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

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

Warsaw, March 2014

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Consolidated income statement

(In PLN thousand)

	NOTE	2013			2012 RESTATED		
		CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Interest income	9	6 680 942	93 348	6 774 290	8 246 934	190 878	8 437 812
Interest expense	9	(2 237 054)	(31 674)	(2 268 728)	(3 446 849)	(63 789)	(3 510 638)
Net interest income		**4 443 888**	**61 674**	**4 505 562**	**4 800 085**	**127 089**	**4 927 174**
Fee and commission income	10	2 635 887	19 175	2 655 062	2 622 097	41 095	2 663 192
Fee and commission expense	10	(504 215)	(8 003)	(512 218)	(526 257)	(15 062)	(541 319)
Net fee and commission income		**2 131 672**	**11 172**	**2 142 844**	**2 095 840**	**26 033**	**2 121 873**
Dividend income	11	**6 756**	**-**	**6 756**	**8 759**	**-**	**8 759**
Result on financial assets and liabilities held for trading	12	**467 407**	**(2 350)**	**465 057**	**500 495**	**9 641**	**510 136**
Result on fair value hedge accounting	29	**(17 423)**	**-**	**(17 423)**	**(35 751)**	**-**	**(35 751)**
Gains (losses) on disposal of:	13	**305 139**	**-**	**305 139**	**279 220**	**(21)**	**279 199**
loans and other financial receivables		(67)	-	(67)	758	-	758
available for sale financial assets and held to maturity investments		308 355	-	308 355	278 765	(21)	278 744
financial liabilities		(3 149)	-	(3 149)	(303)	-	(303)
Operating income		**7 337 439**	**70 496**	**7 407 935**	**7 648 648**	**162 742**	**7 811 390**
Net impairment losses on financial assets and off-balance sheet commitments:	17	**(658 435)**	**(5 215)**	**(663 650)**	**(635 474)**	**(33 980)**	**(669 454)**
loans and other financial receivables		(650 899)	(5 215)	(656 114)	(608 642)	(33 980)	(642 622)
off-balance sheet commitments		(7 536)	-	(7 536)	(26 832)	-	(26 832)
Net result on financial activity		**6 679 004**	**65 281**	**6 744 285**	**7 013 174**	**128 762**	**7 141 936**
Administrative expenses	14	**(3 100 022)**	**(42 459)**	**(3 142 481)**	**(3 185 348)**	**(77 609)**	**(3 262 957)**
personnel expenses		(1 860 030)	(21 145)	(1 881 175)	(1 870 168)	(39 829)	(1 909 997)
other administrative expenses		(1 239 992)	(21 314)	(1 261 306)	(1 315 180)	(37 780)	(1 352 960)
Depreciation and amortization	15	**(343 662)**	**(2 696)**	**(346 358)**	**(362 378)**	**(6 460)**	**(368 838)**
Net result on other provisions		**13 661**	**-**	**13 661**	**(15 327)**	**-**	**(15 327)**
Net other operating income and expenses	16	**102 212**	**1 210**	**103 422**	**94 193**	**200**	**94 393**
Operating costs		**(3 327 811)**	**(43 945)**	**(3 371 756)**	**(3 468 860)**	**(83 869)**	**(3 552 729)**
Gains (losses) on subsidiaries and associates	18	**59 425**	**-**	**59 425**	**52 866**	**-**	**52 866**
Gains (losses) on disposal of property, plant and equipment, and intangible assets	19	**22 276**	**-**	**22 276**	**22 261**	**-**	**22 261**
Profit before income tax		**3 432 894**	**21 336**	**3 454 230**	**3 619 441**	**44 893**	**3 664 334**
Income tax expense	20	**(655 386)**	**(3 854)**	**(659 240)**	**(703 694)**	**(8 288)**	**(711 982)**
Net profit for the period		**2 777 508**	**17 482**	**2 794 990**	**2 915 747**	**36 605**	**2 952 352**
1. Attributable to equity holders of the Bank		2 767 297	17 482	2 784 779	2 906 196	36 605	2 942 801
2. Attributable to non-controlling interest		10 211	-	10 211	9 551	-	9 551
Earnings per share (in PLN per share)							
basic for the period	21	10.54	0.07	10.61	11.19	0.03	11.22
diluted for the period	21	10.54	0.07	10.61	11.19	0.03	11.22

Notes to the financial statements presented on pages 10 - 152 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

(In PLN thousand)

	NOTE	2013	2012 RESTATED
Net profit		**2 794 990**	**2 952 352**
1. Attributable to equity holders of the Bank		2 784 779	2 942 801
2. Attributable to non-controlling interest		10 211	9 551
Other comprehensive income			
Item that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		25 565	(46 619)
Change in fair value of available-for-sale financial assets		(558 622)	761 876
Change in fair value of cash flow hedges		34 832	(40 119)
Tax on items that are or may be reclassified subsequently to profit or loss	20	94 634	(127 650)
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liabilities		(41 524)	2 674
Tax on items that will never be reclassified to profit or loss	20	7 890	(508)
Other comprehensive income (net of tax)		**(437 225)**	**549 654**
Total comprehensive income		**2 357 765**	**3 502 006**
1. Attributable to equity holders of the Bank		2 347 554	3 492 455
2. Attributable to non-controlling interest		10 211	9 551

Notes to the financial statements presented on pages 10 - 152 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

Consolidated statement of financial position

(In PLN thousand)

	NOTE	31.12.2013	31.12.2012 RESTATED	01.01.2012 RESTATED
ASSETS				
Cash and due from Central Bank	23	4 191 229	9 207 285	4 886 093
Bill of exchange eligible for rediscounting at Central Bank		230	159	100
Loans and advances to banks	24	7 547 785	4 053 848	5 586 057
Financial assets held for trading	25	188 377	600 543	849 711
Derivative financial instruments (held for trading)	26	1 996 934	2 649 097	2 156 274
Loans and advances to customers	27	101 012 515	94 840 591	92 588 741
Receivables from finance leases	28	2 931 248	2 717 931	2 862 760
Hedging instruments	29	250 186	367 890	408 906
Investments (placement) securities	30	34 995 737	28 735 442	29 119 637
1. Available for sale		33 033 967	25 887 659	25 324 803
2. Held to maturity		1 961 770	2 847 783	3 794 834
Assets held for sale	32	45 864	2 374 173	2 931 575
Investments in associates	33	176 002	168 436	186 252
Intangible assets	34	626 571	669 387	703 355
Property, plant and equipment	35	1 589 636	1 670 544	1 772 940
Investment properties	36	31 131	33 221	63 928
Income tax assets		995 766	874 337	933 205
1. Current tax receivable		100 446	8 481	1 950
2. Deferred tax assets	20	895 320	865 856	931 255
Other assets	37	1 942 501	1 791 816	1 356 177
TOTAL ASSETS		**158 521 712**	**150 754 700**	**146 405 711**
EQUITY AND LIABILITIES				
Liabilities				
Amounts due to Central Bank	23	985	-	356 386
Amounts due to other banks	39	6 417 657	7 782 672	5 544 210
Financial liabilities held for trading	25	309 742	246 578	-
Derivative financial instruments (held for trading)	26	2 051 501	2 620 798	2 507 199
Amounts due to customers	40	119 796 706	107 992 608	108 436 964
Hedging instruments	29	1 007 884	1 226 781	1 738 549
Fair value hedge adjustments of hedged items due to interest rate risk		2 084	11 328	(17 475)
Debt securities issued	41	3 063 737	4 758 736	3 043 919
Liabilities associated with assets held for sale	32	-	891 007	999 985
Income tax liabilities		5 016	82 634	198 997
1. Current income tax payable		1 753	76 648	194 560
2. Deferred tax liabilities	20	3 263	5 986	4 437
Provisions	42	393 537	359 506	313 880
Other liabilities	43	1 958 692	1 518 400	2 110 562
TOTAL LIABILITIES		**135 007 541**	**127 491 048**	**125 233 176**
Equity				
Share capital	48	262 470	262 470	262 382
Other capital and reserves	49	20 564 611	20 011 970	18 021 854
Retained earnings and profit for the period	49	2 592 802	2 896 975	2 802 832
Total equity attributable to equity holders of the Bank		**23 419 883**	**23 171 415**	**21 087 068**
Non - controlling interest		94 288	92 237	85 467
TOTAL EQUITY		**23 514 171**	**23 263 652**	**21 172 535**
TOTAL LIABILITIES AND EQUITY		**158 521 712**	**150 754 700**	**146 405 711**

Notes to the financial statements presented on pages 10 - 152 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

(In PLN thousand)

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK											
		OTHER CAPITAL AND RESERVES										
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER	RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON - CONTROLLING INTEREST	TOTAL EQUITY
Note	48	49							49			
Equity as at 1.01.2013 (restated)	**262 470**	**20 011 970**	**9 137 221**	**1 737 850**	**8 364 152**	**508 021**	**(128 768)**	**393 494**	**2 896 975**	**23 171 415**	**92 237**	**23 263 652**
Management options	**-**	**(9 860)**	**-**	**-**	**-**	**-**	**-**	**(9 860)**	**-**	**(9 860)**	**(33)**	**(9 893)**
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation of management share options	-	(9 860)	-	-	-	-	-	(9 860)	-	(9 860)	(33)	(9 893)
Comprehensive income	**-**	**(445 164)**	**-**	**-**	**-**	**(457 904)**	**12 740**	**-**	**2 792 718**	**2 347 554**	**10 211**	**2 357 765**
Remeasurements of the defined benefit liabilities (net of tax)	-	(33 634)	-	-	-	(33 634)	-	-	-	(33 634)	-	(33 634)
Revaluation of available-for-sale investments (net of tax)	-	(452 484)	-	-	-	(452 484)	-	-	-	(452 484)	-	(452 484)
Revaluation of hedging financial instruments (net of tax)	-	28 214	-	-	-	28 214	-	-	-	28 214	-	28 214
Foreign currency translation differences	-	12 740	-	-	-	-	12 740	-	7 939	20 679	-	20 679
Net profit for the period	-	-	-	-	-	-	-	-	2 784 779	2 784 779	10 211	2 794 990
Appropriation of retained earnings	**-**	**707 080**	**-**	**200 000**	**489 405**	**-**	**-**	**17 675**	**(2 909 204)**	**(2 202 124)**	**(8 127)**	**(2 210 251)**
Dividend paid	-	-	-	-	-	-	-	-	(2 202 124)	(2 202 124)	(8 127)	(2 210 251)
Profit appropriation	-	707 080	-	200 000	489 405	-	-	17 675	(707 080)	-	-	-
Other	**-**	**300 585**	**-**	**-**	**216 643**	**-**	**117 266**	**(33 324)**	**(187 687)**	**112 898**	**-**	**112 898**
Sale of net assets of PJSC UniCredit Bank	-	297 757	-	-	213 815	-	117 266	(33 324)	(184 356)	113 401	-	113 401
Other consolidation items	-	2 828	-	-	2 828	-	-	-	(3 331)	(503)	-	(503)
Equity as at 31.12.2013	**262 470**	**20 564 611**	**9 137 221**	**1 937 850**	**9 070 200**	**50 117**	**1 238**	**367 985**	**2 592 802**	**23 419 883**	**94 288**	**23 514 171**

Notes to the financial statements presented on pages 10 - 152 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(In PLN thousand)

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK											
		OTHER CAPITAL AND RESERVES										
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER	RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON - CONTROLLING INTEREST	TOTAL EQUITY
Note	48	49							49			
Equity as at 1.01.2012 (as previously reported)	**262 382**	**18 035 191**	**9 126 501**	**1 537 850**	**7 153 186**	**(65 432)**	**(98 976)**	**382 062**	**2 973 890**	**21 271 463**	**85 467**	**21 356 930**
Impact of change in accounting policy in respect to bancassurance revenue recognition (Note 4.2)	-	-	-	-	-	-	-	-	(184 395)	(184 395)	-	(184 395)
Impact of change in accounting policy due to application of amended IAS 19 and changes thereto for the first time (Note 4.2)	-	(13 337)	-	-	-	(13 337)	-	-	13 337	-	-	-
Equity as at 1.01.2012 (restated)	**262 382**	**18 021 854**	**9 126 501**	**1 537 850**	**7 153 186**	**(78 769)**	**(98 976)**	**382 062**	**2 802 832**	**21 087 068**	**85 467**	**21 172 535**
Management options	**88**	**3 893**	**10 720**	**-**	**-**	**-**	**-**	**(6 827)**	**-**	**3 981**	**23**	**4 004**
Options exercised (share issue)	88	10 720	10 720	-	-	-	-	-	-	10 808	-	10 808
Revaluation of management share options	-	(6 827)	-	-	-	-	-	(6 827)	-	(6 827)	23	(6 804)
Comprehensive income	-	**556 998**	**-**	**-**	**-**	**586 790**	**(29 792)**	**-**	**2 935 457**	**3 492 455**	**9 551**	**3 502 006**
Remeasurements of the defined benefit liabilities (net of tax)	-	2 166	-	-	-	2 166	-	-	-	2 166	-	2 166
Revaluation of available-for-sale investments (net of tax)	-	617 120	-	-	-	617 120	-	-	-	617 120	-	617 120
Revaluation of hedging financial instruments (net of tax)	-	(32 496)	-	-	-	(32 496)	-	-	-	(32 496)	-	(32 496)
Foreign currency translation differences	-	(29 792)	-	-	-	-	(29 792)	-	(7 344)	(37 136)	-	(37 136)
Net profit for the period	-	-	-	-	-	-	-	-	2 942 801	2 942 801	9 551	2 952 352
Appropriation of retained earnings	**-**	**1 429 225**	**-**	**200 000**	**1 210 966**	**-**	**-**	**18 259**	**(2 841 314)**	**(1 412 089)**	**(2 804)**	**(1 414 893)**
Dividend paid	-	-	-	-	-	-	-	-	(1 412 089)	(1 412 089)	(2 804)	(1 414 893)
Profit appropriation	-	1 429 225	-	200 000	1 210 966	-	-	18 259	(1 429 225)	-	-	-
Equity as at 31.12.2012 (restated)	**262 470**	**20 011 970**	**9 137 221**	**1 737 850**	**8 364 152**	**508 021**	**(128 768)**	**393 494**	**2 896 975**	**23 171 415**	**92 237**	**23 263 652**

Notes to the financial statements presented on pages 10 - 152 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement

(In PLN thousand)

	NOTE	2013	2012 RESTATED
Cash flow from operating activities – indirect method			
Net profit for the period		**2 784 779**	**2 942 801**
Adjustments for:		**4 121 076**	**(2 844 062)**
Depreciation and amortization	15	346 358	368 838
Share of profit (loss) of associates		(59 425)	(53 263)
(Gains) losses on investing activities		(313 359)	(283 117)
Dividend received		(6 756)	(8 759)
Interests received		(6 162 657)	(7 202 439)
Interests paid		2 484 233	3 410 338
Income tax		713 122	712 490
Income tax paid		(782 587)	(893 970)
Change in loans and advances to banks		(217 658)	487 022
Change in financial assets held for trading and other financial instruments at fair value through profit or loss		416 902	286 673
Change in derivative financial instruments (assets)		652 163	(492 823)
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank		(1 325 322)	3 606 656
Change in receivables from finance leases		(213 317)	144 829
Change in investment (placement) securities		(19 097)	(361 105)
Change in other assets		1 844 001	121 494
Change in amounts due to banks		(1 492 729)	1 635 779
Change in financial liabilities held for trading		63 164	246 578
Change in derivative financial instruments (liabilities) and other financial instruments at fair value		(569 297)	113 599
Change in amounts due to customers		9 655 181	(3 467 900)
Change in debt securities issued		(246 266)	(78 786)
Change in provisions		34 031	45 626
Change in other liabilities		(679 609)	(1 181 822)
Net cash flows from operating activities		**6 905 855**	**98 739**
Cash flow from investing activities			
Investing activity inflows		**434 015 024**	**284 325 762**
Disposal of discontinued operations net of cash disposed		627 248	-
Sale of investment securities		432 511 919	283 594 901
Sale of intangible assets and property, plant and equipment		6 371	7 789
Other investing inflows		869 486	723 072
Investing activity outflows		**(439 262 333)**	**(282 017 073)**
Acquisition of investment securities	30	(438 962 156)	(281 768 420)
Acquisition of intangible assets and property, plant and equipment	34, 35	(300 177)	(248 653)
Net cash flows from investing activities		**(5 247 309)**	**2 308 689**

Notes to the financial statements presented on pages 10 - 152 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement (cont.)

(In PLN thousand)

	NOTE	2013	2012 RESTATED
Cash flows from financing activities			
Financing activity inflows		**3 667 197**	**5 338 559**
Issue of debt securities	41	3 667 197	5 327 751
Issue of shares		-	10 808
Financing activity outflows		**(7 524 671)**	**(5 086 734)**
Redemption of debt securities		(5 322 547)	(3 674 645)
Dividends and other payments to shareholders		(2 202 124)	(1 412 089)
Net cash flows from financing activities		**(3 857 474)**	**251 825**
Total net cash flows		**(2 198 928)**	**2 659 253**
including: effect of exchange rate fluctuations on cash and cash equivalents held		4 924	(261 587)
Net change in cash and cash equivalents		**(2 198 928)**	**2 659 253**
Cash and cash equivalents at the beginning of the period		**12 814 790**	**10 155 537**
Cash and cash equivalents at the end of the period	50	**10 615 862**	**12 814 790**

Notes to the financial statements presented on pages 10 - 152 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

Notes to the financial statements (cont.)

(In PLN thousand)

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

1. General information

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

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

The Bank's statistical REGON number is 000010205.

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

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

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

The consolidated financial statement of Bank Pekao S.A Group for the period ended on 31 December 2013 contain financial information of the Bank and its subsidiaries (together referred to as the 'Group'), and associated accounted for using equity method.

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

Notes to the financial statements (cont.)

(In PLN thousand)

2. Group structure

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
			31.12.2013	31.12.2012
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	100.00	100.00
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Leasing Sp. z o.o. (*)	Warsaw	Leasing services	36.49	36.49
Pekao Leasing Holding S.A., including:	Warsaw	Leasing services	80.10	80.10
Pekao Leasing Sp. z o.o.	*Warsaw*	*Leasing services*	*50.87*	*50.87*
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	100.00	100.00
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension fund management	65.00	65.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Financial services	100.00	100.00
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	100.00	100.00
Pekao Property S.A., including:	Warsaw	Real estate development	100.00	100.00
Metropolis Sp. z o.o.	*Warsaw*	*Real estate development*	-	*100.00*
Jana Kazimierza Development Sp. z o.o.	*Warsaw*	*Real estate development*	-	*100.00*
Property Sp. z o.o. (in liquidation), including:	Warsaw	Real estate management	100.00	100.00
FPB - Media Sp. z o.o.	*Warsaw*	*Real estate development*	*100.00*	*100.00*
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Business consulting	100.00	100.00
Pekao Telecentrum Sp. z o.o. (in liquidation)	Warsaw	Services	100.00	100.00
Public Joint Stock Company UniCredit Bank, including:	Kiev, Ukraine	Banking	-	100.00
BDK Consulting Ltd.	*Lutsk, Ukraine*	*Consulting, hotel and transport services*	-	*99.99*

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

As at 31st December 2013, all of the subsidiaries have been consolidated.

Notes to the financial statements (cont.)

(In PLN thousand)

Associates

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
			31.12.2013	31.12.2012
Dom Inwestycyjny Xelion Sp. z o.o. (*)	Warsaw	Financial intermediary	50.00	50.00
Pioneer Pekao Investment Management S.A.	Warsaw	Asset management	49.00	49.00
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing house	34.44	34.44
CPF Management	Tortola, British Virgin Islands	Financial brokerage – not operating	40.00	40.00
Polish Banking System S.A. (in liquidation)	Warsaw	Pending liquidation	48.90	48.90
PPU Budpress Sp. z o.o. (in liquidation)	Żyrardów	Pending liquidation	36.20	36.20

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

As at 31 December 2013, the Group held no shares in entities under common control.

Changes in Group structure

Disposal of shares in PJSC UniCredit Bank

On 16 July 2013 the Bank sold 653 507 670 common shares of its subsidiary PJSC UniCredit Bank at the nominal value of UAH 1 per share, comprising 100% of shareholding capital of PJSC UniCredit Bank and carrying 100% of votes in the Shareholders' Meeting of PJSC UniCredit Bank to UniCredit S.p.A. (Parent Entity of the Bank). As a result of the transaction Bank Pekao S.A. lost its control over PJSC UniCredit Bank. The effect of the disposal of PJSC UniCredit Bank was recognized in the equity of the Bank and the Group.

Business combination

On 3 June 2013, the District Court for the Capital City of Warsaw, XII Commercial Division of the National Court Registry registered the merger of Pekao Property S.A. with its subsidiaries Metropolis Sp. z o.o. and Jana Kazimierza Development Sp. z o.o. The acquired entities were removed from National Court Registry and Pekao Property S.A. books. Pekao Property S.A had 100% shares in the acquired entities.

In preceding reporting periods, Metropolis Sp. z o.o. and Jana Kazimierza Development Sp. z o.o. have been consolidated.

The main purpose of the merger was to decrease general costs of the combined entities.

The transaction was classified as a business combination under common control and was recognized at book value. Such approach is consistent with the accounting policy of UniCredit Group which was described in consolidated financial statements of Bank Pekao S.A. Group for the period ended on 31 December 2012.

As a result of the merger the whole capital of Metropolis Sp. z o.o. and Jana Kazimierza Development Sp. z o.o. has been transferred to Pekao Property S.A.

Pekao Property S.A as the acquiring entity recognized the assets and liabilities of the acquired entities at their book values, adjusted exclusively for the purpose of aligning the accounting principles. Pursuant to the above transaction, neither positive nor negative goodwill has been recognized.

The share capital of the acquired entities, equal to the share of the acquiring entity was eliminated. The mutual receivables and liabilities, income and expenses arising from transactions concluded between the entities prior to the merger also were eliminated.

(In PLN thousand)

Assets and liabilities recognized at merger date

The following assets and liabilities have been transferred from Metropolis Sp. z o.o. and Jana Kazimierza Development Sp. z o.o. to Pekao Property S.A. on 3 June 2013:

ITEM	JANA KAZIMIERZA DEVELOPMENT SP. Z O.O.	METROPOLIS SP. Z O.O.
Assets		
Cash	1 921	513
Income tax assets	696	143
Other assets	57 110	21 349
TOTAL ASSETS	**59 727**	**22 005**
Liabilities		
Loans and advances	53 426	16 747
Other liabilities	1 652	1 269
Total equity	4 649	3 989
in this: net profit for the period	*43*	*(167)*
TOTAL LIABILITIES AND EQUITY	**59 727**	**22 005**

3. Approval of the Financial Statements

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

4. Significant accounting policies

4.1 Statement of compliance

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

Notes to the financial statements (cont.)

(In PLN thousand)

4.2 Basis of preparation of Consolidated Financial Statements

General information

These Consolidated Financial Statements of the Group, which have been prepared for the period from January 1 to December 31, 2013, contain the financial results of the Bank and of its subsidiaries, comprising the 'Group', as well as the results of associated entities, measured using the equity method.

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

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

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

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

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

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

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

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

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

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

Consolidated Financial Statements of the Group have been prepared based on the following valuation methods:

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

Changes in accounting policy and presentation of financial data

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

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

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

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

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

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

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

Additionally the Group estimates the part of the remuneration which will be refunded in the future (eg. due to early termination of insurance contract, early repayment of loan). The estimate of the provision for future refunds is based on the analysis of historical data and expectations in respect to refunds trend in the future.
In consequence of the application of amended accounting policy the Group recognized upfront 12% of bancassurance revenue associated with cash loans and 30% of bancassurance revenue associated with mortgage loans in 2013. The remaining portion of bancassurance revenue is amortized over the life of the associated loans as part of effective interest rate.
The introduced changes in the accounting policy in respect to recognition of revenue from sale of insurance products linked to loans more appropriately reflect the substance of the transaction and the characteristics of products offered by the Group.

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

b) Actuarial gains and losses

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Consolidated statement of financial position

ASSETS	31.12.2012 (BEFORE RESTATEMENT)	RESTATEMENT	31.12.2012 (AFTER RESTATEMENT)	01.01.2012 (BEFORE RESTATEMENT)	RESTATEMENT	01.01.2012 (AFTER RESTATEMENT)
Loans and advances to customers	95 081 492	(240 901)	94 840 591	92 816 389	(227 648)	92 588 741
Deferred tax assets	820 085	45 771	865 856	888 002	43 253	931 255
Other items of assets	55 048 253	-	55 048 253	52 885 715	-	52 885 715
TOTAL ASSETS	**150 949 830**	**(195 130)**	**150 754 700**	**146 590 106**	**(184 395)**	**146 405 711**
LIABILITIES AND EQUITY						
Liabilities						
Total liabilities	**127 491 048**	**-**	**127 491 048**	**125 233 176**	**-**	**125 233 176**
EQUITY						
Share capital	262 470	-	262 470	262 382	-	262 382
Other capital and reserves	20 023 141	(11 171)	20 011 970	18 035 191	(13 337)	18 021 854
Retained earnings and profit for the period	3 080 934	(183 959)	2 896 975	2 973 890	(171 058)	2 802 832
Total equity (attributable to equity holders of the Bank)	**23 366 545**	**(195 130)**	**23 171 415**	**21 271 463**	**(184 395)**	**21 087 068**
Non-controlling interest	92 237	-	92 237	85 467	-	85 467
Total equity	**23 458 782**	**(195 130)**	**23 263 652**	**21 356 930**	**(184 395)**	**21 172 535**
TOTAL LIABILITIES AND EQUITY	**150 949 830**	**(195 130)**	**150 754 700**	**146 590 106**	**(184 395)**	**146 405 711**

Notes to the financial statements (cont.)

(In PLN thousand)

Consolidated income statement

	2012 CONTINUED AND DISCONTINUED OPERATIONS TOTAL (BEFORE RESTATEMENT)	RESTATEMENT	2012 CONTINUED AND DISCONTINUED OPERATIONS TOTAL (AFTER RESTATEMENT)
Interest income	8 316 057	121 755	8 437 812
Interest expense	(3 510 638)	-	(3 510 638)
Net interest income	**4 805 419**	**121 755**	**4 927 174**
Fee and commission income	2 798 200	(135 008)	2 663 192
Fee and commission expense	(541 319)	-	(541 319)
Net fee and commission income	**2 256 881**	**(135 008)**	**2 121 873**
Dividend income	**8 759**	**-**	**8 759**
Result on financial assets and liabilities held for trading	**510 136**	**-**	**510 136**
Result on fair value hedge accounting	**(35 751)**	**-**	**(35 751)**
Gains (losses) on disposal of:	**279 199**	**-**	**279 199**
loans and other financial receivables	758	-	758
available for sale financial assets and held to maturity investments	278 744	-	278 744
financial liabilities	(303)	-	(303)
Operating income	**7 824 643**	(13 253)	**7 811 390**
Net impairment losses on financial assets and off-balance sheet commitments	**(669 454)**	**-**	**(669 454)**
loans and other financial receivables	(642 622)	-	(642 622)
off-balance sheet commitments	(26 832)	-	(26 832)
Net result on financial activity	**7 155 189**	**(13 253)**	**7 141 936**
Administrative expenses	**(3 260 283)**	**(2 674)**	**(3 262 957)**
personnel expenses	(1 907 323)	(2 674)	(1 909 997)
other administrative expenses	(1 352 960)	-	(1 352 960)
Depreciation and amortization	**(368 838)**	**-**	**(368 838)**
Net result on other provisions	**(15 327)**	**-**	**(15 327)**
Net other operating income and expenses	**94 393**	**-**	**94 393**
Operating costs	**(3 550 055)**	(2 674)	**(3 552 729)**
Gains (losses) on associates	**52 866**	**-**	**52 866**
Gains (losses) on disposal of property, plant and equipment, and intangible assets	**22 261**	**-**	**22 261**
Profit before income tax	**3 680 261**	**(15 927)**	**3 664 334**
Income tax expense	(715 008)	3 026	(711 982)
Net profit for the period	**2 965 253**	**(12 901)**	**2 952 352**
1. Attributable to equity holders of the Bank	2 955 702	(12 901)	2 942 801
2. Attributable to non-controlling interest	9 551	-	9 551

EARNINGS PER SHARE (IN PLN PER SHARE)			
basic for the period	11.26		11.22
diluted for the period	11.26		11.22

The introduced changes in accounting policy concerned the income statement from continued operations.

Notes to the financial statements (cont.)

(In PLN thousand)

Consolidated statement of comprehensive income

	2012 (BEFORE RESTATEMENT)	RESTATEMENT	2012 (AFTER RESTATEMENT)
Net profit for the period	**2 965 253**	**(12 901)**	**2 952 352**
1. Attributable to equity holders of the Bank	2 955 702	(12 901)	2 942 801
2. Attributable to non-controlling interest	9 551	-	9 551
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences	(46 619)	-	(46 619)
Changes in fair value of available-for-sale financial assets	761 876	-	761 876
Changes in fair value of cash flow hedges	(40 119)	-	(40 119)
Tax on items that are or may be reclassified subsequently to profit or loss	(127 650)	-	(127 650)
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liabilities	-	2 674	2 674
Tax on items that never be reclassified to profit or loss	-	(508)	(508)
Other comprehensive income (net of tax)	**547 488**	**2 166**	**549 654**
Total comprehensive income	**3 512 741**	**(10 735)**	**3 502 006**
1. Attributable to equity holders of the Bank	3 503 190	(10 735)	3 492 455
2. Attributable to non-controlling interest	9 551	-	9 551

Notes to the financial statements (cont.)

(In PLN thousand)

Consolidated cash flow statement

	2012 (BEFORE RESTATEMENT)	RESTATEMENT	2012 (AFTER RESTATEMENT)
Cash flow from operating activities – indirect method			
Net profit for the period	**2 955 702**	**(12 901)**	**2 942 801**
Adjustments for:	**(2 856 963)**	**12 901**	**(2 844 062)**
Depreciation and amortization	368 838	-	368 838
Share of profit (loss) of associates	(53 263)	-	(53 263)
(Gains) losses on investing activities	(283 117)	-	(283 117)
Dividend received	(8 759)	-	(8 759)
Interests received	(7 202 439)	-	(7 202 439)
Interests paid	3 410 338	-	3 410 338
Income tax	715 008	(2 518)	712 490
Income tax paid	(893 970)	-	(893 970)
Change in loans and advances to banks	487 022	-	487 022
Change in financial assets held for trading and other financial instruments at fair value through profit or loss	286 673	-	286 673
Change in derivative financial instruments (assets)	(492 823)	-	(492 823)
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank	3 593 403	13 253	3 606 656
Change in receivables from finance leases	144 829	-	144 829
Change in investment (placement) securities	(361 105)	-	(361 105)
Change in other assets	119 328	2 166	121 494
Change in amounts due to banks	1 635 779	-	1 635 779
Change in financial liabilities held for trading	246 578	-	246 578
Change in derivative financial instruments (liabilities) and other financial instruments at fair value	113 599	-	113 599
Change in amounts due to customers	(3 467 900)	-	(3 467 900)
Change in debt securities issued	(78 786)	-	(78 786)
Change in provisions	45 626	-	45 626
Change in other liabilities	(1 181 822)	-	(1 181 822)
Net cash flows from operating activities	**98 739**	**-**	**98 739**
Cash flow from investing activities			
Net cash flows from investing activities	**2 308 689**	**-**	**2 308 689**
Cash flows from financing activities			
Net cash flows from financing activities	**251 825**	**-**	**251 825**
Total net cash flows	**2 659 253**	**-**	**2 659 253**
including: effect of exchange rate fluctuations on cash and cash equivalents held	(261 587)	-	(261 587)
Net change in cash and cash equivalents	**2 659 253**	**-**	**2 659 253**
Cash and cash equivalents at the beginning of the period	**10 155 537**	**-**	**10 155 537**
Cash and cash equivalents at the end of the period	**12 814 790**	**-**	**12 814 790**

4.3 Consolidation

Principles for consolidation
The consolidated financial statements of Bank Pekao S.A. Group include the financial data of Bank Pekao S.A. and its subsidiaries as at 31 December 2013. Financial statements of the subsidiaries are prepared for the same reporting date as those of the parent entity, using consistent accounting policy within the Group in all important aspects.

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

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

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

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

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

The adopted accounting policy is as follows:

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

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

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

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

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

On acquisition of the investment, any difference between the cost of the investment and the Group's share in the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

- goodwill relating to an associate is included in the carrying amount of the investment.
- any excess of the Group's share in the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Group's share in the associate's profit or loss in the period in which the investment is acquired.

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

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

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

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

4.4 Accounting estimates

Preparation of financial statements in accordance with IFRS requires the Group to make certain estimates and to adopt certain assumptions, which affect the amounts of assets 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 circumstances. Although the estimates are based on the best knowledge of current conditions and activities which the Group will undertake, the actual results may differ from such estimates.

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

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

Measurement of derivatives and unquoted debt securities available for sale
The fair value of non-option derivatives and debt securities available for sale that do not have a quoted market price on an active market is measured using valuation models based on discounted cash flows. Options are valued using option valuation models. Variables used for valuation purposes include, where possible, the data from observable markets. However, the Group also adopts assumptions concerning counterparty's credit risks which affect the valuation of instruments. The adoption of other measurement assumptions may affect the valuation of these financial instruments. The assumptions used for fair value measurement are described in detail in Note 5.7 'Fair value of financial assets and liabilities'.

Provisions for defined benefit plans
The principal actuarial assumptions applied to estimation of provisions for defined benefit plans, as well as the sensitivity analysis were presented in Note 44.

(In PLN thousand)

Goodwill
The Group performs an impairment test of goodwill on a yearly basis or more often if impairment triggers occur. The assessment of goodwill impairment requires an estimate of value in use of all cash-generating units to which the goodwill relates. The principal assumptions applied to an impairment test of goodwill were presented in Note 34.

4.5 Foreign currencies

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

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

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

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

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

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

  - to translate statement of financial position items as at 31 December 2013 and as at 31 December 2012, average exchange rates announced by the NBP on 31 December 2013 and on 31 December 2012, respectively, have been used:

	31.12.2013	31.12.2012
PLN for EUR 1	4.1472	4.0882

	15.07.2013	31.12.2012
PLN for UAH 1	0.4034	0.3825

Notes to the financial statements (cont.)

(In PLN thousand)

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

	2013	2012
PLN for EUR	4.2110	4.1736

	15.07.2013	31.12.2012
PLN for UAH 1(*)	0.3960	0.4001

(*) arithmetic average values of exchange rates announced by the NBP as at the last date of each month during the period from 1 January 2013 until 31 December 2013 and during the period from 1 January 2012 until 31 December 2012.

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

4.6 Income statement

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

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

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

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

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

Fee and commission income and expense
Fee and commission income is generated from financial services provided by the Group. Fee and commission income and expense is recognized in the profit or loss using the following methods:
- fees and commissions directly attributable to financial asset or liability origination (both income and expense) are recognized in the income statement using the effective interest rate method and are described above,
- fees and commissions relating to the loans and advances without a defined repayment schedule and without a defined interest rate schedule e.g. overdraft facilities and credit cards are amortized over the life of the product using the straight line method,

(In PLN thousand)

- other fees and commissions arising from the Group's financial services offering (customer account transaction charges, credit card servicing transactions, brokerage activity and canvassing) are recognized in the income statement up-front when the corresponding service is provided.

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

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

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

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

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

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

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

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

4.7 Valuation of financial assets and liabilities, derivative financial instruments

Financial assets
Financial assets are classified into the following categories:

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

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

  Financial assets classified at the moment of original recognition as financial assets measured at fair value through profit or loss include debt securities acquired by the Group for the purpose of elimination or considerable reduction of inconsistencies in the valuation between these securities and the derivatives, which are economically hedging the

Notes to the financial statements (cont.)

(In PLN thousand)

interest rate risk of such securities. Otherwise, such securities would have been classified into the available for sale portfolio, with the effect of valuation recognized in revaluation reserves, and valuation of derivatives economically hedging such securities reported in the income statement.

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

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

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

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

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

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

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

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

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

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

Derivative instruments are recognized or derecognized on transaction dates.

Reclassification of financial assets

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

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

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

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

Impairment of financial assets

Assets measured at amortized cost – loans and advances

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

Financial assets available for sale

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

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

Off-balance sheet commitments

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

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

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

Repo and reverse-repo agreements

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Cash flow hedge accounting principles

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

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

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

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

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

Financial liabilities

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

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

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

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

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

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

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

(In PLN thousand)

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

Intangible assets

Goodwill

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

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

Other intangible assets

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

These mainly include:

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

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

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

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

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

Property, plant and equipment

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

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

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

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

(In PLN thousand)

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

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

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

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

a) depreciation rates applied for non-current assets:

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

b) amortization rates for intangible assets:

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

c) depreciation rates for investment properties:

Buildings and structures	1.5% – 10.0%

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

Provisions

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

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

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

Deferred income and accrued expenses (liabilities)

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

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

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

Equity of the Group

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

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

Group equity consists of the following:

a) share capital - applies only to the capital of the Bank as the parent entity and is presented at nominal value specified in the Articles of Association and in the entry in the Enterprises Registry,
b) 'issue premium' - surplus generated during share issues over the nominal value of such issues, remaining after the issue costs are covered. Moreover, this item also includes a change in the value of minority shares, ensuing from an increase of the share of the Parent entity in Bank's share capital. This accounting principle is in accordance with the accounting principles applied by UniCredit Group,
c) the general banking risk fund is established at Bank Pekao S.A. in keeping with the Banking Act dated 29 August 1997 from profit after tax,
d) other reserve capital utilized for the purposes defined in the Statute is created from appropriations of profits,
e) revaluation reserve includes the impact of valuation of financial instruments available for sale, effects of valuation of derivative instruments hedging cash flows, remeasurements of the defined benefit liabilities and the value of deferred tax for items classified as temporary differences, recognized as valuation allowance. In the statement of financial position, the valuation allowance is presented as net value,
f) exchange rate differences include differences arising from valuation of net assets in foreign entities and from the recalculation of the result of a foreign branch at the weighted average exchange rate at the balance sheet date in relation to the average NBP exchange rate,

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

Share-based payments
Employee participation programs are established by the Group under which key management staff is granted pre-emptive rights to buy shares of the Bank and shares of UniCredit S.p.A. (see Note 45).

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

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

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

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

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

4.9 Income tax

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

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

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

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

4.10 Other

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

- a potential obligation the existence of which will be confirmed upon occurrence or non-occurrence of uncertain future events that are beyond the control of the Group (e.g. litigations),

- a current obligation which arises as a result of past events but is not recognized in the statement of financial position as it is improbable that it will result in an outflow of benefits to settle the obligation or the amount of the obligation cannot be reliably measured (mainly: unused credit lines and guarantees and letters of credit issued).

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

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

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

5. Risk management

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

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

5.1 Organizational structure of risk management

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

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

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

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

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

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

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

Risk Management Division

The Division is responsible for:

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

5.2 Credit risk

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

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

The Bank established the following portfolio limits:

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

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

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

Rating models utilized in the credit risk management process

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

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

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

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

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

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

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

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

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

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

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

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

Rating scale

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

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

Group's exposure to credit risk

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

	31.12.2013	31.12.2012
Due from Central Bank	2 086 608	6 978 878
Loans and advances from banks and from customers (*)	108 560 530	98 894 598
Receivables from finance leases	2 931 248	2 717 931
Financial assets held for trading	188 377	600 543
Derivative financial instruments (held for trading)	1 996 934	2 649 097
Hedging instruments	250 186	367 890
Investment securities	34 995 737	28 735 442
Other assets (**)	2 001 186	1 852 168
Balance sheet exposure (***)	**153 010 806**	**142 796 547**
Obligations to grant loans	26 718 217	23 168 667
Other contingent liabilities	11 725 220	10 683 427
Off-balance sheet exposure	**38 443 437**	**33 852 094**
Total	**191 454 243**	**176 648 641**

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

Notes to the financial statements (cont.)

(In PLN thousand)

Credit risk mitigation methods

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

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

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

The financial effect of pledged collaterals for exposure portfolio with recognized impairment defined individually amounts to PLN 1 532 423 thousand as at the 31st December 2013 (1 015 598 thousand as of the 31st December 2012). The level of required impairment allowances for the portfolio would increase by this amount, if the discounted cash flows from collateral were not taken into account during estimation.

Notes to the financial statements (cont.)

(In PLN thousand)

Offsetting financial assets and financial liabilities

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

The netting agreements concluded by the Group are:

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

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

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

- derivatives,
- repo and reverse-repo transactions.

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

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

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

31.12.2013	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	2 247 120	(1 697 696)	(145 840)	403 584
Reverse-repo transactions	2 130 711	(2 128 726)	(723)	1 262
TOTAL	**4 377 831**	**(3 826 422)**	**(146 563)**	**404 846**

31.12.2013	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	3 059 385	(1 697 696)	(831 035)	530 654
Repo transactions	450 113	(442 179)	-	7 934
TOTAL	**3 509 498**	**(2 139 875)**	**(831 035)**	**538 588**

Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2012	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	3 016 987	(2 110 290)	(182 294)	724 403
Reverse-repo transactions	79 519	(79 519)	-	-
TOTAL	**3 096 506**	**(2 189 809)**	**(182 294)**	**724 403**

31.12.2012	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	3 847 579	(2 110 290)	(1 022 698)	714 591
Repo transactions	1 374 305	(1 371 927)	-	2 378
TOTAL	**5 221 884**	**(3 482 217)**	**(1 022 698)**	**716 969**

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

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

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

31.12.2013	NET CARRYING AMOUNT	LINE ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	1 926 337	Derivative financial instruments (held for trading)	1 996 934	70 597	26
	165 954	Hedging instruments	250 186	84 232	29
Reverse-repo transactions	2 130 711	Loans and advances to banks	7 547 785	5 417 074	24
FINANCIAL LIABILITIES					
Derivatives	1 921 502	Derivative financial instruments (held for trading)	2 051 501	129 999	26
	1 007 884	Hedging instruments	1 007 884	-	29
Repo transactions	450 113	Amounts due to other banks	6 417 657	5 967 544	39

Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2012	NET CARRYING AMOUNT	LINE ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	2 467 387	Derivative financial instruments (held for trading)	2 649 097	181 710	26
	187 847	Hedging instruments	367 890	180 043	29
Reverse-repo transactions	79 519	Loans and advances to banks	4 053 848	3 974 329	24
FINANCIAL LIABILITIES					
Derivatives	2 432 359	Derivative financial instruments (held for trading)	2 620 798	188 439	26
	1 226 781	Hedging instruments	1 226 781	-	29
Repo transactions	1 374 305	Amounts due to other banks	7 782 672	6 408 367	39

Overall characteristics of monitoring process

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

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

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

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

Overall characteristics of provisioning model

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

The quality analysis of the Group's financial assets

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
- not past due	-	-	1 198 456	904 565
- up to 1 month	-	-	106 104	39 339
- between 1 month and 3 months	-	-	465 519	50 719
- between 3 months and 1 year	-	-	480 219	1 499 237
- between 1 year and 5 years	18 089	62 964	2 185 912	1 365 841
- above 5 years	-	-	891 043	881 377
Total gross carrying amount	**18 089**	**62 964**	**5 327 253**	**4 741 078**
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(353 300)	(173 859)
- up to 1 month	-	-	(50 808)	(12 322)
- between 1 month and 3 months	-	-	(134 547)	(21 288)
- between 3 months and 1 year	-	-	(187 465)	(427 576)
- between 1 year and 5 years	(9 788)	(54 000)	(1 215 406)	(825 083)
- above 5 years	-	-	(764 625)	(755 556)
Total allowance for impairment	**(9 788)**	**(54 000)**	**(2 706 151)**	**(2 215 684)**
Net carrying amount of exposure individually impaired	**8 301**	**8 964**	**2 621 102**	**2 525 394**
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
- not past due	-	-	79 187	80 039
- up to 1 month	-	-	34 588	33 618
- between 1 month and 3 months	-	-	31 796	38 431
- between 3 months and 1 year	-	10	419 020	509 853
- between 1 year and 5 years	-	-	1 499 976	1 502 453
- above 5 years	15 662	15 833	554 932	589 327
Total gross carrying amount	**15 662**	**15 843**	**2 619 499**	**2 753 721**
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(47 205)	(42 471)
- up to 1 month	-	-	(17 655)	(16 826)
- between 1 month and 3 months	-	-	(16 259)	(18 373)
- between 3 months and 1 year	-	(10)	(243 582)	(281 900)
- between 1 year and 5 years	-	-	(1 164 615)	(1 180 032)
- above 5 years	(15 662)	(15 833)	(534 163)	(575 759)
Total allowance for impairment	**(15 662)**	**(15 843)**	**(2 023 479)**	**(2 115 361)**
Net carrying amount of exposure collectively impaired	**-**	**-**	**596 020**	**638 360**

(*) Loans and advances to banks and loans and advances to customers include receivables from financial leases.

Notes to the financial statements (cont.)

(In PLN thousand)

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)			
			CORPORATE		RETAIL	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
- not past due	7 546 525	4 045 377	57 931 568	55 682 247	40 549 982	36 687 618
- up to 30 days	-	-	558 198	574 694	1 349 761	1 393 332
- between 30 days and 60 days	-	-	141 798	161 777	187 471	215 717
- above 60 days	-	-	171 797	88 140	303 184	117 871
Total gross carrying amount	**7 546 525**	**4 045 377**	**58 803 361**	**56 506 858**	**42 390 398**	**38 414 538**
IBNR PROVISION						
- not past due	(300)	(321)	(216 141)	(251 956)	(124 897)	(134 930)
- up to 30 days	-	-	(5 031)	(5 646)	(86 629)	(88 757)
- between 30 days and 60 days	-	-	(1 989)	(2 067)	(22 280)	(23 584)
- above 60 days	-	-	(1 219)	(816)	(15 443)	(18 885)
Total IBNR provision	**(300)**	**(321)**	**(224 380)**	**(260 485)**	**(249 249)**	**(266 156)**
Net carrying amount of exposure with no impairment	**7 546 225**	**4 045 056**	**58 578 981**	**56 246 373**	**42 141 149**	**38 148 382**

(*) Loans and advances to banks and loans and advances to customers include receivables from financial leases and bills of exchange eligible for rediscounting at Central Bank.

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
IMPAIRED EXPOSURE				
Gross carrying amount	33 751	78 807	7 946 752	7 494 799
Allowance for impairment	(25 450)	(69 843)	(4 729 630)	(4 331 045)
Total net carrying amount	**8 301**	**8 964**	**3 217 122**	**3 163 754**
EXPOSURES WITH IMPAIRMENT TRIGGERS FOR WHICH NO IMPAIRMENT HAS BEEN IDENTIFIED				
Gross carrying amount, in this:	-	-	154 064	134 037
Exposure with collateral value included in expected discounted cash flow, in this	-	-	*154 064*	*134 037*
Past due exposures	-	-	*42 524*	*4 300*
IBNR provision	-	-	(3 588)	(4 916)
Total net carrying amount	**-**	-	**150 476**	**129 121**
EXPOSURES WITH NO IMPAIRMENT TRIGGERS				
Gross carrying amount	7 546 525	4 045 377	101 039 695	94 787 359
IBNR provision	(300)	(321)	(470 041)	(521 725)
Total net carrying amount	**7 546 225**	**4 045 056**	**100 569 654**	**94 265 634**

(*) Loans and advances to banks and loans and advances to customers include receivables from financial leases and bills of exchange eligible for rediscounting at Central Bank.

Notes to the financial statements (cont.)

(In PLN thousand)

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

RATING	DEBT SECURITIES				
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS	TOTAL
AA+ to AA-	-	262 534	-	-	262 534
A+ to A-	188 377	17 667 014	1 124 015	5 694 771	24 674 177
BBB+ to BBB-	-	248 865	-	-	248 865
no rating	-	14 836 974(*)	837 755(**)	-	15 674 729
Total	**188 377**	**33 015 387**	**1 961 770**	**5 694 771**	**40 860 305**

(*) including NBP bills in an amount of PLN 14 159 186 thousand.
(**) including NBP bills in an amount of PLN 837 755 thousand.

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

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

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

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

RATING	DERIVATIVES						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			TOTAL
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	8	-	-	-	-	-	8
AA+ to AA-	88 394	-	-	11 492	-	-	99 886
A+ to A-	1 290 956	31 507	-	116 674	-	-	1 439 137
BBB+ to BBB-	193 747	-	1 446	23 945	-	-	219 138
BB+ to BB-	31 553	-	2 861	-	-	-	34 414
B+ to B-	-	-	1 141	-	-	-	1 141
no rating	123 624	18 558	213 141	9 527	4 316	84 232	453 398
Total	**1 728 282**	**50 065**	**218 589**	**161 638**	**4 316**	**84 232**	**2 247 122**

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

Forbearance

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

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

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

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

Below table report evidences of forborne exposures

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

(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 2013 the maximum exposure limits set forth in the Banking Act were not exceeded.

a) Breakdown by individual entities:

As at 31.12.2013

EXPOSURE TO 10 LARGEST CLIENTS OF THE GROUP	% SHARE OF PORTFOLIO
Client 1	2.0%
Client 2	1.1%
Client 3	1.0%
Client 4	1.0%
Client 5	0.9%
Client 6	0.8%
Client 7	0.8%
Client 8	0.7%
Client 9	0.7%
Client 10	0.6%
Total	**9.6%**

b) Concentration by capital groups:
As at 31.12.2013

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE GROUP	% SHARE OF PORTFOLIO
Group 1	2.3%
Group 2	1.9%
Group 3	1.2%
Group 4	1.1%
Group 5	1.1%
Total	**7.6%**

c) Breakdown by industrial sectors:

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

SECTOR DESCRIPTION	31.12.2013	31.12.2012(*)
Services	15.1%	14.6%
Public administration	13.7%	13.2%
Energy	13.5%	14.0%
Real estate	12.7%	13.3%
Construction and timber industry	6.5%	7.2%
Transport	6.1%	5.0%
Financial intermediation	5.9%	6.8%
Manufacture of basic metals and fabricated metal products	5.4%	4.7%
Manufacture of chemical and pharmaceutical products	5.2%	5.9%
Manufacture of food products and beverages	3.5%	3.4%
Telecommunication and IT	2.9%	2.6%
Media and paper industry	2.5%	2.5%
Manufacture of vehicles	2.2%	2.4%
Other sectors	4.8%	4.4%
Total	**100.0%**	**100.0%**

(*) excluding PJSC UniCredit Bank.

Credit exposures towards Ukraine

In 2013 the Bank disposed all shares in its Ukrainian subsidiary PJSC UniCredit Bank (for details of this transaction please see Note 32).

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

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

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

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

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

(In PLN thousand)

5.3 Market risk

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

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

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

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

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

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

Market risk of the trading book
The Group'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 not be incurred with the probability of 1%. VaR value is calculated with historical simulation method based on 2 years of historical observations of market risk factors' dynamics. The set of factors used when calculating VaR consists of all significant market factors that are taken into account for valuation of financial instruments, excluding specific credit risk of an issuer and counterparty. Estimating the impact of changes in market factors on the present value of a given portfolio is performed under the full revaluation (which is a difference between the value of the portfolio after the adjustments in market parameters' levels by historically observed changes of the parameters and the present value of the portfolio). The set of probable changes in the portfolio value (distribution), VaR is defined to be equal to 1% quantile.

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

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

	31.12.2013	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	34	11	493	2 676
interest rate risk	1 361	802	1 383	2 997
Trading portfolio	1 022	831	1 457	3 236

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

Notes to the financial statements (cont.)

(In PLN thousand)

Interest rate risk of the banking book

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

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

SENSITIVITY IN %	31.12.2013	31.12.2012
NII	(7.41)	(8.77)
EVE	(1.81)	(0.47)

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

CURRENCY	31.12.2013	31.12.2012
Currencies total (*)	229	1 903

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

Notes to the financial statements (cont.)

(In PLN thousand)

5.4 Liquidity risk

The objective of liquidity risk management is to:

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

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

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

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

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

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

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

Monitoring the liquidity, the Group pays special attention to the liquidity in foreign currencies through monitoring, limiting and controlling the liquidity individually for each currency (according to the description above) as well as monitoring demand for the current and future currency liquidity and in case of identification of a such need the Group hedges using currency swaps. The Group monitors also the potential influence on the liquidity of placing required collateral deposits for derivative transaction.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 and assets without contractual repayment schedules. The Group includes as well the adjusted flows stemming from security portfolio and flows resulting from earlier repayment of mortgage loans portfolio. These are the main elements differentiating adjusted gaps from unadjusted ones. The maturity tables below present financial liabilities arranged according to contractual maturities.

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

Notes to the financial statements (cont.)

(In PLN thousand)

Adjusted liquidity gap

31.12.2013	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Periodic gap	2 399 257	(3 274 548)	11 145 607	22 422 083	(33 405 685)	(713 286)
Cumulated gap		(875 291)	10 270 316	32 692 399	(713 286)	

31.12.2012	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Periodic gap	10 153 103	(5 852 542)	11 507 600	20 307 437	(36 692 703)	(577 105)
Cumulated gap	-	4 300 561	15 808 161	36 115 598	(577 105)	-

Structure of financial liabilities by contractual maturities

31.12.2013	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	1 995 036	1 514 087	240 399	910 209	2 119 511	6 779 242
Amounts due to customers	96 230 388	12 882 381	10 407 193	590 427	56 339	120 166 728
Debt securities issued	1 403 210	616 232	259 491	341 839	727 072	3 347 844
Financial liabilities held for trading	-	-	163 892	93 692	52 158	309 742
Total	**99 628 634**	**15 012 700**	**11 070 975**	**1 936 167**	**2 955 080**	**130 603 556**
OFF-BALANCE SHEET COMMITMENTS (**)						
Off- balance sheet commitments Financial liabilities granted	27 097 699	-	-	-	-	27 097 699
Off- balance sheet commitments Guarantees liabilities granted	11 077 303	-	-	-	-	11 077 303
Total	**38 175 002**	**-**	**-**	**-**	**-**	**38 175 002**

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

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	3 612 070	1 596 565	587 824	550 223	1 651 979	7 998 661
Amounts due to customers	82 270 590	12 788 413	13 118 875	344 166	58 064	108 580 108
Debt securities issued	-	827 943	2 927 358	630 467	746 624	5 132 392
Financial liabilities held for trading	-	-	37 496	131 160	77 922	246 578
Total	**85 882 660**	**15 212 921**	**16 671 553**	**1 656 016**	**2 534 589**	**121 957 739**
OFF-BALANCE SHEET COMMITMENTS (*)						
Off- balance sheet commitments Financial liabilities granted	23 602 150	-	-	-	-	23 602 150
Off- balance sheet commitments Guarantees liabilities granted	10 318 308	-	-	-	-	10 318 308
Total	**33 920 458**	**-**	**-**	**-**	**-**	**33 920 458**

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

(In PLN thousand)

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

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

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

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

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

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2013	37 843	82 418	170 401	1 221 091	505 495	**2 017 248**
31.12.2012	25 853	123 149	246 296	1 522 062	878 871	**2 796 231**

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

UP TO 1 MONTH	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2013						
inflows	9 764 808	6 875 868	6 488 004	4 182 888	4 639 247	**31 950 815**
outflows	9 740 758	6 880 310	6 361 312	4 606 934	4 966 904	**32 556 218**
31.12.2012						
inflows	7 805 246	5 111 905	7 984 591	6 262 355	2 382 595	**29 546 692**
outflows	7 660 879	5 077 752	7 924 649	6 494 243	2 814 431	**29 971 954**

5.5 Operational risk

Qualitative information

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

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

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

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

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

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

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

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

(In PLN thousand)

The operational risk capital requirement for the Bank's subsidiaries is calculated using the standard method.

Qualitative information

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

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

OPERATING EVENTS BY CATEGORIES	2013	2012
Internal frauds	20.76%	23.25%
External frauds	18.38%	6.68%
Employment practices and workplace safety	10.20%	3.30%
Clients, products and business practices	15.12%	54.47%
Damages to physical assets	14.42%	5.10%
Business disruption and system failures	1.40%	1.15%
Execution, delivery and process management	19.72%	6.05%
Total	**100.00%**	**100.00%**

In 2013, operating losses were fairly evenly distributed between the categories. The largest share was losses from internal frauds which accounted for 20.76% of total losses (23.25% in 2012). The second category of high losses was execution, delivery and process management which comprised 19.72% of total losses (6.05% in 2012) and the third category – external frauds constituted 18.38% of share in total losses (6.68% in 2012).

(In PLN thousand)

5.6 Equity management

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

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

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

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

The capital adequacy of the Group is controlled by the Assets, Liabilities and Risk Management Committee and Management Board of 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 Group. Analyses and evaluations of directions of business development activities are performed assessing the compliance with capital requirements. Forecasting and monitoring of risk weighted assets, Bank's equity and capital adequacy ratio constitute an integral part of the planning and budgeting process, including stress tests.

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

Regulatory capital requirements
The basic measure applied in the measurement of capital adequacy is the capital adequacy ratio. The minimum capital adequacy ratio required by law equals to 8%, both for the Bank and the Group. As at the end of December 2013, the Group's capital adequacy ratio stood at 18.77%, i.e. more than twice as much as the minimum value required by the law.

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

The decrease of capital adequacy ratio in December 2013 compared with December 2012 (by 0.06 p.p.) was a result of an increase total capital requirements by 2.5%. The equity increased (by ca. plus 2.2%).

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

	31.12.2013	31.12.2012
Capital (Tier 1)	**19 769 361**	**19 028 607**
Share capital	262 470	262 470
Supplementary capital	9 460 689	9 475 495
Reserve capital	9 114 717	8 419 372
General risk fund for unidentified risk of banking operations	1 937 850	1 737 850
Retained earnings	-	125 232
Non-controlling interest	94 288	92 237
Deductions from the core capital:		
Foreign currency exchange rate translation differences	1 238	(128 768)
Intangible assets	(626 571)	(669 387)
Previous year loss	(191 976)	(183 959)
Unrealized losses from debt instruments available for sale	(187 566)	(1 836)
Unrealized losses from equity instruments available for sale	-	-
Negative amounts in respect of adjustments on revaluation of assets	(7 727)	(15 831)
Capital exposure to financial institutions	(88 051)	(84 268)
Supplementary funds (Tier 2)	**179 342**	**481 438**
Unrealized gains from debt instruments available for sale	264 548	563 053
Unrealized gains from equity instruments available for sale	2 845	2 653
Deductions:		
Capital exposure to financial institutions	(88 051)	(84 268)
Total equity	**19 948 703**	**19 510 045**
Capital adequacy ratio	**18.77%**	**18.83%**

Equity

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

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

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

As at 31 December 2013, the Group had core capital (Tier 1) in the amount of PLN 19 769 361 thousand.

The core capital is composed of:

- share capital in the amount of PLN 262 470 thousand relates only to the equity of parent entity, i.e. Bank Pekao S.A. and is expressed in nominal value in accordance with Articles of Association and entry to the Register of Entrepreneurs,
- supplementary capital is created according to the Bank's Articles of Association, from the appropriation of net profits and share premium. The share premium contains agio. Moreover, this position includes change in value of non-controlling interests resulting from an increase of the parent entity's stake in the share capital of the Bank. The supplementary capital amounted to PLN 9 460 689 thousand and comprised of a share premium in the amount of PLN 9 137 221 thousand and other items amounting to PLN 323 468 thousand,
- reserve capital in the amount of PLN 9 114 717 thousand is created from deductions from profits and serves objectives stated in the Bank's Articles of Association,

Notes to the financial statements (cont.)

(In PLN thousand)

- general risk fund for unidentified risk of banking operations accounted for PLN 1 937 850 thousand, and was created from profit after tax in line with the requirements of the Banking Act dated 29 of August 1997, as amended,
- non-controlling interest in the amount of PLN 94 288 thousand consitutes an additional item of the core capital calculated at the consolidated level. The non-controlling interest represents part of subsidiary's net assets (including part of profit or loss) which refers to the shares in equity that are not included directly or indirectly in the Bank's assets.

Deductions from the core capital:

- foreign currency exchange rate translation differences consitute an additional item of the core capital calculated at the consolidated level which covers exchange rate differences arising from translation of financial results of a foreign branch into Polish currency with the use of weighted average foreign exchange rate set at the balance sheet date in relation to the average NBP exchange rate and exchange rate transaltion differences resulting from revaluation of net assets in foreign entities. As at the end of December 2013, foreign exchange differences constitute a positive amount of PLN 1 238 thousand,
- intangible assets in the amount of PLN 626 571 thousand, decrease the Bank's core capital, according to Art. 127 of the Banking Act.,
- previous year loss in the amount of PLN 191 976 thousand, decrease the Bank's core capital, according to Art. 127 of the Banking Act, Loss is a result of accounting policy change regarding the recognition of revenue from sale of insurance products linked to loans resulting in a reduction of own funds in the position 'undivided profit/loss from previous years',
- all unrealised losses from debt and equity instruments available for sale according to Resolution No. 325/2011 Polish Financial Supervision Authority of 20 Decemebr 2011, as amended reduce the core capital in 100%. At the end of December 2013, the unrealised losses from debt and equity instruments available for sale amounted to PLN minus 187 566 thousand and compassed only unrealized losses from debt instruments classified as available for sale,
- negative amounts in respect of adjustments on revaluation of assets in the amount of PLN minus 7 727 thousand, pursuant to § 3 Sec. 1, Point 11 of the Resolution No. 325/2011 Polish Financial Supervision Authority of 20 December 2011. These amounts refer to the risk of valuation models as well as the cost of closing out the position and are valued for trading portfolio positions,
- capital exposure to financial institutions (this refers to capital exposure to domestic banks, foreign banks, lending institutions and financial institutions falling in line with § 6 Sec. 1 Resolution No. 325/2011 Polish Financial Supervision Authority of 20 December 2011) accounted for PLN 176 102 thousand and constituted capital exposures resulted from shares nad interests held,
- pursuant to § 3 Sec. 1 Point 1, Sec. 3 and § 5 of the Resolution No. 325/2011 Polish Financial Supervision Authority of 20 December 2011, equity exposure to financial institutions is included in 50% of their amount in deductions from the core capital and the remaining 50% in the supplementary funds. However, if 50% of the equity exposure to financial institutions exceeds the supplementary funds, the difference is deducted from the core capital. Therefore the core capital in connection with this position amounted to PLN 88 051 thousand.

At the end of December 2013 the supplementary funds (Tier 2) amounted to 179 342 thosuand.

The supplementary funds are composed of:

- unrealized gains from debt instruments available for sale constitute the majority of the Group' s supplementary funds. At the end of December 2013, they amounted to PLN 330 685 thousand whereas unrealised gains from equity securities available for sale amounted to PLN 3 556 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 267 393 thousand.

In the deductions of supplementary funds are included capital exposures to financial institutions in the amount of PLN 88 051 thousand (for further explanation please see explanation above – capital exposure to financial institutions).

Notes to the financial statements (cont.)

(In PLN thousand)

Internal capital adequacy assessment

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

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

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

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

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

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

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

(In PLN thousand)

5.7 Fair value of financial assets and liabilities

Financial instruments that are measured at fair value in the consolidated statement of financial position of the Group

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 2013 and 31 December 2012, the Group classified the financial assets and liabilities measured at fair value into the following three categories, broken down by valuation level:

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

  Measurement at fair value is performed directly by a unit within Risk Management Division, independent from front-office units. Methodology of fair value measurement, including the changes of its parameterization are subject to approval of Assets and Liabilities Committee (ALCO). Adequacy of measurement methods is subject to on-going analysis and periodical reviews in framework of model risk management. Within the same unit, assessment of adequacy and significance of risk factors is performed, including assignment of valuation models to appropriate method class, according to established principles of classification. Principles of classification are regulated by internal procedures and subject to approval of the Management Board Member, responsible for the Financial Division.

31.12.2013	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	**18 121 702**	**17 081 469**	**266 293**	**35 469 464**
Financial assets held for trading	188 377	-	-	188 377
Derivative financial instruments, including:	-	1 994 309	2 625	1 996 934
- Banks	-	1 728 274	-	1 728 274
- Customers	-	266 035	2 625	268 660
Hedging instruments, including:	-	250 186	-	250 186
- Banks	-	161 638	-	161 638
- Customers	-	88 548	-	88 548
Securities available for sale	17 933 325	14 836 974	263 668	33 033 967
Liabilities:	**309 742**	**3 059 385**	**-**	**3 369 127**
Financial liabilities held for trading	309 742	-	-	309 742
Derivative financial instruments, including:	-	2 051 501	-	2 051 501
- Banks	-	1 741 216	-	1 741 216
- Customers	-	310 285	-	310 285
Hedging instruments, including:	-	1 007 884	-	1 007 884
- Banks	-	1 007 884	-	1 007 884
- Customers	-	-	-	-

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

2013	FINANCIAL ASSETS HELD FOR TRADING	ASSETS FROM DERIVATIVES	SECURITIES AVAILABLE FOR SALE	LIABILITIES FROM DERIVATIVES
Opening balance	**306 977**	**24 360**	**962 867**	**24 360**
Increases, including:	17 652 369	12 905	11 541	-
Reclassification	-	12 905	-	-
Acquisition	17 652 369	-	-	-
Gains on financial instruments	-	-	11 541	-
recognized in the income statement	-	-	11 540	-
recognized in revaluation reserves	-	-	1	-
Decreases, including:	(17 959 346)	(34 640)	(710 740)	(24 360)
Reclassification	-	(24 360)	(699 084)	(24 360)
Settlement/redemption	(970 080)	(7 621)	(11 656)	-
Sale	(16 989 266)	-	-	-
Loss on financial instruments	-	(2 659)	-	-
recognized in the income statement	-	(2 659)	-	-
Closing balance	**-**	**2 625**	**263 668**	**-**
Unrealized income from financial instruments held in portfolio until end of period, recognized in:	**-**	**(528)**	**351**	**-**
Income statement:	-	(528)	350	-
net interest income	-	-	350	-
result on financial assets and liabilities held for trading	-	(528)	-	-
Other components income	-	-	1	-

Notes to the financial statements (cont.)

(In PLN thousand)

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

2012	FINANCIAL ASSETS HELD FOR TRADING	ASSETS FROM DERIVATIVES	SECURITIES AVAILABLE FOR SALE	LIABILITIES FROM DERIVATIVES
Opening balance	**247 897**	**26 095**	**717 431**	**26 095**
Increases, including:	21 259 293	24 674	390 389	35 518
Acquisition	21 254 306	-	250 513	-
Derivatives transactions made in 2012	-	11 592	-	24 331
Revenues from financial instruments	4 987	13 082	139 876	11 187
recognized in the income statement	4 987	13 082	50 524	11 187
recognized in revaluation reserves	-	-	89 352	-
Decreases, including:	(21 200 213)	(26 409)	(143 953)	(37 253)
Settlement/redemption	(1 021 666)	(15 894)	(142 614)	(24 325)
Sale	(20 178 547)	-	(1 339)	-
Loss on financial instruments	-	(10 515)	-	(12 928)
recognized in the income statement	-	(10 515)	-	(12 928)
Closing balance	**306 977**	**24 360**	**963 867**	**24 360**
Unrealized income from financial instruments held in portfolio until end of period, recognized in:	**7 790**	**(1 461)**	**135 507**	**1 863**
Income statement:	7 790	(1 461)	99 139	1 863
net interest income	6 495	-	46 141	-
result on financial assets and liabilities held for trading	1 295	(1 461)	13	1 863
result on fair value hedge accounting	-	-	52 985	-
Other components income	-	-	36 368	-

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

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

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

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

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

(In PLN thousand)

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

FINANCIAL ASSET/LIABILITY	FAIR VALUE	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Interest rate derivatives	3 624	Discounted cash flow	PD	18%-32%	158	(30)
		Discounted cash flow	LGD	39%-49%	36	(36)
Corporate debt securities	252 225	Discounted cash flow	Credit spread	0.5%-1.3%	4 620	-

Financial instruments that are not measured at fair value in the consolidated statement of financial position of the Group

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

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

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

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

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

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

Since no quoted market prices are available for deposits, their fair values have been roughly estimated using valuation techniques with the assumption that the fair value of a deposit at the moment of its receipt is equal to its carrying amount. The fair value of term deposits is equal to the sum of future expected cash flows, discounted to the relevant balance sheet

Notes to the financial statements (cont)

(In PLN thousand)

date. The cash flow discount rate is defined as the relevant market risk-free rate, increased by the sales margin. Margin is computed on deposits acquired during last three months divided into deposit products group and time to maturity. In case of short term deposits (current deposits, overnights, saving accounts), fair value was assumed as equal to the carrying amount.

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

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

31.12.2013	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	4 191 229	4 191 229	-	-	4 191 229
Loans and advance to banks	7 547 785	7 548 960	-	4 466 311	3 082 649
Loans and advances to customers (*)	101 012 745	100 116 126	-	7 914 160	92 201 966
Receivables from financial leases	2 931 248	3 031 583	-	-	3 031 583
Debt securities held to maturity	1 961 770	1 984 030	1 146 271	837 759	-
Total Assets	**117 644 777**	**116 871 928**	**1 146 271**	**13 218 230**	**102 507 427**
Liabilities					
Amounts due to Central Bank	985	985	-	-	985
Amounts due to other banks	6 417 657	6 471 531	-	2 761 626	3 709 905
Amounts due to customers	119 796 706	119 429 152	-	3 667 699	115 761 453
Debt securities issued	3 063 737	3 070 638	-	3 070 638	-
Total Liabilities	**129 279 085**	**128 972 306**	**-**	**9 499 963**	**119 472 343**

(*) including bills of exchange eligible for rediscounting at Central Bank.

31.12.2012	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	9 207 285	9 207 285	-	-	9 207 285
Loans and advance to banks	4 053 848	4 054 284	-	745 515	3 308 769
Loans and advances to customers (*)	94 840 750	93 731 736	-	2 694 327	91 037 409
Receivables from financial leases	2 717 931	2 717 931	-	-	2 717 931
Debt securities held to maturity	2 847 783	2 896 977	2 222 184	674 793	-
Total Assets	**113 667 597**	**112 608 213**	**2 222 184**	**4 114 635**	**106 271 394**
Liabilities					
Amounts due to Central Bank	-	-	-	-	-
Amounts due to other banks	7 782 672	7 852 462	-	3 318 897	4 533 565
Amounts due to customers	107 992 608	107 998 069	-	5 104 425	102 893 644
Debt securities issued	4 758 736	4 773 372	-	4 773 372	-
Total Liabilities	**120 534 016**	**120 623 903**	**-**	**13 196 694**	**107 427 209**

(*) including bills of exchange eligible for rediscounting at Central Bank.

6. Custody activity

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

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

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

7. Brokerage activity

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

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

Centralny Dom Maklerski Pekao S.A. (CDM) is the largest and oldest brokerage firm on the Polish capital market. The aim of CDM is to service investment accounts as well as financial instruments accounts. The offering enables Clients to invest in inter alia shares, Treasury bonds, corporate bonds, certificates, funds' units, ETF and structured products. CDM grants to clients access to invest on derivatives markets, foreign markets and OTC markets. Clients are served in 61 Consumer Service Spots located mainly in Bank branches throughout Poland and through remote service channels of CDM24 (CDMInternet, TeleCDM, CDM Mobile) fully integrated with the Bank's electronic banking platform Pekao24.

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

	31.12.2013		31.12.2012	
	QUANTITY (pcs)	VALUE	QUANTITY (pcs)	VALUE
CLIENTS' FINANCIAL INSTRUMENTS				
Held on securities accounts	6 176 866 746	23 970 699	5 324 816 370	20 910 814
Equity securities and rights to such financial assets	6 157 981 756	22 330 882	5 287 903 484	19 793 204
Debt instruments and rights to such financial assets	18 884 990	1 639 817	36 912 886	1 117 610
Stored in a form of document	1 836 411	16 441 579	6 652 930 844	19 923 341
Equity securities and rights to such financial assets	1 836 411	16 441 579	6 652 930 844	19 923 341

Customers' cash on brokerage accounts

	31.12.2013	31.12.2012
Deposited on cash accounts in brokerage house and paid for securities bought in IPO or on the primary market	814 281	993 342
Other customers' cash	41 944	46 604
Total	**856 225**	**1 039 946**

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

	31.12.2013	31.12.2012
Receivables from exchange transactions, including:	40 895	89 203
Stock Exchanges	40 162	88 703
NewConnect	733	500
Total receivables	**40 895**	**89 203**
Liabilities from exchange transactions, including:	39 307	50 490
Stock Exchange	38 068	49 571
NewConnect	1 239	919
Total liabilities	**39 307**	**50 490**

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

	31.12.2013	31.12.2012
Receivables from clearing fund	2 304	2 577
Receivables from margin deposits	20 069	21 463
Other receivables	184	360
Total receivables	**22 557**	**24 400**
Amounts due to clearing fund	4	-
Amounts due to clearing fund	-	33
Other liabilities	506	464
Total liabilities	**510**	**497**

Notes to the financial statements (cont.)

(In PLN thousand)

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

	31.12.2013	31.12.2012
Receivables from compensation fund	8 578	8 515
Prepaid expenses - system maintenance fees	951	930
Deferred income – benefits from system	(9 529)	(9 445)
Total net balance sheet items concerning participation in the compensation fund	**-**	**-**

Settlement with entities running regulated securities markets and commodity exchanges

	31.12.2013	31.12.2012
Amounts due to Warsaw Stock Exchange	620	783
Total liabilities	**620**	**783**

8. Operating segments

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

The Model assumes that budgeting and monitoring of results at the segments' level includes all the components of income statement up to the gross profit level. Therefore, the income from the segments activities as well as operating costs related to those activities (including direct and allocated costs) and other components of income statement are attached to each segment.

The Group settles transactions between segments on an arms length basis by applying current market prices. Fund transfers between retail, privete, corporate and investment banking departments, and the Assets and Liabilities Committee (ALCO) and other units are based on market proces applicable to the funds' currency, including liquidity margins.

Operating segments

The operating segments of the Group are as follows:

- Retail banking – all banking activity related to retail customers (excluding private banking customers), small and micro companies with annual turnover not exceeding PLN 10 million, as well as results of subsidiaries, and share in net profit of those of associates accounted for using the equity method, that are assigned to the retail banking activity,
- Private banking – all banking activity related to the most affluent individual customers,
- Corporate and Investment banking – all banking activity related to the medium and large companies, interbank activities market, debt securities and other instruments, and results of the of the subsidiaries consolidated that are assigned to the Corporate and Investment banking activities,
- Assets and Liabilities Management and other – supervision and monitoring of fund transfers, other activities centrally managde as well as the results of subsidiaries and share in net profits of associated accounted for using equity method that are not assigned to other reported segments.

Notes to the financial statements (cont.)

(In PLN thousand)

Operating segments reporting for the period from 1 January to 31 December 2013

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING		ASSETS AND LIABILITIES MANAGEMENT AND OTHER (*)	TOTAL
			CONTINUED OPERATIONS	DISCONTINUED OPERATIONS		
Net interest income	**2 872 057**	**42 162**	**1 316 769**	**61 674**	**279 081**	**4 571 743**
Net non-interest income	**1 918 101**	**35 559**	**1 115 709**	**10 032**	**(85 803)**	**2 993 598**
Operating income	**4 790 158**	**77 721**	**2 432 478**	**71 706**	**193 278**	**7 565 341**
Personnel expenses	(1 104 951)	(17 563)	(270 903)	(21 145)	(466 613)	(1 881 175)
Other administrative expenses	(1 429 078)	(26 293)	(401 557)	(21 314)	622 377	(1 255 865)
Depreciation and amortization	(159 714)	(1 188)	(23 450)	(2 696)	(159 310)	(346 358)
Operating costs	**(2 693 743)**	**(45 044)**	**(695 910)**	**(45 155)**	**(3 546)**	**(3 483 398)**
Operating profit	**2 096 415**	**32 677**	**1 736 568**	**26 551**	**189 732**	**4 081 943**
Net result on other provisions	(500)	(1 608)	14 586	-	1 183	13 661
Net impairment losses on financial assets and off-balance sheet commitments	(249 801)	2 184	(393 017)	(5 215)	(17 801)	(663 650)
Net result on investment activities	2 116	-	(452)	-	20 612	22 276
Profit before income tax	**1 848 230**	**33 253**	**1 357 685**	**21 336**	**193 726**	**3 454 230**
Income tax expense (continuing operations)						(655 386)
Income tax expense (discontinued operations)				(3 854)		(3 854)
Net profit for the period (continuing operations)						**2 777 508**
Net profit for the period (discontinued operations)				**17 482**		**17 482**
Attributable to equity holders of the Bank						2 784 779
Attributable to non-controlling interest						10 211
Allocated assets	50 298 345	356 724	101 018 554	-	(2 495 562)	149 178 061
Unallocated assets						9 343 651
Total assets						**158 521 712**
Allocated liabilities	58 702 143	6 623 361	69 611 596	-	(4 169 831)	130 767 269
Unallocated liabilities						27 754 443
Total liabilities						**158 521 712**

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

Notes to the financial statements (cont.)

(In PLN thousand)

Operating segments reporting for the period from 1 January to 31 December 2012

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING		ASSETS AND LIABILITIES MANAGEMENT AND OTHER (*)	TOTAL
			CONTINUED OPERATIONS	DISCONTINUED OPERATIONS		
Net interest income	**2 701 349**	**44 009**	**1 442 496**	**127 089**	**674 253**	**4 989 196**
Net non-interest income	**1 873 790**	**27 697**	**1 116 718**	**35 853**	**(90 423)**	**2 963 635**
Operating income	**4 575 139**	**71 706**	**2 559 214**	**162 942**	**583 830**	**7 952 831**
Personnel expenses	(1 106 601)	(17 731)	(262 930)	(39 829)	(482 906)	(1 909 997)
Other administrative expenses	(1 472 105)	(26 657)	(424 014)	(37 780)	613 811	(1 346 745)
Depreciation and amortization	(167 466)	(1 112)	(23 939)	(6 460)	(169 861)	(368 838)
Operating costs	**(2 746 172)**	**(45 500)**	**(710 883)**	**(84 069)**	**(38 956)**	**(3 625 580)**
Operating profit	**1 828 967**	**26 206**	**1 848 331**	**78 873**	**544 874**	**4 327 251**
Net result on other provisions	525	(2 956)	(17 697)	-	4 801	(15 327)
Net impairment losses on financial assets and off-balance sheet commitments	(112 360)	(5 820)	(499 036)	(33 980)	(18 258)	(669 454)
Net result on investment activities	(326)	-	227	-	21 963	21 864
Profit before income tax	**1 716 806**	**17 430**	**1 331 825**	**44 893**	**553 380**	**3 664 334**
Income tax expense (continuing operations)						(703 694)
Income tax expense (discontinued operations)				(8 288)		(8 288)
Net profit for the period (continuing operations)						**2 915 747**
Net profit for the period (discontinued operations)				**36 605**		**36 605**
Attributable to equity holders of the Bank						2 942 801
Attributable to non-controlling interest						9 551
Allocated assets	46 207 252	503 928	90 690 473	2 256 730	575 651	140 234 034
Unallocated assets						10 520 666
Total assets						**150 754 700**
Allocated liabilities	56 025 897	6 172 629	64 995 028	1 791 842	(5 625 511)	123 359 885
Unallocated liabilities						27 394 815
Total liabilities						**150 754 700**

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

Reconciliation of operating income for reportable segments

	2013	2012
Total operating income for reportable segments	**7 565 341**	**7 952 831**
Share in gains (losses) from associates	(59 425)	(53 263)
Net other operating income and expenses	(103 422)	(94 393)
Refunding of administrative expenses	5 441	6 215
Operating income	**7 407 935**	**7 811 390**

(In PLN thousand)

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

On 16 July 2013 the Bank sold 100% shares of PJSC UniCredit Bank to UniCredit S.p.A.

The following table presents information about operating activity of the Group according to the geographical segments:

	POLAND	UKRAINE (DISCONTINUED OPERATIONS)	TOTAL
2013			
Net profit for the period attributable to equity holders of the Bank	2 767 297	17 482	2 784 779
Segment assets	158 521 712	-	158 521 712
2012			
Net profit for the period attributable to equity holders of the Bank	2 906 196	36 605	2 942 801
Segment assets	148 497 970	2 256 730	150 754 700

9. Interest income and expense

Interest income

	2013	2012
Loans and other receivables from customers	5 508 750	6 822 828
Interbank placements	185 116	278 963
Reverse repo transactions	93 832	161 693
Investment securities	974 642	1 129 711
Financial assets held for trading	11 950	44 617
Total	**6 774 290**	**8 437 812**

Interest income for 2013 includes income from impaired financial assets in the amount of PLN 351 885 thousand (in 2012 PLN 347 515 thousand).

Total amount of interest income for 2013 measured at amortized cost using the effective interest rate method, which applies to financial assets not measured at fair value through profit or loss, amounted to PLN 4 161 426 thousand (in 2012 PLN 4 869 940 thousand).

Notes to the financial statements (cont.)

(In PLN thousand)

Interest expense

	2013	2012
Deposits from customers	(1 917 343)	(2 995 901)
Interbank deposits	(42 284)	(52 394)
Repo transactions	(102 411)	(168 677)
Loans and advance received	(56 756)	(107 201)
Debt securities issued	(149 934)	(186 465)
Total	**(2 268 728)**	**(3 510 638)**

Total amount of interest expenses for 2013, measured at amortized cost using the effective interest rate method with reference to financial liabilities, which are not valued at fair value through profit or loss amounted to PLN 1 939 446 thousand (in 2012 PLN 3 119 201 thousand).

10. Fee and commission income and expense

Fee and commission income

	2013	2012
Accounts maintenance, payment orders and cash transactions	711 471	798 649
Payment cards	895 197	901 056
Loans and advances	377 706	401 402
Investment products sales intermediation	296 950	238 745
Securities operations	115 666	120 897
Custody activity	55 913	52 687
Pension and investment funds service fees	65 508	61 205
Guarantees, letters of credit and similar transactions	51 926	50 091
Other	84 725	38 460
Total	**2 655 062**	**2 663 192**

Fee and commission expense

	2013	2012
Payment cards	(441 720)	(463 173)
Money orders and transfers	(21 064)	(26 724)
Securities operations and derivatives	(17 843)	(18 071)
Accounts maintenance	(4 838)	(3 730)
Custody activity	(8 790)	(8 183)
Pension funds management charges	(2 149)	(1 753)
Acquisition services	(2 117)	(1 525)
Other	(13 697)	(18 160)
Total	**(512 218)**	**(541 319)**

Notes to the financial statements (cont.)

(In PLN thousand)

11. Dividend income

	2013	2012
From issuers of securities available for sale	6 756	8 759
Total	**6 756**	**8 759**

12. Result on financial assets and liabilities held for trading

	2013	2012
Foreign currency exchange result	402 864	480 940
Gains (losses) on derivatives	50 488	8 803
Gains (losses) on securities	11 705	20 393
Total	**465 057**	**510 136**

In 2013, the total change in the fair value of financial instruments valued at fair value through profit or loss, determined with the use of valuation techniques (when no published quotations from active markets are available) amounted to PLN 58 113 thousand (in 2012 PLN 16 349 thousand).

13. Gains (losses) on disposal

Realized gains

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

Realized losses

	2013	2012
Loans and other financial receivables	(130)	(217)
Available for sale financial assets – debt instruments	(563)	(54)
Debt securities issued	(3 593)	(684)
Total	**(4 286)**	**(955)**

Net realized profit	**305 139**	**279 199**

The change in fair value of financial assets available for sale transferred in 2013 directly to equity amounted to PLN 251 166 thousand (decrease), in 2012 PLN 1 040 006 thousand (increase).

The change in fair value of financial assets, transferred in 2013 from equity to financial income amounted to PLN 307 456 thousand (profit), in 2012 PLN 278 459 thousand (profit).

Notes to the financial statements (cont.)

(In PLN thousand)

14. Administrative expenses

Personnel expenses

	2013	2012
Wages and salaries	(1 582 356)	(1 602 882)
Insurance and other charges related to employees	(293 502)	(294 847)
Share-based payments expenses	(5 317)	(12 268)
Total	**(1 881 175)**	**(1 909 997)**

Other administrative expenses

	2013	2012
General expenses	(1 098 678)	(1 192 695)
Taxes and charges	(40 060)	(41 016)
Bank Guarantee Fund fee	(106 962)	(96 273)
Financial supervision authority fee (KNF)	(15 606)	(22 976)
Total	**(1 261 306)**	**(1 352 960)**

Total administrative expenses	**(3 142 481)**	**(3 262 957)**

15. Depreciation and amortization

	2013	2012
Property, plant and equipment	(200 241)	(222 020)
Investment property	(2 141)	(4 326)
Intangible assets	(143 976)	(142 492)
Total	**(346 358)**	**(368 838)**

(In PLN thousand)

16. Net other operating income and expenses

Other operating income

	2013	2012
Rental income	26 683	31 532
Miscellaneous income	34 774	20 300
Credit insurance charges	29 715	31 343
Recovery of debt collection costs	25 222	24 343
Excess payments, repayments	16 927	17 036
Compensation, penalty fees and fines received (including received compensations from damages in relation to fixed assets)	13 464	11 006
Revenues from sale of products, goods and services	11 638	17 134
Revenues from leasing activity	4 916	4 801
Refunding of administrative expenses	5 441	6 215
Income from written off liabilities	3 099	7 867
Releases of impairment allowances for litigation and other assets	1 093	1 968
Gains on sale of leasing assets for third person and other assets	222	4 071
Other	9 433	8 918
Total	**182 627**	**186 534**

Other operating expenses

	2013	2012
Costs related to leasing activity	(5 728)	(11 182)
Credit insurance expenses	(27 817)	(27 164)
Reimbursement and deficiencies	(10 052)	(8 243)
Sundry expenses	(9 920)	(11 606)
Cost from sale of products, goods and services	(4 271)	(9 716)
Customers complaints expense	(3 016)	(2 123)
Impairment allowance for litigations and other assets	(3 096)	(2 723)
Costs of litigation and claims	(2 994)	(3 348)
Compensation, penalty fees and fines paid	(1 601)	(1 014)
Losses on disposal of leasing assets for third person and other assets	(83)	(321)
Other	(10 627)	(14 701)
Total	**(79 205)**	**(92 141)**

Net other operating income and expenses	**103 422**	**94 393**

Notes to the financial statements (cont.)

(In PLN thousand)

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

2013	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT(**)
		IMPARIMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPARIMENT CHARGES	OTHER (*)		
Impairment of financial assets and off - balance sheet commitments								
Loans and advances to banks valued at amortized cost	70 132	3	750	-	(44 245)	(919)	25 721	44 242
Loans and advances to customers valued at amortized cost	4 665 033	1 393 832	93 467	(325 479)	(702 937)	(95 739)	5 028 177	(690 895)
Receivables from financial leases	192 685	35 480	-	(28 719)	(23 533)	(802)	175 111	(11 947)
Financial assets available for sale	123	-	-	-	-	-	123	-
Off-balance sheet commitments	106 406	74 688	-	-	(67 152)	(10)	113 932	(7 536)
Total financial assets and off-balance sheet commitments	**5 034 379**	**1 504 003**	**94 217**	**(354 198)**	**(837 867)**	**(97 470)**	**5 343 064**	**(666 136)**
Impairment of other assets								
Investments in associates	60	-	-	-	-	-	60	-
Intangible assets	11 399	-	-	(438)	-	-	10 961	-
Property, plant and equipment	7 638	1 583	-	(2 388)	(3)	-	6 830	(1 580)
Investment properties	2 154	926	-	-	-	-	3 080	(926)
Other	73 897	3 096	887	(652)	(271)	(11 413)	65 544	(2 825)
Total impairment of other assets	**95 148**	**5 605**	**887**	**(3 478)**	**(274)**	**(11 413)**	**86 475**	**(5 331)**
Total	**5 129 527**	**1 509 608**	**95 104**	**(357 676)**	**(838 141)**	**(108 883)**	**5 429 539**	**(671 467)**

(*)Including foreign exchange differences and transfers between positions.
(**)'Impairment of financial assets and off-balance sheet commitments' includes net impairment in the amount of PLN minus 666 136 thousand, net impairment from discontinued activities in the amount of PLN minus 5 215 thousand and proceeds from recovered bad debt in the amount of PLN 7 701 thousand, the total is PLN minus 663 650 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

(In PLN thousand)

18. Gains (losses) on subsidiaries and associates

Share of profit (losses) from associates

ENTITY	2013	2012
Share in gains (losses) from associates		
Dom Inwestycyjny Xelion Sp.z.o.o.	1 069	711
Pioneer Pekao Investment Management S.A.	48 324	45 188
Krajowa Izba Rozliczeniowa S.A.	10 032	7 443
Pirelli Pekao Real Estate Sp. z o.o.	-	(79)
Total share in gains (losses) from associates	**59 425**	**53 263**

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

Total gains (losses) from subsidiaries and associates	**59 425**	**52 866**

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

	2013	2012
Gains (losses) on disposal of property, plant and equipment classified as assets held for sale	22 895	19 152
Gains (losses) on de-recognition of property, plant and equipment and intangible assets other than classified as assets held for sale	(619)	3 109
Total gains (losses) on disposal of property plant and equipment and intangible assets	**22 276**	**22 261**

20. Income tax

The Capital Group's tax charge for the year 2013 amounting to PLN 659 240 thousand contains:

- tax charge relating to continuing operations in the amount of PLN 655 386 thousand,
- tax charge relating to discontinued operations in the amount of PLN 3 854 thousand.

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

	2013	2012
Profit before income tax	**3 454 230**	**3 664 334**
Tax charge according to applicable tax rate	**656 304**	**696 223**
Permanent differences:	**2 936**	**15 759**
Non taxable income	(20 230)	(20 702)
Non tax deductible costs	19 309	26 494
Impact of other tax rates applied under a different tax jurisdiction	1 412	3 146
Impact of utilized tax losses	-	(128)
Tax relieves not included in the income statement	293	392
Other	2 152	6 557
Effective income tax charge on gross profit	**659 240**	**711 982**

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

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

	2013	2012
INCOME STATEMENT		
Current tax	**(625 386)**	**(772 914)**
Current tax charge in the income statement	(621 209)	(766 880)
Adjustments related to the current tax from previous years	899	142
Other taxes (e.g. withholding tax, income tax relating to foreign branches)	(5 076)	(6 176)
Deferred tax	**(33 854)**	**60 932**
Occurrence and reversal of temporary differences	(33 854)	60 932
Tax charge in the consolidated income statement	**(659 240)**	**(711 982)**
EQUITY		
Deferred tax	**94 634**	**(127 650)**
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments, cash flows hedges	(6 618)	7 623
revaluation of available for sale financial assets – debt securities	106 183	(144 693)
revaluation of available for sale financial assets – equity securities	(45)	(63)
Foreign currency translation differences	(4 886)	**9 483**
Tax charge in other comprehensive income	**94 634**	**(127 650)**
Tax charge on items that will never be reclassified to profit or loss	**7 890**	**(508)**
revaluation of the defined benefit liabilities	7 890	(508)
Total charge	**(556 716)**	**(840 140)**

Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2013									
	OPENING BALANCE			CHANGES RECOGNIZED		CHANGES RESULTING FROM CHANGES IN THE SCOPE OF CONSOLIDATION AND OTHER		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	IN THE INCOME STATEMENT	IN EQUITY	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENTS	IN EQUITY
DEFFERED TAX LIABILITY										
Accrued income – securities	-	-	-	-	-	-	-	-	-	-
Accrued income – loans	74 188	74 188	-	4 917	-	618	-	79 723	79 723	-
Change in revaluation of financial assets	154 983	62 769	92 214	(15 018)	(94 677)	-	24 729	70 017	47 751	22 266
Accelerated depreciation	128 977	128 977	-	(230)	-	883	-	129 630	129 630	-
Investment relief	7 273	7 273	-	(406)	-	-	-	6 867	6 867	-
Other	60 874	60 874	-	32 628	-	(20 665)	-	72 837	72 837	-
Gross deferred tax liability	**426 295**	**334 081**	**92 214**	**21 891**	**(94 677)**	**(19 164)**	**24 729**	**359 074**	**336 808**	**22 266**
DEFFERED TAX ASSET										
Accrued expenses – securities	78 773	78 773	-	(57 004)	-	(93)	-	21 676	21 676	-
Accrued expenses – loans and deposits	75 716	75 716	-	(35 267)	-	-	-	40 449	40 449	-
Downward revaluation of financial assets	225 036	224 993	43	(26 320)	(43)	(3 517)	-	195 156	195 156	-
Income received to be amortized over time from loans and current accounts	120 667	120 667	-	9 928	-	(616)	-	129 979	129 979	-
Loan provision expenses	443 411	443 411	-	90 321	-	-	-	533 732	533 732	-
Personnel related provisions	80 591	77 971	2 620	4 871	7 890	(701)	-	92 651	82 141	10 510
Accruals	10 967	10 967	-	8 251	-	(1 173)	-	18 045	18 045	-
Previous year loss	3 284	3 284	-	(3 284)	-	-	-	-	-	-
Other	222 900	222 900	-	(3 459)	-	2	-	219 443	219 443	-
Gross deferred tax asset	**1 261 345**	**1 258 682**	**2 663**	**(11 963)**	**7 847**	**(6 098)**	**-**	**1 251 079**	**1 240 621**	**10 510**
Deferred tax expenses	**X**	**X**	**X**	**(33 854)**	**102 524**	**13 066**	**(24 729)**	**X**	**X**	**X**
Net deferred tax assets	**865 856**	**955 450**	**(89 594)**	**X**	**X**	**X**	**X**	**895 320**	**907 076**	**(11 756)**
Net deferred tax provision	**30 806**	**30 849**	**(43)**	**X**	**X**	**X**	**X**	**3 263**	**3 263**	**-**

Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2012									
	OPENING BALANCE			CHANGES RECOGNIZED		CHANGES RESULTING FROM CHANGES IN THE SCOPE OF CONSOLIDATION AND OTHER		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	IN THE INCOME STATEMENT	IN EQUITY	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENTS	IN EQUITY
DEFFERED TAX LIABILITY										
Accrued income – securities	32 454	32 454	-	(32 454)	-	-	-	-	-	-
Accrued income – loans	101 666	101 666	-	(26 672)	-	(806)	-	74 188	74 188	-
Change in revaluation of financial assets	115 759	115 497	262	(52 728)	91 952	-	-	154 983	62 769	92 214
Accelerated depreciation	121 973	121 973	-	6 792	-	212	-	128 977	128 977	-
Investment relief	7 693	7 693	-	(420)	-	-	-	7 273	7 273	-
Other	44 022	44 022	-	17 193	-	(341)	-	60 874	60 874	-
Gross deferred tax liability	**423 567**	**423 305**	**262**	**(88 289)**	**91 952**	**(935)**	**-**	**426 295**	**334 081**	**92 214**
DEFFERED TAX ASSET										
Accrued expenses – securities	-	-	-	78 150	-	623	-	78 773	78 773	-
Accrued expenses – loans and deposits	94 185	94 185	-	(18 469)	-	-	-	75 716	75 716	-
Downward revaluation of financial assets	400 250	364 509	35 741	(139 516)	(35 698)	-	-	225 036	224 993	43
Income received to be amortized over time from loans and current accounts	130 113	130 113	-	(9 449)	-	3	-	120 667	120 667	-
Loan provision expenses	389 591	389 591	-	52 416	-	1 404	-	443 411	443 411	-
Personnel related provisions	89 499	86 371	3 128	(8 335)	(508)	(65)	-	80 591	77 971	2 620
Accruals	9 484	9 484	-	1 581	-	(98)	-	10 967	10 967	-
Previous year loss	6 518	6 518	-	(3 234)	-	-	-	3 284	3 284	-
Other	203 425	203 425	-	19 499	-	(24)	-	222 900	222 900	-
Gross deferred tax asset	**1 323 065**	**1 284 196**	**38 869**	**(27 357)**	**(36 206)**	**1 843**	**-**	**1 261 345**	**1 258 682**	**2 663**
Deferred tax expenses	**X**	**X**	**X**	**60 932**	**(128 158)**	**2 778**	**-**	**X**	**X**	**X**
Net deferred tax assets	**931 255**	**892 386**	**38 869**	**X**	**X**	**X**	**X**	**865 856**	**955 450**	**(89 594)**
Net deferred tax provision	**31 757**	**31 495**	**262**	**X**	**X**	**X**	**X**	**30 806**	**30 849**	**(43)**

Notes to the financial statements (cont.)

(In PLN thousand)

As at 31 December 2013 and 31 December 2012, there were temporary differences related to investments in subsidiaries and associates, for which deferred tax liability was not created as a result of meeting the conditions of controlling the terms of temporary differences' reversing and being probable that these differences will not reverse in foreseeable future.

As at 31 December 2013, temporary differences related to investments in subsidiaries, branches, associates and joint arrangements, for which deferred tax liability was not created as a result of controlling the terms of temporary differences' reversing, amounted to PLN 21 187 thousand in total.

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

EXPIRATION YEAR OF TEMPORARY DIFFERENCES	AMOUNT OF DIFFERENCES AS AT 31.12. 2013	AMOUNT OF DIFFERENCES AS AT 31.12.2012
2013	-	190
2014	26	627
2015	-	710
2016	49	5
2017	-	216
No time limits	33 111	33 111
Total	**33 186**	**34 859**

21. Earnings per share for continued and discontinued operations

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

Earnings per share

	2013	2012
Net profit	2 784 779	2 942 801
Weighted average number of ordinary shares in the period	262 470 034	262 394 506
Earnings per share (in PLN per share)	10.61	11.22

Diluted earnings per share

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

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

	2013	2012
Net profit	2 784 779	2 942 801
Weighted average number of ordinary shares in the period	262 470 034	262 394 506
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 394 506
Diluted earnings per share (in PLN per share)	10.61	11.22

(In PLN thousand)

22. Dividend proposal

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

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

23. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	31.12.2013	31.12.2012
Cash	2 104 608	2 228 394
Current account at Central Bank	2 086 608	6 978 878
Placements	-	-
Other	13	13
Total	**4 191 229**	**9 207 285**

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

Cash and balances with Central Bank by currencies

31.12.2013	ASSETS	LIABILITIES
PLN	3 637 608	985
EUR	271 158	-
USD	162 712	-
CHF	33 382	-
Other currencies	86 369	-
Total	**4 191 229**	**985**

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

24. Loans and advances to banks

Loans and advances to banks by product type

	31.12.2013	31.12.2012
Current accounts and overnight placements	1 566 990	1 653 695
Interbank placements	1 356 616	608 961
Loans and advances	122 357	138 963
Cash collateral	1 094 355	1 333 086
Reverse repo transactions	3 119 010	190 118
Debt securities	-	-
Cash in transit	314 178	199 157
Total gross amount	**7 573 506**	**4 123 980**
Impairment allowances	(25 721)	(70 132)
Total net amount	**7 547 785**	**4 053 848**

Loans and advances to banks by quality

	31.12.2013	31.12.2012
Loans and advances to banks, including:		
non impaired (gross)	7 539 755	4 045 173
impaired (gross)	33 751	78 807
individual impairment allowances	(9 788)	(54 000)
collective impairment allowances (*)	(15 933)	(16 132)
Total	**7 547 785**	**4 053 848**

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

Loans and advances to banks by contractual maturities

	31.12.2013	31.12.2012
Loans and advances to banks, including:		
up to 1 month	6 554 525	3 030 251
between 1 and 3 months	185 922	778 342
between 3 months and 1 year	392 700	77 413
between 1 and 5 years	352 332	80 913
over 5 years	54 105	78 065
past due	33 922	78 996
Total gross amount	**7 573 506**	**4 123 980**
Impairment allowances	(25 721)	(70 132)
Total net amount	**7 547 785**	**4 053 848**

Loans and advances to banks by currencies

	31.12.2013	31.12.2012
PLN	3 884 267	1 155 757
CHF	23 506	31 500
EUR	2 254 636	2 048 093
USD	1 199 699	657 147
Other currencies	185 677	161 351
Total	**7 547 785**	**4 053 848**

Changes in the level of impairment allowances in 2013 and 2012 are presented in the Note 17.

Notes to the financial statements (cont.)

(In PLN thousand)

25. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product structure

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

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

Financial assets and liabilities held for trading by maturities

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

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

Financial assets and liabilities held for trading by currencies

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

(In PLN thousand)

Financial assets and liabilities held for trading by currencies

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

26. Derivative financial instruments (held for trading)

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

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

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

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

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

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

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

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

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

Forward Rate Agreements (FRA) involve both parties undertaking to pay interest on a predefined nominal amount for a specified period starting in the future and charged according to the interest rate determined on the day of the agreement The parties settle the transaction on value date 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 location) at agreed time. Transactions of this type are valued using the Black model. The model is parameterized based upon market quotations of at-the-money options as at standard quoted maturities.

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

Derivative financial instruments embedded in other instruments

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Risk involved in financial derivatives
Market risk and credit risk are the basic types of risk, associated with derivatives.

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

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

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

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

Fair value of trading derivatives

31.12.2013	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 694 485	1 738 511
Forward Rate Agreements (FRA)	12 574	10 365
Options	16 742	16 359
Other	724	863
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	14 258	34 061
Currency Forward Agreements	56 872	100 451
Currency Swaps (FX–swap)	122 157	72 206
Options for currency and for gold	58 259	58 287
Transactions based on commodities and equity securities		
Options	5 817	5 818
Swaps	15 046	14 580
Total	**1 996 934**	**2 051 501**

Notes to the financial statements (cont.)

(In PLN thousand)

Fair value of trading derivatives

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

Notes to the financial statements (cont.)

(In PLN thousand)

Nominal value of trading derivatives

31.12.2013	CONTRACTUAL MATURITY UP TO 1MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Interest rate transactions						
Interest Rate Swaps (IRS)	2 173 596	4 125 633	13 639 298	50 222 424	10 386 886	80 547 837
Forward Rate Agreements (FRA)	1 075 000	14 750 000	12 850 000	-	-	28 675 000
Options	-	233 753	352 550	2 638 436	195 996	3 420 735
Other	762 979	-	-	-	-	762 979
Foreign currency and gold transactions	-	-	-	-	-	-
Cross-Currency Interest Rate Swaps (CIRS) - currency bought	-	-	1 070 560	786 610	-	1 857 170
Cross-Currency Interest Rate Swaps (CIRS) - currency sold	-	-	1 079 424	786 622	-	1 866 046
Currency Forward Agreements - currency bought	3 962 295	2 804 293	1 536 061	483 306	-	8 785 955
Currency Forward Agreements - currency sold	3 955 527	2 851 408	1 541 763	510 350	-	8 859 048
Currency Swaps (FX swap) – currency bought	4 623 300	1 942 043	1 108 129	-	-	7 673 472
Currency Swaps (FX swap) – currency sold	4 630 185	1 935 766	1 049 208	-	-	7 615 159
Options bought	565 212	767 503	1 583 012	-	-	2 915 727
Options sold	566 726	762 267	1 577 828	-	-	2 906 821
Transactions based on commodities and equity securities	-	-	-	-	-	-
Options	-	176 615	55 877	82 020	-	314 512
Swaps	-	-	-	748 698	-	748 698
Total	**22 314 820**	**30 349 281**	**37 443 710**	**56 258 466**	**10 582 882**	**156 949 159**

Nominal value of trading derivatives

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

Notes to the financial statements (cont.)

(In PLN thousand)

27. Loans and advances to customers

Loans and advances to customers by product type

	31.12.2013	31.12.2012
Mortgage loans	37 094 691	33 204 613
Current accounts	10 868 100	10 870 979
Operating loans	13 364 851	14 368 906
Investment loans	19 233 353	18 408 669
Payment cards receivables	778 736	747 985
Purchased debt receivables	2 892 760	2 882 026
Other loans and advances	9 682 090	9 455 254
Debt securities	9 473 835	6 844 725
Reverse repo transactions	2 581 676	2 694 482
Cash in transit	70 600	27 985
Total gross amount	**106 040 692**	**99 505 624**
Impairment allowances	(5 028 177)	(4 665 033)
Total net amount	**101 012 515**	**94 840 591**

Loans and advances to customers by customer type

	31.12.2013	31.12.2012
Corporate	49 865 877	47 896 155
Individuals	44 592 881	40 551 471
Budget entities	11 581 934	11 057 998
Total gross amount	**106 040 692**	**99 505 624**
Impairment allowances	(5 028 177)	(4 665 033)
Total net amount	**101 012 515**	**94 840 591**

Loans and advances to customers by quality

	31.12.2013	31.12.2012
Loans and advances to customers, including:		
non impaired (gross)	98 334 335	92 299 235
impaired (gross)	7 706 357	7 206 389
individual impairment allowances	(2 677 820)	(2 201 789)
collective impairment allowances (*)	(2 350 357)	(2 463 244)
Total	**101 012 515**	**94 840 591**

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

Notes to the financial statements (cont.)

(In PLN thousand)

Loans and advances to customers by contractual maturities

	31.12.2013	31.12.2012
Loans and advances to customers, including:		
up to 1 month	14 620 744	15 243 043
between 1 and 3 months	2 902 893	3 648 403
between 3 months and 1 year	10 315 304	10 983 127
between 1 and 5 years	33 406 176	29 576 266
over 5 years	39 629 626	34 940 786
past due	5 165 949	5 113 999
Total gross amount	**106 040 692**	**99 505 624**
Impairment allowances	(5 028 177)	(4 665 033)
Total net amount	**101 012 515**	**94 840 591**

Loans and advances to customers by currencies

	31.12.2013	31.12.2012
PLN	82 906 418	76 634 062
CHF	5 208 473	5 870 827
EUR	10 861 533	10 510 432
USD	1 986 642	1 794 904
Other currencies	49 449	30 366
Total	**101 012 515**	**94 840 591**

Changes in impairment allowances in 2013 and 2012 are presented in the Note 17.

28. Receivables from finance leases

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

31.12.2013	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASING PAYMENTS
Up to 1 year	1 311 189	1 179 567
Between 1 and 5 years	1 861 633	1 704 660
Over 5 years	284 419	222 132
Total	**3 457 241**	**3 106 359**
Unrealized financial income	(350 882)	
Net leasing investment	**3 106 359**	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	3 106 359	
Impairment allowances	(175 111)	
Balance sheet value	**2 931 248**	

Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2012	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASING PAYMENTS
Up to 1 year	1 369 550	1 220 143
Between 1 and 5 years	1 720 003	1 570 143
Over 5 years	131 031	120 330
Total	**3 220 584**	**2 910 616**
Unrealized financial income	(309 968)	
Net leasing investment	**2 910 616**	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	2 910 616	
Impairment allowances	(192 685)	
Balance sheet value	**2 717 931**	

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

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

Lease financing receivables from banks by quality

	31.12.2013	31.12.2012
Receivables from financial leases from banks, including:		
non impaired (gross)	6 770	204
impaired (gross)	-	-
individual impairment allowances	(28)	(31)
collective impairment allowances (*)	(1)	(1)
Total	**6 741**	**172**

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

Lease financing receivables from customers by quality

	31.12.2013	31.12.2012
Receivables from financial leases from customers, including:		
non impaired (gross)	2 859 194	2 622 002
impaired (gross)	240 395	288 410
individual impairment allowances	(40 991)	(38 740)
collective impairment allowances (*)	(134 091)	(153 913)
Total	**2 924 507**	**2 717 759**

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

(In PLN thousand)

Receivables from finance leases by currencies

	31.12.2013	31.12.2012
PLN	1 995 032	2 036 287
CHF	5 752	19 199
EUR	922 159	649 163
USD	8 305	13 282
Total	**2 931 248**	**2 717 931**

Changes in impairment allowances in 2013 and 2012 are presented in the Note 17.

29. Hedge accounting

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

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

- fair value hedge accounting for fixed coupon debt securities classified as available-for-sale (AFS) hedged with interest rate swap (IRS) transactions - described in 29.1,
- cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions - described in 29.2,
- cash flow hedge accounting for floating-rate financial assets hedged with interest rate swap (IRS) transactions - described in 29.3,
- fair value hedge accounting for the portfolio of deposits denominated in EUR against interest rate risk hedged with cross-currency interest rate swap (CIRS) transactions - described in 29.4,
- cash flow hedge accounting for a denominated in EUR floating coupon deposits portfolio, hedged with interest rate swap (IRS) transactions - described in 29.5,
- cash flow hedge accounting for variable portfolio of loans in EUR and USD hedged with fx-swap instruments - described in 29.6.

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

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents the fair values of hedging derivatives

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

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

The table below presents nominal values of hedging derivatives

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

29.1 Fair value hedge of fixed coupon debt securities

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

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

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

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

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

29.2 Cash flow hedge of floating-rate loans and deposits

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

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

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

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

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

29.3 Cash flow hedge of floating-rate loans

Description of hedging relationship
The Group 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 Group receives fixed payments and pays floating-rate).

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

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

29.4 Fair value portfolio hedge of interest rate risk for deposit portfolio

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

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

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

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

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

(In PLN thousand)

29.5 Cash flow hedge of floating-rate deposits

Description of hedging relationship
The Group 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 Group receives floating-rate payments and pays fixed-rate).

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

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

29.6 Cash flow hedge of projected inflow denominated in foreign currency

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

30. Investment (placement) securities

	31.12.2013	31.12.2012
Debt securities available for sale (AFS)	33 015 387	25 869 334
Equity securities available for sale (AFS)	18 580	18 325
Debt securities held to maturity (HTM)	1 961 770	2 847 783
Total	**34 995 737**	**28 735 442**

Debt securities available for sale (AFS)

	31.12.2013	31.12.2012
Securities issued by State Treasury	17 929 548	15 600 595
T-bills	-	199
T-bonds	17 929 548	15 600 396
Securities issued by Central Banks	14 159 186	9 320 660
Securities issued by business entities	248 865	248 995
Securities issued by local governments	677 788	699 084
Total	**33 015 387**	**25 869 334**
including impairment of assets	-	-

Equity securities available for sale (AFS)

	31.12.2013	31.12.2012
Shares	18 580	18 325
Total	**18 580**	**18 325**
including impairment of assets	(123)	(123)

Debt securities held to maturity (HTM)

	31.12.2013	31.12.2012
Securities issued by State Treasury	1 124 015	2 173 002
T- bills	-	116 604
T- bonds	1 124 015	2 056 398
Securities issued by Central Banks	837 755	674 781
Total	**1 961 770**	**2 847 783**
including impairment of assets	-	-

Notes to the financial statements (cont.)

(In PLN thousand)

Investment debt securities according to contractual maturities

	31.12.2013	31.12.2012
Debt securities, including:		
up to 1 month	15 476 130	11 073 994
between 1 and 3 months	-	261 985
between 3 months and 1 year	461 915	841 723
between 1 and 5 years	12 787 788	12 077 182
over 5 years	6 251 324	4 462 233
Total	**34 977 157**	**28 717 117**

Investment debt securities according to currencies

	31.12.2013	31.12.2012
PLN	31 932 448	26 391 921
EUR	1 725 017	1 361 396
USD	1 319 692	963 800
Total	**34 977 157**	**28 717 117**

Changes in investment (placement) securities

	2013	2012
SECURITIES AVAILABLE FOR SALE (AFS)		
Opening balance	**25 887 288**	**25 324 803**
Increases (purchase)	400 589 361	248 783 649
Decreases (sale and redemption)	(393 529 727)	(250 015 507)
Changes in fair value	(651 263)	833 196
Exchange rate differences	(37 279)	(192 818)
Accrued interest	744 997	734 385
Other changes	30 590	419 951
Closing balance	**33 033 967**	**25 887 659**
DEBT SECURITIES HELD UNTIL MATURITY (HTM)		
Opening balance	**2 847 783**	**3 794 834**
Increases (purchase)	38 373 163	32 984 769
Decreases (sale and redemption)	(39 342 141)	(34 100 922)
Accrued interest	43 369	44 017
Other changes	39 596	125 085
Closing balance	**1 961 770**	**2 847 783**
Net total investment (placement) securities	**34 995 737**	**28 735 442**

Notes to the financial statements (cont.)

(In PLN thousand)

31. Reclassification of securities

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

In 2013 and 2012, the Group 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 Group made use of the possibility for reclassification of its financial instruments.

The tables below present the information on the reclassified financial assets

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

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

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

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

Net interest income on reclassified financial assets

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

Notes to the financial statements (cont.)

(In PLN thousand)

32. Assets and liabilities held for sale and discontinued operations

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

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

- real estate, and
- other property, plant and equipment as well as perpetual usufruct rights owned by the Group.

Assets held for sale and liabilities associated with assets held for sale are presented below:

	31.12.2013	31.12.2012
ASSETS HELD FOR SALE		
Assets of PJSC UniCredit Bank	-	2 265 490
Property, plant and equipment	23 349	86 168
Other assets	22 515	22 515
Total assets	**45 864**	**2 374 173**
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE		
Liabilities of PJSC UniCredit Bank	-	891 007
Total liabilities	**-**	**891 007**

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents the Statement of financial position of PJSC UniCredit Bank

	15.07.2013	31.12.2012
ASSETS		
Cash and due from Central Bank (*)	44 039	34 320
Loans and advances to banks	944 380	953 056
Financial assets held for trading	-	131
Loans and advances to customers	1 105 510	1 205 385
Investments (placement) securities	10	33 029
Intangible assets	1 433	1 831
Property, plant and equipment	14 673	14 424
Other assets	13 406	14 553
TOTAL ASSETS	**2 123 451**	**2 256 729**
LIABILITIES AND EQUITY		
LIABILITIES		
Amounts due to other banks	794 915	956 129
Amounts due to customers	774 424	792 045
Income tax liabilities	26 026	27 007
Other liabilities	19 395	16 662
TOTAL LIABILITIES	**1 614 760**	**1 791 843**
EQUITY	**508 691**	**464 886**
TOTAL LIABILITIES AND EQUITY	**2 123 451**	**2 256 729**

(*) The value as at 15 July 2013 represents the amount of cash and cash equivalents in PJSC UniCredit Bank over which the control is lost.

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents the income statement of PJSC UniCredit Bank:

	01.01.2013-15.07.2013	2012
Interest income	93 348	190 878
Interest expense	(31 674)	(63 789)
Net interest income	**61 674**	**127 089**
Fee and commission income	19 175	41 095
Fee and commission expense	(8 003)	(15 062)
Net fee and commission income	**11 172**	**26 033**
Result on financial assets and liabilities held for trading	**(2 350)**	**9 641**
Gains (losses) on disposal of:	**-**	**(21)**
available for sale financial assets and held to maturity investments	-	(21)
Operating income	**70 496**	**162 742**
Net impairment losses on financial assets and off-balance sheet commitments	**(5 215)**	(33 980)
loans and other financial receivables	(5 215)	**(33 980)**
Net result on financial activity	**65 281**	**128 762**
Administrative expenses	**(42 459)**	(77 609)
personnel expenses	(21 145)	(39 829)
other administrative expenses	(21 314)	**(37 780)**
Depreciation and amortization	**(2 696)**	**(6 460)**
Net other operating income and expenses	**1 210**	**200**
Operating costs	**(43 945)**	**(83 869)**
Profit before income tax	**21 336**	44 893
Income tax expense	(3 854)	**(8 288)**
Net profit for the period	**17 482**	**36 605**

The table below presents the Cash flow statement of PJSC UniCredit Bank:

	01.01.2013-15.07.2013	2012
Net cash flows from operating activities	(31 011)	146 423
Net cash flows from investing activities	32 103	(32 501)
Net cash flows from financing activities	-	-
Total	**1 092**	**113 922**

Effect of disposal of net assets of PJSC UniCredit Bank recognized in the equity of the Group:

	2013
Sales proceeds	671 287
Carrying amount of net assets disposed (including costs to sell)	(531 286)
Gross result on sale	**140 001**
Income tax expense	(26 600)
Net result on sale	**113 401**

Notes to the financial statements (cont.)

(In PLN thousand)

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

ASSETS HELD FOR SALE	2013	2012
Opening balance	**2 374 173**	**2 931 575**
Increases including:	8 553	90 815
transfer from investment properties	1 581	27 324
transfer from property, plant and equipment	3 254	24 541
other changes	3 718	38 950
Decreases including:	(2 336 862)	(648 217)
PJSC UniCredit Bank's assets	(2 265 490)	(635 227)
transfer to property, plant and equipment	(2 681)	-
disposal	(64 044)	(10 427)
other changes	(4 647)	(2 563)
Closing balance	**45 864**	**2 374 173**
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE		
Opening balance	**891 007**	**999 985**
Increases including:	-	-
liabilities of PJSC UniCredit Bank	-	-
Decreases including:	(891 007)	(108 978)
liabilities of PJSC UniCredit Bank	(891 007)	(108 978)
Closing balance	**-**	**891 007**

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

A	2013	2012
Sales revenues	90 827	29 579
Net carrying amount of disposed assets (including sales cost)	67 932	10 427
Profit/loss on sale before income tax	**22 895**	**19 152**

(In PLN thousand)

33. Investments in associates

Information on associates entities valued using equity method:

NAME OF ENTITY	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
31.12.2013						
Krajowa Izba Rozliczeniowa S.A.	114 568	18 086	113 276	29 527	34.44	33 228
Pioneer Pekao Investment Management S.A.	329 296	52 462	402 877	98 781	49.00	135 649
Dom Inwestycyjny Xelion Sp.z o.o.	46 917	32 664	44 507	2 138	50.00	7 125
Total						**176 002**
31.12.2012						
Krajowa Izba Rozliczeniowa S.A.	117 310	24 914	108 710	25 444	34.44	31 821
Pioneer Pekao Investment Management S.A.	321 098	54 651	364 109	92 419	49.00	130 559
Dom Inwestycyjny Xelion Sp.z o.o.	25 391	13 279	26 877	1 422	50.00	6 056
Total						**168 436**

(*) The data available as at the day of preparation of the Financial Statements.

The change in value of investments in associates

	2013	2012
Opening balance	**168 436**	**186 252**
Share in profits/losses	59 425	53 263
Dividends	(51 859)	(65 256)
Disposal	-	(4 960)
Liquidation	-	(942)
Other	-	79
Closing balance	**176 002**	**168 436**

34. Intangible assets

	31.12.2013	31.12.2012
Intangible assets, including:	572 011	614 827
research and development expenditures	12 031	15 858
licenses and patents	447 917	452 599
other	1 035	2 460
assets under construction	111 028	143 910
Goodwill	54 560	54 560
Total	**626 571**	**669 387**

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

Notes to the financial statements (cont.)

(In PLN thousand)

There is also goodwill recognized upon acquisition of Pekao Leasing i Finanse S.A. (formerly BPH Leasing S.A.) by Pekao Leasing Holding S.A. (ex. BPH PBK Leasing S.A.). It is determined the smallest identifiable cash-generating units ('CGU'), to which the goodwill has been allocated in the amount of PLN 2 885 thousand.

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

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

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

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

2013	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
GROSS VALUE					
Opening balance	**90 934**	**1 929 766**	**38 649**	**144 348**	**2 203 697**
Increases including:	-	133 652	68	99 673	233 393
acquisitions	-	3 754	-	98 214	101 968
other	-	3 097	-	1 459	4 556
transfer from investments outlays	-	126 801	68	-	126 869
Decreases, including:	(450)	(28 706)	(49)	(132 993)	(162 198)
liquidation	(450)	(28 704)	(49)	-	(29 203)
other	-	(2)	-	(6 124)	(6 126)
transfer from investments outlays	-	-	-	(126 869)	(126 869)
Closing balance	**90 484**	**2 034 712**	**38 668**	**111 028**	**2 274 892**
ACCUMULATED AMORTIZATION					
Opening balance	**75 076**	**1 477 167**	**25 228**	**-**	**1 577 471**
Amortization	3 827	138 031	1 493	-	143 351
Liquidation	(450)	(28 436)	(49)	-	(28 935)
Other	-	33	-	-	33
Closing balance	**78 453**	**1 586 795**	**26 672**	**-**	**1 691 920**
IMPAIRMENT					
Opening balance	**-**	**-**	**10 961**	**438**	**11 399**
Closing balance	**-**	**-**	**10 961**	**-**	**10 961**
NET VALUE					
Opening balance	**15 858**	**452 599**	**2 460**	**143 910**	**614 827**
Closing balance	**12 031**	**447 917**	**1 035**	**111 028**	**572 011**

Notes to the financial statements (cont.)

(In PLN thousand)

2012	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
GROSS VALUE					
Opening balance	**89 780**	**1 826 203**	**38 110**	**148 967**	**2 103 060**
Increases including:	1 848	109 055	584	107 410	218 897
acquisitions	-	1 106	-	105 701	106 807
other	-	802	-	1 709	2 511
transfer from investments outlays	1 848	107 147	584	-	109 579
Decreases, including:	(694)	(5 492)	(45)	(112 029)	(118 260)
liquidation	(694)	(5 293)	(45)	-	(6 032)
other	-	(199)	-	(2 450)	(2 649)
transfer from investments outlays	-	-	-	(109 579)	(109 579)
Closing balance	**90 934**	**1 929 766**	**38 649**	**144 348**	**2 203 697**
ACCUMULATED AMORTIZATION					
Opening balance	**70 237**	**1 349 729**	**23 338**	**-**	**1 443 304**
Amortization	5 533	134 586	1 935	-	142 054
Liquidation	(694)	(5 133)	(45)	-	(5 872)
Other	-	(2 015)	-	-	(2 015)
Closing balance	**75 076**	**1 477 167**	**25 228**	**-**	**1 577 471**
IMPAIRMENT					
Opening balance	**-**	**-**	**10 961**	**-**	**10 961**
Closing balance	**-**	**-**	**10 961**	**438**	**11 399**
NET VALUE					
Opening balance	**19 543**	**476 474**	**3 811**	**148 967**	**648 795**
Closing balance	**15 858**	**452 599**	**2 460**	**143 910**	**614 827**

In the period from 1 January to 31 December 2013, the Group acquired intangible assets in the amount of PLN 101 969 thousand (in 2012 - PLN 106 807 thousand).

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

Contractual commitments

As at 31 December 2013 the contractual commitments for the acquisition of intangible assets amounted to PLN 21 501 thousand, whereas as at 31 December 2012 - PLN 41 841 thousand.

35. Property, plant and equipment

	31.12.2013	31.12.2012
Non-current assets, including:	1 496 630	1 579 886
land and buildings	1 131 656	1 159 929
machinery and equipment	291 519	334 837
transport vehicles	35 999	49 475
other	37 456	35 645
Non-current assets under construction and prepayments	93 006	90 658
Total	**1 589 636**	**1 670 544**

Notes to the financial statements (cont.)

(In PLN thousand)

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

2013	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
GROSS VALUE						
Opening balance	**2 265 408**	**1 557 279**	**91 977**	**355 089**	**90 658**	**4 360 411**
Increases, including:	121 791	61 875	6 445	10 814	114 402	315 327
acquisitions	77 808	2 963	4 357	336	112 744	198 208
other	1 608	537	2 088	85	1 658	5 976
transfer from non-current assets under construction	42 375	58 375	-	10 393	-	111 143
Decreases, including:	(109 492)	(118 184)	(12 255)	(22 601)	(112 054)	(374 586)
liquidation and sale	(31 368)	(118 002)	(11 345)	(22 552)	-	(183 267)
transfer to non-current assets held for sale	(2 462)	-	-	-	-	(2 462)
other	(75 662)	(182)	(910)	(49)	(911)	(77 714)
transfer from non-current assets under construction	-	-	-	-	(111 143)	(111 143)
Closing balance	**2 277 707**	**1 500 970**	**86 167**	**343 302**	**93 006**	**4 301 152**
ACCUMULATED DEPRECIATION						
Opening balance	**1 104 277**	**1 216 454**	**42 483**	**319 016**	**-**	**2 682 230**
Increases, including:	69 688	104 451	15 012	8 740	-	197 891
depreciation	68 896	104 103	14 909	8 683	-	196 591
other	792	348	103	57	-	1 300
Decreases, including:	(30 479)	(115 542)	(7 327)	(22 087)	-	(175 435)
liquidation and sale	(29 223)	(115 376)	(6 757)	(22 066)	-	(173 422)
transfer to non-current assets held for sale	(1 074)	-	-	-	-	(1 074)
other	(182)	(166)	(570)	(21)	-	(939)
Closing balance	**1 143 486**	**1 205 363**	**50 168**	**305 669**	**-**	**2 704 686**
IMPAIRMENT						
Opening balance	**1 202**	**5 988**	**19**	**428**	**-**	**7 637**
Increases	1 527	55	1	-	-	1 583
Decreases	(164)	(1 955)	(20)	(251)	-	(2 390)
Closing balance	**2 565**	**4 088**	**-**	**177**	**-**	**6 830**
NET VALUE						
Opening balance	**1 159 929**	**334 837**	**49 475**	**35 645**	**90 658**	**1 670 544**
Closing balance	**1 131 656**	**291 519**	**35 999**	**37 456**	**93 006**	**1 589 636**

Notes to the financial statements (cont.)

(In PLN thousand)

2012	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
GROSS VALUE						
Opening balance	**2 284 178**	**1 578 310**	**95 895**	**365 669**	**87 715**	**4 411 767**
Increases, including:	43 420	79 940	15 428	7 834	133 484	280 106
acquisitions	38	1 874	6 538	214	133 178	141 842
other	643	296	8 890	15	306	10 150
transfer from non-current assets under construction	42 739	77 770	-	7 605	-	128 114
Decreases, including:	(62 190)	(100 971)	(19 346)	(18 414)	(130 541)	(331 462)
liquidation and sale	(16 624)	(93 813)	(18 159)	(18 241)	(4)	(146 841)
transfer to non-current assets held for sale	(43 575)	(78)	-	-	-	(43 653)
other	(1 991)	(7 080)	(1 187)	(173)	(2 423)	(12 854)
transfer from non-current assets under construction	-	-	-	-	(128 114)	(128 114)
Closing balance	**2 265 408**	**1 557 279**	**91 977**	**355 089**	**90 658**	**4 360 411**
ACCUMULATED DEPRECIATION						
Opening balance	**1 070 561**	**1 192 605**	**37 635**	**328 376**	**-**	**2 629 177**
Increases, including:	70 765	123 338	19 048	10 286	-	223 437
depreciation	70 482	121 648	18 384	10 253	-	220 767
other	283	1 690	664	33	-	2 670
Decreases, including:	(37 049)	(99 489)	(14 200)	(19 646)	-	(170 384)
liquidation and sale	(15 623)	(93 424)	(12 910)	(18 131)	-	(140 088)
transfer to non-current assets held for sale	(18 761)	(26)	-	-	-	(18 787)
other	(2 665)	(6 039)	(1 290)	(1 515)	-	(11 509)
Closing balance	**1 104 277**	**1 216 454**	**42 483**	**319 016**	**-**	**2 682 230**
IMPAIRMENT S						
Opening balance	**81**	**7 381**	**1 657**	**448**	**83**	**9 650**
Increases	1 121	138	2	-	-	1 261
Decreases	-	(1 531)	(1 640)	(20)	(83)	(3 274)
Closing balance	**1 202**	**5 988**	**19**	**428**	**-**	**7 637**
NET VALUE						
Opening balance	**1 213 536**	**378 324**	**56 603**	**36 845**	**87 632**	**1 772 940**
Closing balance	**1 159 929**	**334 837**	**49 475**	**35 645**	**90 658**	**1 670 544**

In the period from 1 January to 31 December 2013 the Group acquired property, plant and equipment in the amount of PLN 198 208 thousand (in 2012 - PLN 141 845 thousand), while the value of property, plant and equipment sold amounted to PLN 4 861 thousand (in 2012 - PLN 5 395 thousand).

The amount of compensations received from third parties for impairment of loss of property, plant and equipment items recognized in the income statement for 2013 stood at PLN 2 318 thousand (PLN 1 505 thousand in 2012).

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

Contractual commitments

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

Notes to the financial statements (cont.)

(In PLN thousand)

36. Investment property

Group values investment property using the historical cost model.

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

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

	2013	2012
GROSS VALUE		
Opening balance	**56 290**	**106 001**
Increases, including:	1 632	4 403
acquisitions	24	1 811
transfer from property plant and equipment	1 608	-
other	-	2 592
Decreases, including:	(1 868)	(54 114)
transfer to non-current assets held for sale	(1 608)	(51 276)
other	(260)	(2 838)
Closing balance	**56 054**	**56 290**
ACCUMULATED DEPRECIATION		
Opening balance	**20 915**	**41 523**
Increases, including:	2 007	4 142
depreciation for the period	1 215	2 722
other	792	1 420
Decreases, including:	(1 079)	(24 750)
transfer to non-current assets held for sale	(819)	(22 647)
other	(260)	(2 103)
Closing balance	**21 843**	**20 915**
IMPAIRMENT		
Opening balance	**2 154**	**550**
Increases, including:	926	1 604
impairment charges	926	1 604
Closing balance	**3 080**	**2 154**
NET VALUE		
Opening balance	**33 221**	**63 928**
Closing balance	**31 131**	**33 221**

The fair value of investment property as at 31 December 2013 stood at PLN 44 877 thousand (PLN 52 911 thousand as at 31 December 2012). The fair value of investment property are categorized in Level 3 of the fair value hierarchy. The fair value was measured based on valuations of the property appraisers, having appropriate professional qualifications and recent experience in the location of the properties being valued. The valuations of investment property are based on investment method or profits method, taking into account such unobservable input data as expected rental growth rate, void periods, occupancy rate, discount rate.

(In PLN thousand)

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

	2013	2012
Rental revenues from investment properties	2 820	4 361
Direct operating expenses associated with investment properties (including repair and maintenance costs) which generated rental revenues during the reporting period	(999)	(1 373)
Direct operating expenses associated with investment properties (including repair and maintenance costs) which did not generate rental revenues during the reporting period	(223)	(178)

37. Other assets

	31.12.2013	31.12.2012
Prepaid expenses	101 469	91 840
Perpetual usufruct rights	15 706	15 965
Accrued income	38 077	37 316
Interbank and interbranch settlements	2 056	3 821
Other debtors	228 724	266 165
Card settlements	1 556 469	1 376 709
Total	**1 942 501**	**1 791 816**

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

38. Assets pledged as collateral

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

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transaction	bonds	4 553 357	4 251 825	4 563 231
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	603 467	575 120	-
Lombard and technical loan	bonds	5 379 355	5 271 118	-
Other loans	bonds, leases encumbrances	1 045 089	1 057 224	918 812
Deposits	bonds	216 628	206 450	205 894
Issue of mortgage bonds	receivables backed by mortgage, bonds	1 213 544	1 221 631	823 285
Coverage of the Gurantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposit	38 343	38 069	-

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

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

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 loans – policy and standards, applied by the National Bank of Poland NBP,
- in case of Other loans and Deposis – terms and conditions of the agreement, entered between Bank Pekao S.A. and its clients,
- in case of Issue of mortgage bonds – binding provisions of the Law on Mortgage Bonds and Mortgage Banks,
- in case of freeze to the benefit of KDPW – with the status of the clearing member for brokerage transactions.

(In PLN thousand)

39. Amounts due to other banks

Amounts due to other banks by product type

	31.12.2013	31.12.2012
Current accounts and overnight deposits	1 160 683	1 278 116
Interbank deposits and other liabilities	1 282 795	1 162 737
Loans and advances received	3 048 343	2 692 738
Repo transactions	905 238	2 608 219
Cash in transit	20 598	40 862
Total	**6 417 657**	**7 782 672**

Amounts due to other banks by currencies

	31.12.2013	31.12.2012
PLN	3 058 551	4 488 972
CHF	814 849	1 008 560
EUR	2 410 773	1 898 819
USD	69 488	272 713
Other currencies	63 996	113 608
Total	**6 417 657**	**7 782 672**

40. Amounts due to customers

Amounts due to customers by product type

	31.12.2013	31.12.2012
Amounts due to corporate, including:	59 214 508	48 208 966
current accounts and overnight deposits	22 708 969	19 287 856
term deposits and other liabilities	36 505 539	28 921 110
Amounts due to budget entities, including:	5 822 211	5 642 509
current accounts and overnight deposits	4 893 773	4 614 266
term deposits and other liabilities	928 438	1 028 243
Amounts due to individuals, including:	50 912 985	48 908 199
current accounts and overnight deposits	27 993 266	26 755 210
term deposits and other liabilities	22 919 719	22 152 989
Repo transactions	3 668 011	5 094 347
Cash in transit	178 991	138 587
Total	**119 796 706**	**107 992 608**

Notes to the financial statements (cont.)

(In PLN thousand)

Amounts due to customers by currencies

	31.12.2013	31.12.2012
PLN	101 473 042	91 928 090
CHF	173 571	187 052
EUR	10 434 337	9 405 046
USD	7 078 537	5 882 785
Other currencies	637 219	589 635
Total	**119 796 706**	**107 992 608**

41. Debt securities issued

Debt securities issued by type

	31.12.2013	31.12.2012
Certificates of deposit	2 240 452	3 966 148
Mortgage bonds	823 285	792 588
Total	**3 063 737**	**4 758 736**

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

Debt securities issued by currencies

	31.12.2013	31.12.2012
PLN	3 003 425	4 678 440
EUR	60 312	58 072
USD	-	22 224
Total	**3 063 737**	**4 758 736**

Changes in debt securities issued

	2013	2012
Opening balance	**4 758 736**	**3 043 919**
Increase (issuance)	3 667 197	5 327 751
Decrease (redemption)	(4 300 519)	(3 451 775)
Decrease (partial redemption)	(1 022 028)	(222 870)
Foreign currency exchange differences	2 344	(3 673)
Other	(41 993)	65 384
Closing balance	**3 063 737**	**4 758 736**

Notes to the financial statements (cont.)

(In PLN thousand)

42. Provisions

Change in provisions in the reporting period

2013	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**56 795**	**154 281**	**106 406**	**42 024**	**359 506**
Provision charges/revaluation	8 057	16 727	74 688	15 587	115 059
Provision utilization	(8 305)	(5 919)	-	(20 454)	(34 678)
Provision releases	(21 346)	-	(67 152)	(379)	(88 877)
Foreign currency exchange differences	(275)	-	(10)	87	(198)
Other changes	60	42 208	-	457	42 725
Closing balance	**34 986**	**207 297**	**113 932**	**37 322**	**393 537**
Short term	7 277	11 029	63 713	9 713	91 732
Long term	27 709	196 268	50 219	27 609	301 805

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

Litigation provisions

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

Provisions for defined benefit plans

Detailed information in respect to provisions for defined benefit plans were presented in Note 44.

Other provisions

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

(In PLN thousand)

43. Other liabilities

	31.12.2013	31.12.2012
Deferred income	111 631	139 957
Provisions for holiday leave	55 608	54 732
Provisions for other employee-related liabilities	199 266	170 319
Provisions for administrative costs	92 847	53 964
Other costs to be paid	63 889	34 542
Other creditors	284 946	258 319
Interbank and interbranch settlements	983 497	592 621
Card settlements	167 008	213 946
Total	**1 958 692**	**1 518 400**

44. Defined benefit plans

Based on internal regulations in respect to remuneration, the employees of the Group or their families are entitled to defined benefits other than remuneration:
a) retirement benefits;
b) death-in-service benefits.

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

These defined benefit plans expose the Group to actuarial risk, such as:
- interest rate risk – the decrease in market yields on government bonds would increase the defined benefit plans obligations,
- remuneration risk – the increase in remuneration of the Group's employees would increase the defined benefit plans obligations,
- longevity risk – the increase in life expectancy of the Group's employees would increase the defined benefit plans obligations.

The principal actuarial assumptions as at 31 December 2013 are as follows:
- the discount rate at the level of 4.48% (5.50% as at 31 December 2012),
- the future salary growth rate at the level of 2.50% (2.80% as at 31 December 2012),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Group,
- the mortality adopted in accordance with Life Expectancy Tables for men and women, published the Central Statistical Office, adequately adjusted on the basis of historical data of the Group.

(In PLN thousand)

Reconciliation of the present value of defined benefit plans obligations

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

	2013	2012
Opening balance	**154 281**	**149 981**
Current service cost	8 218	7 247
Interest expense	8 509	8 554
Remeasurements of the defined benefit obligations:	41 524	(2 674)
actuarial gains and losses arising from changes in demographic assumptions	12 421	(13 482)
actuarial gains and losses arising from changes in financial assumptions	15 484	4 870
actuarial gains and losses arising from experience adjustments	13 619	5 938
Contributions paid by the employer	(5 235)	(8 827)
Closing balance	**207 297**	**154 281**

Sensitivity analysis

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

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

Maturity of defined benefit plans obligations

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

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

45. Share-based payment

The UniCredit Group incentive program

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

- 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 is 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 is EUR 4.185. The option expires in 2018.
- Employee Share Ownership Plan that offers to eligible UniCredit Group employees the possibility to buy UniCredit ordinary shares with the following advantages: granting of free ordinary shares ('Discount shares' and 'Matching Shares' or rights to 'Matching Shares') measures on the basis of the shares purchased by each participant. The granting of free ordinary shares is subordinated to vesting conditions stated in the rules of the Plan.
- The long-term UniCredit Group Incentive Program 2011-2013 granted in April 2011 in respect of common stock and share options. Due to the failure to meet the conditions of the Program, the rights to ordinary shares and share options were not granted.

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

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

The remuneration expenses for 2013 relating to the incentive programs granted to the emloyees of the Bank by UniCredit Group amounted to PLN 379 thousand (in 2012 - PLN 3 242 thousand).

(In PLN thousand)

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

2013	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	6 448 634	17.36/29.42	317 240	-
Granted during the year	-			-
Redeemed during the year	4 103 071	17.36/29.42	317 240	-
Exercised during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at the period-end	2 345 563	17.36/29.42	-	-
Executable at the period-end	-	-	-	-

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

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

	SYSTEM 2011 AND SYSTEM 2012 AND SYSTEM 2013
Transaction type in the light of IFRS 2	Cash-settled share based payments
Start date of the assessment period	System 2011: 1 January 2011 System 2012: 1 January 2012 System 2013: 1 January 2013
Program announcement date	System 2011: April 2011 System 2012: April 2012 System 2013: April 2013
Program granting date in line with the definition of IFRS 2	System 2011: 1 June 2012 System 2012: 12 June 2012 System 2013: date of the General Shareholders Meeting held to approve the financial statements for 2013
Number of instruments granted	System 2011: 87 901 System 2012: 80 003 System 2013: to be settled at the program granting date in line with the definition of IFRS 2
Maturity date	System 2011: 31 July 2016 System 2012: 31 July 2017 System 2013: 31 July 2018
Vesting date for System 2011	For participants below the Management Board: • 50% after 2 years from program granting date • 50% after 3 years from program granting date For participants starting from the Management Board: • 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date
Vesting date for System 2012	For participants below the Management Board: • 20% after 2 years from program granting date • 40% after 3 years from program granting date • 40% after 4 years from program granting date For participants starting from the Management Board: • 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date
Vesting date for System 2013	For participants below the Management Board: • 20% after 2 years from program granting date • 40% after 3 years from program granting date • 40% after 4 years from program granting date For participants starting from the Management Board: • 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date
Vesting conditions	Compliance assessment Continuous employment Reaching the aim based on financial results of the Bank for a given period
Program settlement	On the vesting date, the participant will receive a cash payment amounting to the number the possessed phantom shares times the arithmetic mean of the Bank's share prices at the Warsaw Stock Exchange in the calendar month preceding the month of cash-settlement.

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

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

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

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

(In PLN thousand)

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

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

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

Incentive program of Bank Pekao S.A.

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

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

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

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

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

System of Variable Remuneration for the Management Team of the subsidiaries

In order to meet requirements concerning rules of establishing policy of variable remuneration's component for individuals in managerial positions (Resolution No. 258/2011 of the Polish Financial Supervision Authority issued on 4 October 2011 and the Minister of Finance Regulation dated 2 December 2011, Official Journal from 2011, No. 263, item 1569), Centralny Dom Maklerski Pekao S.A. and Pekao Bank Hipoteczny S.A. have implemented System of Variable Remuneration for the Management Team.

Under the System, the participants may receive bonus dependent on results and effects of their work. Received component of variable remuneration is paid in cash and in phanton shares in proportion described in legal regulations mentioned above and in internal regulations of the entities.

At least 40 % components of variable renumerations is settled and paid in the time-period of 3 to 5 years since the granting date.

(In PLN thousand)

Number of granted phantom shares is determined after approval of financial statement for the given reporting year by the General Shareholders Meeting. Realization of rights to phantom shares has a form of cash equivalent amounting to the value of granted phantom shares. Value of phantom shares depend on book value of the given entity presented in the financial statement for the reporting year and approved by the General Shareholders Meeting before the day of rights execution.

The companies measure the future employees benefits at fair value of accepted liabilities, in accordance with IAS 19 'Employee benefits'. Results of liabilities meassurement at fair value are presented in income statement as personnel expenses.

46. Operating lease

The Group as a Lessor

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

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

	31.12.2013	31.12.2012
Up to 1 year	12 435	15 505
Between 1years and 5 years	20 962	13 496
Over 5 years	17 522	7 360
Total	**50 919**	**36 361**

The amount of the minimum operating lease payments classified as income in 2013 amounted to PLN 25 242 thousand (PLN 28 544 thousand in 2012).

The Group as Lessee

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

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

	31.12.2013	31.12.2012
Up to 1 year	121 577	138 168
Between 1years and 5 years	266 527	284 393
Over 5 years	194 561	219 874
Total	**582 665**	**642 435**

The amount of the minimum operating lease payments recognized as an expense in 2013 amounted to PLN 231 200 thousand (expense in 2012 amounted to PLN 240 472 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)

47. Contingent commitments

Litigation

In the entire year of 2013 the total value of the litigation subject in the ongoing court proceedings against the Group was 19.056.219 PLN (in 2012 it was 18 716 622 PLN).

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

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

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

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

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

As at 31 December 2013, the Group set aside provisions for litigations against the Group entities which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the above provisions as at 31 December 2013 is PLN 34 986 (PLN 56 795 as at 31 December 2012).

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Notes to the financial statements (cont.)

(In PLN thousand)

Financial off – balance commitments granted

Financial commitments granted by entities

	31.12.2013	31.12.2012
Financial commitments to:		
financial entities	2 497 373	1 441 529
non - financial entities	23 208 164	21 415 681
budget entities	1 392 162	744 940
Total	**27 097 699**	**23 602 150**

Off – balance guarantees issued

Guarantees issued by entities

	31.12.2013	31.12.2012
Issued to financial entities, including:	832 166	964 391
guarantees	785 796	889 107
sureties	43 754	60 824
confirmed export letters of credit	2 616	14 460
Issued to non-financial entities, including:	10 145 187	9 284 016
guarantees	4 938 747	5 506 620
securities' underwriting guarantees	5 146 660	3 775 430
sureties	59 780	1 966
Issued to budget entities, including:	99 950	69 901
guarantees	17 740	3 401
securities' underwriting guarantees	82 210	66 500
Total	**11 077 303**	**10 318 308**

Notes to the financial statements (cont.)

(In PLN thousand)

Securities underwriting

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

NAME OF ISSUER	TYPE OFSECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT ITSELF	CONTRACT LIFE
Client 1	bonds	772 000	23.07.10 - 30.06.15
Client 2	bonds	410 900	15.11.10 - 31.10.13
Client 3	bonds	540 000	29.07.12 - 15.12.17
Client 4	bonds	60 000	29.07.12 - 15.12.17
Client 5	bonds	71 710	25.08.11 - 30.06.13
Client 6	bonds	13 500	22.08.11 - 31.12.13
Client 7	bonds	2 500	19.08.11 - 30.12.13
Client 8	bonds	10 000	27.09.11 - 31.12.13
Client 9	bonds	58 770	20.12.11 - 30.03.13
Client 10	bonds	10 000	20.12.11 - 30.03.13
Client 11	bonds	2 310	20.12.11 - 31.03.13
Client 12	bonds	37 000	03.01.12 - 15.08.13
Client 13	bonds	3 440	19.01.12 - 30.12.13
Client 14	bonds	22 850	15.05.12 - 30.12.13
Client 15	bonds	22 000	07.03.12 - 30.03.13
Client 16	bonds	1 020 000	21.06.12 - 31.12.17
Client 17	bonds	4 000	10.09.12 - 30.09.13
Client 18	bonds	21 000	13.09.12 - 31.12.14
Client 19	bonds	241 150	06.12.12 - 31.03.16
Client 20	bonds	318 800	28.12.12 - 31.03.15
Client 21	bonds	200 000	01.07.11 - 20.12.14

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

Off-balance commitment received

Commitments received by entities

	31.12.2013	31.12.2012
Financial commitments from:	111 792	1 160 255
financial entities	111 792	1 160 255
non - financial entities	-	-
budget entities	-	-
Guarantees from:	9 124 950	10 226 535
financial entities	1 113 604	514 238
non - financial entities	7 302 774	9 014 735
budget entities	708 572	697 562
Total	**9 236 742**	**11 386 790**

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

(In PLN thousand)

48. Share capital

Shareholding structure

CLASS/ISSUE	TYPE OF SHARES	NUMBER OF SHARES	NOMINAL VALUE OF CLASS/ISSUE	EQUITY COVERAGE	REGISTRATION DATE	DIVIDEND RIGHTS (FROM DATE)
A	Common bearer stock	137 650 000	137 650	fully paid-up	21.12.1997	01.01.1998
B	Common bearer stock	7 690 000	7 690	fully paid-up	06.10.1998	01.01.1998
C	Common bearer stock	10 630 632	10 631	fully paid-up	12.12.2000	01.01.2000
D	Common bearer stock	9 777 571	9 777	fully paid-up	12.12.2000	01.01.2000
E	Common bearer stock	373 644	374	fully paid-up	29.08.2003	01.01.2003
F	Common bearer stock	621 411	621	fully paid-up	29.08.2003	19.05.2006 16.05.2007
G	Common bearer stock	603 377	603	fully paid-up	29.08.2003	15.05.2008
H	Common bearer stock	359 840	360	fully paid-up	12.08.2004	01.01.2004
I	Common bearer stock	94 763 559	94 764	fully paid-up	29.11.2007	01.01.2008
Total number of Shares (pcs)		**262 470 034**				
Total share capital in PLN thousand			**262 470**			
Nominal value per share = PLN 1.00						

Change in the number of shares (pcs):

2013	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262 470 034	262 470 034
Closing balance	262 470 034	262 470 034

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

The table below presents the structure of the Group's equity attributable to equity holders of the Bank:

	31.12.2013	31.12.2012
Reserve capital, including:	9 460 689	9 475 495
issue of shares above face value	9 137 221	9 137 221
other	323 468	338 274
Revaluation reserve, including:	50 117	508 021
remeasurements of the defined benefit liabilities	(55 314)	(13 791)
deferred tax	10 510	2 620
revaluation of financial assets portfolio available for sale	146 674	705 296
deferred tax	(27 868)	(134 006)
revaluation of financial hedging instruments portfolio	(29 487)	(64 318)
deferred tax	5 602	12 220
Foreign currency translation differences, including:	1 238	(128 768)
foreign currency translation differences	1 238	(158 382)
deferred tax	-	29 614
General Banking Risk Fund	1 937 850	1 737 850
Other reserve capital	9 070 200	8 364 152
Bonds convertible into shares- equity component	29 185	33 558
Provision for the parent entity's shares repurchase liabilities - equity component	332	6 662
Funds for brokerage activities	15 000	15 000
Total other capital	**20 564 611**	**20 011 970**
Profit (loss) from previous periods, allocated to Bank's shareholders	(191 977)	(45 826)
Net profit for the period, allocated to Bank's shareholders	2 784 779	2 942 801
Total retained earnings and profit for the period	**2 592 802**	**2 896 975**
Total	**23 157 413**	**22 908 945**

From 1982 to 1984 and from 1988 to 1996, the Group operated in a hyperinflationary economic environment.

IAS 29 (Financial Reporting in Hyperinflationary Economies) requires restatement of each component of owners' equity (except for retained earnings and revaluation surplus) by applying a general price index for the period of hyperinflation. This retrospective application would have resulted in an increase in share capital and other reserves and a decrease in retained earnings in equivalent amounts. This restatement would not have any effect on the total amount of the Group's equity.

Notes to the financial statements (cont.)

(In PLN thousand)

50. Additional information to the consolidated cash flow statement

Cash and cash equivalents

	31.12.2013	31.12.2012
Cash and amounts due from Central Bank	4 191 229	9 207 285
Loans and receivables from banks with maturity up to 3 months	6 424 633	3 607 505
Cash and Cash equivalents presented in the cash flow statement	**10 615 862**	**12 814 790**

Restricted availability cash and cash equivalents as at 31 December 2013 amounted to PLN 3 661 336 thousand (PLN 3 601 110 thousand as at 31 December 2012).

51. Related party transactions

Transactions between the Bank and related parties are typical transactions arising from current operating activities conducted by the Bank. Such transactions mainly include loans, deposits, foreign currency transactions and guarantees.

Significant transactions with related parties

In 2013 the Bank sold its all shares in subsidiary PJSC UniCredit Bank to UniCredit S.p.A. (Parent Entity of the Bank). The detailed description of the transaction is presented in Note 32.

The credit granting process applicable to the Bank's management and entities related to the Bank

According to the Banking Act, credit transactions with Members of the Bank Management Board and Supervisory Board, persons holding managerial positions at the Bank, with the entities related financially or organizationally therewith, shall be effected according to Regulation adopted by the Supervisory Board of the Bank.

The Regulation provides detailed decision-making procedures, applicable to transactions with such persons and entities, also defining the decision-making levels, authorized to take decisions. In particular, transactions with Members of the Bank's Management Board or Supervisory Board or with an entity related therewith financially or organizationally, are subject to decisions taken by the Bank's Management Board and Supervisory Board.

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

Credit risk assessment is performed using the methodology applied by the Bank, tailored to the client's segment and type of transaction.

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

Notes to the financial statements (cont.)

(In PLN thousand)

Related party transactions

Related party transactions as at 31 December 2013

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank's parent entity	4 812	-	29	52 758		830
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	1 151 416	303 574	4 177	1 620 185	772 939	1 954
Associates of Bank Pekao S.A Group						
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	3	22 905	-	8
Pioneer Pekao Investment Management S.A.	-	-	-	148 571	-	3
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	-	16 145	133 659	-	22
Krajowa Izba Rozliczeniowa S.A.	-	-	3	13 176	-	-
Total Associates of Bank Pekao S.A. Group	**-**	**-**	**16 151**	**318 311**	**-**	**33**
Key management personnel of the Bank and UniCredit S.p.A.	6 924	-	-	22 990	-	-
Total	**1 163 152**	**303 574**	**20 357**	**2 014 244**	**772 939**	**2 817**

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by contractual maturity

31.12.2013	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	4 812	-	-	-	-	-	4 812
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	481 281	14 171	953	302 393	352 618	-	1 151 416
Associates of Bank Pekao S.A Group	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	2	6 514	-	-	54	354	6 924
Total	**486 095**	**20 685**	**953**	**302 393**	**352 672**	**354**	**1 163 152**

(*)Current receivables includude Nostro accounts and cash collaterals.

Liabilities due to loans and deposits by contractual maturity

31.12.2013	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	52 758	-	-	-	-	-	52 758
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	281 448	357 478	469 833	21 502	75 687	414 237	1 620 185
Associates of Bank Pekao S.A Group	20 132	36 011	126 286	135 882	-	-	318 311
Key management personnel of the Bank and UniCredit S.p.A.	1 409	18 316	2 565	600	100	-	22 990
Total	**355 747**	**411 805**	**598 684**	**157 984**	**75 787**	**414 237**	**2 014 244**

(*)Current liabilities include Loro accounts and cash collaterals.

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currency

31.12.2013	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	3 521	1 291	-	-	-	4 812
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	517 811	614 246	6	-	19 353	1 151 416
Associates of Bank Pekao S.A Group	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	6 924	-	6 924
Total	**521 332**	**615 537**	**6**	**6 924**	**19 353**	**1 163 152**

Liabilities due to loans and deposits by currency

31.12.2013	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	169	-	-	52 589	-	52 758
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	583 161	5 240	422 910	600 684	8 190	1 620 185
Associates of Bank Pekao S.A Group	-	-	-	318 311	-	318 311
Key management personnel of the Bank and UniCredit S.p.A.	2 447	500	-	13 456	6 587	22 990
Total	**585 777**	**5 740**	**422 910**	**985 040**	**14 777**	**2 014 244**

Notes to the financial statements (cont.)

(In PLN thousand)

Related party transactions as at 31 December 2012

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank's parent entity	425 754	-	596	57 621	-	13 928
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	1 252 269	375 503	4 662	1 808 236	929 295	1 210
Associates of Bank Pekao S.A Group						
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	6	8 155	-	12
Pioneer Pekao Investment Management S.A.	-	-	81	142 481	-	19
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	2	-	17 630	103 914	-	21
Krajowa Izba Rozliczeniowa S.A.	-	-	-	19 700	-	-
Total Associates of Bank Pekao S.A. Group	**2**	**-**	**17 717**	**274 250**	**-**	**52**
Key management personnel of the Bank and UniCredit S.p.A.	7 361	-	-	12 675	-	-
Total	**1 685 386**	**375 503**	**22 975**	**2 152 782**	**929 295**	**15 190**

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by contractual maturity

31.12.2012	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	425 754	-	-	-	-	-	425 754
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	1 207 510	1 392	671	1 497	41 199	-	1 252 269
Associates of Bank Pekao S.A Group	-	-	-	-	2	-	2
Key management personnel of the Bank and UniCredit S.p.A.	-	6 950	-	6	36	369	7 361
Total	**1 633 264**	**8 342**	**671**	**1 503**	**41 237**	**369**	**1 685 386**

(*)Current receivables include Nostro accounts and cash collaterals.

Liabilities due to loans and deposits by contractual maturity

31.12.2012	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	57 621	-	-	-	-	-	57 621
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	294 699	296 456	18 055	504 749	219 230	475 047	1 808 236
Associates of Bank Pekao S.A Group	7 711	82 393	43 445	140 701	-	-	274 250
Key management personnel of the Bank and UniCredit S.p.A.	487	10 094	40	2 054	-	-	12 675
Total	**360 518**	**388 943**	**61 540**	**647 504**	**219 230**	**475 047**	**2 152 782**

(*)Current liabilities include Loro accounts and cash collaterals.

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currency

31.12.2012	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	366 990	58 764	-	-	-	425 754
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	577 094	3 906	265	228 250	442 754	1 252 269
Associates of Bank Pekao S.A Group	-	-	-	2	-	2
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	7 361	-	7 361
Total	**944 084**	**62 670**	**265**	**235 613**	**442 754**	**1 685 386**

Liabilities due to loans and deposits by currency

31.12.2012	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	-	-	-	57 621	-	57 621
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	196 468	46 414	601 426	949 594	14 334	1 808 236
Associates of Bank Pekao S.A Group	-	-	-	274 250	-	274 250
Key management personnel of the Bank and UniCredit S.p.A.	539	515	-	11 618	3	12 675
Total	**197 007**	**46 929**	**601 426**	**1 293 083**	**14 337**	**2 152 782**

Notes to the financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2013 to 31 December 2013

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	84	(151)	1 152	(2 530)	1 975	(11 534)
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	91 862	(38 640)	9 337	(1 440)	40 362	(8 646)
Associates of Bank Pekao S.A Group						
Pioneer Pekao Investment Management S.A.	-	(4 716)	544	-	76	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(3 923)	243 262	-	-	-
Dom Inwestycyjny Xelion Sp.z o.o.	-	(393)	43	(26)	262	-
Krajowa Izba Rozliczeniowa S.A.	-	(207)	107	-	-	(9 369)
Total Associates of Bank Pekao S.A. Group	**-**	**(9 239)**	**243 956**	**(26)**	**338**	**(9 369)**
Key management personnel of the Bank and UniCredit S.p.A.	297	(573)	8	-	-	-
Total	**92 243**	**(48 603)**	**254 453**	**(3 996)**	**42 675**	**(29 549)**

Notes to the financial statements (cont.)

(In PLN thousand)

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

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	580	(469)	1 072	(3 993)	2 817	(10 675)
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	155 266	(72 071)	11 868	(3 886)	7 058	(101 408)
Associates of Bank Pekao S.A Group						
Pioneer Pekao Investment Management S.A.	-	(471)	529	-	127	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(2 534)	209 690	-	33	(4)
Dom Inwestycyjny Xelion Sp.z o.o.	-	(309)	45	(44)	268	-
Krajowa Izba Rozliczeniowa S.A.	-	(828)	65	-	-	(9 853)
Pirelli Pekao Real Estate Sp. z o.o.	-	(116)	16	-	-	-
Total Associates of Bank Pekao S.A. Group	**-**	**(4 258)**	**210 345**	**(44)**	**428**	**(9 857)**
Key management personnel of the Bank and UniCredit S.p.A.	209	(695)	3	-	-	(12)
Total	**156 055**	**(77 493)**	**223 288**	**(7 923)**	**10 303**	**(121 952)**

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial liabilities and guarantees as at 31 December 2013

NAME OF ENTITY	GRANTED		RECEIVED
	FINANCIAL	GUARANTEES	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	62 569	353 654	48 345
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	732 287	273 410	113 807
Associates of Bank Pekao S.A Group			
Dom Inwestycyjny Xelion Sp. z o.o.	30	-	-
Pioneer Pekao Investment Management S.A.	15	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	61	-	-
Krajowa Izba Rozliczeniowa S.A.	-	500	-
Total Associates of Bank Pekao S.A. Group	**106**	**500**	**-**
Key management personnel of the Bank and UniCredit S.p.A.	261	-	-
Total	**795 223**	**627 564**	**162 152**

As of 31 December 2013, the Bank did not have off-balance sheet financial commitments received from related parties.

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial commitments and guarantees by contractual maturity

31.12.2013	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – the Bank's parent entity	24 000	-	-	38 569	-	-	62 569
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	362 120	180 829	-	189 123	215	-	732 287
Associates of Bank Pekao S.A Group	-	-	-	-	106	-	106
Key management personnel of the Bank and UniCredit S.p.A.	20	-	5	-	226	10	261
Total	**386 140**	**180 829**	**5**	**227 692**	**547**	**10**	**795 223**
GUARANTESS ISSUED							
UniCredit S.p.A. – the Bank's parent entity	67 076	76 743	-	-	99 139	110 696	353 654
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	641	-	44 397	37 951	190 421	273 410
Associates of Bank Pekao S.A Group	-	-	-	500	-	-	500
Total	**67 076**	**77 384**	**-**	**44 897**	**137 090**	**301 117**	**627 564**
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	3 000	-	-	13 904	11 742	19 699	48 345
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	29 967	463	980	65 182	14 768	2 447	113 807
Total	**32 967**	**463**	**980**	**79 086**	**26 510**	**22 146**	**162 152**

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial commitments and guarantees by currency

31.12.2013	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – the Bank's parent entity	38 569	-	-	24 000	-	62 569
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	29 652	-	-	702 635	-	732 287
Associates of Bank Pekao S.A Group	-	-	-	106	-	106
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	261	-	261
Total	**68 221**	**-**	**-**	**727 002**	**-**	**795 223**
GUARANTESS ISSUED						
UniCredit S.p.A. – the Bank's parent entity	11 872	-	-	341 782	-	353 654
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	15 342	-	-	258 068	-	273 410
Associates of Bank Pekao S.A Group	-	-	-	500	-	500
Total	**27 214**	**-**	**-**	**600 350**	**-**	**627 564**
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	44 895	-	-	3 450	-	48 345
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	20 728	-	-	86 510	6 569	113 807
Total	**65 623**	**-**	**-**	**89 960**	**6 569**	**162 152**

Notes to the financial statements (cont.)

(In PLN thousand)

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

NAME OF ENTITY	GRANTED	
	FINANCIAL	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	38 181	273 072
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	54 363	380 850
Associates of Bank Pekao S.A Group		
Dom Inwestycyjny Xelion Sp. z o.o.	30	-
Pioneer Pekao Investment Management S.A.	32	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	136	-
Krajowa Izba Rozliczeniowa S.A.	-	500
Total Associates of Bank Pekao S.A. Group	**198**	**500**
Key management personnel of the Bank and UniCredit S.p.A.	184	-
Total	**92 926**	**654 422**

As at 31 December 2012, the Bank did not have off-balance sheet financial commitments and guarantees received from related parties.

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial commitments and guarantees by contractual maturity

31.12.2012	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – the Bank's parent entity	-	-	-	38 181	-	-	38 181
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	818	-	-	52 693	852	-	54 363
Associates of Bank Pekao S.A Group	-	-	-	44	154	-	198
Key management personnel of the Bank and UniCredit S.p.A.	30	-	55	9	90	-	184
Total	**848**	**-**	**55**	**90 927**	**1 096**	**-**	**92 926**
GUARANTESS ISSUED							
UniCredit S.p.A. – the Bank's parent entity	-	51	1 362	26 381	136 408	108 870	273 072
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	2 152	19 990	21 449	27 117	310 142	380 850
Associates of Bank Pekao S.A Group	-	-	-	500	-	-	500
Total	**-**	**2 203**	**21 352**	**48 330**	**163 525**	**419 012**	**654 422**

Notes to the financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial commitments and guarantees by currency

31.12.2012	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL LIABILITIES GRANTED						
UniCredit S.p.A. – the Bank's parent entity	38 181	-	-	-	-	38 181
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	12 878	-	-	41 485	-	54 363
Associates of Bank Pekao S.A Group				198	-	198
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	184	-	184
Total	**51 059**	**-**	**-**	**41 867**	**-**	**92 926**
GUARANTESS ISSUED						
UniCredit S.p.A. – the Bank's parent entity	14 719	-	-	258 353	-	273 072
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	27 119	-	-	353 681	50	380 850
Associates of Bank Pekao S.A Group	-	-	-	500	-	500
Total	**41 838**	**-**	**-**	**612 534**	**50**	**654 422**

Notes to the financial statements (cont.)

(In PLN thousand)

Remuneration of Bank's Management Board and Supervisory Board Members

	VALUE OF BENEFITS	
	2013	**2012**
Management Board of the Bank		
Short-term employee benefits (*)	14 359	15 087
Long-term benefits (**)	2 245	2 250
Benefits resulting from the termination of employment relationship	-	-
Share-based payments (***)	7 011	5 857
Total	**23 615**	**23 194**
Supervisory Board of the Bank		
Short-term employee benefits (*)	835	931
Share-based payments (***)	-	-
Total	**835**	**931**

(*) Short-term employee benefits include: base salary, bonuses and other benefits due in next 12 months from the date of the balance sheet.
(**) The item 'Other long-term benefit' includes: provisions for a long-term motivation program and deferred bonus payments.
(***) The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of fair value of share options and shares, including phantom shares, granted to the Members of the Bank's Management Board.

Bank's Management Board and Supervisory Board Members did have not received any remuneration from subsidiaries and associated entities in 2013 and 2012.

Remuneration of Supervisory Boards and Management Boards of subsidiaries

	VALUE OF BENEFITS	
	2013	**2012**
Companies' Management Boards		
Short-term employee benefits	12 205	17 385
Other long-term benefits	178	453
Benefits resulting from the termination of employment relationship	-	315
Share-based payments	-	234
Total	**12 383**	**18 387**
Companies' Supervisory Boards		
Short-term employee benefits	38	38
Total	**38**	**38**

52. Repo and reverse repo transactions

The Group increases its funds by sales transactions with the repurchase promise granted (repo and sell-buy back) at the same price increased by interest.

Securities composing the balance sheet portfolio of the Group as well as securities with obligation of resale (reverse repo and buy-sell back transactions) may be a subject to repo and sell-buy back transactions.

Securities composing the balance sheet portfolio of the Group and treated as repo and sell-buy back transactions are not derecognized from the statement of financial position due to the fact that the Group holds all the benefits and the risk deriving from these assets.

Notes to the financial statements (cont.)

(In PLN thousand)

	31.12.2013		31.12.2012	
	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RESPECTIVE LIABILITIES	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RESPECTIVE LIABILITIES
Financial assets held for trading				
up to 1 month	-	-	55 553	55 606
Total financial assets held for trading	**-**	**-**	**55 553**	**55 606**
Financial assets available for sale				
up to 1 month	4 025 978	4 038 319	4 833 622	4 830 418
from 1 to 3 months	527 379	524 912	702 569	698 212
Total financial assets available for sale	**4 553 357**	**4 563 231**	**5 536 191**	**5 528 630**
Financial assets held to maturity				
up to 1 month	-	-	16 459	16 462
Total financial assets held to maturity	**-**	**-**	**16 459**	**16 462**
Financial assets purchased under reverse-repo and buy-sell back				
up to 1 month	10 021	10 018	2 079 999	2 081 794
from 1 to 3 months	-	-	20 122	20 073
Total financial assets purchased under reverse-repo and buy-sell back	**10 021**	**10 018**	**2 100 121**	**2 101 867**
Total	**4 563 378**	**4 573 249**	**7 708 324**	**7 702 565**

The Group purchases financial instruments with the obligations of repurchase or resale (reverse-repo and buy-sell back) at the same price increased by interest.

Securities treated as reverse-repo and buy-sell back transactions are not disclosed at the statement of financial position due to the fact that the Group do not holds all the advantages of risks and awareness deriving from these assets.

	31.12.2013		31.12.2012	
	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGE ASSETS	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGE ASSETS
Loans and advances from banks				
up to 1 month	3 119 010	3 115 331	190 118	190 058
Total loans and advances from bank	**3 119 010**	**3 115 331**	**190 118**	**190 058**
Loans and advances from customers				
up to 1 month	2 581 676	2 579 440	2 694 481	2 697 472
Total loans and advances from customers	**2 581 676**	**2 579 440**	**2 694 481**	**2 697 472**
Total	**5 700 686**	**5 694 771**	**2 884 599**	**2 887 530**

Financial assets subject to reverse repo and buy-sell back transactions constitute collateral accepted by the Group, which the Group has the right to sell or pledge.

	31.12.2013	31.12.2012
Fair value of assets pledged as collaterals, in this:	5 694 771	2 887 530
Short sale	309 742	246 578
Reverse repo transactions/ buy-sell back	10 021	2 100 121

(In PLN thousand)

53. Company Social Benefits Fund ('ZFŚS')

The Social Benefits Fund Act of 4 March 1994 with subsequent amendments introduced the requirement to create a Company's Social Benefits Fund by all employers employing over 20 employees. The Bank and Group companies employing at least 20 staff have created the ZFŚS Fund and are making periodic charges to the ZFŚS Fund in amounts required by the Act. The basic aim of the ZFŚS Fund is to subsidize social assistance in benefit of the employees, former employees (pensioners and the retired) and entitled members of their families.

The liabilities of the ZFŚS Fund represent the accumulated value of charges made by the Company towards the ZFŚS Fund decreased by the amount of non-returnable expenditures of the ZFŚS Fund.

In the consolidated statement of financial position, the Group netted the ZFŚS Fund assets against the ZFŚS Funds value, due to the fact that the assets of the ZFŚS Fund do not represent the assets of the Group. For this reason the amount pertaining to the ZFŚS Fund in the consolidated statement of financial position as at 31 December 2013 and 31 December 2012 was zero.

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

	31.12.2013	31.12.2012
Loans granted to employees	42 183	38 130
Cash at ZFŚS account	8 669	12 979
ZFŚS assets	**50 852**	**51 109**
ZFŚS value	**50 852**	**51 109**
	2013	**2012**
Deductions made to ZFŚS during fiscal period	26 463	27 131

54. Subsequent events

After 31 December 2013, but before the approval of the financial statements, the Group refused to realize the call of the guarantee's beneficiary for pay the amount of PLN 85 200 thousand from the guarantee. Based on the current knowledge as regard factual and legal aspects of this case, no provisions were established as at 31 December 2013.

Signatures of all Management Board Members

Date	Name/Surname	Position/Function	Signature
10.03.2014	Luigi Lovaglio	President of the Management Board, CEO	
10.03.2014	Diego Biondo	Vice-President of the Management Board	
10.03.2014	Andrzej Kopyrski	Vice-President of the Management Board	
10.03.2014	Grzegorz Piwowar	Vice-President of the Management Board	
10.03.2014	Stefano Santini	Vice-President of the Management Board	
10.03.2014	Marian Ważyński	Vice-President of the Management Board	

Annexes to the financial statements

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

Annex 1

New standards, interpretations and amendments to published standards that have been approved and published by the European Union and are effective from 1 January 2013

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

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

  The Group claims that the standard's amendment had no material impact on its financial statements in the period of its first application.

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

  The amendment has replaced the fixed date: '1 January 2004' as the date of adopting IFRSs for the first time with a 'date of adopting IFRSs for the first time' in order to provide relief for first-time adopters of IFRSs from restatement transactions that occurred before their date of transition to IFRSs. Moreover, the amendment has provided guidance on re-application of IFRSs for entities emerging from severe hyperinflation.

  The Group claims that the standard's amendment had no material impact on its consolidated financial statements in the period of its first application.

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

  The standard requires entities to provide disclosures in their financial statements that enable users to better estimate the impact or potential impact of offsetting financial assets and financial liabilities on financial standing of the entity.

  The Group claims that the standard's amendment, except for extending the scope of disclosures in respect to potential offsetting of financial assets and financial liabilities, had no material impact on its financial statements in the period of its first application.

- **IFRS 13** 'Fair Value Measurement'

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

  The Group claims that the new standard, except for extending the scope of disclosures in respect to fair value, had no material impact on its financial statements in the period of its first application.

Annexes to the financial statements

- **IAS 1 (amendment)** 'Presentation of Financial Statements'

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

  The Group claims that the standard's amendment, except for the changes in the disclosures structure, had no material impact on its financial statements in the period of its first application.

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

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

  The Group claims that the standard's amendment had no material impact on its consolidated financial statements in the period of its first application.

- **IAS 19 (amendment)** 'Employee Benefits'

  The changes should help users of the financial statements to better understand the way in which the defined employee benefits impact on the financial situation, financial results and cash flows of the entity. This standard is to regulate the employee benefits accounting as well as the relevant disclosures.

  The Group claims that the standard's amendment, except for the changes in the disclosures structure and extending the scope of disclosures in respect to defined benefit plans, had no material impact on its financial statements in the period of its first application.

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

  IFRS 20 clarifies accounting for costs associated with the process of removing waste from a surface mine in order to gain access to mineral ore deposits.

  The Group claims that the new interpretation had no material impact on its financial statements in the period of its first application.

- **Annual Improvements to International Financial Reporting Standards (2013)**

  The improvements is to streamline and clarify the standards.

  The Group claims that the improvements had no material impact on its financial statements in the period of its first application.

Annexes to the financial statements (cont.)

Annex 2

New standards, interpretations and amendments to published standards that have been approved and published by the European Union but are not yet binding

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

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

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

  Based on the analysis performed the Group claims that the new standard will not have a material impact on its financial statements in the period of its first application.

- **IFRS 11** 'Joint Arrangements'

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

  The standard establishes more realistic reflection of joint arrangements, concentrating on rights and obligations resulting from those arrangements, and not on its legal form. The standard addresses inconsistencies in financial reporting of joint arrangements by introduction of homogenous method of accounting of interest in jointly controlled entities.
  IFRS 11 requires accounting of interests in joint arrangements only under the equity method, thus eliminating the proportionate consolidation. The existence of an independent legal entity is not a fundamental classification condition. Transitional provisions vary depending on the method of classification of joint arrangements under IAS 31.

  Based on the analysis performed the Group claims that the new standard will not have a material impact on its financial statements in the period of its first application.

- **IFRS 12** 'Disclosure of Interests in Other Entities'

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

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

  Based on the analysis performed the Group claims that the new standard will not have a material impact on its financial statements in the period of its first application, except for extending the scope of disclosures.

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

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

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

  Based on the analysis performed the Group claims that the new standard will not have a material impact on its financial statements in the period of its first application.

Annexes to the financial statements (cont.)

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

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

  The new standard refers to accounting for investments in associates and establishes the requirements for the application of the equity method for investments in associates and joint ventures. The standard will supersede the previous version of IAS 28 'Investments in Associates'.

  Based on the analysis performed the Group claims that the new standard will not have a material impact on its financial statements in the period of its first application.

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

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

  The aim of this Standard is to address inconsistencies in requirements concerning the offsetting criteria for financial assets and financial liabilities.

  The Group claims that the standard's amendment, except for extending the scope of disclosures, will not have a material impact on its financial statements in the period of its first application.

- **IAS 36 (amendment) '**Impairment of Assets'

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

  When developing IFRS 13 'Fair Value Measurement', the IASB decided to amend IAS 36 to require disclosures about the recoverable amount of impaired assets.
  The amendments clarify the IASB's original intention: the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs to sell.

  The Group is currently analyzing the impact of the standard's amendment on the financial statements. Based on the preliminary analysis performed the Group claims that the standard's amendment will not have a material impact on its financial statements in the period of its first application.

- **IAS 39 (amendment) '**Financial Instruments: Recognition and Measurement'

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

  The amendment allows to continuously apply hedge accounting in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

  The Group is currently analyzing the impact of the standard's amendment on the financial statements. Based on the preliminary analysis performed the Group claims that the standard's amendment will not have a material impact on its financial statements in the period of its first application.

Annexes to the financial statements (cont.)

Annex 3

New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and not yet approved by the European Union.

- **IFRS 9** 'Financial Instruments'

  Date of application: the first financial year beginning after 31 December 2017.

  New regulations compose a part of changes superseding IAS 39 'Financial Instruments: Recognition and Measurement'.
  Main changes resulting from the new standard include:
  - New categorisation of financial assets,
  - New criteria of assets classification to the group of financial assets measured at amortized cost,
  - New principles on recognition of changes in fair value measurement of investments in equity instruments,
  - Elimination of the need to separate embedded derivatives from financial assets.

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

  The Group is currently assessing the impact of the IFRS 9 application on its financial statement, however due to the nature of the Bank, it is expected that these changes will have a significant impact on the Bank's financial instruments valuation and presentation.
  The real impact of IFRS 9 first application will be possible to be estimated after the publication of the final, complete version of the standard.

- **IFRS 14** 'Regulatory deferral accounts'

  Date of application: the first financial year beginning after 31 December 2015.

  The aim of this standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities.

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

- **IAS 19 (amendment) '**Employee benefits'

  Date of application: the first financial year beginning after 1 July 2014

  The amendment applies to contributions from employees or third parties to defined benefit plans. The aim of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of remuneration.

  The Group claims that the standard's amendment will not have a material impact on its financial statements in the period of its first application.

Annexes to the financial statements (cont.)

- **Improvements to IFRS 2010-2012**

  Date of application: the first financial year beginning after 1 July 2014

  The annual improvements to IFRS 2010-2012 principally aim to solve inconsistencies and specify vocabulary.

  The Group claims that the improvements will not have a material impact on its financial statements in the period of its first application.

- **Improvements to IFRS 2011-2013**

  Date of application: the first financial year beginning after 1 July 2014

  The annual improvements to IFRS 2011-2013 principally aim to solve inconsistencies and specify vocabulary.

  The Group claims that the improvements will not have a material impact on its financial statements in the period of its first application.

- **IFRIC 21 'Levies'**

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

  IFRIC 21 is an interpretation of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The interpretation clarifies the obligating event for the recognition of a liability for a levy.

  Based on the analysis performed the Group claims that the new interpretation will not have a material impact on its financial statements in the period of its first application.

Annexes to the financial statements (cont.)

Annex 4

Glossary

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

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

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

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

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

FRA – Forward Rate Agreement – the contract under which two counterparties fix the interest rate that will apply in the future for a specified amount expressed in currency of the transaction for a predetermined period.

CAP – the financial agreement, which limits the risk borne by lender on a variable interest rate, exposed to the potential loss as a result of increase in interest rates. Cap option is a series of call options on interest rates, in which the issuer guarantees the buyer the compensation of the additional interest costs, that the buyer must pay if the interest rate on loan increases above the fixed interest rate.

FLOOR –the financial agreement, which limits the risk of incurring losses resulting from decrease in interest rates by the lender providing the loan at a variable interest rate. Floor option is a series of put options on interest rates, in which the issuer guarantees the interest to be paid on the loan if the interest rate on the loan decreases below the fixed interest rate.

IBNR – Incurred But Not Reported losses.

PD – Probability Default – the parameter used in Internal Ratings-Based Approach which determines the likelihood that the debtor will be unable to meet its obligation. PD is a financial term describing the likelihood of a default over an one year time horizon.

LGD – Loss Given Default – the percentage of loss over the total exposure when bank's counterparty goes to default.

EAD – Exposure At Default.

EL – Expected Loss.

CCF – Credit Conversion Factor.

A-IRB – Advanced Internal Ratings-Based Approach – advanced method where all parameters of risk (PD, LGD, EAD) are estimated by the bank using its own quantitative model for calculating the risk weighted assets (RWA).

VaR – Value at Risk – the risk measure by which the market value of an asset or portfolio may be reduced for a given assumptions, probability and time horizon.

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

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