | **1 343 179** | **2 208 613** |

As of 31 December 2011, the Bank did not have guarantee off balance sheet items received from related parties.

# Notes to financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial liabilities and guarantees granted by contractual maturity

| 31.12.2011 | CURRENT | UP TO 1 MONTH | BETWEEN 1 AND 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 1AND 5 YEARS | OVER 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|---|
| FINANCIAL LIABILITIES GRANTED | | | | | | | |
| UniCredit S.p.A. – Bank's parent entity | 24 000 | - | - | 40 701 | - | - | 64 701 |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities | 674 155 | - | - | 35 573 | 826 | - | 710 554 |
| Bank Pekao S.A. Group entities | | | | | | | |
| Subsidiaries | 363 | - | - | 874 865 | 72 574 | - | 947 802 |
| Associates | - | - | - | 32 | 344 | - | 376 |
| Key management Staff of the Bank | 30 | 5 | - | 49 | 202 | - | 286 |
| **Total** | **698 548** | **5** | **-** | **951 220** | **73 946** | **-** | **1 723 719** |
| | | | | | | | |
| GUARANTEES GRANTED | | | | | | | |
| UniCredit S.p.A. – Bank's parent entity | - | 600 | 10 969 | 57 540 | 3 568 | 115 961 | 188 638 |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities | 5 347 | 1 913 | 39 867 | 69 596 | 28 999 | 158 373 | 304 095 |
| Bank Pekao S.A. Group entities | | | | | | | |
| Subsidiaries | - | 90 469 | 11 961 | 8 723 | 638 | 738 155 | 849 946 |
| Associates | - | - | - | 500 | - | - | 500 |
| Key management Staff of the Bank | - | - | - | | - | - | - |
| **Total** | **5 347** | **92 982** | **62 797** | **136 359** | **33 205** | **1 012 489** | **1 343 179** |
| | | | | | | | |
| FINANCIAL LIABILITIES RECEIVED | | | | | | | |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities | 213 | 2 208 400 | - | - | - | - | 2 208 613 |
| **TOTAL** | **213** | **2 208 400** | **-** | **-** | **-** | **-** | **2 208 613** |

# Notes to financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial liabilities and guarantees granted by currencies

| 31.12.2012 | EUR | USD | CHF | PLN | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| FINANCIAL LIABILITIES GRANTED | | | | | | |
| UniCredit S.p.A. – Bank's parent entity | 40 701 | - | - | 24 000 | - | 64 701 |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities | 12 531 | - | - | 698 023 | - | 710 554 |
| Bank Pekao S.A. Group entities | | | | | | |
| Subsidiaries | 241 954 | 4 155 | 363 | 699 750 | 1 580 | 947 802 |
| Associates | - | - | - | 376 | - | 376 |
| Key management Staff of the Bank | - | - | - | 286 | - | 286 |
| **Total** | **295 186** | **4 155** | **363** | **1 422 435** | **1 580** | **1 723 719** |
| | | | | | | |
| GUARANTEES LIABILITIES GRANTED | | | | | | |
| UniCredit S.p.A. – Bank's parent entity | 32 655 | - | - | 155 983 | - | 188 638 |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities | 73 034 | - | - | 231 009 | 52 | 304 095 |
| Bank Pekao S.A. Group entities | | | | | | |
| Subsidiaries | 30 283 | 109 265 | 709 004 | 1 394 | - | 849 946 |
| Associates | - | - | - | 500 | - | 500 |
| Key management Staff of the Bank | - | - | - | - | - | - |
| **Total** | **135 972** | **109 265** | **709 004** | **388 886** | **52** | **1 343 179** |
| | | | | | | |
| FINANCIAL LIABILITIES RECEIVED | | | | | | |
| Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities | 2 208 400 | - | - | - | 213 | 2 208 613 |
| **TOTAL** | **2 208 400** | **-** | **-** | **-** | **213** | **2 208 613** |

# Notes to financial statements (cont.)

(In PLN thousand)

**Remuneration of Bank's Management Board and Supervisory Board Members**

| | VALUE OF BENEFITS | |
|---|---|---|
| | 2012 | 2011 |
| **Management Board of the Bank** | | |
| Short-term employee benefits (*) | 15 087 | 14 268 |
| Other long-term benefits (**) | 2 250 | 4 770 |
| Benefits resulting from the termination of employment relationship | - | 5 568 |
| Share-based payments (***) | 5 857 | 3 290 |
| **Total** | **23 194** | **27 896** |
| **Supervisory Board of the Bank** | | |
| Short-term employee benefits (*) | 931 | 997 |
| Share-based payments (***) | - | 51 |
| **Total** | **931** | **1 048** |

(*) Short-term employee benefits include: base salary, bonuses and other benefits, 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 41.

Bank's Management Board and Supervisory Board Members did not receive any remuneration from subsidiaries and associated entities in 2012 and 2011.

## 48. 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 financial statements (cont.)

(In PLN thousand)

| | 31.12.2012 | | 31.12.2011 | |
|---|---|---|---|---|
| | 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 | 162 677 | 162 790 |
| **Total financial assets held for trading** | **55 553** | **55 606** | **162 677** | **162 790** |
| Financial assets available for sale | | | | |
| up to 1 month | 4 833 622 | 4 830 418 | 3 253 715 | 3 245 195 |
| between 1 and 3 months | 702 569 | 698 212 | - | - |
| between 3 and 6 months | - | - | 297 041 | 303 916 |
| **Total financial assets available for sale** | **5 536 191** | **5 528 630** | **3 550 756** | **3 549 111** |
| Financial assets held to maturity | | | | |
| up to 1 month | 16 459 | 16 462 | - | - |
| between 1 and 3 months | - | - | 351 149 | 352 461 |
| **Total financial assets held to maturity** | **16 459** | **16 462** | **351 149** | **352 461** |
| Financial assets purchased under reverse repo and buy-sell back | | | | |
| up to 1 month | 2 079 999 | 2 081 794 | 2 421 332 | 2 423 963 |
| between 1 and 3 months | 20 122 | 20 073 | 9 454 | 9 428 |
| between 3 and 6 months | 10 175 | 10 080 | - | - |
| **Total financial assets purchased under reverse repo and buy-sell back** | **2 110 296** | **2 111 947** | **2 430 786** | **2 433 391** |
| **Total** | **7 718 499** | **7 712 645** | **6 495 368** | **6 497 753** |

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.

| | 31.12.2012 | | 31.12.2011 | |
|---|---|---|---|---|
| | 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 | 190 118 | 190 058 | 1 465 411 | 1 465 483 |
| between 1 and 3 months | - | - | 508 684 | 507 625 |
| **Total loans and advances from banks** | **190 118** | **190 058** | **1 974 095** | **1 973 108** |
| Loans and advances from customers | | | | |
| up to 1 month | 2 694 481 | 2 697 472 | 1 783 637 | 1 782 428 |
| **Total loans and advances from customers** | **2 694 481** | **2 697 472** | **1 783 637** | **1 782 428** |
| **Total** | **2 884 599** | **2 887 530** | **3 757 732** | **3 755 536** |

Financial assets 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.

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Fair value of assets pledged as collaterals, in this: | 2 887 530 | 3 755 536 |
| short sale | 246 578 | - |
| reverse repo transactions/ buy-sell-back | 2 110 296 | 2 430 786 |

# Notes to financial statements (cont.)

(In PLN thousand)

## 49. 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 2012 and 31 December 2011 was nil.

The table below presents the assets according to type and book value, the balance of the Fund and costs related to ZFŚS

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Loans granted to employees | 37 179 | 43 589 |
| Cash at ZFŚS account | 11 874 | 9 519 |
| **ZFŚS assets** | **49 053** | **53 108** |
| **ZFŚS value** | **49 053** | **53 108** |
| | **2012** | **2011** |
| Deductions made to ZFŚS during fiscal period | 25 583 | 26 451 |

## 50. Subsequent events

There have been no significant subsequent events.

# Signatures of all Management Board Members

| Date | Name/Surname | Position/Function | Signature |
|---|---|---|---|
| 14.03.2013 | Luigi Lovaglio | President of the Management Board, CEO | |
| 14.03.2013 | Diego Biondo | Vice-President of the Management Board | |
| 14.03.2013 | Marco Iannaccone | Vice-President of the Management Board | |
| 14.03.2013 | Andrzej Kopyrski | Vice-President of the Management Board | |
| 14.03.2013 | Grzegorz Piwowar | Vice-President of the Management Board | |
| 14.03.2013 | Marian Ważyński | Vice-President of the Management Board | |

# Annexes to the financial statements

***The accompanying annexes to the financial statements constitute an integral part of the unconsolidated financial statements.***

## Annex 1

## New standards, interpretations and amendments to published standards that have been approved and published by the European Union and are effective from 1 January 2012

- **IFRS 7 (amendment) '**Financial Instruments: Disclosures'

  The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

  The Bank claims, that the standard amendment had no material impact on its financial statements in the period of its first implementation.

- **IAS 12 (amendment) '**Income Taxes'

  The amendment would specify how the assets and provisions for deferred tax should be measured in case of investment properties measured using the fair value model in IAS 40 'Investment Property'. The revised standard withdraws the interpretation of SIC-21 'Income tax – Recovery of Revalued Non-depreciable Assets'.

  The Bank claims, that the standard amendment had no material impact on its financial statements in the period of its first implementation.

- **IFRS 1 (amendment)** 'First-time Adoption of International Financial Reporting Standards'

  The proposed amendment would replace the fixed date: '1 January 2004' as the date of adopting IFRSs for the first time with a 'date of adopting IFRSs for the first time' in order to provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs. Moreover, the amendment would provide guidance on resumption of presentation of IFRS financial statements for entities emerging from severe hyperinflation.

  The Bank claims, that the standard amendment had no material impact on its financial statements in the period of its first implementation.

# Annexes to the financial statements (cont.)

## Annex 2

### New standards, interpretations and amendments to published standards that have been approved and published by the European Union, but are effective from the date after the balance-sheet date.

- **IFRS 7 (amendment)** 'Financial Instruments: Disclosures'

  Date of application: the first financial year beginning after 31 December 2012.

  The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to better estimate the influence or potential influence of offsetting financial assets and liabilities on financial standing of the entity.

  The Bank claims, that the standard amendment will not have a material impact on its financial statements in the period of its first implementation.

- **IFRS 10** 'Consolidated Financial Statements'

  Date of application: the first financial year beginning after 31 December 2012.

  The standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The IFRS 10 supersedes IAS 27 'Consolidated and Separate Financial Statements' and SIC-12 'Consolidation - Special Purpose Entities'. The IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. The IFRS presents the additional guidelines useful in determining the existence of the control when it is hard to define.

  The Bank claims, that the new standard will not have a material impact on its financial statements in the period of its first implementation.

- **IFRS 11** 'Joint Arrangements'

  Date of application: the first financial year beginning after 31 December 2012.

  The standard establishes more realistic principles for financial reporting by parties to a joint arrangement, and is concentrating mainly on rights and obligations resulting from those arrangements, and not on its legal form. The standard addresses inconsistencies in financial reporting of joint arrangements by introduction of homogenous method of accounting of interest in jointly controlled entities.
  IFRS 11 requires accounting of interests in joint arrangements only under the equity method, which eliminates the proportionate consolidation. The existence of an independent entity is no more a fundamental classification condition. Transitional provisions vary depending on the method of classification of joint arrangements under IAS 31.

  The Bank claims, that the new standard will not have a material impact on its financial statements in the period of its first implementation.

# Annexes to the financial statements (cont.)

- **IFRS 12** ‘Disclosure of Interests in Other Entities’

  Date of application: the first financial year beginning after 31 December 2012.

  The standard establishes new and complex principles for disclosure of entity’s interests in other entities, including subsidiaries, joint ventures, associates and other entities that are not consolidated.

  The Bank claims, that the new standard will not have a material impact on its financial statements in the period of its first implementation.

- **IFRS 13** ‘Fair Value Measurement’

  Date of application: the first financial year beginning after 31 December 2012.

  The standard establishes framework for fair value measurement and requires disclosure of information on fair value measurement. The standard does not set out when an asset, liability or entity’s own equity instruments should be measured at fair value. On opposite, measurement and disclosure required by the standard is to be applied when other standards permit fair value measurement (with few exceptions).

  The Bank claims, that the new standard will not have a material impact on its financial statements in the period of its first implementation.

- **IAS 1 (amendment)** ‘Presentation of Financial Statements’

  Date of application: the first financial year beginning after 30 June 2012.

  The changes serve clearer presentation of the increasing number of components of other comprehensive income as well as help users of financial statements to distinguish between the components of other comprehensive income, which may be then reclassified to profit or loss on items which cannot be reclassified in such a way.

  The Bank claims, that the standard amendment will not have a material impact on its financial statements in the period of its first implementation.

- **IAS 19 (amendment)** ‘Employee Benefits’

  Date of application: the first financial year beginning after 31 December 2012.

  The changes should help users of financial statements to better understand the way in which the defined employee benefits influence the financial situation, financial results and cash flows of the entity. This standard aims at regulating employee benefits accountancy as well as information disclosure.

  The Bank claims, that the standard amendment will not have a material impact on its financial statements in the period of its first implementation.

# Annexes to the financial statements (cont.)

- **IAS 27** 'Separate Financial Statements'

  Date of application: the first financial year beginning after 31 December 2012.

  The IAS 27 'Separate Financial Statements' establishes principles for the presentation and disclosures to be applied in accounting for investments in subsidiaries, associates and jointly ventures. IAS 27 'Separate Financial Statements' supersedes the previous version of IAS 27 'Consolidated and Separate Financial Statements'.

  The Bank claims, that the new standard will not have a material impact on its financial statements in the period of its first implementation.

- **IAS 28** 'Investments in Associates and Joint Ventures'

  Date of application: the first financial year beginning after 31 December 2012.

  The new standard refers to accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 'Investments in Associates and Joint Ventures' will replace the previous version of IAS 28 'Investments in Associates'.

  The Bank claims, that the new standard will not have a material impact on its financial statements in the period of its first implementation.

- **IAS 32 (amendment)** 'Financial Instruments: Presentation'

  Date of application: the first financial year beginning after 31 December 2013.

  The objective of this Standard is to address inconsistencies in requirements when applying the offsetting criteria for financial assets and liabilities.

  The Bank claims, that the standard amendment will not have a material impact on its financial statements in the period of its first implementation.

- **IFRIC Interpretation 20** 'Stripping Costs in the Production Phase of a Surface Mine'

  Date of application: the first financial year beginning after 31 December 2012.

  The Interpretation clarifies accounting for costs associated with the process of removing waste from a surface mine in order to gain access to mineral ore deposits.

  The Bank claims, that the new interpretation will not have a material impact on its financial statements in the period of its first implementation.

# Annexes to the financial statements (cont.)

## Annex 3

## New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and are awaiting approval by the European Union.

- **IFRS 1 (amendment)** 'First-time Adoption of International Financial Reporting Standards'

  Date of application: the first financial year beginning after 31 December 2012.

  The amendments allow entities that apply IFRS for the first time a prospective application of IAS 39 or IFRS 9 as well as §10A IAS 20 as far as loans granted by the government and owned at the moment of transition to IFRS are concerned.

  The Bank claims, that the standard amendment will not have a material impact on its financial statements in the period of its first implementation.

- **IFRS 9** 'Financial Instruments'

  Date of application: the first financial year beginning after 31 December 2014.

  New regulations compose a part of changes superseding IAS 39 'Financial Instruments: Recognition and Measurement'.
  Main changes resulting from the new standard include:
  - Elimination of available-for-sale and held-to-maturity financial assets,
  - Implementation of two financial assets categories: measured at amortized cost and fair value,
  - New criteria of assets classification to the group of financial assets measured at amortized cost,
  - New principles on recognition of changes in fair value measurement of capital investment in financial instruments,
  - Elimination of the need to separate embedded derivatives.

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

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

# Annexes to the financial statements (cont.)

## Annex 4

## Glossary

**IFRS** – International Financial Reporting Standards – the standards, interpretations and their structure adopted by the International Accounting Standards Board IASB.

**IAS** – International Accounting Standards – previous name of the standards forming part of the current IFRS.

**IFRIC** – International Financial Reporting Interpretations Committee – committee operating under the International Accounting Standards Board publishing interpretations of IFRS.

**CIRS** – Currency Interest Rate Swap – exchange transaction of principal amounts and interest payments in different currencies between two partners.

**IRS** – Interest Rate Swap – agreement between two counterparties, under which parties pay each other (at specified intervals during the contract live) of contractual principal and interest on the contract, charged at a different rate.

**FRA** – Forward Rate Agreement – contract under which two counterparties agree to the interest rate which will be applied in the future for a specified amount in currency transactions for a predetermined period.

**CAP** – cap option is the financial agreement, which limits the risks borne by lenders on a variable rate, is susceptible to the potential for loss as a result of the growth rate. Cap option is a series of call options on interest rates, in which the issuer guarantees the buyer that he will compensate the additional interest costs, which he must pay from your loan if the loan interest rate rises above the agreed interest rate.

**FLOOR** – floor option is the financial agreement, which reduces the risk of incurring losses resulting from lower interest rates by the lender providing the loan at a variable rate of interest. Floor option is a series of put options on interest rates, the issuer guarantees the interest which he must pay the loan if the interest rate on the loan falls below the agreed interest rate.

**IBNR** – Incurred But Not Reported losses.

**PD –** Probability Default – parameter used in A-IRB method which determines the probability of debtor's insolvency. PD denotes with what probability is credit loss expected within time period of one year.

**LGD** – Loss Given Default.

**EAD** – Exposure At Default.

**EL** – Expected Loss.

**CCF** – Credit Conversion Factor.

**A-IRB** – Advanced Internal Rating-Based approach – advanced method where all parameters of risk (PD, LGD, EAD) are estimated by the bank using its own quantitative model to determine the amount of the risk weighted assets.

**VaR** – Value at Risk – the amount by which the market value of an asset or portfolio may be reduced based on specific assumptions, within a fixed time period and a specified probability.

**EaR** – Earnings at Risk – the maximum decrease of earnings, relative to specific goal, which might occur due to influence of market risk on specific risk factors for the given time period and confidence level.

**ICAAP** – Internal Capital Adequacy Assessment Process – the process of assessing internal capital adequacy.