Navigation

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use the ESCAPE key to exit fullscreen mode

Bank Pekao Member of UniCredit

Listen, understand, respond.

2013 Annual Report

85 Bank Pekao Years

Bank Pekao Member of UniCredit

This report expresses our approach to banking by presenting our performance and also by telling everyday stories about our interactions with Customers, innovations in products and adaptability in services.
These brief but meaningful stories come directly from our colleagues. They are examples of the tangible benefits and concrete solutions offered by Bank Pekao, demonstrating how we make a difference in people's lives.
Our clear goal to improve everyday circumstances is rooted in our complete commitment to outcomes that ensure Customer satisfaction.
Listening to our Clients and engaging with them to offer simple, direct results lies at the heart of our commercial banking operations. It is part of our determined effort to contribute to the economic and social well-being of our Customers as well as the communities where we work.
We will continue with this commitment to all of you, every day.

Annual Report 2013

Contents

Highlights of Bank Pekao S.A. Group

	2013	2012	2011	2010	2009	2008
INCOME STATEMENT (IN PLN MILLION) – SELECTED ITEMS*						
Operating income	7,565	7,953	7,808	7,340	7,151	7,917
Operating costs	(3,483)	(3,626)	(3,672)	(3,649)	(3,673)	(3,787)
Operating profit	4,082	4,327	4,136	3,691	3,478	4,129
Profit before income tax	3,454	3,664	3,593	3,102	2,998	4,346
Net profit for the period attributable to equity holders of the Bank	2,785	2,943	2,899	2,525	2,412	3,528
PROFITABILITY RATIOS						
Return on average equity (ROE)	12.0%	13.3%	14.2%	13.1%	14.1%	23.5%
Net interest margin	3.4%	3.7%	3.7%	3.5%	3.3%	4.0%
Non-interest income / operating income	39.6%	37.3%	40.6%	43.1%	45.9%	41.6%
Cost / income	46.0%	45.6%	47.0%	49.7%	51.4%	47.8%
STATEMENT OF FINANCIAL POSITION (IN PLN MILLION) – SELECTED ITEMS						
Total assets	158,522	150,755	146,590	134,090	130,616	131,941
Net loans and advances to customers**	103,937	97,559	95,679	80,840	79,455	82,512
Amounts due to customers	119,797	107,993	108,437	99,807	97,250	90,889
Debt securities issued	3,064	4,759	3,044	1,177	2,032	2,471
Equity	23,514	23,264	21,357	20,257	18,371	16,036
EMPLOYEES AND NETWORK						
Net loans / total assets	65.6%	64.7%	65.3%	60.3%	60.8%	62.5%
Securities / total assets	22.2%	19.5%	20.4%	23.4%	21.0%	17.1%
Deposits*** / total assets	77.5%	74.8%	76.0%	75.3%	76.0%	70.8%
Net loans / deposits***	84.6%	86.5%	85.8%	80.1%	80.0%	88.4%
Equity / total assets	14.8%	15.4%	14.6%	15.1%	14.1%	12.2%
Capital Adequacy Ratio	18.8%	18.8%	17.0%	17.6%	16.2%	12.2%
EMPLOYEES AND NETWORK						
Total number of employees****	18,916	19,816	20,357	20,783	20,874	21,992
Number of outlets (Bank Pekao S.A. and PJSC UniCredit Bank)	1,001	1,040	1,051	1,073	1,089	1,102
Number of ATMs (Bank Pekao S.A. and PJSC UniCredit Bank)	1,847	1,919	1,910	1,910	1,968	2,004

* Income statement includes continuing and discontinued operations.
** Including debt securities eligible for rediscounting at Central Bank and net investments in financial leases to customers.
*** Deposits include amounts due to customers and debt securities issued.
**** Starting from the first quarter of 2012 including Pekao Property S.A. as a result of consolidation of the company under the full method since that date.

Note: In connection with the disposal of 100% shares of PJSC UniCredit Bank on July 16, 2013, 2013 data concerning the selected items of statement of financial position, structure ratios of statement of financial position and employees and network are presented excluding UniCredit Bank. The 2013 data concerning selected items of income statement and profitability ratios are presented including UniCredit Bank results until July 15, 2013.
In 2013 in the income statement in a presentation form, to align the presentation to the standards implemented by the major Polish and European banks, gains on disposal of available for sale financial assets and held to maturity investments are reported under trading result (and thus in operating income, operating profit and respective ratios). In order to ensure comparability, data for the years 2008 – 2012 have been restated in comparison to those previously published.
In relation to changes in accounting policy (for description refer to the Note 4 to the Consolidated Financial Statement of Bank Pekao S.A. Group for the period ended on December 31, 2013) data for 2013 and, after appropriate restatements, the comparative figures for 2012 have been presented in accordance with the new rules. Data for earlier periods remain unchanged.

Supervisory Board and Management Board of Bank Pekao S.A.

Supervisory Board

Jerzy Woźnicki	**Chairman**
Roberto Nicastro	**Deputy Chairman**
Leszek Pawłowicz	**Deputy Chairman**
Alessandro Decio	**Secretary**
	Members
Małgorzata Adamkiewicz	
Paweł Dangel	
Laura Stefania Penna	
Wioletta Rosołowska	
Doris Tomanek	

Management Board

Luigi Lovaglio	**President, CEO**
	Vice Presidents
Diego Biondo	
Andrzej Kopyrski	
Grzegorz Piwowar	
Stefano Santini	
Marian Ważyński	

Chairman's Message to the Shareholders

JERZY WOŹNICKI
Chairman of the Supervisory Board

"Bank developed its product range by adapting to the changing customer needs and sustained high level of business activity. It resulted in double-digit growth of key retail lending products."

Dear Ladies and Gentlemen,

The Supervisory Board has made an assessment of the Bank's situation in 2013 in compliance with corporate governance rules defined in "Best Practice for the WSE Listed Companies ", adopted by the Warsaw Stock Exchange.

In the Supervisory Board's opinion, economic and financial situation of the Bank is good. This is confirmed by achieved financial results, strengthened market position in key business areas, effective risk management policy and high operating efficiency, while maintaining a strong capital and liquidity position. Bank coped well with the economic downturn, facing historically record low interest rates and increasing regulators' requirements, confirming the strength of the bank's business model and ensuring the safety of entrusted deposits.

The 2013 results of the Bank and the entire Bank Pekao S.A. Group was positively assessed by the Supervisory Board, which allowed to achieve a return on equity at a level of 12.0%, while maintaining at the same time a high level of capital adequacy ratio Core Tier 1 amounting to 18.6 %.

Good results were achieved thanks to the rapid adjustment of the Bank to the changing trends and market conditions, the employees engagement while exploiting the potential of the balance sheet structure. Bank developed its product range by adapting to the changing customer needs and sustained high level of business activity. It resulted in double-digit growth of key retail lending products and further increase of market shares, both in retail and corporate segments. Bank granted new loans for Polish families in the amount of PLN 11 billion and materially supported the business activities of Polish companies and infrastructural development of the country. Nearly 450 thousand new customers have entrusted the Bank. The innovative PeoPay payment system lunched by the Bank was positively received by the market.

Commercial activity was supported by maintaining strict cost control and effective risk management. Despite the economic slowdown, the Bank maintained good asset quality and costs of risk below the sector average.

The Bank's performance gained high recognition, as confirmed by a significant number of domestic and foreign awards. The Bank also received number of awards for achievements and innovation in developing of banking services.

In accordance with the requirements of the "Code of Best Practice for WSE Listed Companies", Supervisory Board assessed the internal audit and risk management systems functioning in the Bank.

In the Supervisory Board opinion, the internal audit system of the Bank Pekao S.A. works properly and provides effective control of the processes. Internal audit is a continuous process carried out at all levels of the organization by the statutory bodies of the Bank, its particular organizational units, supervisors at all managerial levels and all employees. The internal audit system is characterized by a complex and comprehensive approach. Dedicated organizational structures fully cover the most important areas of risk associated with the Bank's operations, whereas control functions in the Bank's subsidiaries are conducted through the Bank's representatives in the supervisory boards of these subsidiaries.

The Supervisory Board positively assessed risks management system functioning in the Bank and in the Group. This system is comprehensive and consolidated, covering all units of the Bank and its subsidiaries, adjusted to the Bank's operation and the organizational structure, as well as to the size and profile of risks. Risk management strategy in the form of ICAAP Procedure was adopted by the Management Board , in accordance with the regulatory requirements, approved by the Supervisory Board. Risks management system functioning in the Bank is an integral component of the Bank's management system. The Bank uses formal procedures aimed at identifying, measuring, estimating and monitoring of risk as well as formal risk mitigation limits. Effective risk management is one of the Bank's strengths.

The high quality of Bank's management is also reflected in the highest individual ratings assigned by the world's leading rating agencies: Fitch Ratings, Standard & Poor's Ratings Services and Moody's Investors Service.

The Supervisory Board is convinced that the Bank is well prepared to continue playing the key role in financing of social and economic transformation of the country, accompanied by achieving a stable and robust results as well as creating a long-term value for all stakeholders of the Bank.

On behalf of the Supervisory Board I would like to thank to all the Bank's stakeholders for their trust. I would also like thank to the Management Board and Employees of the Bank and Group companies for their commitment and contribution to deliver a very good results.

Warsaw, April 2014.

Jerzy Woźnicki
Chairman of the Supervisory Board

CEO's Letter to the Shareholders

LUIGI LOVAGLIO
President of the Management Board, CEO

"We have an ambitious to be not only highest-performing bank, but also institution supporting key values of our society."

Dear Shareholders,

I am happy to report a very good year of Group Pekao performance. It has been also a unique year for me personally, as it has been 10 years since I joined Bank Pekao and took over its helm, first as a General Manager and then Chief Executive Officer. This was a very special period full of challenges, combining both joy of rapid growth after Poland joining European Union and bitterness of deepest global recession in 70 years. We used this time effectively and wisely. The Bank strengthened its position and is top league player on Polish market, defining here new trends and benchmarks. We become visible also in European banking league.

We are top one corporate bank and second biggest retail franchise in Poland. Almost 4.5 million retail clients, 260 thousand SMEs and 18 thousand corporate clients entrusted us their financial future.

We enjoy a time-tested business model with proven strategies and goals. We benefit from an operating philosophy that provides sustainable, competitive advantages.

We possess the know-how to execute well, and most of all, we have great people.

This approach brought fruits also last year. Polish economy, which successfully managed through recent crisis, face economic slowdown with GDP growth decelerating to 1,6% and record low level of Central Bank interest rate, which went down to 2.5%. We observed as a consequence weak demand for loans and pressure on margins. The Group delivered sound consolidated net profit of PLN 2,785 million despite these macroeconomic headwinds.

Early mobilization of our distribution network and intensification of our commercial activity minimized negative impact of mentioned above trends, allowing The Group to maintain ROE at 12% even though keeping high level of capital of Core Tier 1 at 18.6 %.

Bank played a material role in stimulating economic development, continuing its policy of financing Polish families and providing services to the business. We granted PLN 11 billion of key retail loans, increasing total loan exposure by 9.9% y/y to PLN 44.5 billion. Corporate lending portfolio increased by +3.8% to PLN 65 billion.

The Bank remained the main lender of key infrastructure projects in Poland supporting development of the country and helping in improving quality of life.

One of our top priorities were new clients. We acquired almost 450 thousand of new clients thanks to innovative approach, leveraging on our clients recommendations and dedication of our employees. We successfully institutionalized this into Klientomania project, which we will continue further, as future of Bank depends on our clients.

Customer satisfaction is a key pillar of our business model and these days technology creates tremendous potential to further improve our Customers experience. As an answer to their needs, we continued development of innovative products and services.

Further improvement in mobile and internet banking functionality, launch of mobile payments (PeoPay) are clear example of our dedication to keeping advantage given by technology.

Operational efficiency is a part of our corporate DNA, creating long term crucial competitive advantage. This year we further actively managed cost through processes streamlining and more efficient managing of our resources, reporting expenses reduction by – 3.9% y/y, despite additional BGF prudential fee. Further efficiency enhancement is crucial, as we need to secure in this way resources for investing in the future of Bank development.

We will keep investing in our business so that we not only grow bigger, but also we grow better. Better at collaborating, better at innovating, and better at listening to our customers. And most importantly, better at executing with precision. We are building not just for the next quarter but for generations to come.

I do believe that the Bank is well positioned to capture market growth and meet customer expectations further enhancing its position on the market. Our 2014 strategic priorities remain absolutely clear. We must continue to grow sustainably and provide meaningful solutions to our customers. We must absolutely keep winning and executing with excellence.

We have an ambitious to be not only highest-performing bank, but also institution supporting key values of our society. Looking at rapid and sometimes dramatic changes in societies around us, I believe that observing values is equally important to achieved results. We need to contribute to strengthen society of equal chances, promoting growth of economy and quality of life. We sponsor and promote art, culture, social and environmental projects throughout, among others, "The Great Orchestra of Christmas Charity" and Marian Kanton Bank's Foundation.

We started defining our vision in time horizon longer than typically. We call it Pekao 2020, with customer in the center of our vision. Everything we plan and we will do is focused on his benefits.

On behalf of Management Board, I would like to thank our Clients and Shareholders for the loyalty and trust they have placed in us, Supervisory Board for strong support and our Employees for their engagement, hard work and contribution to the development of the Bank. I am incredibly lucky to be part of this large team of outstanding people.

Warsaw, March 11th 2014

Luigi Lovaglio
President of the
Management Board, CEO

Summary of Performance

Net profit of Bank Pekao S.A. Group attributable to equity holders for 2013 amounted to PLN 2,784.8 million allowing return on average capital (ROE) at the level of 12.0% achieved with a strong capital base reflected by CAR at 18.8%. Normalised ROE (return on minimum equity equivalent to CAR at 10%) amounted to 19.0%.

The Group's net profit attributable to equity holders reported for 2013 in comparison to 2012 was lower by PLN 158.0 million i.e. 5.4% resulting from lower operating income, remaining under negative influence of decreasing interest rates, partially compensated by lower operating costs. The Bank's operating results are showing better resilience than the banking sector in the conditions of economic downturn and significant pressure on interest margins.

The strength of the capital and liquidity structure of Bank Pekao S.A. Group is reflected by a high level of equity with CAR at the level of 18.8% and net loans to deposits ratio at the level of 84.6% at the end of December 2013. This supports a further sound and stable development of the Group's activities.

The Bank continued its policy of offering only PLN mortgage loans. The residual stock of mortgage loans denominated in foreign currencies, almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA in 2007, accounts for 4.9% of total loans of the Bank.

- In 2013, the Group's operating income amounted to PLN 7,565.3 million, a decrease of PLN 387.5 million or 4.9% in comparison with 2012 due to lower total net interest income, dividend income and income from equity investments, with net non-interest income higher than in the previous year.
- Total net interest income, dividend income and income from equity investments in 2013 amounted to PLN 4,571.7 million and decreased by PLN 417.5 million or 8.4% in comparison with 2012, remaining under market-wide pressure of decreasing interest rates. In 2013, the average WIBOR 3M rate stood at the level of 3.02%, and was lower by 189 bps than in 2012.
- The Group's net non-interest income in 2013 amounted to PLN 2,993.6 million, an increase of PLN 30.0 million or 1.0% in comparison with 2012 mainly due to an increase in net fee and commission income by 1.0% in the period.
- In 2013, the operating costs were kept under control and amounted to PLN 3,483.4 million. They were lower than the operating costs in 2012 by PLN 142.2 million or 3.9%.
- The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 663.7 million in 2013 and were lower by PLN 5.7 million or 0.9% in comparison to 2012.

  As at December 31, 2013, the ratio of impaired receivables to total receivables amounted to 7.3% and was at the same level as at the end of 2012.

- As at the end of December 2013, the total amounts due to the Group's customers and debt securities issued amounted to PLN 122,860.4 million, an increase of PLN 10,109.1 million (9.0%) in comparison to the end of 2012.

  The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 51,416.3 million at the end of December 2013, an increase of PLN 1,658.1 million (3.3%) in comparison to the end of 2012. The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 16,411.5 million at the end of December 2013, an increase of PLN 1,446.3 million (9.7%) in comparison to the end of 2012.

  The total volume of corporate customers deposits, repo and sell-buy-back transactions, Certificates of Deposit, Pekao Bank Hipoteczny S.A. secured bonds, interest and other amounted to PLN 71,444.1 million at the end of December 2013, an increase of PLN 8,451.0 million (13.4%) as compared to the end of 2012.

- As at the end of December 2013, the volume of retail loans amounted to PLN 44,475.4 million, an increase of PLN 3,990.5 million (9.9%) in comparison to the end of 2012.

  The volume of corporate loans, non-quoted securities, reverse repo transactions and securities issued by non-monetary entities increased by PLN 2,396.0 million (3.8%) as compared to the end of 2012 and amounted to PLN 65,075.2 million at the end of December 2013.

Note: In 2013 in the income statement in a presentation form, to align the presentation to the standards implemented by the major Polish and European banks, gains on disposal of available for sale financial assets and held to maturity investments are reported under trading result and thus in operating profit, operating income and net non-interest income. In order to ensure comparability, the data for 2012 has been restated in comparison to the data previously published.

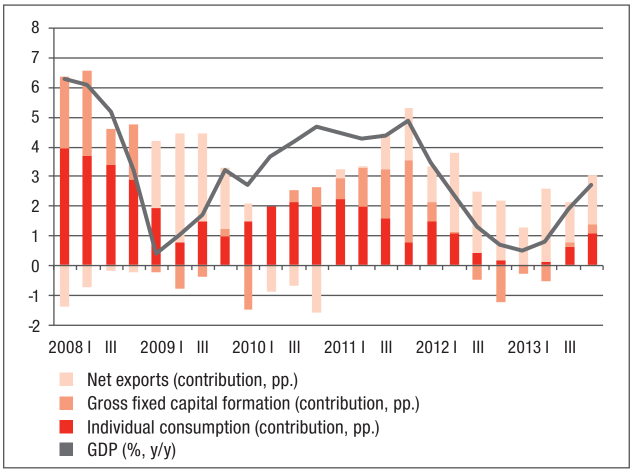
External Activity Conditions

External Activity Conditions

Economic Growth

According to the preliminary data of the Central Statistical Office (GUS) the Polish economic growth amounted to 1.6% in 2013 against 1.9% in 2012. The Polish economy was still experiencing low level of economic activity with decline in the domestic demand by 0.2% in 2013 compared to 0.1% decline in the previous year. Individual consumption was rising slower than in 2012 (0.8% vs. 1.2%). The decline in investments was only marginally smaller than in 2012. Gross fixed capital formation decreased by 0.4% after 1.7% decline in 2012. Foreign demand remained the main driver of economic growth. Economic revival started in 2013. Seasonally adjusted data indicate that growth has been accelerating from quarter to quarter. In the last quarter of 2013, substantial improvement in domestic demand performance on the back of faster rise in consumption and further recovery of fixed investments was observed.

Economic revival should be continued in 2014 and the pace of economic growth is expected to accelerate to ca. 3%. More dynamic consumption growth is foreseen to be accompanied by a rise in fixed investment. The pace of economic recovery remains moderate. Labour market conditions are improving slowly, what limits wages dynamics. Along with only moderate rise in employment it means that wage bill growth will accelerate only slightly. At the same time low inflation and wages growth in 2013 will translate into low indexation of pensions. As a result, individual consumption growth remains moderate. Utilization of funds from a new EU financial perspective will also be an insufficient impulse to generate increase in investment

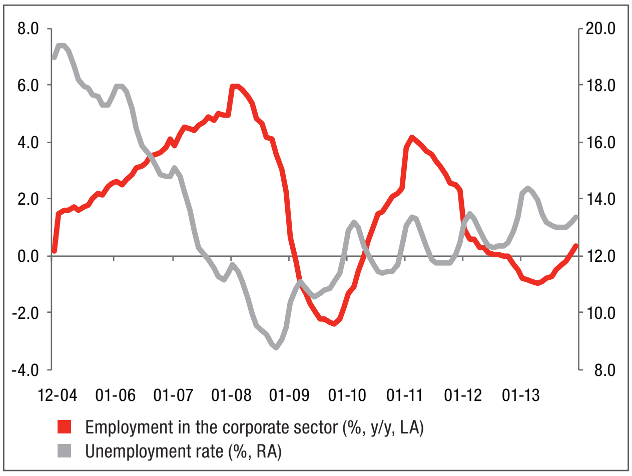


Labour Market

Average employment in the Polish corporate sector in December 2013 amounted to 5,491 thousand, i.e. by 17 thousand more than in December 2012. It should be noted however, that the scale of employment growth is overstated following the update of statistical sample in January 2013 (there was an increase in the number of enterprises employing more than 9 persons), resulting in the increase in employment by 32 thousand. In the period February-December 2013 the number of employed decreased by 15 thousand, while the process of reduction of number of posts lasted only until April (a total decrease by 29 thousand) followed by a gradual rebound of employment (an overall increase by 13 thousand). Employment growth in 2013 was recorded primarily by the manufacturing sector (supported by increasing foreign demand) as well as the trade and repairs sector, while the construction sector continued job cuts related with its deep crisis.

The unemployment rate at the end of 2013 remained at the same level as in December 2012 and amounted to 13.4%. It is expected that in 2014, for the first time since 2008, a decline in unemployment rate will be noted due to the increasingly pronounced recovery of the domestic economy.

Wage pressure in the Polish corporate sector in 2013 remained at a very low level, which was supported on the one hand by a slow pace of labour demand recovery, while on the other hand by a decline in inflation expectations of households along with a strong decline in the CPI inflation. The average wage in the corporate sector increased in 2013 on average by 2.6% compared to 3.5% in the previous year. As a result, the wage bill in the corporate sector increased in 2013 in nominal terms by 2.0% compared to 3.7% in 2012, which taking into account inflation resulted in an increase in real terms by 1.1% in 2013 against 0.0% in 2012.



Inflation and Monetary Policy

According to the data of the Central Statistical Office average CPI amounted to 0.9% in 2013 while in 2012 it amounted to 3.7%. The CPI index has been reported below the lower limit of the range of acceptable deviations from the Central Bank inflation target since February 2013, the center of which is defined at the level of 2.5% with the range from 1.5 to 3.5%. At the end of 2013, the CPI amounted to 0.7%.

The biggest impact on lowering the inflation came from prices of clothing and footwear, transportation, communication and education. Prices of food and non-alcoholic beverages in 2013 grew faster than prices of other consumer goods and services mainly due to the high growth of vegetables' prices.

Inflation significantly increased in the third quarter of 2013, which resulted from increase of fees for waste disposal for households – by 47.6% in July. In the fourth quarter, inflation decreased again, largely due to slowing growth of food prices.

In 2013, there was a decrease in core inflation (excluding food and energy prices) to 1.2% from 2.2% in 2012. In addition to decline in consumer prices, in 2013 inflation of producer prices also declined. It resulted from a strong competitive pressure in the manufacturing sector that forces reduction in margins as well as lower global prices of commodities.

Low levels of inflation in 2013 and decline in inflation expectations of households prompted the Monetary Policy Council (MPC) to reduce interest rates by 175 bps during the year.

In 2014, a rise in the CPI inflation is expected. At the beginning of the year inflation will increase due to changes in gas tariffs for households. In addition, inflation will be impacted as a result of higher excise duty on spirits. In the second half of the year inflation will be influenced by demand factors to much larger extent. It is estimated that inflation at the end of the year will be around the inflation target

Fiscal Policy

According to information of the Ministry of Finance, the state budget deficit amounted to ca. PLN 42.5 billion in 2013 vs. PLN 51.6 billion limit as defined in the amended budget act. The deficit was by ca. PLN 9 billion lower than planned in the amended budget. At the same time, it was by ca. PLN 7 billion higher than the limit specified in the 2013 Budget Act before amendment. Last year was dominated by a pressure on budget revenues due to weak domestic demand and imports. It was especially visible in VAT collections, which declined for the second year in a row. The 2013 general government deficit is estimated at ca. 4.5% of the GDP vs. 3.9% of the GDP shortfall in 2012.

The 2014 Budget Act sets the state budget deficit limit at PLN 47.7 billion. Maintaining expansionary fiscal policy will be possible thanks to changes to the pension system functioning. The overhaul of T-bonds from Open Pension Funds (OFE) will reduce the public debt by ca. 8.5% of the GDP bringing it well below the prudential thresholds outlined in the public finance act. Moreover, the changes to the pension system will reduce the scale of net borrowing needs, among others, due to lower budgetary support for the Social Security Fund (FUS) and lower debt servicing costs. Expected continuation of economic recovery means that the risk of exceeding the PLN 47.7 billion debt limit this year is low.

Foreign Sector

Data of the National Bank of Poland indicate that in 2013 the deficit of the current account amounted to EUR 5.9 billion compared to EUR 14.2 billion in 2012, which translates into a decrease in relation to the GDP to 1.5% from 3.7% respectively.

The lower deficit of the current account was mainly the result of emergence of a surplus of trade balance, as well as a higher surplus of the services account and lower income deficit. Trade account, after the deficit of EUR 5.2 billion in 2012, in 2013 registered its first surplus in the history of the balance of payments data releases (at the level of EUR 2.0 billion) as a result of a larger slowdown in imports growth (from +2.3% in 2012 to -0.3% in 2013) than in the case of exports (from +5.9% in 2012 to +4.5% in 2013), which was related with a significant slowdown in domestic demand. In turn, the surplus on the services account increased to EUR 5.0 billion from EUR 4.7 billion in 2012, while the income account deficit decreased to EUR 16.7 billion from EUR 17.7 billion in 2012.

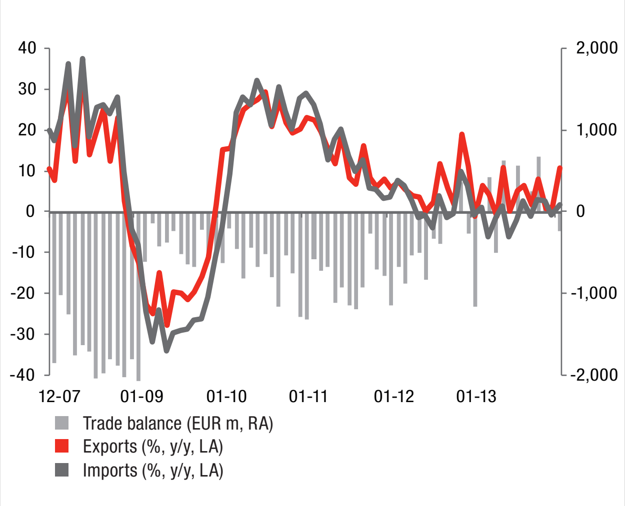
The current transfers account surplus remained in 2013 on a similar level compared to the previous year (EUR 3.8 billion vs. EUR 4.1 billion in 2012).

As regards the financing, there was a significant decline in foreign direct investment (FDI) – in 2013 an outflow of FDI amounting to EUR 3.0 billion compared to an inflow of EUR 4.8 billion in 2012 was even noted. A significant decline was recorded also in portfolio investments – to EUR 0.7 billion from EUR 16.1 billion in 2012. The inflow of portfolio capital was directed mainly to the equity market, while the debt market registered a negative balance of foreign investment. In such conditions, the key source of financing of the current account deficit was the inflow of capital transfers from the EU, which maintained a similar level compared to the previous year (EUR 9.5 billion against EUR 9.1 billion in 2012).

In 2013, there was only a slight increase in the foreign debt of the State Treasury. According to the Ministry of Finance, at the end of November 2013 the debt amounted to PLN 258.0 billion, an

External Activity Conditions

increase of approx. PLN 7.1 billion compared to December 2012 (2.8%). The increase in the foreign debt of the State Treasury was partially driven by a slight weakening of the złoty against foreign currencies, in which the debt is denominated.



Capital Market

The first half of the year was not a successful period for investors on the Warsaw Stock Exchange and determined underperformance relative to developed markets during the whole 2013. Main stock indices recorded substantial declines, offset, except for largest companies indices, later in the year. Announcement of the possible cease of FED's quantitative easing policycaused outflow of part of capital from emerging markets and strong reduction of prices of commodities on global markets were key negative factors for stock prices. Declaration of changes in the domestic pension funds system was another factor affecting the Warsaw Stock Exchange. Situation improved towards the end of the year. Finally over a period the WSE underperformed main core markets where some indices reached a record-high rising by 23% (DAX) or 29% (S&P500).

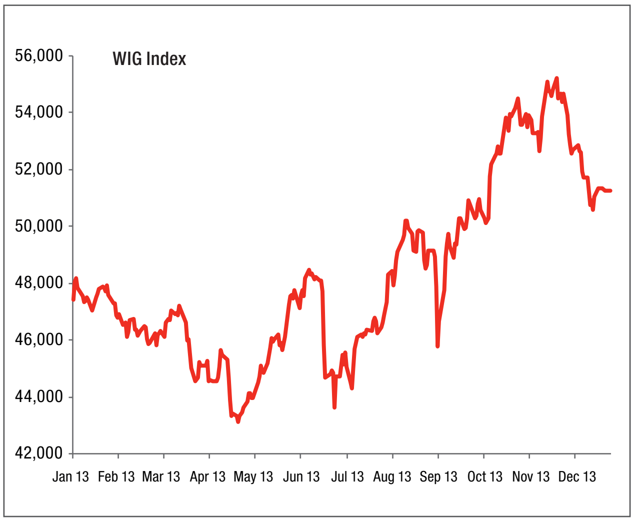
On the Polish market index sWIG80 reached the highest result (37.28%), while the broad market index WIG gained 8.06% and the largest companies WIG20 fell by 7.05%. It was a result of worse perception of the market as a whole by foreign investors who systematically limited activity in emerging markets.

23 companies joined the main market during a year and 11 companies were withdrawn. The capitalisation of listed companies increased by 14.5% to PLN 840.8 billion. Total turnover on the stock market amounted to PLN 256.1 billion and was higher than in the previous year (PLN 202.9 billion).

Inflows into investment funds supported only marginally the growth of indices in the second half of 2013. The value of assets increased by ca. 30.0% to a record level of PLN 188.9 billion. Last year was the best since 2007 taking into account inflows.

Net transfers amounted to over PLN 21 billion and money market and non-public funds attracted a significant part of inflows. Although transfers into equity funds (PLN 2.9 billion) were much lower than into safer funds, they were in fact bigger than in previous years.

Uncertainty associated with the Fed's tapering and foreign investors sentiment will affected 2014 outlook. Moderate changes in the quantitative easing policy should protect emerging markets against rapid sell-off. Consequences of changes in the pension fund market will be an additional risk factor on the Warsaw Stock Exchange. Constantly improving condition of the Polish economy and steadily flows into investment funds due to low NBP interest rates, should be supportive factor.



Banking Sector

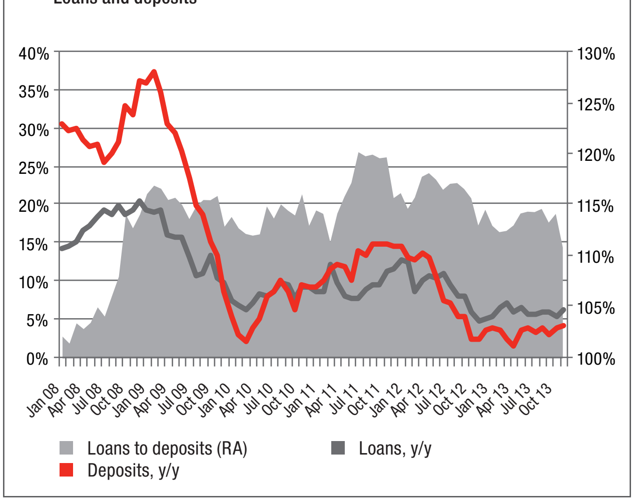
Despite continuation of a slowdown in economic growth (especially in the first half of the year) the situation of banks remained stable in 2013. A series of interest rate cuts initiated in the second half of 2012 was continued (at the end of 2013 the NBP reference rate was at 2.5%), which translated into a fall in banks net interest income, which was only partially offset by operating costs reduction and lower costs of risk and other provisions.

The year on year growth in the value of assets of monetary financial institutions[1] remained relatively low and at the end of 2013 it was equal to 4.2% year on year (against 4.5% year on year in December 2012). Bank deposits[2] increased in this period by 6.0% year on year (4.7% in 2012) and loans by 4.0% year on year (2.3% in 2012).

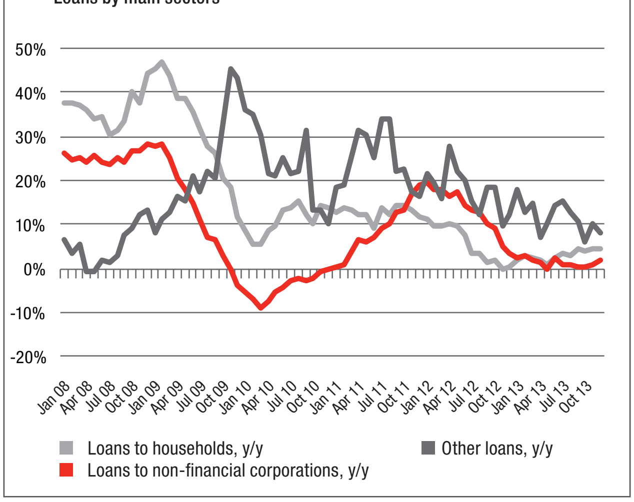
As for the main deposit categories, the following changes occurred in 2013:

– 5.6% year on year growth in household deposits (compared with 7.7% year on year increase reported in 2012). The key factors limiting the growth were the low growth rate of household income and increasing risk appetite resulting in a shift of savings towards more risky assets (e.g. investment funds),
– 10.0% year on year increase of corporate deposits (compared with 7.6% year on year decline in 2012). The change of trend in corporate deposits derived mainly from their improving financial performance with a relatively low propensity to invest,
– 0.7% year on year growth in other deposits (compared with a 18.1% year on year increase in 2012). Such a strong decline in growth rate in this category stemmed from stagnation in the deposits of non-monetary financial institutions.

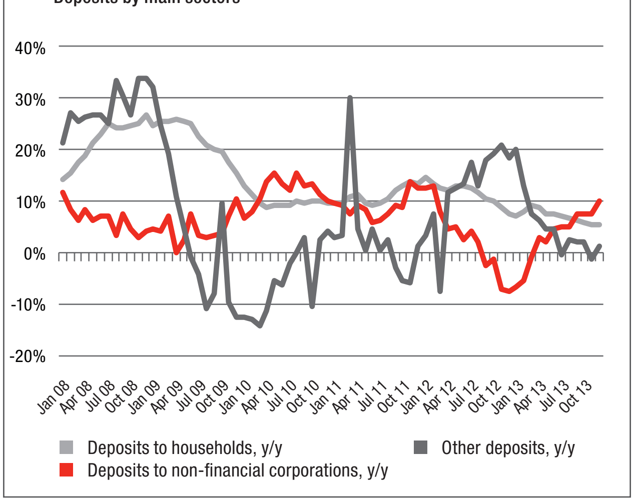
Loans and deposits



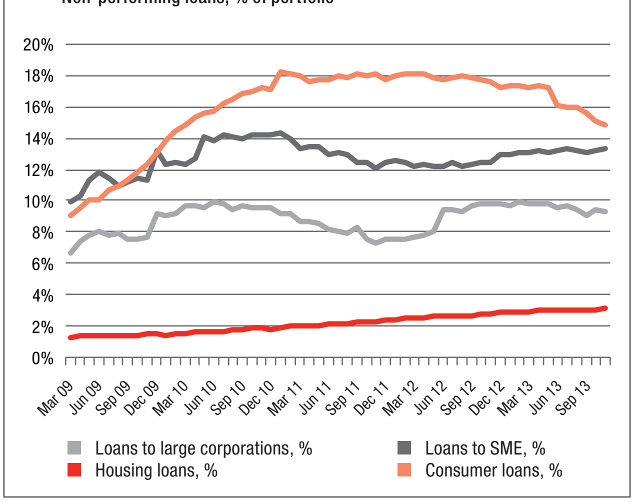
Loans by main sectors



Deposits by main sectors



Non-performing loans, % of portfolio



[1] Apart from banks, monetary financial institutions contain also co-operative savings and credit unions.
[2] Based on the NBPdata including deposits and other liabilities and in the case of loans including other receivables. Data do not include interbank loans/deposits.

External Activity Conditions

As a result of the changes described above, at the end of 2013 the deposit structure was as follows: households deposits accounted for 64.3% of all deposits (64.5% at the end of 2012), corporate deposits accounted for 24.4% (23.5% at the end of 2012), and other deposits accounted for 11.3% (11.9% at the end of 2012).

As for the main loan categories, the following changes occurred in 2013:

- 4.5% year on year increase in loans to households (compared with 0.2% year on year increase in 2012). Growth rate acceleration in loans to households is derived from the fact that housing real estate prices have reached balanced level (stopped prices falls), interest rates are at record low levels and consumers' sentiment has started to improve,
- only 1.5% year on year increase in loans to corporates (compared with 3.4% year on year increase in 2012). The decline in the growth was related to weaker demand for working capital as well as slowdown in investment activity,
- 8.3% year on year increase in other loans (compared with 12.4% year on year increase in 2012). The stagnation in loans to local governments was accompanied by a significant (22.9% year on year) increase in loans to non-bank financial institutions.

At the end of 2013, loans to households accounted for 60.0% (59.7% at the end of 2012), loans to corporates accounted for 29.3% (30.0% at the end of 2012) and other loans accounted for 10.7% (10.3% at the end of 2012) of the total loan portfolio.

The quality of the loan portfolio is of fundamental importance. In this regard, in 2013 there were:

- stabilization and then decline in the share of NPLs in the portfolio of corporate loans. In December 2013, non-performing loans accounted for 11.5% of the portfolio compared with 11.7% at the end of 2012. Different trends were observed in loans to large companies and SMEs; in the case of the former segment the share of non-performing loans decreased to 9.3% (from 9.8% at the end of 2012), and in the case of SME remained at the level reported at the end of 2012, i.e. 13.0%,
- a decline in the share of NPLs in the portfolio of households loans to 7.1% in December 2013 (from 7.4% in December 2012). There has been steady, slow increase in the share of NPLs in mortgage loans (3.1% in December 2013 compared to 2.8% in December 2012). In volume of loans other than mortgages share of non-performing loans decreased from 14.4% at end of 2012 to 13.1% in December 2013.

In 2013, there was a decline in both gross and net profit compared to 2012. According to the National Bank of Poland in January-December 2013 the banking sector's net profit was equal to PLN 15.4 billion (0.9% less than in the same period of 2012). The deterioration was mainly due to a significant decrease in operating income caused by persistent pressure on the net interest income, which was a direct consequence of interest rate cuts by the NBP. Cost of risk reductions was not able to compensate decline in the revenues.

In the regulatory framework, important changes in 2013 were: termination of the mortgage loans subsidy program "Family in Their Own" and significant reduction of interchange fee rates for payment cards transactions.

Important Events and Achievements

Important Events and Achievements

Changes within the Group

The composition of Bank Pekao S.A. Group is presented in Note 2 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on December 31, 2013.

The most significant changes concerning the Group that occurred in 2013 are presented below.

Sale of a company

On July 16, 2013 the Bank sold to UniCredit S.p.A. with its registered office in Rome, Italy, 653,507,670 common shares of PJSC UniCredit Bank with its registered office in Kyiv, at the nominal value of UAH 1 per share, with the total nominal value of UAH 653,507,670 accounting for 100% of the share capital of PJSC UniCredit Bank and entitling the Bank to 100% of votes in the General Meeting of PJSC UniCredit Bank. The gross price for the shares of PJSC UniCredit Bank amounted to USD 206.8 million.

The transaction further reinforced the capital ratios of the Bank. The shares were purchased by the parent company to the Bank. The sale of the shares by the Bank is the result of the Bank's focus on business in the domestic market.

A majority of balance sheet exposures towards Ukraine refers to intra group exposures in the form of interbank placements of which 50% is to be repaid latest in 2015 and 50% latest in 2017. The remaining exposures refer to two international corporate groups.

The impact of the transaction on Bank Pekao S.A. Group results and its financial situation was presented in Note 32 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on December 31, 2013.

Merger of companies

On June 3, 2013, the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register 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 registration of the merger did not change the stake of Bank Pekao S.A. in Pekao Property S.A. or the number of shares held in the company.

After registration of the merger, Metropolis Sp. z o.o. and Jana Kazimierza Development Sp. z o.o. lost their legal personality and were deleted from the National Court Register and the books of Pekao Property S.A.

Liquidation of a company

On December 2, 2013 the Extraordinary General Meeting of Pekao Telecentrum Sp. z o. o. (a subsidiary of the Bank) took a resolution on the winding-up of the company and starting a liquidation procedure as from the date of the resolution. Since the date the liquidation proceedings commenced, the company has been operating under the name of Pekao Telecentrum Sp. z o. o. in liquidation.

Changes in the Statutory Bodies of the Bank

Supervisory Board

The Ordinary General Meeting of Bank Pekao S.A. held on June 12, 2013 appointed Ms. Małgorzata Adamkiewicz as a member of the Supervisory Board for current, common term of office.

Composition of the Supervisory Board:

31.12.2013	31.12.2012
Jerzy Woźnicki Chairman of the Supervisory Board	Jerzy Woźnicki Chairman of the Supervisory Board
Roberto Nicastro Deputy Chairman of the Supervisory Board	Roberto Nicastro Deputy Chairman of the Supervisory Board
Leszek Pawłowicz Deputy Chairman of the Supervisory Board	Leszek Pawłowicz Deputy Chairman of the Supervisory Board
Alessandro Decio Secretary of the Supervisory Board	Alessandro Decio Secretary of the Supervisory Board
Małgorzata Adamkiewicz Member of the Supervisory Board	Paweł Dangel Member of the Supervisory Board
Paweł Dangel Member of the Supervisory Board	Laura Penna Member of the Supervisory Board
Laura Penna Member of the Supervisory Board	Wioletta Rosołowska Member of the Supervisory Board
Wioletta Rosołowska Member of the Supervisory Board	Doris Tomanek Member of the Supervisory Board
Doris Tomanek Member of the Supervisory Board	

Management Board of the Bank

On March 12, 2013, the Management Board of Bank Pekao S.A. disclosed in its current report No. 12/2013 that Mr. Marco Iannaccone had resigned from the function of Vice President of the Management Board of the Bank, effective from March 31, 2013.

On March 12, 2013, the Supervisory Board of the Bank appointed, effective from April 1, 2013, Mr. Stefano Santini as Vice President of the Management Board of Bank Pekao S.A. for the current, common term of office of the Management Board of the Bank.

On June 12, 2013, the Supervisory Board of Bank Pekao S.A. appointed the Members of the Management Board of the Bank for a new, common term of office, lasting three years, beginning as of June 13, 2013.

Composition of the Management Board:

31.12.2013	31.12.2012
Luigi Lovaglio President of the Management Board, CEO	Luigi Lovaglio President of the Management Board, CEO
Diego Biondo Vice President of the Management Board	Diego Biondo Vice President of the Management Board
Andrzej Kopyrski Vice President of the Management Board	Marco Iannaccone Vice President of the Management Board
Grzegorz Piwowar Vice President of the Management Board	Andrzej Kopyrski Vice President of the Management Board
Stefano Santini Vice President of the Management Board	Grzegorz Piwowar Vice President of the Management Board
Marian Ważyński Vice President of the Management Board	Marian Ważyński Vice President of the Management Board

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

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

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

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

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

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

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

Mr. Marco Iannaccone, Vice President of the Management Board of the Bank, supervised the activity of the Finance Division until March 31, 2013.

Mr. Stefano Santini, Vice President of the Management Board of the Bank, supervised the activity of the Finance Division since April 1, 2013.

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

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

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

Organisational Changes

In 2013, there were changes in the organisational structure of the Bank's Head Office.

Within the new Area of Group Identity & Communication the following units were grouped: Group Media Relations Office, Internal Communication Office, Corporate Sustainability & Events Office and Group Brand Management Department. The aim of the change was to develop and to strengthen the visual identity of Bank Pekao S.A. Group and communication and co-operation strategy with all stakeholders.

The Household Financing Division activities were incorporated into the Retail Banking Division. The incorporation into the Retail Banking Division of the area handled until then by the Household Financing Division is aimed at rationalising the activities of the Bank in the development of products and services targeted to the segment of non-business customers.

In the Corporate Banking and MIB Division specialised financing services were merged into one unit – the Structured Finance and Commercial Real Estate Department (transformed from the Commercial Real Estate Department and Debt IB and Financing Department). Moreover, the activities of the Global Securities Services Department have been incorporated into the Transactional Banking Department.

The Central Back Office took over the supervision of the Housing Society (Kasa Mieszkaniowa) activities as well as the tasks related to the supervision and coordination of operations of the Regional Mortgage Centers. The aim of the change was to concentrate management of back-office activities related to loans in one unit – the Central Back Office.

Important Events and Achievements

Awards and Distinctions

Bank Pekao S.A. among the best employers in Poland
Bank Pekao S.A. was once again awarded by the International Institute CRF (Corporate Research Foundation), one of the leading research institutions in human resources management policies worldwide. At the beginning of 2013, the Bank was granted the "Top Employers Poland 2013" certificate.

The certificate is granted on the basis of results of detailed research that evaluates the key areas of HR policies and practices such as basic salaries and additional benefits, working conditions, training and development opportunities, career development and corporate culture management.

Global Finance: Bank Pekao as the best foreign exchange provider
Bank Pekao S.A. has been titled, for the sixth consecutive year, as the Best Foreign Exchange Provider 2013 in the ranking organised by the Global Finance magazine thus confirming a leading position of the Bank on the interbank foreign exchange market (EUR/PLN and USD/PLN).

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

Global Finance: Bank Pekao as the best sub-custodian bank in Poland
Bank Pekao S.A. once again won the title of the best custodian Bank in Poland – "Best Sub-Custodian Bank in Poland 2013" in the ranking organised by the Global Finance magazine which confirms the professional and comprehensive approach to the Bank's custodian services.

The Global Finance magazine in co-operation with experts selected the winners from among the institutions that provide the best custodian services on local and international markets. The criteria taken into account include: customers relations, quality of service, competitive prices, technologies applied, development plans, and the knowledge of regulations and local practices.

Moreover, in a local ranking of "Best Sub-custodian Bank 2013", UniCredit Global Securities Services (GSS) has been chosen as the best provider of custodian services in CEE. The best ranks achieved on the national level in: Austria, Croatia, Czech Republic, Poland, Slovakia, Hungary and Ukraine have contributed to the success of UniCredit Group in the region.

WSE: Bank Pekao S.A. as the best organiser of bonds issues on Catalyst market
In February 2013, the Warsaw Stock Exchange awarded leaders of the Polish capital market for achievements in 2012. Bank Pekao S.A. won an award in category "the value of debt issues arranged and introduced in 2012" on the Catalyst market.

In 2012, Bank Pekao S.A. organised medium-term corporate bond issues which accounted for 40% of the value of all last year's medium-term issues on the Polish market, of which more than 80% of issues were placed on the Catalyst market. Nearly 70% of all corporate bonds listed on the Catalyst market have been placed through the Bank.

Dziennik Gazeta Prawna: Gold Emblem in the category "the highest quality product" for PekaoBIZNES[24]
In the third quarter of 2013, Bank Pekao S.A. received Gold Emblem in the category "the highest quality product" for the electronic banking system PekaoBIZNES[24] for corporate customers in competition "Najwyższa Jakość Quality International 2013" which was organised by the Dziennik Gazeta Prawna newspaper held under the honorary patronage of the Ministry of Regional Development, Polish Agency for Enterprise Development and the Club of the Polish Forum ISO 9000.

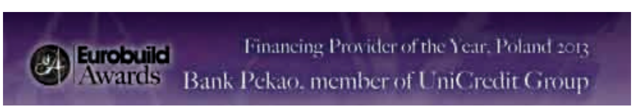
The judging panel appreciated the functional and visual revitalisation of the PekaoBIZNES[24] system, including, among others, comfortable and intuitive use of the system, better presentation of the offer of over one hundred financial products and increased efficiency of the platform.

EUROMONEY: Bank Pekao S.A. as the best bank in Poland in the area of transactional banking
Bank Pekao S.A. has been awarded by EUROMONEY Magazine for the third consecutive year for the best transactional banking services in Poland in 2013.

The first place achieved in the prestigious and international ranking proves the Bank's position as the leader in Cash Management on the Polish banking market and demonstrates customers' satisfaction with the services and transactional banking products offered by the Bank.

The survey involved 24 thousand international corporate customers that assessed the products and services of transactional banking in a given country appreciating innovation, high quality and security of transactions processed by Bank Pekao S.A.

Eurobuild Awards 2013 – Bank Pekao S.A. for the third consecutive time The Bank of the Year in commercial real estate



Bank Pekao S.A. was honoured with the title of the "Financing Provider of the Year, Poland 2013" by the jury of the competition organised by Eurobuild magazine which is one of the most influential specialised magazines in the commercial real estate sector in CEE. Among the winners in their respective categories were also projects financed by the Bank.

The jury composed of representatives of the major commercial real estate companies, real estate developers, investors, consultants, legal advisory companies and banks have selected the winners based on the size, quantity and type of agreements as well as on the reputation of the company. Control over the correctness of winner selection and voting was exercised by KPMG.

The European transaction of the year in waste managing
Bank Pekao S.A. was an adviser and financed a transaction carried out in the form of a public-private partnership for the renewable energy sector, which has been awarded with the European Waste Deal of the Year.

Partnership

We create new opportunities.

Within its program **Package of Sustainable Benefits**, Bank Pekao S.A. was the first bank in Poland to have established collaboration with top companies and sector leaders in providing modern business solutions. As a result, each SME Client of the Bank has access to products and services of renowned companies subject to attractive terms. The initiative is evidence that the Bank is a partner that offers its Clients not only financial solutions but also provides them with assistance in the aspects relevant for their business.

Bank Pekao S.A., SME Clients Department

Information for the Investors

Information for the Investors

The Bank's Share Capital and Share Ownership Structure

As at December 31, 2013, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034 and remained unchanged until the date of submitting the report. The share capital of the Bank consisted of 262,470,034 shares of the following series:

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

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

Shareholders of Bank Pekao S.A., holding directly or indirectly, through subsidiaries, at least 5% of the total number of votes at the General Meeting of the Bank, are as follows:

	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
SHAREHOLDER'S NAME	AS AT THE DATE OF SUBMITTING THE REPORT		AS AT DECEMBER 31, 2013		AS AT DECEMBER 31, 2012	
UniCredit S.p.A.	131,497,488	50.10%	131,497,488	50.10%	155,433,755	59.22%
Aberdeen Asset Management PLC	n/a	n/a	13,194,683	5.03%	13,194,683	5.03%
Other shareholders	130,972,546	49.90%	117,777,863	44.87%	93,841,596	35.75%
Total	**262,470,034**	**100.00%**	**262,470,034**	**100.00%**	**262,470,034**	**100.00%**

UniCredit S.p.A. has been the Bank's major shareholder since August 1999. As at December 31, 2013, UniCredit S.p.A. held 50.10% share in the Bank's share capital and the same percentage of the total votes at the Bank's General Meeting of Shareholders, Aberdeen Asset Management PLC held 5.03% and the remaining shareholders' 44.87% share. Since none of the remaining shareholders holds more than 5% of the total vote at the Bank's General Meeting of Shareholders, they are not required to disclose information on their holdings in Bank Pekao S.A.'s shares.

On February 1, 2013, Management Board of Bank Pekao S.A. in the current report no.7/2013 informed that the Bank received notification from UniCredit S.p.A. with its registered office in Rome, about reduction of the total number of votes at the General Meeting of the Bank as the result of the sale of 23,936,267 shares in the Bank, accounting for 9.12% of the total number of votes at the General Meeting of the Bank, through a sale order executed on January 31, 2013 via off-session transactions concluded on the Warsaw Stock Exchange S.A. according to the Secondary Placing Agreement made on January 29, 2013. Prior to the sale, UniCredit held 155,433,755 shares in the Bank, accounting for 59.22% of the overall number of shares in the Bank, representing the same number and percentage of the total votes at the General Meeting of the Bank. After the transaction, UniCredit holds 131,497,488 shares in the Bank, i.e. 50.10% of the overall number of shares in the Bank, representing the same number and percentage of votes at the General Meeting of the Bank.

On January 8, 2014 Management Board of Bank Pekao S.A. in the current report no. 1/2014 informed that the Bank received notification from Aberdeen Asset Management PLC (and/or acting on its behalf and its' affiliates) with its registered office in Aberdeen about reduction of the total number of votes at the General Meeting of the Bank below 5%, as the result of the sale of 50,000 shares in the Bank through a sale order executed on January 3, 2014. Prior to the sale, Aberdeen Asset Management PLC held 13,121,767 shares in the Bank, accounting for 5.0% of the overall number of shares in the Bank, representing the same number and percentage of the total votes at the General Meeting of the Bank. After the transaction, Aberdeen Asset Management PLC held 13,071,767 shares in Bank, i.e. 4.98% of the overall number of shares in the Bank, representing the same number and percentage of votes at the General Meeting of the Bank.

Polish open-end pension funds (OFE) constitute to the group of financial investors holding significant equity interests in the Bank. Based on their publicly available financial reports, as at December 31, 2013 OFE held in aggregate 16.37% of the Bank's shares, 5.6 p.p. more than a year ago.

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

SHAREHOLDER	NUMBER OF SHARES AND VOTES AT GM	% OF SHARE CAPITAL AND TOTAL VOTE AT GM	NUMBER OF SHARES AND VOTES AT GM	% OF SHARE CAPITAL AND TOTAL VOTE AT GM
	31 GRUDNIA 2013		DECEMBER 31, 2012	
Aviva OFE Aviva BZ WBK	12,483,565	4.76%	6,578,969	2.51%
ING OFE	6,998,757	2.67%	4,291,521	1.64%
OFE PZU „Złota Jesień"	5,226,351	1.99%	4,107,337	1.56%
Amplico OFE	3,853,470	1.47%	2,508,569	0.96%
AXA OFE	2,946,264	1.12%	2,573,253	0.98%
Generali OFE	2,289,234	0.87%	1,661,671	0.63%
PKO BP Bankowy OFE*	2,871,436	1.09%	1,563,526	0.60%
Nordea OFE	1,814,005	0.69%	1,374,940	0.52%
Aegon OFE	1,746,507	0.67%	1,493,665	0.57%
Allianz Polska OFE	1,243,653	0.47%	1,037,681	0.40%
OFE Pocztylion	892,812	0.34%	622,819	0.24%
OFE Warta	602,477	0.23%	471,976	0.18%
Total	**42,968,533**	**16.37%**	**28,285,927**	**10.78%**

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

* Assets presented as a total of PKO BP Bankowy and OFE Polsat. On July 19, 2013, OFE Polsat was acquired by PKO BP Bankowy.

Performance of Market Valuation of Bank Pekao S.A.'s Stock

The shares of Bank Pekao S.A. have been listed on the Warsaw Stock Exchange since June 1998 and they are one of the most liquid equities in Poland and Central and Eastern Europe. Since 2000, the Bank maintains Global Depositary Receipts (GDR) program. The Bank's GDRs are traded on London Stock Exchange and on the over the counter market in the USA.

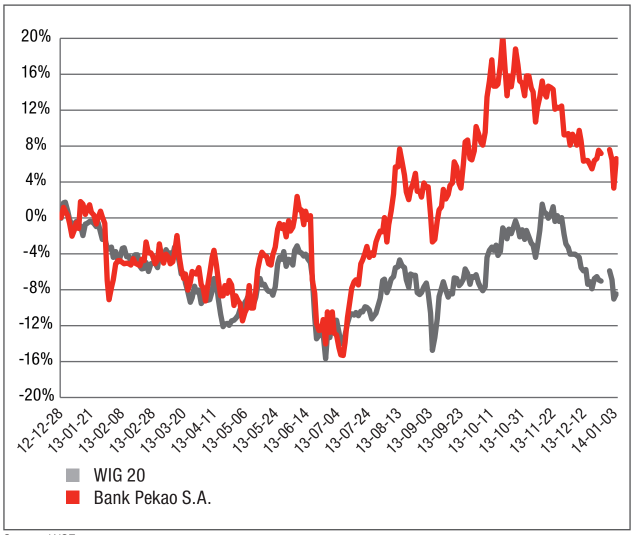
The Bank's market capitalisation as at December 31, 2013 amounted to PLN 47.11 billion and it was by 7.2% higher than in the previous year. Given the high capitalisation and liquidity the Bank's shares are a part of many important stock indices maintained by domestic and foreign institutions including Polish blue chips index – WIG20. Since December 19, 2011, the shares of Bank Pekao S.A. are included in the CEERIUS Sustainability Index at Vienna Stock Exchange.

With the average daily turnover volume at the level of 577 thousand and the worth of trading at PLN 23.7 billion in 2013, the share of the Bank's stock in trading on the WSE amounted to 10.74%.

The Bank's share price increased from PLN 167.5 as at December 31, 2012 to PLN 179.5 as at December 31, 2013, i.e. by 7.2%.

Over the year the Bank's share price fluctuated in a range from PLN 139 to PLN 207. Such a high volatility was mainly driven by the global markets sentiment and the market uncertainty regarding Polish pension funds reform results.

Performance of Bank Pekao S.A.'s shares and WIG20 Index in 2013



Source: WSE

Market valuation of the Bank's shares at the end of 2013 drived indicator P/BV (price to book value) to the level of 2.05 and P/E (share price / earnings per share) to the level of 16.8 as compared to 1.96 and 14.7 at the end of previous year respectively.

Information for the Investors

Dividend Payment History

In 2013, the Bank paid dividend for 2012 in the amount of PLN 8.39 per share. Dividend yield amounted to 4.7%.

The dividend payments for the years from 2003 to 2012 are presented below:

DATE	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Dividend for the year (in PLN million)	748	1,065	1,234	1,504	2,517	–	761	1,785	1,412	2,202
Dividend per 1 share (in PLN)	4.50	6.40	7.40	9.00	9.60	–	2.90	6.80	5.38	8.39

Investor Relations

The Bank's activity in investor relations area is focused on providing transparent and active communication with the market through active co-operation with investors, analysts and rating agencies, as well as fulfilling disclosure requirements within the frameworks of applicable law regulations.

The Bank's representatives regularly hold a lot of meetings with investors in Poland and abroad, and take part in most of the regional and sector dedicated investors conferences. Financial results of Bank Pekao S.A. Group are presented quarterly at conferences that are simultaneously transmitted via Internet. In 2013, there were four conferences held to present the Bank's financial performance and 580 meetings with investors and analysts from ca. 250 investment companies.

The Bank's financial results and its activity are regularly monitored by analysts representing Polish and foreign financial institutions. In 2013 26 analysts published reports and recommendations on the Bank.

The main goal of the Bank's investor relations is to enable the market to make a reliable evaluation of the Bank's financial situation, its market position and business model effectiveness in the context of banking sector conditions and macroeconomic situation in the domestic economy as well as on international markets.

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

In addition, in order to meet investors' expectations, the Bank publishes online annual report, which is available on the Bank's website.

Bank Pekao S.A. Financial Credibility Ratings

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

The Bank's ratings in 2013 proved to be strongly resistant to changes observed on financial markets and they were affirmed at a high level.

As at December 31, 2013, Bank Pekao S.A.'s credit ratings were as follows:

FITCH RATINGS	BANK PEKAO S.A.	POLAND	UNICREDIT S.P.A.
Long-term rating (IDR)	A-	A-	BBB+
Short-term rating	F2	F2	F2
Viability rating	a-	–	bbb+
Support rating	2	–	2
Outlook	Stable	Stable	Negative
STANDARD AND POOR'S RATINGS SERVICES	**BANK PEKAO S.A.**	**POLAND**	**UNICREDIT S.P.A.**
Long-term rating	BBB+	A-	BBB
Short-term rating	A-2	A-2	A-2
Stand-alone credit profile	bbb+	–	bbb
Outlook	Stable	Stable	Negative
MOODY'S INVESTORS SERVICE LTD. (UNSOLICITED RATING)	**BANK PEKAO S.A.**	**POLAND**	**UNICREDIT S.P.A.**
Long-term foreign-currency deposit rating	A2	A2	Baa2
Short-term deposit rating	Prime-1	Prime-1	Prime-2
Financial strength	C-	–	D+
Outlook	Negative	Stable	Negative

On January 24, 2014, Fitch Ratings affirmed ratings of Bank Pekao S.A., among others, saying that Bank Pekao S.A.'s ratings reflect its high capitals, stable and diversified funding sources, strong franchise as well as consistency in the conservative credit and market risk management.

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

Fitch Ratings agency assigned the "A" rating to the covered bonds issued by Pekao Bank Hipoteczny S.A., a 100% subsidiary of Bank Pekao S.A. It is the highest rating ever awarded to the Polish debt securities issued by a private company. The reasons underlying the Agency's decision included the high rating assigned to Pekao Bank Hipoteczny S.A. (A-), legal regulations pertaining to the covered bonds collateral register, and the excess of collateral over the volume of bonds in issue, as declared by the bank. The rating was also confirmed by the Agency in November 2013. The high rating assigned to the covered bonds confirms Pekao Bank Hipoteczny's ability to issue securities offering a high level of security and raise long-term capital to fund its lending activity.

Innovate

A new dimension of payments.

PeoPay is an innovative mobile payment system offered by Bank Pekao S.A. to make stress-free and safe payments both in shops and online. PeoPay enables transferring funds on a phone number of the beneficiary, or withdrawing money form ATMs, without using a card. For companies we have developed the PeoPay mPOS app. Thanks to this app mobile payments can be accepted directly on smartphone.

Bank Pekao S.A., Retail Banking Division,
Strategic Project Office

Activity of Bank Pekao S.A. Group

Activity of Bank Pekao S.A. Group

Important Factors Influencing the Group's Activities and Performance

In 2013, the Bank's activity was to a large extent determined by Poland's macroeconomic situation and the trends observed in the whole banking sector.

Polish economy, at the beginning of the year, continued slowing down, reaching the bottom of the economic cycle in the first quarter of 2013 with a real GDP growth at 0.5% y/y achieved due to an improvement in net export with a low level of domestic demand. In the next quarters, a gradual acceleration of the growth rate was observed, mainly due to improvement in consumption, resulting in the GDP growth for the entire 2013 of 1.6% (preliminary GUS data).

In response to the economic downturn, the Monetary Policy Council (MPC) has continued monetary policy easing, resulting in the reference rate reduction in 2013 by 175 bps from 4.25% to 2.5%. The reduction of interest rates had a negative impact on net interest margins in the banking sector and consequently on the dynamics of the net interest income. At the same time, as a result of lower interest rates, Treasury bond prices increased. That allowed a number of banks to partially offset the negative impact of lower interest rates on their net interest income by realising gains on bond sale.

The economic slowdown has affected lending activity. The growth in household lending was 4.5% y/y, mainly due to an increase of PLN mortgage loans resulting from a decline in residential property prices and record low interest rates. The increase in corporate loans amounted to 1.5% y/y, reflecting a significant deceleration in investment processes.

Household deposits growth weakened to 5.6% y/y from 7.7% a year before, due to a shift of interest by certain customers, in the environment of low interest rates, to alternative forms of asset allocation, including mutual funds. At the same time the corporate deposit portfolios increased significantly (by 10.0% y/y).

Given the low interest rates environment and pressure on net interest income, a number of banks have decided to effectively increase the fees and commissions charged to customers. In the second half of the year an increase in economic activity of customers was also visible. That allowed to compensate the effects of the interchange fee reduction made at the beginning of the year.

Despite the economic slowdown, asset quality has not deteriorated and the cost of risk stabilised at the level of the previous year.

In 2013, the banks continued to implement new technologies, introduce IT improvements and develop remote access channels, in particular in the area of mobile banking and mobile payments.

The impact of regulatory activities on the amounts of revenues and costs in the banking sector was visible. For the first time, banks were charged with an extra fee, so called prudential charge, for the Bank Guarantee Fund. A number of actions taken in 2013 will affect the results of the subsequent years and functioning of the financial market in Poland – the increase of BGF prudential charge for 2014, reduction of the interchange fee and the Polish pension funds reform.

More difficult operating conditions combined with a lower economic growth and lower interest rates encourage some banking groups present in Poland to revise their strategies and exit from the Polish market.

Major Sources of Risk and Threats

Risk management

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

The key risks material for the Group include: credit risk, liquidity and market risks, and operational risk. Additionally, the Group recognises business risk, real estate risk and financial investment risk, model risk, macroeconomic risk, reputation risk, and compliance risk.

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

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

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

The Management Board the Audit Committee and the Supervisory Board are provided with detailed reports on credit, market and operational risk exposures.

The rules and instruments applied to manage each of the risks are described below. Information on risk exposures is included in Note 5 to the Consolidated Financial Statements of the Bank Pekao S.A. Group for the year ended December 31st 2013.

Credit risk

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

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

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

Under the guidelines of the UniCredit Group, the Bank has continued to work on further rationalisation of the credit process with a view to improving its efficiency and security. These efforts include in particular refinement of the procedures and tools for risk measurement and monitoring.

Credit risk concentration limits

In accordance to the Banking Law, a bank's total exposure to a single borrower or a group of borrowers related by capital or organisational structure may not exceed 25% of a bank's equity. In 2013, the maximum exposure limits set forth in the Banking Law were not exceeded.

Sector exposure concentration

In order to mitigate credit risk associated with excessive sector concentration, the Bank has a system in place which allows it to control the sector structure of its credit exposure. The system involves setting concentration ratios for particular sectors, monitoring the loan portfolio, and information exchange procedures. The system supports the management of exposures to individual business areas classified in accordance with the Polish Classification of Business Activities (Polska Klasyfikacja Działalności – PKD).

Concentration ratios are determined on the basis of the Bank's current exposure to a particular sector and risk assessment of the sector. Periodic comparison of the Bank's exposures with the applicable concentration ratios allows for timely identification of the sectors where an excessive risk concentration might occur. If such concentration occurs, the Bank analyses the sector's economic situation (both existing and forecast trends) as well as the quality of the current exposure to the sector. Based on these measures, the Bank's policy of mitigating sector risk is defined and adjusted to the changing environment.

Rules of procedure for exposures to residential mortgage secured loans

Bank Pekao S.A. has documented rules of procedure for exposures to residential mortgage secured loans to be followed in the event of material adverse changes on the real estate market or negative macroeconomic developments. On the basis of the rules, the Bank can react promptly to such developments on the real estate market in Poland.

Credit risk management at subsidiaries based outside the Republic of Poland

The process of credit risk management at PJSC UniCredit Bank was consistent with the Credit Policy of the Bank Pekao S.A. Group and reflected the requirements of the local Ukrainian market. Since 2003, the credit policy has been annually adopted by the statutory bodies of PJSC UniCredit Bank and issued in the form of internal regulations to be followed at PJSC UniCredit Bank.

Bank Pekao S.A. exercised strict supervision and control over the underwriting process at PJSC UniCredit Bank. All credit decisions were taken by the Management Board of PJSC UniCredit Bank, however for credits or total exposures above EUR 5 million (or its equivalent in other currencies), they required a formal approval by Bank Pekao S.A. The credit underwriting scheme was compliant with the standards of credit risk management that are currently in force at Bank Pekao S.A.

The majority of the loan portfolio were loans to corporate clients, which included the largest companies in Ukraine. Corporate lending activity was driven by working capital loans and investment loans.

Liquidity and market risks

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

The Asset, Liability and Risk Committees support the Management Board with advice and recommends the appropriate steps to be taken to ensure proper implementation of the Management Board's policy. The Asset, Liability and Risk Committees are responsible, among the other things, for management of the structural risk relating to the Group's statement of financial position which results from a mismatch between assets and liabilities in terms of liquidity, exchange rates and interest rates, and other aspects of market and liquidity risks.

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

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

Liquidity risk

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

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

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

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

The Group has contingency procedures in place, protecting it in the event of any substantial deterioration in its financial liquidity or in the event of an increase in the liquidity risk on the market.

The contingency plan to be employed in the event of deterioration in the Group's liquidity involves daily monitoring of certain early-warning indicators, capturing both systemic and Group-specific risks, and provides for four levels of liquidity risk, depending on the level of early-warning indicators, the Group's standing as well as overall market situation. Additionally, the policy defines the source of funds to be used to cover an expected cash outflow, as well as the procedures for monitoring the liquidity levels, the procedures for emergency measures, the organisational structures of task forces charged with restoring the Group's liquidity, and the scope of the Management Board's responsibility for making decisions necessary to restore the required liquidity level.

An integral part of the liquidity monitoring process at the Group for situations relating to a financial market crisis or a crisis triggered by internal factors, is the stress test scenario analysis, conducted on a weekly and monthly basis, and covering the Bank and selected subsidiaries.

Pursuant to the Polish Financial Supervision Authority's Resolution No. 386/2008 on fixing liquidity norms for banks, since January 2008 the Bank has calculated regulatory liquidity measures on a daily basis. In 2013, the Bank's regulatory liquidity measures were above the required levels.

Market risk

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

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

In connection with its exposure to market risk, the Group operates a market risk management system, which provides an organisational and methodological procedural framework designed to ensure that the structure of the statement of financial position and off-balance-sheet items is in agreement with the strategic goals. The main objective behind the market risk management strategy is to optimise the financial results and the impact on the economic value of its capital so that financial targets of the Group are attained while the exposure to market risk remains within the limits approved by the Management and Supervisory Boards.

Trading book market risk

In the process of trading book market risk management the Group seeks to optimise its financial results as well as the quality of customer service while complying with the limits approved by the Management Board and the Supervisory Board of the Bank.

The key tool for assessing the market risk of the trading book is the Value at Risk (VaR) model. VaR represents the value of one-day loss that might be realised with a probability not exceeding 1%. VaR is determined using the historical simulation method based on two years' observation of the dynamics of market risk factors. The model is subject to statistical verification on an ongoing basis, which involves comparing the VaR value with the actual and revaluation results. The analyses for 2013 have confirmed the model's adequacy.

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

Banking book interest rate risk

In managing the banking book interest rate risk, the Group aims to maximise the economic value of capital and achieve the target net interest income while complying with the accepted limits. The financial position of the Group in relation to changing interest rates is monitored through the interest rate gap (revaluation gap) methodology, VaR analysis, simulation analysis, and stress testing.

Currency risk

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

Operational risk

Operational risk is the risk of loss due to inadequacy or failure of internal processes, people, and systems or external events. Operational risk also includes legal risk. Strategic risk, business risk and reputation risk are different from operational risk.

Operational risk management is based on internal procedures which are in compliance with the Banking Law, the Polish Financial Supervision Authority's Resolution No. 76/2010 (as amended) and 258/2011, Recommendation M and the UniCredit Group's standards. Operational risk management encompasses: identification and assessment, monitoring, mitigation and reporting. Identification and assessment are carried out by means of internal and external data analysis that may have significant impact on the achievements of the Bank's objectives. The main tools used in the identification and assessment of operational risk include: internal operational incidents, external operational incidents, key risk indicators, scenario analysis and self-assessment. Advanced Measurement Approach (AMA) is also used for the measurement of operational risk of the Bank. The method is used also to calculate capital requirements for capital adequacy purposes. Monitoring activities are carried out at three control levels: operational control (all employees), risk management control (Operational and Financial Risk Management Department) and internal audit (Internal Audit Department).

Operational risk mitigation involves the internal control system, mitigation measures, business continuity plans, contingency plans, and also insurance policies.

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

Business risk

Business risk is defined as unexpected adverse changes in business volume and/or margins that are not due to credit, market or operational risks. Strategic risk is an element of business risk which is the risk of losses due to decisions or radical changes in the business environment, improper implementation of decisions, lack of response to changes in the business environment, such as a change to economic cycles.

When calculating its business risk exposure, the Bank employs the Earnings at Risk (EaR) concept, which makes it possible to assess the risk of an unexpected negative deviation in the realised financial result from the target level assumed in the financial plan. EaR is assessed in one-year time horizon at 99.93% confidence level.

Real estate risk

Real estate risk results from volatility of the market value of real estate owned by the Group. The risk does not cover real estate held as collateral for loans granted.

Real estate risk is calculated in one-year time horizon using the Value at Risk model at 99.93% confidence level and the standard method of determining capital requirements as stated in the Pillar 2 of Basel Accord.

Financial investment risk

Financial investment risk stems from the Group's banking book equity holdings not belonging to the Bank Pekao S.A. Group. Financial investment risk is assessed based on the Value at Risk (VaR) method in one-year time horizon and at the assumed confidence level of 99.93%.

Model risk

Model risk is defined as the risk of incurring loss due to implementation of inadequately developed (defined) models or their inappropriate adoption. Model risk includes also the risk of losses resulting from inadequate control and monitoring of application of the model.

Model risk is subject to quality assessment on the basis of the data used, assumptions, methodologies etc. An additional element of the risk assessment of the model includes scenario analysis enabling assessment of the impact of potential irregularities in the model on its results. Based on the aggregated results a capital buffer for model risk is determined.

Macroeconomic risk

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

The capital buffer to cover the macroeconomic risk is estimated on the basis of the impact of economic slowdown scenario analysis on economic capital.

Reputation risk

Reputation risk is defined as existing or anticipated risk to revenues or capital, resulting from a deteriorated perception of the financial institution's image by customers, counterparties, shareholders/ investors or regulators. The risk is hard to measure and is subject to quality assessment. The Group strives to improve its reputation through continuous development of solid relationship with stakeholders.

Compliance risk

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

The Compliance Policy of Bank Pekao S.A. sets forth assumptions related to compliance risk applicable to all organisational levels of the Bank, and a compliance program, encompassing processes constituting compliance risk management (identification, assessment, control, monitoring and reporting). The Policy defines also the basic rules of conduct the Bank and its employees should follow in this area.

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

The compliance risk management process takes place at three separate levels:
- management staff, responsible for ensuring compliance,
- risk management function, carried out by the dedicated Bank's organisational units not engaged in business activity,
- internal audit, responsible for carrying out an independent assessment of the functioning of the internal control system, and for monitoring post-control activities.

The responsibility for co-ordination of the Bank's activities in the scope of compliance risk management lies with the Compliance Department. The tasks of the Department include in particular updating the Compliance Policy and monitoring it is complied with; identifying, assessing, monitoring and controlling of the compliance risk in regulatory areas, in line with the scope of its competence; guidance provided to organisational units on legal acts, regulations, rules, codes, standards, business aspects and products in the area of compliance and reputation risk; strengthening the dialogue and the relationship with the supervisory and regulatory authorities, and carrying out tasks related to preventing the use of the Bank's activity for purposes of money laundering and terrorism financing.

The Bank uses the CAMP methodology for compliance risk assessment and controls second level compliance that enable the assessment of the Bank's existing procedures and processes in terms of their efficiency and compliance with the key legal requirements concerning banking business. In line with the CAMP methodology, which operates as an early-warning system, mitigation measures are promptly implemented in case of detecting irregularities. The Bank's organisational units are involved in the process. The assessment of compliance risk and controls of second level compliance contribute to improvement of the internal control system at the Bank and therefore to limiting the compliance risk involved in the Bank's operations.

New Capital Accord – Basel

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

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

In 2005, the Bank in cooperation with the banking supervisory authorities and in line with the guidelines of the UniCredit Group, drafted and approved a plan that assumes alignment of the Bank's operations with all three Pillars of the New Capital Accord, i.e. Pillar 1 (Minimum Capital Requirements), Pillar 2 (Supervisory Review), and Pillar 3 (Market Discipline)

In accordance with the adopted schedule, Bank Pekao S.A. computes capital adequacy requirements for credit risk purposes under the Standardised Approach and for operational risk purposes under Advanced Measurement Approach, remaining fully compliant with Pillar 1 requirements. In 2008, it also prepared, approved and implemented the Internal Capital Adequacy Assessment Process – the basic constituent of Pillar 2. The disclosure requirements under Pillar 3 were met.

The process of achieving compliance with the New Capital Accord also involves meeting stringent organisational and IT requirements. Throughout the process, the Bank has been supported by a reputable consulting firm and the IT system provider. The KRM system (Kamakura Risk Management) for the calculation of capital charge for credit risk supports running in parallel the Standardised and Advanced Approach, its efficiency is adequate, and its high effectiveness ensures the processing of all the credit transactions volume. The system allows a sound level of scalability and customisation.

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

Completion of the above mentioned tasks means that the Bank was effectively in compliance with the supervisory authorities' regulations introducing Basel requirements set by the Basel Committee on Banking Supervision, as amended from time to time.

In 2013, the European Parliament adopted a package of regulations known as Basel III, consisting of the following documents:
- Regulation No. 575/2013 of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation No. 648/2012,
- Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending directive 2002/87/EC and repealing directives 2006/48/EC and 2006/49/EC.

The new regulations aim at improving the quality of the capital base, including neutralising pro-cyclical effects and reducing systemic risks. Furthermore, they introduce new requirements concerning short- and long-term liquidity and regulate issues related to financial leverage.

The Regulation became effective on January 1, 2014, while the Directive is still to be transposed to Polish law. The requirements concerning liquidity and leverage will become effective after 2014.

Capital Adequacy

A basic measure of capital adequacy is the capital adequacy ratio (CAR). The minimum capital adequacy ratio required by law is 8%. As at the end of December 2013, CAR for the Group amounted to 18.77%, which is more than double compared to the minimum value required by law.

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

(in PLN thousand)

CAPITAL REQUIREMENT	31.12.2013	31.12.2012
Credit risk	7,197,709	7,011,357
Exceeded concentration limits and large exposure limits	0	0
Market risk	127,683	128,409
Settlement – delivery and counterparty risk	121,438	145,302
Exceeded capital concentration limit	0	0
Operational risk	1,054,131	1,005,703
Total capital requirement	**8,500,961**	**8,290,771**
Equity for capital adequacy ratio calculation		
Tier 1 capital	19,769,361	19,028,607
Tier 2 capital	179,342	481,438
Equity for capital adequacy ratio calculation	**19,948,703**	**19,510,045**
Capital adequacy ratio (%)	**18.77%**	**18.83%**

As a result of the changes in accounting policies described in Note 4 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2013, appropriate restatements of comparative data for 2012 were made.

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

The capital adequacy ratio of the Group at the end of December 2013 was maintained at a high level (18.77%), similar to the level at the end of December 2012 and the slight change was due to an increase in total capital requirement and equity in the period.

The increase in total capital requirement at the end of December 2013 was mainly due to an increase in capital requirement for credit risk driven by the increase of the loan portfolio of the Bank and an increase in capital requirement for operational risk (calculated using an advanced method for the Bank and a standard method for subsidiaries).

The strengthening of the Group's equity base in 2013 is mainly a consequence of the decision of the Ordinary General Meeting of Bank Pekao S.A. to retain the net profit of Bank Pekao S.A. for 2012 of PLN 736 million in equity.

Bank Pekao S.A. on the Polish Banking Market

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

Distribution channels

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

	31.12.2013	31.12.2012
Total number of outlets	1,001	1,001
Total number of ATMs	1,847	1,845

The Bank's customers can also make commission-free cash withdrawals from 4.2 thousand of domestic network of Euronet ATMs as well as European network of the UniCredit Group ATMs.

As at the end of December 2013, the Bank maintained 5,107.5 thousand PLN – denominated current accounts, 267.5 thousand mortgage loans accounts and 634.9 thousand consumer loans accounts.

(in thousand)

	31.12.2013	31.12.2012
Total number of PLN current accounts*	5,107.5	5,305.4
of which packets	3,781.5	3,629.9
Number of mortgage loans accounts**	267.5	246.0
of which in PLN	226.6	202.5
Number of consumer loans accounts***	634.9	676.1

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

Individual customers

In 2013, the Bank was focused on consistent acquiring of new customers and sale of personal accounts. In each subsequent quarter of 2013, there was a double-digit growth in the number of new individual customers compared to the previous quarter, which finally resulted in the acquisition of over 400 thousand new customers in 2013.

Retail banking

In June 2013, promoting innovations and modernity, Bank Pekao S.A. offered to customers the most recent mobile solution – a comprehensive system of mobile payments and payment acceptance PeoPay.

The PeoPay application is an innovative solution that combines mobile payments for individual customers and the innovative function PeoPaymPOS, i.e. the ability to accept mobile payments on smartphones for businessmen. The application enables execution of fast payments between users, online payments and non-cash payments in shops and points of sale branded with the PeoPay logo as well as cash withdrawals from the Bank's network of ATMs. The PeoPay application has been made available on the most popular operational systems: Android, iOS and Window Phone. Application users can make mobile payments in a network of 25 thousand merchants which is constantly being expanded.

The implementation to the Bank's offer of the PeoPay mobile payments extends the mobile packet that includes Eurokonto Mobilne, a mobile banking application and Mobilny Planer Zakupów (Mobile Shopping Planner) with another modern solution – the ability to make and receive payments through mobile phones.

In 2013, the Bank accompanied its customers in a number of cultural and sports mass events promoting its modern package of mobile solutions.

The Bank, in co-operation with the Great Orchestra of Christmas Charity, once again prepared a dedicated pre-paid card with the image of the Woodstock Music Festival and ensured mobile payments with the PeoPay application in all terminals located at the festival.

In 2013, the Bank conducted marketing campaigns promoting personal accounts for younger public– between 13 and 25 years of age. The Bank was focused on local actions, mainly at schools and universities, promoting the PeoPay secure mobile payments.

Affluent customers

In the area of Premium Personal Banking, the Bank's activities were focused on acquiring new customers by introducing attractive product offer which allows flexible customisation of parameters to customers' individual needs and expectations as well as the assistance of qualified Personal Advisers securing top standards of customer service.

Within the frame of the product offer–term deposits, investment funds managed by Pioneer Pekao TFI and mortgage loans were the most popular among affluent customers.

Moreover, individual financial planning services with the use of a professional tool – the Investment Navigator were developed as part of Premium Personal Banking. The main task of the Investment Navigator is to support customers' investment decisions, in particular in planning of long-term savings including asset diversification.

Customers are also provided with a dedicated Contact Center service in the Info-line of Premium Personal Banking.

Activity of Bank Pekao S.A. Group

Private Banking

Private Banking of Bank Pekao S.A. is among the leaders on the market both in terms of assets under management as well as the number of customers in the Private Banking segment. The convenient customer service model is based on professional care of dedicated advisers who provide customers with product solutions customised to their individual needs and market situation. The group of advisers consists of experienced employees holding certificates of qualification of the reputable European Financial Planning Association. The advisers are supported by assistants and product specialist teams which –combined with unique experience and knowledge of the local markets and global know-how of UniCredit Private Banking – supports the maintenance of a high level of services and makes the offer for most demanding customer segment.

Private Banking customers are provided with full access to the Bank's product offer and to solutions offered exclusively to the segment such as: open product architecture, the Eurokonto Prestiżowe package, prestigious credit cards, structured deposits Indeks na Zysk and dual currency deposits. As a result of the Bank's co-operation with Pioneer Pekao TFI S.A. and Centralny Dom Maklerski Pekao S.A. (CDM), customers have an opportunity to diversify their investment portfolios accessing a wide range of investment offer including foreign investment funds. Asset management for Private Banking customers is provided by Pioneer Pekao Investment Management S.A.

The Bank's activities in the area of Private Banking in 2013 were focused on attracting new customers, adapting the offer to the changing market conditions and developing the relationships with customers.

The Bank's offer was expanded with a new insurance and investment product "Plan Inwestycyjny Prestiż" (Prestige Investment Plan) which allows investing in various investment funds and/or model portfolios with additional insurance, legal and tax benefits. Due to the Bank's co-operation with TU Allianz Życie Polska S.A., "Plan Inwestycyjny Prestiż" guarantees a high quality of the offer and access to a wide range of insurance equity funds. The advantages of the product include protection of family members, protection of the invested capital as well as easy access to the invested funds.

Moreover, the Bank's offer was expanded with a new prestigious credit card Pekao VISA Infinite which stands out with its broad insurance package, access to services related to travelling (VISA Luxury Hotels, Priority Pass) and concierge service.

The Bank continued offering structured products "Indeksna Zysk" with 100% capital protection. Customers were offered five subscriptions of structured deposits linked to, among others, exchange rates and capital market indices. Worth mentioning is the structured deposit which has generated a high profit for customers of over 11% per annum.

In 2013, the customer service model in co-operation with CDM was changed, as a result of which the advisers can directly receive and execute orders placed by Private Banking customers.

To strengthen relationships with customers and to extend their knowledge of the financial markets, a series of business meetings was organised. Moreover, the Bank conducted sponsoring activities, including Champions League and Pekao Szczecin Tennis Open Tournament, which allowed us to increase customers' satisfaction with co-operation with the Bank.

Investment and savings products

In 2013, the Bank continued its initiative to promote the idea of regular savings, by offering pension products with additional assurance in the form of IKE and IKZE accounts and by promoting the Regular Savings Program (Program Systematycznego Oszczędzania).

In order to increase the attractiveness and to adapt the products offer to customers' needs, an offer of the Pioneer IKE Program was extended by five new funds/sub-funds and an offer of the Capital Accumulation Program was extended by eight new funds/sub-funds.

Under Regular Savings Program – My Prospect (Moja Perspektywa), the Bank's offer was extended by a new portfolio – Polski Plus.

Moreover, in 2013, the Bank introduced to its offer a new mutual fund Pioneer Stabilnego Inwestowania for investors with moderate risk tolerance and a new investment fund Pioneer Pieniężny Plus which enables investing, first of all, in instruments with short-term maturities and that is safer than typical bonds funds.

The Bank's offer was expanded with a new insurance and investment product "Plan Inwestycyjny Prestiż" (Prestige Investment Plan) which allows customers to invest in various investment funds and/or model portfolios with insurance cover, and additional legal and tax benefits.

In the third quarter of 2013, the Bank introduced to its offer a new savings account for children, i.e. "My Treasure" ("Mój Skarb") account. The new account– opened on behalf of the child by the parents –allows to safely explore the world of finance and enables efficient savings of even small amounts.

In the fourth quarter of 2013, the Bank introduced a Flexible Deposit (Lokata Elastyczna) to its offer with an attractive interest rate based on WIBOR and with optional periodic interest payment.

Credit products

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

Cash loans

In the area of cash loans, the Bank consistently pursued a strategy of strengthening of its position on the consumer goods financing market while maintaining a balanced credit risk policy and providing customers with the highest level of satisfaction. Efficient process, transparent rules of loans granting as well as an individual approach guaranteed the competitiveness of the Express Loan among offers of the other banks. The customers taking the loan may obtain insurance coverage within the available insurance packages allowing them to adjust the offer to the individual needs.

In 2013, the Bank –looking for new growth opportunities and sales development of the Express Loan –implemented a new functionality in the Pekao24 Internet service which allows the Bank's customers to apply for and sign the Express Loan agreement online, actively used the other internal marketing communication channels, including the website dedicated to consumer loans and a mobile application, organised an advertising campaign on TV, radio and in the Internet as well as local promotional actions all over the country.

Mortgage loans
In 2013, the Bank continued its policy of offering only PLN mortgage loans maintaining a strong market position with a share of 18% in the sale of PLN mortgage loans in Poland.

The mortgage loan offer was being updated and adapted to the changing market conditions and needs. The advantages of Bank Pekao S.A.'s mortgage loans offer include fast credit decisions, attractive financing conditions and competent advisers supporting customers in the lending process.

The Bank pursued a number of promotional activities, including promotional campaigns on the Internet and in the internal channels as well as participated on a regular basis in housing fairs organised all over the country.

Payment cards

In 2013, Bank Pekao S.A. continued the development of its credit cards offer. The Bank as a Sponsor of the UEFA Champions League offered another edition of special credit cards with the image of the Champions League.

Moreover, the Bank provided additional security – 3D Secure for online transactions with its Visa credit cards. Previously, such additional security was available for the Bank's customers holding MasterCard credit cards only.

In 2013, the Bank also provided the holders of MasterCard Debit and Maestro cards issued to Eurokonto accounts with the ability to disable and re-enable the functionality of contactless transactions.

Brokerage activity

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

As at the end of 2013, the Group's brokerage entities maintained more than 361 thousand standard investment accounts and offered to its customers an electronic service of investment accounts allowing buying and selling all instruments listed on the Warsaw Stock Exchange (WSE) and on the BondSpot market via the Internet. As at the end of 2013, the brokerage entities had 180.1 thousand online accounts, an increase of 10.2 thousand since the end of 2012. As at December 31, 2013, the total value of assets deposited on investment accounts run by the Group's brokerage entities amounted to PLN 25.7 billion.

In 2013, the following market shares on the WSE in transactions for individual customers were achieved by the brokerage entities of Bank Pekao S.A. Group:
– 18.0% share in the stock turnover,
– 12.3% share in the term contract trading volume.

In 2013, the number and value of IPOs increased as compared to 2012. 23 companies joined the WSE against 19 companies in 2012. The brokerage entities of Bank Pekao S.A. Group participated in 12 IPOs, including three offers of state-owned companies which attracted interest of individual customers.

In 2013, the Group's brokerage entities adapted their IT systems to the WSE new transactional system Universal Trading Platform (UTP) implementing at the same time new types of orders and conditions of order execution provided on the new WSE platform.

CDM joined brokerage entities which offer opportunity to buy open-end investment funds online. Thanks to the IT platform "Pasaż funduszowy" customers have access to nearly 200 open-end investment funds offered by several investment management companies via the CDMInternet service. At the same time, Dom Maklerski developed the mobile application, implementing its new version to the Windows Phone operational system. In 2013, CDM began to co-operate with three new investment companies in distribution of open-end funds.

In 2013, the Group's brokerage entities co-operated with The National Depository for Securities (KDPW) on projects aimed at implementing modern solutions functioning as a standard on European markets, adapting to new regulations including EMIR (European Market Infrastructure Regulation) and improving market security.

Pekao24

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

The Bank's customers have the opportunity to use the Pekao24 mobile banking application dedicated to mobile phones and devices which is the most advanced application on the market. It enables the execution of most of the operations available via the Internet service and the access to additional functionalities such as geo-location of ATMs, branches and rebate offering stores as well as the tracking of market information.

Activity of Bank Pekao S.A. Group

As at the end of 2013, the number of Pekao24 customers amounted to 2,446.8 thousand and increased by 242.3 thousand compared to the end of 2012. In the fourth quarter of 2013, 1,352.0 thousand customers logged into the electronic banking services.

As at the end of 2013, the number of customers with access to mobile banking amounted to 373.1 thousand and increased by 172.4 thousand compared to the end of 2012. In the fourth quarter of 2013, 149.1 thousand of customers logged into the mobile service m.pekao24.pl and the Pekao24 mobile banking application.

(in thousand)

	31.12.2013	31.12.2012
Number of individuals with access to electronic banking Pekao24 as at the end of period	2,446.8	2,204.5
Number of individuals actively using electronic banking Pekao24*	1,352.0	1,225.0
Number of individuals with access to mobile banking as at the end of period	373.1	200.7
Number of individuals actively using mobile banking**	149.1	90.0

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

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

The most important projects carried out in the Pekao24 electronic banking in 2013 included:

– providing a new application for cash loans with an opportunity to sign the agreement and withdraw funds using electronic banking,
– introduction of services that are unique on the Polish market in the Pekao24 mobile application including scanning of QR codes on invoices, outlet searching using the camera of the phone, integration of the transactional part of the mobile application with the phone calendar and with handy calculators,
– providing a new version of the Pekao24 mobile application for iPhone 5 and implementation of a dedicated keyboard to authorise operations in Android system phones,
– enabling the management of the PeoPay mobile payment system through the Pekao24 system,
– enabling PayByNet payments for, among others, execution of electronic administrative payments in a fast and convenient way,
– providing savings accounts for minors, which are opened by the parents (legal representatives) via electronic banking,
– expanding the list of available SMS alerts to increase the convenience and security of credit cards use,
– providing the PekaoToken application for devices with the Windows Phone operating system and a new version of the application for iPhone 5.

In 2013, the Pekao24 mobile banking application won the ranking of mobile applications of the Polish banks (mobirank.pl) reaffirming the quality and competitiveness of the mobile solutions offered by Bank Pekao S.A.

Small and micro-enterprises (SMEs)

In the area of SME, in 2013, the Bank's activities were focused on strengthening the relationships with existing customers and consistently attracting new customers,thanks to which the Bank acquired nearly 40 thousand of new customers.

In 2013, the Bank intensified marketing activities promoting the PekaoFirma24 mobile banking application which is dedicated to mobile phones and devices. The application significantly stands out on the competitive market in terms of its functionalities that allow, among others, executing transfers to any domestic or foreign account, making currency conversion at preferential exchange rates (Autodealing) and multistage request authorisation. The application provides also a broad information part (available without logging in) which presents the latest exchange rates, the Bank's product offer, location of the Bank's ATMs and outlets and a list of shops in which payments made with any of the Bank's cards entitle the customers to attractive discounts and special offers.

The Bank's offer was extended by a new package – Mój Biznes Mobilny (My Mobile Business) addressed at customers looking for innovative solutions. The Mój Biznes Mobilny package (debit card, transfers, ATMs cash withdrawals) allows customers who prefer account service through the Internet and mobile applications to manage their business in a modern way.

In 2013, the Bank's offer was enhanced with the PeoPaymPOS application for mobile payments acceptation. The main functionalities of the application include the PeoPay mobile payments acceptance and preparation of sale reports. In 2013, the Bank has developed an acceptance network of the PeoPay mobile payments and promoted its innovative products mainly among customers in trade and services sector. The PeoPaymPOS application is provided to business customers free of charge.

In 2013, the product offer dedicated to the segment of small and micro-enterprises was extended by products previously addressed to corporate customers. Customers were provided with modern solutions for planning, monitoring and cash management, such as Pekao Collect, PekaoPłace, Autowypłata, Pekao Konsolidacja, Polecenie Zapłaty, Pekao Cash (closed cash deposits). Moreover, the tool for automatic foreign currency exchange was further modified. A new functionality – "FX transaction with collateral" was introduced into the PekaoFirma24 Internet banking system.

In the lending area, the Bank's customers were offered current financing combined with a simplified loan granting process. The Bank also continued initiatives aimed at loan sales increase by modifying its loan procedures (improved loan take-over from other banks) as well as by supporting tools (implementation of a new simplified loan process SLK – promptly available credit limit for existing customers).

At the beginning of 2013, at a conference organised in Warsaw, Bank Pekao S.A. presented the third edition of its report "Raport o sytuacji mikro i małych firm" ("Report on the situation of SMEs"). The Report has been prepared based on seven thousand interviews conducted with the business owners in the segment. The leading subject of the report, which has been prepared with the participation of academics and the business environment, was e-business. The Bank initiated a series of conferences organised jointly with the marshals of the voivodeships, local business organisations and business partners – co-authors of the e-business study. During those conferences, regional information from the Report and practical solutions for the Internet use in the business of small and micro-enterprises were presented.

In the first half of 2013, the Bank as the first institution in Poland and as the eleventh institution in Europe, signed an agreement with the European Investment Fund (EIF) on portfolio guarantees within the framework of EU "Risk Sharing Instrument" program. Asa result of the agreement, the Bank's offer was extended with revolving and investment loans with guarantee for innovative projects and businesses. The Bank promoted the EU program by participating in the international conference "Implementing Innovations: Transforming Knowledge into Profit" organised in Kraków by the Patent Office. In October 2013, the Bank completed introducing EIF portfolio guarantee lines within the framework of the EU program "Competitiveness and innovation". The loans covered with the EIF program were granted to over 4 thousand SMEs (including 1,138 start-ups) and the total value of the loans granted amounted to over PLN 930 million. In November 2013, within the EU program,the Bank signed another three–year agreement on portfolio guarantees for investment and revolving loans for the amount of PLN 1 billion.

Due to the implementation of a leasing module into the PekaoFirma24 system, SME customers gained online access to full financial information on lease agreements and payments of lease instalments in a more convenient way.

The Bank actively participates in implementation of the de minimis guarantee scheme of Bank Gospodarstwa Krajowego, under which enterprises can obtain guarantees as collateral for working capital and investment loans granted by Bank Pekao S.A. It is the first governmental scheme in which the risk of the guarantees has been assumed by the State Treasury and the first scheme in which the guarantee as collateral of working capital loans is free-of-charge for the enterprise in the first twelve months. In 2013, loans with the de minimis guarantees were granted to over 4 thousand customers and the total value of the loans amounted to PLN 1.5 billion.

Moreover, the Bank in co-operation with selected partners introduced a new initiative "Pakiet Trwałych Korzyści" which allows customers to take advantage of solutions offered by partners free of charge or at a discount as well as of access to high quality non-financial services.

In 2013, the list of currencies in which customers may open bank accounts was extended. The Bank offers accounts in 21 currencies, of which 12 feature cash services.

PekaoFirma24

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

In 2013, the PekaoFirma24 Internet system was expanded, among others, by the functionality of placing orders to open another account and by a lease module functionality which enables customers to review the agreements signed with Pekao Leasing and to make payments of lease instalments..

The PekaoFirma24 mobile banking application offers all functionalities available to the customers in the PekaoFirma24 system, a multistage request authorisation and currency conversion at preferential exchange rates between customer's accounts. In the third quarter of 2013, the PekaoFirma24 mobile banking application was made available for the phones with the Windows Phone operating system. The application functionality has been additionally expanded with an innovative function of geo-location of the Bank's ATMs and branches. The PekaoFirma24 mobile banking application runs also on iOS, Android, BlackBerry and Symbian operating systems.

As at the end of December 2013, 222.9 thousand customers had access to the PekaoFirma24 system, of which 131.8 thousand were active customers. The number of business customers with access to electronic banking system PekaoFirma24 increased by 23.8 thousand compared to the end of 2012.

The improvements implemented into the PekaoFirma24 system positively translated into the number of transactions processed by electronic banking system. The number of transactions processed with the use of the PekaoFirma24 system in 2013 exceeded 30.3 million, while the value of PLN transactions amounted to PLN 142.7 billion, an increase by, respectively, 11.4% and 8.5% in comparison to 2012.

(in thousand)

	31.12.2013	31.12.2012
Number of business customers (SMEs) with access to electronic banking PekaoFirma24 as at the end of period	222.9	199.1
Number of business customers (SMEs) actively using electronic banking PekaoFirma24*	131.8	121.3

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

As at the end of December 2013, 7.0 thousand customers had access to the PekaoFirma24 mobile banking application, of which 5.3 thousand were active customers. The number of business customers with access to the PekaoFirma24 mobile banking application increased by 5.9 thousand compared to the end of 2012.

The number of transactions processed with the use of the PekaoFirma24 mobile banking application in 2013 amounted to 57.5 thousand, while the value of PLN transactions amounted to PLN 682.8 million.

(in thousand)

	31.12.2013	31.12.2012
Number of business customers (SMEs) with access to mobile banking as at the end of period	7.0	1.1
Number of business customers (SME) actively using mobile banking*	5.3	1.1

* A customer actively using mobile banking is a customer who logged into the system at least once during the last quarter.

Corporate customers

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

The model of corporate customer service is based on the superior role of a dedicated banking adviser who is responsible for the identification of the customers' needs and selection, in co-operation with product specialists, appropriate banking products and services.

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

The service of financial institutions and public finance sector entities is conducted by the specialised entity at the level of the Bank's Head Office as well as dedicated advisers in the Corporate Centers who adjust the product offer to individual needs of those customers.

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

Corporate customers of the Bank benefit from a full range of standard credit and deposit products as well as from transactional services. Bank Pekao S.A. is a leading arranger of investment project financing, mergers and acquisitions and debt security issues. The Bank offers a broad range of MM and FX products, both as daily operations and long-term hedging structures of customers' exposures such as FX risk and interest rate risk. The Bank's product offer also includes financial services such as granting guarantees for national and foreign transactions as well as financial services provided through leasing and factoring subsidiaries.

Transactional banking

The Bank holds its leading market position in a comprehensive offer of transactional banking services and products.

In 2013, in the area of transactional banking, customers were provided with a new version of the electronic banking system PekaoBIZNES24 which is the most extensive platform for corporate customers and the most modern system on the market that meets the highest requirements in terms of ergonomics.

The main advantages of the modernised system in terms of functionality and graphics are:

- easy and intuitive navigation,
- simplified operation of advanced functionalities of the platform,
- adaptation of information included, among others, in bank statements, history of operations, order status to the needs of customers,
- system personalisation through the introduction of user panels with the most frequently used information and products,
- flexibility of executing operations.

106 thousand users out of 15 thousand of the Bank's corporate customers operate the new version of the PekaoBIZNES24 system.

In 2013, the Bank expanded its offer for corporate customers by introducing new products and expanding the functionalities of existing products, through among others:

- introduction of new deposit products – "Intro LOKATA" and "Intro LOKATA PLUS" which allow customers to deposit funds on multiple term deposit accounts, in multiple currencies and for various terms,
- opportunity of customised visualisation of MasterCard Corporate Prepaid Pekao, which supports company brand awareness among its employees and recognition of the company on the local and national markets,
- expanding the functionalities of the PekaoBIZNES24 system with the Lease Module. This functionality allows customers to view lease agreements, check payment schedules, monitor lease payments and their status and repay lease instalments,
- introduction of purchase and sale transaction service made by members of Warsaw Commodity Clearing House (Izba Rozliczeniowa Giełd Towarowych – IRGIT) under the New Clearing Model. Bank Pekao S.A. is among the leading banks providing such type of services in Poland,
- extending the list of foreign currencies in which customers can open bank accounts. The Bank offers bank accounts in 21 foreign currencies,
- introduction full settlement in the Chinese yuanrenminbi (CNY), which gives the customers a competitive advantage resulting from FX risk reduction, improvement of cash flow management and shorter time of transaction clearing,
- extension of the cut-off time for foreign transfers with the same-day execution date.

In 2013, the number of SEPA transfers increased by 57% as compared to 2012, which confirms both the popularity of this form of settlements and the attractiveness of the Bank's offer in respect of efficient settlements, convenient cut-off times and the functionalities of electronic banking system.

The Bank holds its leading position on the mass payment identification market. In October 2013, the Bank reached a record-high level of monthly processing of transactions, i.e. 12 million transactions. In 2013, the number of processed transactions in the Pekao Collect service was by 2% higher than in 2012.

In the first half of 2013, the Bank extended its offer for micro- and small business customers by introducing transactional banking products which were addressed so far to corporate customers only – that translated into an improved attractiveness of the offer and ability to acquire new customers as well as strengthened co-operation with existing customers.

In the lending area, the Bank signed an agreement with Bank Gospodarstwa Krajowego for implementation of the de minimis guarantee scheme which facilitates access to capital for financing of current and investment activities and an agreement with the European Investment Fund (EIF) for financing innovative projects. As a result of the agreements, the Bank's offer was extended by the following products:

– de minimis guarantees scheme of Bank Gospodarstwa Krajowego, under which enterprises can obtain guarantees as collateral of working capital and investment loans granted by Bank Pekao S.A. The Bank holds the third position on the market of loans granted with the de minimis guarantees with a 12.5% share for small, micro- and corporate customers as at the end of December 2013,
– Guarantees of the European Investment Fund (EIF) within the framework of the Risk Sharing Instrument (RSI) program aimed at increasing access to capital for innovative companies. Bank Pekao S.A. as the first bank in Poland signed the agreement with the EIF and implements the RSI program. The RSI program enables companies employing up to 500 employees to receive guarantees as collateral of investment and working capital non-revolving loans granted by the Bank.

Investment banking, structured finance and commercial properties

Bank Pekao S.A. is a significant provider of structured financing in Poland. In 2013, the Bank was focused on acquiring new transactions while maintaining high quality of the loan portfolio. The Bank provided financing for companies from, among others, fuel, chemical, telecommunications, services and commercial property sectors.

In 2013, the Bank's engagement in leveraged transactions substantially increased. The most important achievements within the scope of leveraged transactions were as follows:

– co-arrangement of the largest leveraged finance transaction in Poland,
– advisory and financing in a transaction in the renewable energy sector in the form of a public-private partnership, which was honoured with the European Waste Deal of the Year award,
– participation in an international consortium for financing a company from the energy sector, the amount of which exceeded PLN 1 billion,
– the Bank's participation as an agent of the consortium financing the largest transaction on the Polish telecommunications market conducted in 2013,
– the Bank's participation as an agent of the consortium financing the largest project in the area of commercial property in Poland. The amount of financing exceeded PLN 900 million.

The total volume of the new structured finance transactions in which the Bank participated in 2013 exceeded PLN 9 billion.

Financial markets and issues of debt instruments

In the area of underwriting and servicing of corporate debt securities, as at December 31, 2013, Bank Pekao S.A. was again the leader with a market share of over 23% (based on the Rating & Market Bulletin published by Fitch Poland).

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

– 1st place on the corporate bond and corporate revenue bond markets (with maturities over 365 days) with a market share of over 29%,
– 2nd place in the segment of short-term debt securities with a market share of almost 23%,
– 2nd place in the area of mortgage bonds with a market share of over 29%,
– 2nd place on the municipal bonds market (with maturities over 365 days) with a market share of over 27%,
– 3rd place on the bank debt security market (with maturities over 365 days) with a market share of over 9%.

In 2013, Bank Pekao S.A. signed totally 73 new contracts for underwriting and servicing of debt security issues for companies and local government entities, including:

– 17 agreements on bond issues for companies from, among others, the energy, commodity, real estate development, fuel, banking, media and retail sectors as well as public utilities and infrastructure (water supply, municipal and rail transport, airport, stadium, conference and congress center),
– 56 agreements on municipal bond issues for local government entities (towns/cities and municipalities).

In the area of commercial debt, the Bank placed middleterm bonds among market investors for the total amount of over PLN 2 billion. Bonds were issued with maturities ranging from 2 to 7 years. Among the issuers were companies from the energy, media, banking and finance, real estate and catering sectors. The Bank participated, among others, in the following transactions:

– the issue of 7-year bonds for ca. PLN 1 billion conducted for a company in the cable TV sector. The Bank acted as the

arranger of the issue and settlement and calculating agent. The issue was registered with the NDS and introduced to trading on the Catalyst market,
- the issue of 5-year bonds for PLN 1 billion conducted for an energy sector company. The Bank acted as the arranger, payment agent and dealer. The issue was registered with the NDS and introduced to trading on the Catalyst market,
- the issue of 4 series of retail bonds for the total amount of PLN 700 million conducted in a public offering for a fuel sector company and offered to Polish individual investors. The Bank acted as the global coordinator. The issues were arranged in co-operation, among others, with UniCredit CAIB Poland S.A. and Bank Pekao S.A. Group entities. It was the largest issue of that type in Poland,
- the issue of 5-year bonds for PLN 140 million conducted for a company running a chain of restaurants. The Bank acted as the sole arranger, issue and payment agent and dealer. The issue was registered with the NDS and introduced to trading on the Catalyst market,
- 10 issues of bonds with maturities ranging from 2 to 4 years for the total amount of over PLN 720 million conducted for a bank operating in Poland and belonging to an international financial group,
- the issue of 8 series of bonds for one of the largest cities in Poland for the total amount of almost PLN 250 million with maturities ranging from 6 to 9 years,
- the issue of 10-year and 15-year bonds for one of the largest cities in Poland for PLN 220 million,
- the issue of 9 series of bonds for one of the Polish voivodeships located in central Poland for the total amount of PLN 120 million with maturities ranging from 9 to 12 years.

Bank Pekao S.A. was among 14 dealers of treasury securities (TSD) that were selected for 2014 by the Ministry of Finance.

Bank Pekao S.A. belongs also to the group of 15 MM dealers (DRP) that were selected for 2014 by the National Bank of Poland.

On the interbank market, Bank Pekao S.A. joined the group of banks participating in fixing of the FRA, IRS and OIS reference rates, launched in January 2013 by the Polish Financial Markets Association ACI Polska.

Custodial services

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

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

In 2013, the Bank maintained its leader position servicing more than 50% programs related to depository receipts.

Comprehensive services for the public finance sector

The Bank has been consistently strengthening its leading position in public sector financing, participating in the current and direct financing of the local governments in Poland as well as in structuring of infrastructure projects in the sector.

The Bank won tenders for current financing of three voivodeships and currently provides budgets servicing to one half of Poland's large cities and to one third of voivodeships in Poland. The Bank completed transactions of financing budgets of the Polish largest cities and voivodeships for the total amount of PLN 1.7 billion and transactions of financing public utility infrastructure projects for the amount of PLN 0.9 billion. The largest projects completed in 2013 include:
- financing of an expansion and modernisation project of the Lech Wałęsa Airport in Gdańsk,
- financing the construction of a culture and congress centre in Toruń,
- financing of a tram transportation project, including integration of urban transport and purchase of modern tram fleet in Toruń,
- financing the purchase of a bus fleet in Łódź,
- financing the modernisation project of the city stadium in Białystok,
- financing the development of water and sewage infrastructure in Lublin and Gorzów Wielkopolski.

The total volume of new public finance transactions financed by Bank Pekao S.A. in 2013 amounted to PLN 2.6 billion.

Co-operation with international and domestic financial institutions

The Bank maintains correspondent relations with 2.7 thousand foreign and domestic banks (by the number of SWIFT keys exchanged).

At the end of 2013, the Bank maintained 63 nostro accounts in 28 countries and with 56 banks. The Bank kept 313 loro accounts and current accounts for foreign and domestic financial entities, including 233 loro accounts for 214 foreign customers (banks and other financial institutions) in 46 countries and 39 current accounts for 37 foreign financial institutions.

The Bank intermediates in execution of transactions for customers of other domestic banks, keeping 41 loro accounts for 14 Polish banks and maintaining 7 nostro foreign currency accounts with 3 Polish banks used for the ZUS pension benefits as well as clearing and custodial services. The Bank also renders services for Polish banks and branches of foreign banks in Poland related to the purchase and sale of foreign and domestic cash.

In 2013, the Bank consistently expanded its product offer for correspondent banking, improved clearing services for customers holding loro accounts and provided these customers with a new version of the PekaoBIZNES24 Internet banking system.

Development of transactional products and the high quality of correspondent banking customer service were honoured with awards by loro correspondents for achieving a very high level of STP rate (straight through processing).

PekaoBIZNES24

PekaoBIZNES24 is an electronic banking system dedicated to large companies, corporations and local government units which offers a wide range of functionalities and services available within one platform.

PekaoBIZNES24 offers its corporate customers:

– convenient online access to a broad and modern product offer, including transactional banking and trade finance products, FX platform, deposit placement and lease transaction service,
– speed and efficiency of transactions processing,
– various types of reports adjusted to customers' individual needs,
– the highest security standard due to the application of most recent methods of system security, including biometric security measures,
– user-friendly and intuitive system navigation,
– open architecture allowing for integration with ERP, financial and accounting systems.

In 2013, the number of customers actively using the PekaoBIZNES24 system increased by ca. 2% in comparison to 2012 and amounted to nearly 15 thousand of corporate customers.

The PekaoBIZNES24 system users have access to the PekaoBIZNES24 Info-line, which provides remote, personalised, mobile or electronic assistance related to system service and available products.

Major Areas of the Group's Activities

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

The retail brokerage companies: Dom Maklerski, CDM and Xelion provide brokerage services within the Group, offering a broad range of capital market products and services. For detailed description of the brokerage activity refer to "Bank Pekao S.A on the Polish Banking Market". Below are described the areas of operation of the Group's key companies from the financial sector.

Banking activity

PJSC UniCredit Bank – UniCredit Bank

Bank Pekao S.A. Group concentrates its activities on the local market and as a result on July 16, 2013, the Bank sold 100% shares in PJSC UniCredit Bank to UniCredit S.p.A.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In 2013, Pekao Bank Hipoteczny, as a specialised mortgage bank, continued to pursue its strategy focused on the development of a secure loan portfolio, strived to maintain its competitive position on the market of commercial properties, as well as loans for purchase, construction, refurbishment or modernisation of housing loans to individuals.

At the end of 2013, the net value of the loan portfolio of Pekao Bank Hipoteczny amounted to PLN 1,668.7 million (a decrease by PLN 44 million in comparison to 2012). The loans granted to individual customers and the loans granted to corporates and local governments represent a comparable share in the loan portfolio structure.

In 2013, the volume of new commercial property loans accounted for 88% of loan sales and resulted from implementation of a strategy focused on financing medium-size projects.

In 2013, in the second Program of Mortgage Bonds Issued to Bearer, Pekao Bank Hipoteczny successfully conducted two public issues of mortgage bonds denominated in foreign currencies.

Asset management

Pioneer Pekao Investment Management S.A. – PPIM

As at December 31, 2013, the net asset value of the investment funds of Pioneer Pekao TFI S.A. (a company managed by Pioneer Pekao Investment Management S.A. in which the Bank holds a 49% share), amounted to PLN 16,411.5 million, an increase of PLN 1,446.3 million (9.7%) as compared to the end of 2012.

At the end of 2013, Pioneer Pekao TFI S.A. maintained 932.5 thousand open customer accounts (a decrease by 0.7% in comparison to the end of 2012), managing portfolios of 39 investment funds and sub-funds.

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

(in PLN million)

	31.12.2013	31.12.2012	CHANGE
Net asset value	**16,411.5**	**14,965.2**	**9.7%**
bond and money market funds	9,416.8	8,216.8	14.6%
balanced funds	3,688.0	4,064.1	(9.3%)
equity funds	3,306.7	2,684.3	23.2%

Activity of Bank Pekao S.A. Group

Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. – Pekao Pioneer PTE
Pekao Pioneer PTE is the management company of an open-end pension fund (Pekao OFE), in which pension contributions are pooled and invested with the aim of their distribution to unit holders after they reach retirement age.

As at December 31, 2013, the number of open-end pension members was 342 thousand and was by 0.2% lower comparing to December 31, 2012. The number of persons with at least one contribution credited to their accounts was 333.3 thousand.

As at the end of 2013, the net asset value of the pension fund was PLN 4,510.2 million and was higher by PLN 462.6 million as compared to the end of 2012. As at the end of 2013, Pekao OFE held a share of 1.5% in the market of open-end pension funds, i.e. at a similar level as inthe previous year.

Leasing activity

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

In 2013, the Company concluded 9,191 new contracts. The value of leased assets increased in comparison to 2012 by 8.3% and amounted to PLN 1,705.6 million, of which 59.6% were vehicles, 24.7% – machinery and equipment, 11.2% – properties and 4.5% – other.

Under an arrangement providing for mutual co-operation between Pekao Leasing and Bank Pekao S.A. in the area of sale, the value of assets leased via the Bank's branches amounted to PLN 1,163.5 million, i.e. 68.2% sales of the Company and increased by 15.7% in comparison to 2012.

Other financial services

Centrum Kart S.A. – CK S.A.
The Company renders comprehensive services that include, maintenance of payment card management systems, authorisation of transactions and card personalisation.

In 2013, CK S.A. continued the implementation of important IT projects to extend the range of products offered by the Bank.

In 2013, mobile payments systems were implemented, including the PeoPay mobile payment application for individual customers allowing payments execution with the mobile phones, and the PeoPaymPOS application for businessmen to accept mobile payments.

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

In 2013, the turnover of PekaoFaktoring increased by 7.8% in comparison with 2012. The Company occupies the second position on the Polish factoring market, with a market share of 14.6%.

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

In 2013, the Company was strengthening its position on the Polish market of transfer agents holding a leading position in the services rendered to the OFE sector (a share of over 66% in the market of OFE using services of external transfer agents in terms of net asset value).

At the end of 2013, PFS maintained 3.3 million investment and pension accounts i.e. a similar level as in 2012.

Dom Inwestycyjny Xelion Sp. z o.o. – Xelion
The Company focuses on serving affluent customers who require a highly individualised service.

In 2013, the activities of the Company were concentrated on further extension of its product range, taking into consideration developments in the financial markets and current market trends.

In 2013, the Company co-operated with leading financial institutions, offering investment products, insurance and pension funds diversified in terms of risk, investment horizon and asset classes.

At the end of 2013, the value of assets managed by Xelion was higher by ca. 38% in comparison to 2012 and amounted to over PLN 2.6 billion.

Statement of Financial Position and Financial Results

Statement of Financial Position and Financial Results

Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from January 1 to December 31, 2013 and 2012 respectively was presented in the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2013.

In the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2013 changes in accounting policy in respect to recognition of revenue from sale of insurance products linked to loans as well as in respect to the presentation of actuarial gains or losses from the measurement of the defined benefit plans obligations were introduced and restatement of comparative data for the year 2012 was made. 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 Note 4 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2013. Therefore, in order to maintain comparability, in the statement of financial position in a short form and income statement in a presentation form included in Report on activities of Bank Pekao S.A. Group,data for 2013 and, after appropriate restatements, the comparative figures for 2012 have been presented in accordance with the new rules. Data for earlier periods remain unchanged.

Bank Pekao S.A. Group concentrates its activities on the local market and in connection with this on July 16, 2013, the Bank sold 100% shares of PJSC UniCredit Bank to UniCredit S.p.A.

In the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2012 the entire engagement in PJSC UniCredit Bank, which includes subsidiary's assets and liabilities was classified as held for sale, whereas appropriate income statement items of the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2012 and 31 December 2013 were presented as discontinued operations.

The Report on activities of Bank Pekao S.A. Group for 2013 includes statement of financial position in a short form and income statement in a presentation form as well as the key, selected items from these statements were discussed. Items of income statement in a presentation form are presented including discontinued operations.

In 2013 in the income statement in a presentation form, to align the presentation to the standards implemented by the major Polish and European banks, gains on disposal of available for sale financial assets and held to maturity investments are reported under trading result (and thus in operating income). In order to ensure comparability, data for 2012 have been restated in comparison to those previously published.

Structure of the Consolidated Statement of Financial Position – Short Form

The balance sheet of Bank Pekao S.A. determines the amount of total assets in balance sheet and the structure of the assets and liabilities of the Group. As at the end of December 2013, the total assets of Bank Pekao S.A. constitutes 98.0% of the total assets of the whole Group.

The table below presents the Group's statement of financial position – short form.

	31.12.2013		31.12.2012		
ASSETS	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	CHANGE
Cash and due from Central Bank	4,191.2	2.6%	9,207.3	6.1%	(54.5%)
Loans and advances to banks*	7,554.5	4.8%	4,054.0	2.7%	86.3%
Loans and advances to customers**	103,937.3	65.6%	97,558.5	64.7%	6.5%
Securities***		22.2%	29,336.0	19.5%	19.9%
Investments in associates	176.0	0.1%	168.4	0.1%	4.5%
Property, plant and equipment and intangible assets	2,216.2	1.4%	2,339.9	1.6%	(5.3%)
Other assets****	5,262.4	3.3%	8,090.6	5.3%	(35.0%)
Total assets		**100.0%**	**150,754.7**	**100.0%**	**5.2%**

* Including net investments in financial leases to banks.
** Including debt securities eligible for rediscounting at Central Bank and net investments in financial leases to customers.
*** Including financial assets held for trading and other financial instruments at fair value through profit and loss.
**** Other assets as at December 31, 2012 include also assets of PJSC UniCredit Bank qualified as held for sale. In the third quarter of 2013 the Bank sold its all shares in subsidiary PJSC UniCredit Bank to UniCredit S.p.A. (parent entity of the Bank). The detailed information concerning assets and liabilities held for sale is presented in the Note 32 of the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2013.

EQUITY AND LIABILITIES	31.12.2013 PLN MILLION	31.12.2013 STRUCTURE	31.12.2012 PLN MILLION	31.12.2012 STRUCTURE	CHANGE
Amounts due to Central Bank	1.0	0.0%	0.0	0.0%	x
Amounts due to other banks	6,417.7	4.1%	7,782.7	5.2%	(17.5%)
Amounts due to customers	119,796.7	75.6%	107,992.6	71.6%	10.9%
Debt securities issued	3,063.7	1.9%	4,758.7	3.2%	(35.6%)
Other liabilities *	5,728.4	3.6%	6,957.0	4.6%	(17.7%)
Total equity, including	23,514.2	14.8%	23,263.7	15.4%	1.1%
non-controlling interests	94.3	0.1%	92.2	0.1%	2.3%
Total equity and liabilities	**158,521.7**	**100.0%**	**150,754.7**	**100.0%**	**5.2%**

* Other liabilities as at December 31, 2012 include also liabilities of PJSC UniCredit Bank qualified as held for sale. In the third quarter of 2013 the Bank sold its all shares in subsidiary PJSC UniCredit Bank to UniCredit S.p.A. (parent entity of the Bank). The detailed information concerning assets and liabilities held for sale is presented in the Note32 of the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2013.

Assets

Changes in the structure of assets

Loans and advances to customers and securities represent items of the largest value under assets. As at the end of 2013, they accounted for 65.6% and 22.2% of the total assets, respectively, while as at the end of 2012, the respective figures were 64.7% and 19.5%.

Cash and due from Central Bank

(in PLN million)

	31.12.2013	31.12.2012	CHANGE
Cash and due from Central Bank, including:	**4,191.2**	**9,207.3**	**(54.5%)**
Cash	2,104.6	2,228.4	(5.6%)
Current account at Central Bank	2,086.3	6,978.5	(70.1%)
Other	0.3	0.4	(25.0%)

Customers' Financing

Customer structure of loans and advances

(in PLN million)

	31.12.2013	31.12.2012	CHANGE
Loans and advances at nominal value	**108,734.9**	**102,189.1**	**6.4%**
Loans*	96,727.3	92,705.5	4.3%
Retail	44,475.4	40,484.9	9.9%
Corporate	52,251.9	52,220.6	0.1%
Non – quoted securities	9,428.2	6,791.3	38.8%
Reverse repo transactions	2,579.4	2,692.3	(4.2%)
Other**	357.6	344.0	4.0%
Nominal value adjustment	48.1	(116.9)	x
Impairment losses	**(5,203.3)**	**(4,857.7)**	**7.1%**
Total net receivables	**103,937.3**	**97,558.5**	**6.5%**
Securities issued by non-monetary entities***	815.7	975.1	(16.3%)
Total customers' financing**	**109,550.6**	**103,164.2**	**6.2%**

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

As at the end of December 2013, the volume of retail loans amounted to PLN 44,475.4 million, an increase of PLN 3,990.5 million (9.9%) in comparison to the end of 2012.

The Bank continued its policy of offering only PLN mortgage loans. The residual stock of mortgage loans denominated in foreign currencies, almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA in 2007, represents 4.9% of total loans of the Bank.

The volume of corporate loans, non-quoted securities, reverse repo transactions and securities issued by non-monetary entities increased by PLN 2,396.0 million (3.8%) as compared to the end of 2012 and amounted to PLN 65,075.2 million at the end of December 2013.

Statement of Financial Position and Financial Results

Receivables and impairment losses (in PLN million)

	31.12.2013	31.12.2012	CHANGE
Gross receivables*	**108,853.6**	**102,100.2**	**6.6%**
Not impaired	100,940.4	94,637.3	6.7%
Impaired	7,913.2	7,462.9	6.0%
Impairment losses	(5,203.3)	(4,857.7)	7.1%
Interest	287.0	316.0	(9.2%)
Total net receivables	**103,937.3**	**97,558.5**	**6.5%**

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

As at December 31, 2013, the ratio of impaired receivables to total receivables amounted to 7.3% and was at the same level as at the end of 2012.

Impairment losses as at the end of December 2013 amounted to PLN 5,203.3 million.

Loans and advances to customers by currency*

	31.12.2013		31.12.2012		
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	CHANGE
Denominated in PLN	89,461.3	82.0%	82,826.1	80.9%	8.0%
Denominated in foreign currencies**	19,679.3	18.0%	**19,590.1**	**19.1%**	0.5%
Total	**109,140.6**	**100.0%**	**102,416.2**	**100.0%**	**6.6%**
Impairment losses	(5,203.3)	x	(4,857.7)	x	7.1%
Total net	**103,937.3**	**x**	**97,558.5**	**x**	**6.5%**

* Including interest and receivables in transit.
** Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish złoty, as at the end of December 2013, their share was 82.0%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (61.8%), CHF (27.4%) and USD (10.5%).

Loans and advances to customers by contractual maturities*

	31.12.2013		31.12.2012		
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	CHANGE
Current and up to 1 month	14,441.7	13.2%	15,113.6	14.8%	(4.4%)
1 to 3 months	3,076.5	2.8%	3,834.9	3.7%	(19.8%)
3 months to 1 year	11,092.7	10.2%	11,784.7	11.5%	(5.9%)
1 to 5 years	35,103.8	32.2%	31,131.5	30.4%	12.8%
Over 5 years	45,068.3	41.3%	40,207.5	39.3%	12.1%
Other	357.6	0.3%	344.0	0.3%	4.0%
Total	**109,140.6**	**100.0%**	**102,416.2**	**100.0%**	**6.6%**
Impairment losses	(5,203.3)	x	(4,857.7)	x	7.1%
Total net	**103,937.3**	**x**	**97,558.5**	**x**	**6.5%**

* Including interest and receivables in transit.

Loans and advances with maturity over 5 years represents 41.3% of total loans and advances (mainly attributed to mortgage loans and receivables for which the maturity date already passed).

Information on loan concentration is included in the Notes 27 and 28 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2013.

Liabilities

Changes in the structure of liabilities

Amounts due to customers were the main item under the Group's liabilities and equity. As at the end of 2013, amounts due to customers and debt securities issued totaled PLN 122,860.4 million, and their share in the total assets was 77.5%, compared with 74.8% as at the end of 2012. The share of total shareholder's equity in the total assets was 14.8% as at the end of 2013, compared with 15.4% as at the end of 2012.

External sources of financing

(in PLN million)

	31.12.2013	31.12.2012	CHANGE
Amounts due to Central Bank	1.0	0.0	x
Amounts due to other banks	6,417.7	7,782.7	(17.5%)
Amounts due to customers	119,796.7	107,992.6	10.9%
Debt securities issued	3,063.7	4,758.7	(35.6%)
Total external sources of financing	**129,279.1**	**120,534.0**	**7.3%**

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

As at the end of 2013, the geographical structure of deposits acquired through the Bank's domestic branches was as follows:

REGION	% OF TOTAL DEPOSITS
Warszawski	48.2%
Mazowiecki	10.4%
Małopolski	9.0%
Południowo-Wschodni	7.1%
Centralny	6.4%
Wielkopolski	4.1%
Zachodni	3.9%
Śląski	3.8%
Dolnośląski	3.7%
Pomorski	3.4%
Total	**100.0%**

Total customer savings

(in PLN million)

	31.12.2013	31.12.2012	CHANGE
Amounts due to corporate	**64,965.6**	**53,736.9**	**20.9%**
Non-financial entities	45,411.0	36,270.0	25.2%
Non-banking financial entities	13,734.0	11,827.8	16.1%
Budget entities	5,820.6	5,639.1	3.2%
Retail deposits	**50,777.2**	**48,656.4**	**4.4%**
Repo and sell-buy-back transactions	**3,665.7**	**5,089.7**	**(28.0%)**
Other*	388.2	509.6	(23.8%)
Amounts due to customers	**119,796.7**	**107,992.6**	**10.9%**
Debt securities issued, of which	**3,063.7**	**4,758.7**	**(35.6%)**
Structured Certificates of Deposit (SCD)	334.0	718.7	(53.5%)
Certificates of Deposit	1,901.9	3,189.0	(40.4%)
Pekao Bank Hipoteczny S.A. covered bonds	816.2	782.7	4.3%
Interest	11.6	68.3	(83.0%)
Amounts due to customers and Debt securities issued, total	**122,860.4**	**112,751.3**	**9.0%**
Investment funds of Pioneer Pekao TFI	**16,411.5**	**14,965.2**	**9.7%**
including distributed through the Group's network	15,609.6	13,765.7	13.4%

* Other item includes interest and funds in transit.

As at the end of December 2013, the total amounts due to the Group's customers and debt securities issued amounted to PLN 122,860.4 million, an increase of PLN 10,109.1 million (9.0%) in comparison to the end of 2012.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 51,416.3 million at the end of December 2013, an increase of PLN 1,658.1 million (3.3%) in comparison to the end of 2012. The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 16,411.5 million at the end of December 2013, an increase of PLN 1,446.3 million (9.7%) in comparison to the end of 2012.

The total volume of corporate customers deposits, repo and sell-buy-back transactions, Certificates of Deposit, Pekao Bank Hipoteczny S.A. covered bonds, interest and other amounted to PLN 71,444.1 million at the end of December 2013, an increase of PLN 8,451.0 million (13.4%) as compared to the end of 2012.

Statement of Financial Position and Financial Results

*Amounts due to customers by currency**

	31.12.2013		31.12.2012		
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	CHANGE
Denominated in PLN	101,473.0	84.7%	91,928.0	85.1%	10.4%
Denominated in foreign currencies	18,323.7	15.3%	16,064.6	14.9%	14.1%
Total	**119,796.7**	**100.0%**	**107,992.6**	**100.0%**	**10.9%**

* Including interest and amounts due in transit.

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of December 2013 amounted to 84.7%. The majority of amounts due to customers denominated in foreign currencies were in EUR (56.9%) and USD (38.6%).

Amounts due to customers by contractual maturities

	31.12.2013		31.12.2012		
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	CHANGE
Current accounts and overnight deposits	55,417.3	46.4%	50,338.8	46.8%	10.1%
Term deposits	63,991.2	53.6%	57,144.2	53.2%	12.0%
Total deposits	**119,408.5**	**100.0%**	**107,483.0**	**100.0%**	**11.1%**
Interest accrued	209.1	x	371.0	x	(43.6%)
Funds in transit	179.1	x	138.6	x	29.2%
Total	**119,796.7**	**x**	**107,992.6**	**x**	**10.9%**

Off–balance sheet items

Statement of off-balance sheet items

(in PLN million)

	31.12.2013	31.12.2012	CHANGE
Contingent liabilities granted and received	47,411.7	45,307.2	4.6%
Liabilities granted:	38,175.0	33,920.4	12.5%
financial	27,097.7	23,602.1	14.8%
guarantees	11,077.3	10,318.3	7.4%
Liabilities received:	9,236.7	11,386.8	(18.9%)
financial	111.8	1,160.3	(90.4%)
guarantees	9,124.9	10,226.5	(10.8%)
Derivative financial instruments	187,401.9	156,262.8	19.9%
interest rate transactions	116,772.1	112,346.8	3.9%
transactions in foreign currency and in gold	69,566.6	43,334.6	60.5%
transactions based on commodities and equity securities	1,063.2	581.4	82.9%
Other	33,185.3	30,230.1	9.8%
Total off-balance sheet items	**267,998.9**	**231,800.1**	**15.6%**

More detailed information on off-balance-sheet items is included in the Notes 26 and 47 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2013.

The Structure of the Net Profit

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

(in PLN million)

	2013	2012	CHANGE
Net profit of Bank Pekao S.A.	**2,800.0**	**2,925.3**	**(4.3%)**
Entities consolidated under full method			
Pekao Leasing Sp. z o.o.	40.6	41.9	(3.1%)
Centralny Dom Maklerski Pekao S.A.	39.3	30.5	28.9%
Pekao Leasing Holding S.A.[1]	27.9	28.1	(0.7%)
PJSC UniCredit Bank[2]	17.5	36.6	(52.2%)
Pekao Pioneer PTE S.A.	13.8	11.4	21.1%
Pekao Bank Hipoteczny S.A.	12.7	15.7	(19.1%)
Pekao Faktoring Sp. z o.o.	10.1	10.2	(1.0%)
Pekao Financial Services Sp. z o.o.	6.6	3.9	69.2%
Centrum Bankowości Bezpośredniej Sp. z o.o.	3.9	3.2	21.9%
Centrum Kart S.A.	1.7	2.5	(32.0%)
Pekao Fundusz Kapitałowy Sp. z o.o.	0.6	1.2	(50.0%)
Property Sp. z o.o. w likwidacji	0.3	0.3	0.0%
Pekao Telecentrum Sp. z o.o. w likwidacji[3]	0.2	0.4	(50.0%)
FPB "Media" Sp. z o.o.	0.0	1.4	(100.0%)
Pekao Property S.A.[4]	(0.4)	1.6	(125.0%)
Jana Kazimierza Development Sp. z o.o.[4]	–	0.8	x
Metropolis Sp. z o.o.[4]	–	(1.3)	x
Entities valued under the equity method			
Pioneer Pekao Investment Management S.A.	48.3	45.2	6.9%
Krajowa Izba Rozliczeniowa S.A.	10.0	7.4	35.1%
Dom Inwestycyjny Xelion sp. z o.o.	1.1	0.7	57.1%
Pirelli Pekao Real Estate Sp. z o.o.[5]	–	(0.1)	x
Exclusions and consolidation adjustments [6]	**(249.4)**	**(224.1)**	**11.3%**
Net profit of the Group attributable to equity holders of the Bank	**2,784.8**	**2,942.8**	**(5.4%)**

1 The results of Pekao Leasing Holding S.A. mainly include the dividend received from Pekao Leasing Sp. z o.o.
2 On July 16, 2013, the Bank sold 100% shares of PJSC UniCredit Bank based in Kiev to UniCredit S.p.A. based in Rome.
3 On December 2, 2013 the Extraordinary Shareholders Meeting of Pekao Telecentrum Sp. z o. o. took the resolution on winding-up of the company and starting liquidation procedure within the date the resolution was taken. Since the date of the liquidation the company operates under the name of Pekao Telecentrum Sp. z o. o. in liquidation.
4 On June 3, 2013, the District Court for the Capital City of Warsaw, XII Business Branch of the Domestic Registry Court registered the merger of Pekao Property S.A. with its subsidiaries Metropolis Sp. z o.o. and Jana Kazimierza Development Sp. z o.o
5 On November 15, 2012 the Bank sold its entire stake in the company.
6 Includes, among others, transactions within the Group (including dividends from subsidiaries for the previous year) and net profit attributable to non-controlling interest.

Statement of Financial Position and Financial Results

The results of Bank Pekao S.A.

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

(in PLN million)

	2013	2012	CHANGE
Net interest income	4,310.5	4,651.4	(7.3%)
Dividend income	143.8	168.5	(14.7%)
Total net interest income and dividend income	4,454.3	4,819.9	(7.6%)
Net non-interest income	2,733.0	2,690.3	1.6%
Operating income	**7,187.3**	**7,510.2**	**(4.3%)**
Operating costs	**(3,230.4)**	**(3,326.1)**	**(2.9%)**
Operating profit	**3,956.9**	**4,184.1**	**(5.4%)**
Net result on other provisions	13.8	(16.1)	x
Net impairment losses on loans and off-balance sheet commitments	(623.0)	(596.5)	4.4%
Net result on investment activities	88.7	21.4	314.5%
Profit before tax	**3,436.4**	**3,592.9**	**(4.4%)**
Net profit for the period	**2,800.0**	**2,925.3**	**(4.3%)**

Note: In 2013 in the income statement in a presentation form, to align the presentation to the standards implemented by the major Polish and European banks, gains on disposal of available for sale financial assets and held to maturity investments are reported under trading result and thus in net non-interest income, operating income and operating profit. In order to ensure comparability, data for 2012 have been restated in comparison to those previously published.

In 2013, the Bank's net profit amounted to PLN 2,800.0 million, decrease of PLN 125.3 million (4.3%) in comparison to 2012.

The Bank's operating profit reported for 2013 was lower by 5.4% in comparison with 2012 as a result of lower operating income, mainly net interest income remaining under negative influence of decreasing interest rates, partially compensated by lower operating costs.

The main Bank's financial information are as follows:

	31.12.2013	31.12.2012	CHANGE
Total gross loans in PLN million*	93,186.8	89,522.8	4.1%
Impaired receivables to total receivables in %	7.1%	7.0%	0.1,p.p.
Total deposits in PLN million*	115,843.7	102,495.3	13.0%
Repo and sell-buy-back transactions in PLN million	3,665.7	5,099.7	(28.1%)
Structured Certificates of Deposit in PLN million	334.0	718.7	(53.5%)
Certificates of Deposit in PLN million	1,901.9	3,189.0	(40.4%)
Total assets in PLN million	155,286.6	147,066.9	5.6%
Investment funds distributed through the Bank's network in PLN million	14,628.6	12,845.1	13.9%
Capital adequacy ratio in %	18.8%	18.5%	0.3,p.p.

* The nominal value.

The volume of gross loans of the Bank's clients as at the end of December 2013 amounted to PLN 93,186.8 million, increasing by PLN 3,664.0 million (4.1%) as compared to the end of 2012. At the end of December 2013, the total volume of retail loans amounted to PLN 43,637.6 million and volume of corporate loans amounted to PLN 49,549.2 million.

The total amounts due to the Bank's customers (including customer deposits, repo and sell-buy-back transactions, Structured Certificates of Deposit, Certificates of Deposit) amounted to PLN 121,745.3 million and increased by PLN 10,242.6 million (9.2%) compared to the end of 2012.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. and distributed by the Bank's network increased by PLN 1,783.5 million (13.9%) as compared to the end of 2012.

Results of the Bank's important related entities

Pioneer Pekao Investment Management S.A. – PPIM

In 2013, consolidated net profit of PPIM amounted to PLN 98.6 million compared with PLN 92.4 million in 2012. The Bank's share in the company's profit was **PLN 48.3 million**.

Centralny Dom Maklerski Pekao S.A. – CDM
In 2013, net profit of CDM amounted to **PLN 39.3 million** and it was higher than the profit earned in 2012 i.e. PLN 30.5 million.

Pekao Leasing Sp. z o.o. – Pekao Leasing
In 2013, Pekao Leasing reported a net profit of PLN 40.6 million (the Bank's share equaled to **PLN 35.5 million**) compared with PLN 41.9 million in 2012.

PJSC UniCredit Bank – UniCredit Bank
In the Consolidated income statement for the year ended on 31 December 2013, UniCredit Bank net profit in the amount of **PLN 17.5 million** achieved for the period from January 1, 2013 to the date of the sale of the company was included.

Pekao Pioneer PTE S.A. – PTE
In 2013, PTE reported a net profit of PLN 13.8 million (the Bank's share equaled to **PLN 9 million**) compared with PLN 11.4 million in 2012.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny
In 2013, Pekao Bank Hipoteczny reported a net profit of **PLN 12.7 million** compared with PLN 15.7 million in 2012.

Pekao Faktoring Sp. z o.o. – Pekao Faktoring
In 2013, Pekao Faktoring reported a net profit of **PLN 10.1 million** and it was on similar level compared to 2012.

Dom Inwestycyjny Xelion Sp. z o.o. – Xelion
In 2013, Xelion reported a net profit of PLN 2.1 million (the Bank's share equaled to **PLN 1.07 million**) and it was higher than the profit earned in 2012 in the amount of PLN 1.4 million

The Consolidated Income Statement – Presentation Form

Net profit of Bank Pekao S.A. Group attributable to equity holders for 2013 amounted to PLN 2,784.8 million allowing return on average capital (ROE) at the level of 12.0% achieved with a strong capital base reflected by CAR at 18.8%. Normalized ROE (return on minimum equity equivalent to CAR at 10%) amounted to 19.0%.

The Group's net profit attributable to equity holders reported for 2013 in comparison to 2012 was lower by PLN 158.0 million i.e. 5.4% resulting from operating income, remaining under negative influence of decreasing interest rates, partially compensated by lower operating costs. The Bank's operating results are showing better resilience than the banking sector in the conditions of economic downturn and significant pressure on interest margin.

The strength of the capital and liquidity structure of Bank Pekao S.A. Group is reflected by a high level of equity with CAR at the level of 18.8% and net loans to deposits ratio at the level of 84.6% at the end of December 2013. This enables for further sound and stable development of the Group's activities.

The consolidated income statement – presentation form

(in PLN million)

	2013	2012	CHANGE
Net interest income	4,505.6	4,927.2	(8.6%)
Dividend income and income from equity investments	66.1	62.0	6.6%
Total net interest income, dividend income and other income from equity investments	**4,571.7**	**4,989.2**	**(8.4%)**
Net fee and commission income	2,142.8	2,121.9	1.0%
Trading result	752.8	752.8	0.0%
Net other operating income and expenses	98.0	88.9	10.2%
Net non-interest income	**2,993.6**	**2,963.6**	**1.0%**
Operating income	**7,565.3**	**7,952.8**	**(4.9%)**
Operating costs	**(3,483.4)**	**(3,625.6)**	**(3.9%)**
Operating profit	**4,081.9**	**4,327.2**	**(5.7%)**
Net result on other provisions	13.7	(15.3)	x
Net impairment losses on loans and off-balance sheet commitments	(663.7)	(669.4)	(0.9%)
Net result on investment activities	22.3	21.8	2.3%
Profit before tax	**3,454.2**	**3,664.3**	**(5.7%)**
Income tax expense	(659.2)	(711.9)	(7.4%)
Net profit for the period	**2,795.0**	**2,952.4**	**(5.3%)**
Attributable to equity holders of the Bank	**2,784.8**	**2,942.8**	**(5.4%)**
Attributable to non-controlling interest	10.2	9.6	6.3%

Note: In 2013 in the income statement in a presentation form, to align the presentation to the standards implemented by the major Polish and European banks, gains on disposal of available for sale financial assets and held to maturity investments are reported under trading result and thus in net non-interest income, operating income and operating profit. In order to ensure comparability, data for 2012 have been restated in comparison to those previously published.

Statement of Financial Position and Financial Results

Operating income

In 2013, the Group's operating income amounted to PLN 7,565.3 million, a decrease of PLN 387.5 million, i.e. 4.9% in comparison with 2012 due to lower total net interest income, dividend income and income from equity investments, with net non-interest income higher than in the previous year.

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

(in PLN million)

	2013	2012	CHANGE
Interest income	6,774.3	8,437.8	(19.7%)
Interest expense	(2,268.7)	(3,510.6)	(35.4%)
Net interest income	**4,505.6**	**4,927.2**	**(8.6%)**
Dividend income	6.7	8.7	(23.0%)
Income from equity investments	59.4	53.3	11.4%
Total net interest income, dividend income and income from equity investments	**4,571.7**	**4,989.2**	**(8.4%)**

Total net interest income, dividend income and income from equity investments in 2013 amounted to PLN 4,571.7 million and decreased by PLN 417.5 million, i.e. 8.4% in comparison with 2012, remaining under market-wide pressure of decreasing interest rates. In 2013, average WIBOR 3M rate stood at the level of 3.02%, and was lower by 189 bps than in 2012.

Net non-interest income

(in PLN million)

	2013	2012	CHANGE
Fee and commission income	2,655.1	2,663.2	(0.3%)
Fee and commission expense	(512.3)	(541.3)	(5.4%)
Net fee and commission income	**2,142.8**	**2,121.9**	**1.0%**
Trading result	752.8	752.8	0.0%
Net other operating income and expense	98.0	88.9	10.2%
Net non-interest income	**2,993.6**	**2,963.6**	**1.0%**

The Group's net non-interest income in 2013 amounted to PLN 2,993.6 million, an increase of PLN 30.0 million, i.e. 1.0% in comparison with 2012 mainly thanks to increase in net fee and commission income by 1.0% in this period.

In 2013 in the income statement in a presentation form, to align the presentation to the standards implemented by the major Polish and European banks, gains on disposal of available for sale financial assets and held to maturity investments are reported under trading result and thus in net non-interest income. In order to ensure comparability, data for 2012 have been restated in comparison to those previously published.

In 2013 gains on disposal of available for sale financial assets and held to maturity investments amounted to PLN 308.4 million compared with PLN 278.7 million gains realized in 2012.

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

(in PLN million)

	2013	2012	CHANGE
Net fee and commission income	**2,142.8**	**2,121.9**	**1.0%**
on loans	431.8	410.4	5.2%
on cards	453.6	437.9	3.6%
capital market related	368.2	331.5	11.1%
other	889.2	942.1	(5.6%)

Note: Data for 2012 have been restated in comparison to those previously published due to reclassification of loan related fees repayments from item other net fee and commission income to item net fee and commission income on loans to ensure comparability with 2013 classification.

The Group's net fee and commission income in 2013 amounted to PLN 2,142.8 million and was higher by PLN 20.9 million, i.e. 1.0% in comparison with 2012 thanks to higher net fee and commission income on loans, on cards and capital market related.

Operating costs

In 2013, the operating costs were kept under control and amounted to PLN 3,483.4 million. They were lower than the operating costs in 2012 by PLN 142.2 million, i.e. 3.9%.

(in PLN million)

	2013	2012	CHANGE
Personnel expenses	(1,881.2)	(1,910.0)	(1.5%)
Other administrative expenses (excl. BGF and KNF)	(1,133.3)	(1,227.6)	(7.7%)
Depreciation and amortization	(346.3)	(368.8)	(6.1%)
Operating costs (excl. BGF and KNF)	**(3,360.8)**	**(3,506.4)**	**(4.2%)**
BGF and KNF	(122.6)	(119.2)	2.9%
Operating costs	**(3,483.4)**	**(3,625.6)**	**(3.9%)**

In 2013, cost / income ratio amounted to 46.0% in comparison with 45.6% in 2012.

As at the end of December 2013, the Group employed 18,916 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 19,816 employees as at the end of 2012. Decrease in employment resulted mainly from the disposal of 100% shares of company PJSC UniCredit Bank on July 16, 2013.

As at the end of December 2013, the Bank employed 17,092 employees as compared to 17,433 employees as at the end of 2012.

Net impairment losses

(in PLN million)

	2013	2012	CHANGE
Impairment losses on loans	(656.2)	(642.6)	2.1%
Impairment losses on off-balance sheet commitments	(7.5)	(26.8)	(72.0%)
Total	**(663.7)**	**(669.4)**	**(0.9%)**

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 663.7 million in 2013 and was lower by PLN 5.7 million, i.e. 0.9% in comparison to 2012.

Provisions, deferred tax assets and liabilities

(in PLN million)

	31.12.2013	31.12.2012	CHANGE
Total provisions	**393.5**	**359.5**	**9.5%**
of which:			
provisions for off-balance sheet commitments	113.9	106.4	7.0%
provisions for liabilities to employees	241.5	193.3	24.9%
other provisions	38.1	59.8	(36.3%)
Deferred tax liabilities	**3.3**	**6.0**	**(45.0%)**
Deferred tax assets	**895.3**	**865.9**	**3.4%**

Quarterly income statement

Consolidated income statement – long form

Consolidated income statement for 2013 – Provided for comparability purposes.

(in PLN thousand)

	Q1 2013			Q2 2013			Q3 2013			Q4 2013		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Interest income	1,849,493	48,138	1,897,631	1,675,097	39,333	1,714,430	1,574,875	5,877	1,580,752	1,581,477	–	1,581,477
Interest expense	(714,219)	(15,663)	(729,882)	(593,902)	(13,812)	(607,714)	(483,123)	(2,199)	(485,322)	(445,810)	–	(445,810)
Net interest income	**1,135,274**	**32,475**	**1,167,749**	**1,081,195**	**25,521**	**1,106,716**	**1,091,752**	**3,678**	**1,095,430**	**1,135,667**	**–**	**1,135,667**
Fee and commission income	632,137	7,958	640,095	660,174	9,661	669,835	668,109	1,556	669,665	675,467	–	675,467
Fee and commission expense	(112,752)	(2,935)	(115,687)	(131,727)	(3,683)	(135,410)	(131,860)	(1,385)	(133,245)	(127,876)	–	(127,876)
Net fee and commission income	**519,385**	**5,023**	**524,408**	**528,447**	**5,978**	**534,425**	**536,249**	**171**	**536,420**	**547,591**	**–**	**547,591**
Dividend income	**–**	**–**	**–**	**6,751**	**–**	**6,751**	**5**	**–**	**5**	**–**	**–**	**–**
Result on financial assets and liabilities held for trading	**110,439**	**(6,503)**	**103,936**	**119,422**	**3,901**	**123,323**	**124,089**	**252**	**124,341**	**113,457**	**–**	**113,457**
Result on fair value hedge accounting	**(4,654)**	**–**	**(4,654)**	**(2,381)**	**–**	**(2,381)**	**(4,320)**	**–**	**(4,320)**	**(6,068)**	**–**	**(6,068)**
Net result on other financial instruments at fair value through profit and loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Gains (losses) on disposal of:	**54,155**	**–**	**54,155**	**152,801**	**–**	**152,801**	**39,426**	**–**	**39,426**	**58,757**	**–**	**58,757**
loans and other financial receivables	(81)	–	(81)	–	–	–	–	–	–	14	–	14
available for sale financial assets and held to maturity investments	57,565	–	57,565	152,922	–	152,922	39,191	–	39,191	58,677	–	58,677
financial liabilities	(3,329)	–	(3,329)	(121)	–	(121)	235	–	235	66	–	66
Operating income	**1,814,599**	**30,995**	**1,845,594**	**1,886,235**	**35,400**	**1,921,635**	**1,787,201**	**4,101**	**1,791,302**	**1,849,404**	**–**	**1,849,404**
Net impairment losses on financial assets and off-balance sheet commitments:	**(163,279)**	**(1,727)**	**(165,006)**	**(156,143)**	**(3,916)**	**(160,059)**	**(169,765)**	**428**	**(169,337)**	**(169,248)**	**–**	**(169,248)**
loans and other financial receivables	(155,538)	(1,727)	(157,265)	(156,090)	(3,916)	(160,006)	(139,292)	428	(138,864)	(199,979)	–	(199,979)
off-balance sheet commitments	(7,741)	–	(7,741)	(53)	–	(53)	(30,473)	–	(30,473)	30,731	–	30,731
Net result on financial activity	**1,651,320**	**29,268**	**1,680,588**	**1,730,092**	**31,484**	**1,761,576**	**1,617,436**	**4,529**	**1,621,965**	**1,680,156**	**–**	**1,680,156**

Consolidated income statement for 2013 – cont.

(in PLN thousand)

	Q1 2013			Q2 2013			Q3 2013			Q4 2013		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Administrative expenses	**(769,179)**	**(19,995)**	**(789,174)**	**(796,473)**	**(19,519)**	**(815,992)**	**(780,431)**	**(2,945)**	**(783,376)**	**(753,939)**	**–**	**(753,939)**
personnel expenses	(462,431)	(9,825)	(472,256)	(478,470)	(10,082)	(488,552)	(473,272)	(1,238)	(474,510)	(445,857)	–	(445,857)
other administrative expenses	(306,748)	(10,170)	(316,918)	(318,003)	(9,437)	(327,440)	(307,159)	(1,707)	(308,866)	(308,082)	–	(308,082)
Depreciation and amortization	**(86,227)**	**(1,279)**	**(87,506)**	**(86,597)**	**(1,271)**	**(87,868)**	**(84,518)**	**(146)**	**(84,664)**	**(86,320)**	**–**	**(86,320)**
Net result on other provisions	**(643)**	**–**	**(643)**	**(1,672)**	**–**	**(1,672)**	**(1,065)**	**–**	**(1,065)**	**17,041**	**–**	**17,041**
Net other operating income and expenses	**22,229**	**1,069**	**23,298**	**14,155**	**279**	**14,434**	**37,229**	**(138)**	**37,091**	**28,599**	**–**	**28,599**
Operating costs	**(833,820)**	**(20,205)**	**(854,025)**	**(870,587)**	**(20,511)**	**(891,098)**	**(828,785)**	**(3,229)**	**(832,014)**	**(794,619)**	**–**	**(794,619)**
Gains (losses) on subsidiaries and associates	**14,854**	**–**	**14,854**	**12,835**	**–**	**12,835**	**13,808**	**–**	**13,808**	**17,928**	**–**	**17,928**
Gains (losses) on disposal of property, plant and equipment, and intangible assets	**41**	**–**	**41**	**16,976**	**–**	**16,976**	**1,905**	**–**	**1,905**	**3,354**	**–**	**3,354**
Profit before income tax	**832,395**	**9,063**	**841,458**	**889,316**	**10,973**	**900,289**	**804,364**	**1,300**	**805,664**	**906,819**	**–**	**906,819**
Income tax expense	(167,712)	(1,687)	(169,399)	(165,522)	(2,196)	(167,718)	(154,336)	29	(154,307)	(167,816)	–	(178,103)
Net profit for the period	**664,683**	**7,376**	**672,059**	**723,794**	**8,777**	**732,571**	**650,028**	**1,329**	**651,357**	**739,003**	**–**	**739,003**
Attributable to equity holders of the Bank	**662,481**	**7,376**	**669,857**	**721,696**	**8,777**	**730,473**	**647,537**	**1,329**	**648,866**	**735,583**	**–**	**735,583**
Attributable to non-controlling interest	2,202	–	2,202	2,098	–	2,098	2,491	–	2,491	3,420	–	3,420

Statement of Financial Position and Financial Results

Consolidated income statement for 2012 – Provided for comparability purposes.

(in PLN thousand)

	Q1 2012			Q2 2012			Q3 2012			Q4 2012		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Interest income	2,031,001	46,297	2,077,298	2,070,741	47,525	2,118,266	2,097,709	49,337	2,147,046	2,047,483	47,719	2,095,202
Interest expense	(839,043)	(16,640)	(855,683)	(887,626)	(16,179)	(903,805)	(895,695)	(14,692)	(910,387)	(824,485)	(16,278)	(840,763)
Net interest income	**1,191,958**	**29,657**	**1,221,615**	**1,183,115**	**31,346**	**1,214,461**	**1,202,014**	**34,645**	**1,236,659**	**1,222,998**	**31,441**	**1,254,439**
Fee and commission income	631,692	8,889	640,581	665,010	11,658	676,668	645,293	10,236	655,529	680,102	10,312	690,414
Fee and commission expense	(120,576)	(3,482)	(124,058)	(133,547)	(4,323)	(137,870)	(134,407)	(3,370)	(137,777)	(137,727)	(3,887)	(141,614)
Net fee and commission income	**511,116**	**5,407**	**516,523**	**531,463**	**7,335**	**538,798**	**510,886**	**6,866**	**517,752**	**542,375**	**6,425**	**548,800**
Dividend income	–	–	–	**8,749**	–	**8,749**	**10**	–	**10**	–	–	–
Result on financial assets and liabilities held for trading	**113,364**	**5,069**	**118,433**	**124,272**	**672**	**124,944**	**123,691**	**2,610**	**126,301**	**139,168**	**1,290**	**140,458**
Result on fair value hedge accounting	**(3,140)**	–	**(3,140)**	**(5,597)**	–	**(5,597)**	**(16,501)**	–	**(16,501)**	**(10,513)**	–	**(10,513)**
Net result on other financial instruments at fair value through profit and loss	–	–	–	–	–	–	–	–	–	–	–	–
Gains (losses) on disposal of:	**43,118**	–	**43,118**	**37,044**	–	**37,044**	**156,397**	**(21)**	**156,376**	**42,661**	–	**42,661**
loans and other financial receivables	–	–	–	–	–	–	–	–	–	758	–	758
available for sale financial assets and held to maturity investments	43,209	–	43,209	36,929	–	36,929	156,503	(21)	156,482	42,124	–	42,124
financial liabilities	(91)	–	(91)	115	–	115	(106)	–	(106)	(221)	–	(221)
Operating income	**1,856,416**	**40,133**	**1,896,549**	**1,879,046**	**39,353**	**1,918,399**	**1,976,497**	**44,100**	**2,020,597**	**1,936,689**	**39,156**	**1,975,845**
Net impairment losses on financial assets and off-balance sheet commitments:	**(127,495)**	**(7,844)**	**(135,339)**	**(160,407)**	**(7,345)**	**(167,752)**	**(169,255)**	**(10,205)**	**(179,460)**	**(178,317)**	**(8,586)**	**(186,903)**
loans and other financial receivables	(137,201)	(7,844)	(145,045)	(139,664)	(7,345)	(147,009)	(176,302)	(10,205)	(186,507)	(155,475)	(8,586)	(164,061)
off-balance sheet commitments	9,706	–	9,706	(20,743)	–	(20,743)	7,047	–	7,047	(22,842)	–	(22,842)
Net result on financial activity	**1,728,921**	**32,289**	**1,761,210**	**1,718,639**	**32,008**	**1,750,647**	**1,807,242**	**33,895**	**1,841,137**	**1,758,372**	**30,570**	**1,788,942**

Consolidated income statement for 2012 – cont.

(in PLN thousand)

	Q1 2012			Q2 2012			Q3 2012			Q4 2012		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Administrative expenses	**(799,642)**	**(18,958)**	**(818,600)**	**(820,241)**	**(19,093)**	**(839,334)**	**(795,406)**	**(19,156)**	**(814,562)**	**(770,059)**	**(20,402)**	**(790,461)**
personnel expenses	(469,851)	(9,429)	(479,280)	(482,855)	(10,038)	(492,893)	(467,591)	(10,059)	(477,650)	(449,871)	(10,303)	(460,174)
other administrative expenses	(329,791)	(9,529)	(339,320)	(337,386)	(9,055)	(346,441)	(327,815)	(9,097)	(336,912)	(320,188)	(10,099)	(330,287)
Depreciation and amortization	**(91,515)**	**(1,854)**	**(93,369)**	**(91,353)**	**(1,673)**	**(93,026)**	**(91,093)**	**(1,531)**	**(92,624)**	**(88,417)**	**(1,402)**	**(89,819)**
Net result on other provisions	**(320)**	**–**	**(320)**	**(711)**	**–**	**(711)**	**(341)**	**–**	**(341)**	**(13,955)**	**–**	**(13,955)**
Net other operating income and expenses	**17,163**	**(44)**	**17,119**	**31,102**	**(131)**	**30,971**	**25,124**	**883**	**26,007**	**20,804**	**(508)**	**20,296**
Operating costs	**(874,314)**	**(20,856)**	**(895,170)**	**(881,203)**	**(20,897)**	**(902,100)**	**(861,716)**	**(19,804)**	**(881,520)**	**(851,627)**	**(22,312)**	**(873,939)**
Gains (losses) on subsidiaries and associates	**11,741**	**–**	**11,741**	**13,530**	**–**	**13,530**	**13,225**	**–**	**13,225**	**14,370**	**–**	**14,370**
Gains (losses) on disposal of property, plant and equipment, and intangible assets	**1,170**	**–**	**1,170**	**1,213**	**–**	**1,213**	**19,835**	**–**	**19,835**	**43**	**–**	**43**
Profit before income tax	**867,518**	**11,433**	**878,951**	**852,179**	**11,111**	**863,290**	**978,586**	**14,091**	**992,677**	**921,158**	**8,258**	**929,416**
Income tax expense	(168,621)	(2,099)	(170,720)	(163,829)	(2,116)	(165,945)	(191,313)	(3,723)	(195,036)	(179,931)	(350)	(180,281)
Net profit for the period	**698,897**	**9,334**	**708,231**	**688,350**	**8,995**	**697,345**	**787,273**	**10,368**	**797,641**	**741,227**	**7,908**	**749,135**
Attributable to equity holders of the Bank	**696,774**	**9,334**	**706,108**	**686,146**	**8,995**	**695,141**	**784,974**	**10,368**	**795,342**	**738,302**	**7,908**	**746,210**
Attributable to non-controlling interest	2,123	–	2,123	2,204	–	2,204	2,299	–	2,299	2,925	–	2,925

Statement of Financial Position and Financial Results

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for 2013

(in PLN thousand)

	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Net profit	**672,059**	**732,571**	**651,357**	**739,003**
Attributable to equity holders of the Bank	**669,857**	**730,473**	**648,866**	**735,583**
Attributable to non-controlling interest	2,202	2,098	2,491	3,420
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences	22,194	5,014	(1,511)	(132)
Change in fair value of available-for-sale financial assets	(152,160)	(314,574)	(118,201)	26,313
Change in fair value of cash flow hedges	17,221	(48,395)	69,742	(3,736)
Income tax expense on other comprehensive income	21,422	68,074	9,428	(4,290)
Items that will never be reclassified to profit or loss:				
Re-measurements of the defined benefit liabilities	–	–	–	(41,524)
Tax on items that will never be reclassified to profit or loss	–	–	–	7,890
Other comprehensive income (net)	**(91,323)**	**(289,881)**	**(40,542)**	**(15,479)**
Total comprehensive income	**580,736**	**442,690**	**610,815**	**723,524**
Attributable to equity holders of the Bank	**578,534**	**440,592**	**608,324**	**720,104**
Attributable to non-controlling interest	2,202	2,098	2,491	3,420

Consolidated statement of comprehensive income for 2012

(in PLN thousand)

	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Net profit	**708,231**	**697,345**	**797,641**	**749,135**
Attributable to equity holders of the Bank	**706,108**	**695,141**	**795,342**	**746,210**
Attributable to non-controlling interest	2,123	2,204	2,299	2,925
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences	(38,574)	38,126	(34,900)	(11,271)
Change in fair value of available-for-sale financial assets	230,634	119,232	54,422	357,588
Change in fair value of cash flow hedges	(60,000)	(26,320)	257	45,944
Income tax expense on other comprehensive income	(24,600)	(24,896)	(3,626)	(74,528)
Items that will never be reclassified to profit or loss:				
Re-measurements of the defined benefit liabilities	–	–	–	2,674
Tax on items that will never be reclassified to profit or loss	–	–	–	(508)
Other comprehensive income (net)	**107,460**	**106,142**	**16,153**	**319,899**
Total comprehensive income	**815,691**	**803,487**	**813,794**	**1,069,034**
Attributable to equity holders of the Bank	**813,568**	**801,283**	**811,495**	**1,066,109**
Attributable to non-controlling interest	2,123	2,204	2,299	2,925

Consolidated income statement – presentation form

Consolidated income statement for 2013

(in PLN thousand)

	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Net interest income	1,167,749	1,106,716	1,095,430	1,135,667
Dividend income and income from equity investments	14,854	19,586	13,813	17,928
Total net interest income, dividend income and other income from equity investments	**1,182,603**	**1,126,302**	**1,109,243**	**1,153,595**
Net fee and commission income	524,408	534,425	536,420	547,591
Trading result	153,518	273,743	159,447	166,132
Net other operating income and expenses	22,177	13,349	35,498	26,890
Net non-interest income	**700,103**	**821,517**	**731,365**	**740,613**
Operating income	**1,882,706**	**1,947,819**	**1,840,608**	**1,894,208**
Operating costs	**(875,640)**	**(902,775)**	**(866,447)**	**(838,536)**
Operating profit	**1,007,066**	**1,045,044**	**974,161**	**1,055,672**
Net result on other provisions	(643)	(1,672)	(1,065)	17,041
Net impairment losses on loans and off-balance sheet commitments	(165,006)	(160,059)	(169,337)	(169,248)
Net result on investment activities	41	16,976	1,905	3,354
Profit before income tax	**841,458**	**900,289**	**805,664**	**906,819**
Income tax expense	(169,399)	(167,718)	(154,307)	(167,816)
Net profit for the period	**672,059**	**732,571**	**651,357**	**739,003**
Attributable to equity holders of the Bank	**669,857**	**730,473**	**648,866**	**735,583**
Attributable to non-controlling interest	2,202	2,098	2,491	3,420

Consolidated income statement for 2012

(in PLN thousand)

	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Net interest income	1,221,615	1,214,461	1,236,659	1,254,439
Dividend income and income from equity investments	13,643	22,279	14,009	12,091
Total net interest income, dividend income and other income from equity investments	**1,235,258**	**1,236,740**	**1,250,668**	**1,266,530**
Net fee and commission income	516,523	538,798	517,752	548,800
Trading result	158,411	156,391	266,176	171,848
Net other operating income and expenses	15,908	28,781	25,219	19,028
Net non-interest income	**690,842**	**723,970**	**809,147**	**739,676**
Operating income	**1,926,100**	**1,960,710**	**2,059,815**	**2,006,206**
Operating costs	**(910,758)**	**(930,170)**	**(906,398)**	**(878,254)**
Operating profit	**1,015,342**	**1,030,540**	**1,153,417**	**1,127,952**
Net result on other provisions	(320)	(711)	(341)	(13,955)
Net impairment losses on loans and off-balance sheet commitments	(135,339)	(167,752)	(179,460)	(186,903)
Net result on investment activities	(732)	1,213	19,061	2,322
Profit before income tax	**878,951**	**863,290**	**992,677**	**929,416**
Income tax expense	(170,720)	(165,945)	(195,036)	(180,281)
Net profit for the period	**708,231**	**697,345**	**797,641**	**749,135**
Attributable to equity holders of the Bank	**706,108**	**695,141**	**795,342**	**746,210**
Attributable to non-controlling interest	2,123	2,204	2,299	2,925

Note: In 2013 in the income statement in a presentation form, to align the presentation to the standards implemented by the major Polish and European banks, gains on disposal of available for sale financial assets and held to maturity investments are reported under trading result and thus in net non-interest income, operating income and operating profit. In order to ensure comparability, data for 2012 have been restated in comparison to those previously published.

Reconciliation of income statement – presentation form and long form

Consolidated income statement for 2013

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFFIED TO PRESENTATION FORM	2013	COMMENTS
Net interest income		4,505,562	
Dividend income and income from equity investments		66,181	
	Dividend income	6,756	
	Gains (losses) on subsidiaries and associates	59,425	
Total net interest income, dividend income and other income from equity investments		**4,571,743**	
Net fee and commission income	Net fee and commission income	2,142,844	
Trading result		752,840	
	Result on financial assets and liabilities held for trading	465,057	
	Result on fair value hedge accounting	(17,423)	
	Net result on other financial instruments at fair value through profit and loss	–	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	308,355	
	(Gains) losses on disposal of financial liabilities	(3,149)	
Net other operating income and expenses		97,914	
	Net other operating income and expenses	103,422	
	less – Refunding of administrative expenses	(5,441)	/1
	(Gains) losses on disposal of loans and other financial receivables	(67)	
Net non-interest income		**2,993,598**	
Operating income		**7,565,341**	
Operating costs		(3,483,398)	
	Personnel expenses	(1,881,175)	
	Other administrative expenses	(1,261,306)	
	Refunding of administrative expenses	5,441	/1
	Depreciation and amortization	(346,358)	
Operating profit		**4,081,943**	
Net result on other provisions	Net result on other provisions	13,661	
Net impairment losses on loans and off-balance sheet commitments		(663,650)	
	Net impairment losses on loans	(656,114)	
	Net impairment provision for off-balance sheet commitments	(7,536)	
Net result on investment activities		22,276	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	22,276	
	Impairment losses on subsidiaries and associates	–	
	Gains (losses) on disposal of subsidiaries and associates	–	
Profit before income tax		**3,454,230**	
Income tax expense	Income tax expense	(659,240)	
Net profit for the period	**Net profit for the period**	**2,794,990**	
Attributable to equity holders of the Bank	**Attributable to equity holders of the Bank**	**2,784,779**	
Attributable to non-controlling interest	Attributable to non-controlling interest	10,211	

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

Consolidated income statement for 2012

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFFIED TO PRESENTATION FORM	2012	COMMENTS
Net interest income		4,927,174	
Dividend income and income from equity investments		62,022	
	Dividend income	8,759	
	Gains (losses) on subsidiaries and associates	53,263	
Total net interest income, dividend income and other income from equity investments		**4,989,196**	
Net fee and commission income	Net fee and commission income	2,121,873	
Trading result		752,826	
	Result on financial assets and liabilities held for trading	510,136	
	Result on fair value hedge accounting	(35,751)	
	Net result on other financial instruments at fair value through profit and loss	–	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	278,744	
	(Gains) losses on disposal of financial liabilities	(303)	
Net other operating income and expenses		88,936	
	Net other operating income and expenses	94,393	
	less – Refunding of administrative expenses	(6,215)	/1
	Gains (losses) on disposal of loans and other financial receivables	758	
Net non-interest income		**2,963,635**	
Operating income		**7,952,831**	
Operating costs		(3,625,580)	
	Personnel expenses	(1,909,997)	
	Other administrative expenses	(1,352,960)	
	Refunding of administrative expenses	6,215	/1
	Depreciation and amortization	(368,838)	
Operating profit		**4,327,251**	
Net result on other provisions	Net result on other provisions	(15,327)	
Net impairment losses on loans and off-balance sheet commitments		(669,454)	
	Net impairment losses on loans	(642,622)	
	Net impairment provision for off-balance sheet commitments	(26,832)	
Net result on investment activities		21,864	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	22,261	
	Impairment losses on subsidiaries and associates	–	
	(Gains) losses on disposal of subsidiaries and associates	(397)	
Profit before income tax		**3,664,334**	
Income tax expense	Income tax expense	(711,982)	
Net profit for the period	**Net profit for the period**	**2,952,352**	
Attributable to equity holders of the Bank	**Attributable to equity holders of the Bank**	**2,942,801**	
Attributable to non-controlling interest	Attributable to non-controlling interest	9,551	

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

Other Information

Other Information

Management Board Position Regarding the Possibility of Achieving Previously Published Forecasts

The Bank has not published the forecast of the financial results for 2013.

Management Board and Supervisory Board Remuneration

The total amount of remuneration, bonuses and benefits (in cash, payments in kind or in any form) paid or payable to Management Board Members in 2013:

(in PLN thousand)

	BASE SALARY	PART OF VARIABLE COMPENSATION FOR 2012	DEFERRED PARTS OF VARIABLE COMPENSATION FOR 2010 AND 2011	LONG TERM RETENTION PROGRAM	OTHER BENEFITS FOR 2013
Luigi Lovaglio	3,767	1,037	1,573	1,921	222
Diego Biondo	1,999	175	240	365	1
Andrzej Kopyrski	1,312	287	394	665	117
Grzegorz Piwowar	1,272	278	457	665	111
Stefano Santini (from April 1, 2013)	967	–	–	–	34
Marian Ważyński	876	140	191	–	32
Marco Iannaccone (until March 31, 2013)	361	–	–	–	–

Within the framework of implementation of the Resolution No. 258/2011 issued by the Financial Supervision Authority on October 4, 2011 on detailed principles for functioning of risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital, and the principles for determining the variable salary components policy for key management personnel at the bank, the System of Variable Remuneration for Management has been adopted in the Bank.

Participant covered by the system may receive bonus, amount of which depends on the assessment of the effects of the person's work, organisational unit as well as the Bank's results. In accordance with the assumptions, at least 50% of variable remuneration constitutes a special incentive for employees to support the long-term welfare of the Bank, part of the premium is deferrable and paid after the end of the evaluation period.

In 2013, cost of the system of variable remuneration related to the Members of the Management Board amounted to PLN 12,545 thousand.

A decision on variable remuneration for 2013 for the Management Board Members has not yet been taken by the Supervisory Board of the Bank.

In 2013, the Management Board Members did not receive nor are due any compensation from subsidiaries and associated entities.

(in PLN thousand)

	TOTAL	TOTAL
Jerzy Woźnicki	233	
Roberto Nicastro	–	Did not receive remuneration according to the Group's policy
Leszek Pawłowicz	214	
Alessandro Decio	–	Did not receive remuneration according to the Group's policy
Małgorzata Adamkiewicz	71	
Paweł Dangel	189	
Laura Penna	–	Did not receive remuneration according to the Group's policy
Wioletta Rosołowska	128	
Doris Tomanek	–	Did not receive remuneration according to the Group's policy

In 2013, the Supervisory Board Members did not receive nor are due any compensation from subsidiaries and associated entities.

The Incentive Programs

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

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

As at December 31, 2013, the following long-term incentive programs are realized in Bank Pekao S.A. Group:
– the Long-term UniCredit Group Incentive Program 2007 – in terms of the options 34 employees of Bank Pekao S.A. Group have been covered by the program, including 3 members of the Management Board. The options expire in 2017,
– the Long-term UniCredit Group Incentive Program 2008 – in terms of the options 52 employees of Bank Pekao S.A. Group have been covered by the program, including 3 members of the Management Board. The options expire in 2018.

Shares in the Bank and Related Entities Held by the Bank's Directors

According to information available to the Bank as at December 31, 2013, the members of the Bank's management and supervisory bodies held 73,535 shares of Bank Pekao S.A. with face value of PLN 73,535. The number of the Bank's shares held by the members of the Bank's management and supervisory bodies and its face value remained unchanged as the date of submitting of this report.

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

	AS AT THE DATE OF SUBMITTING THE REPORT		
	FOR THE YEAR 2013	FOR THE THIRD QUARTER OF 2013	FOR THE YEAR 2012
Luigi Lovaglio	64,035	64,035	64,035
Diego Biondo	9,500	9,500	9,500
Total	**73,535**	**73,535**	**73,535**

Moreover, as at December 31, 2013 UniCredit S.p.A. shares were held by:
Mr. Luigi Lovaglio – 64,290 shares without nominal value,
Mr. Diego Biondo – 4,653 shares without nominal value,
Mr. Andrzej Kopyrski – 1,152 shares without nominal value,
Mr. Roberto Nicastro – 245,364 shares without nominal value,
Ms. Laura Penna – 23,784 shares without nominal value,
Mr. Grzegorz Piwowar – 1,562 shares without nominal value,
Mr. Stefano Santini – 19,257 shares without nominal value and
Mr.Marian Ważyński – 827 shares without nominal value.

Information Regarding Contracts for Post Termination Benefits

The employment contracts concluded by the Bank with the following Board Members provide compensation equal to 18 fold of monthly base salary for the final month of employment in the case of non-renewal of contract or dismissal:
– Mr. Andrzej Kopyrski, Vice President of the Management Board,
– Mr. Grzegorz Piwowar, Vice President of the Management Board,
– Mr. Marian Ważyński, Vice President of the Management Board.

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

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

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

Agreements with Companies Entitled to Auditing of Financial Reports

On the basis of the agreement concluded on June 17, 2013, Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (previously named: Deloitte Audyt Sp. z o.o.) is the company appointed to audit and review the financial statements of Bank Pekao S.A. and Bank Pekao S.A. Group for the years 2013 – 2017.

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

Other Information

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

(in PLN thousand)

	2013	2012
Fee for the audit of annual financial statements	3,207	3,924
Fee for other attestation services, including review of financial statements	1,602	2,253

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

Average Interest Rates in Bank Pekao S.A. in December 2013

The average nominal interest rates for the basic types of PLN deposits for non-financial sector residents:

PLN retail deposits	1.43% p.a.
PLN corporate clients deposits	1.83% p.a.

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

Total retail loans	6.14% p.a.
Mortgage	4.37% p.a.
Consumption	13.16% p.a.
Other	7.45% p.a.
Corporate loans	4.60% p.a.

Number and Value of Titles of Execution and Value of Collaterals

Bank Pekao S.A. has established specific policy with regard to collateral accepted to secure loans and guarantees.

This policy is reflected under internal rules and regulations in the Bank. The type of collateral and its value are carefully analyzed and chosen regarding the particular risk of the secured transaction.

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

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

For corporate clients, the total value of the collateral for impaired transactions as at December 31, 2013 amounted to PLN 2,023.2 million. In 2013, 484 titles of execution were issued on behalf of the Bank in the total amount of PLN 225.5 million.

For retail clients, the total value of the collateral for impaired transactions as at December 31, 2013 amounted to PLN 653.7 million. In 2013, 16,433 titles of execution were issued on behalf of the Bank in the total amount of PLN 329.9 million.

Pending Litigations

In 2013 the number of the legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of the Group’s liabilities was 1,299 with the total value amounting to PLN 19,056.2 million. The number of legal proceedings in respect of receivables was 15,433 with the total value of PLN 1,363.1 million.

In 2013 there were no legal proceedings relating to the liabilities and/or receivables of the Group in which asserted claims accounted for at least 10% of the Bank’s own funds.

In the opinion of the Bank none of the individual pending proceedings before any courts, arbitration bodies or public administration authorities during 2013, nor the proceedings in aggregate pose any threat to the Bank’s financial liquidity.

Related Party Transactions

In 2013, the Bank and its subsidiaries have not concluded any significant transactions (single or aggregate) with related entities other than those executed on arm’s length.

In 2013, the Bank and its subsidiaries did not provide any sureties or guarantees in respect of loans or advances to an entity or a subsidiary of such entity, as a result of which the total value of existing sureties and guarantees would have equaled or exceeded 10% of the Bank’s equity.

Information on Significant Agreements

In 2013, there have been no significant agreements concluded by the Bank.

Information on Derivative Financial Instruments and Hedge Accounting

Information on derivative financial instruments and hedge accounting is included in the Notes 26 and 29 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2013.

Accounting Principles Adopted in the Preparation of the Report

Accounting principles adopted in the preparation of the report are described in the Note 4 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2013.

Issuance, Redemption and Repayment of Debt Securities

Structured Certificates of Deposit

Structured Certificates of Deposit are investment products for the Bank's clients that form an alternative to traditional banks' deposits. The total value of the Bank's liabilities relating to these products amounted to PLN 334.0 million (principal value) as at the end of December 2013. There are 5 issues of Structured Certificates of Deposit open in PLN with the maturity date in 2014.

Certificates of Deposit

Certificates of Deposit are investment products denominated in PLN that guarantee 100% protection of invested funds also in the case of termination before redemption date. The total value of the Bank's liabilities under these products amounted to PLN 1,901.9 million (principal value) as at the end of December 2013. There are 4 issues of Certificates of Deposit. Those certificates, that mature up to 1 month, up to 3 months and up to 6 months accounts for 73.6%,16.6% and 9.8% of its total value respectively.

Pekao Leasing Sp. z o.o. bonds

The total value of the company's liabilities under bonds amounted to PLN 47.1 million as at December 31, 2013 with the maturity date up to 3 months.

Pekao Bank Hipoteczny S.A. mortgage bonds

The total value of liabilities due to covered bonds amounted to PLN 960.1 million as at December 31, 2013. The liabilities under covered bonds with maturity date up to 1 year account for 0.8%, with maturity date ranging from 3 up to 5 years account for 19.9% and with maturity date ranging from 5 up to 10 years account for 79.3% of the total nominal value.

Subsequent Events

On January 8, 2014 Management Board of Bank Pekao S.A. in the current report no. 1/2014 informed that the Bank received notification from Aberdeen Asset Management PLC (and/or acting on its behalf and its' affiliates) with its registered office in Aberdeen about reduction of the total number of votes at the General Meeting of the Bank below 5%, as the result of the sale of 50,000 shares in the Bank through a sale order executed on January 3, 2014. Prior to the sale, Aberdeen Asset Management PLC held 13,121,767 shares in the Bank, accounting for 5.0% of the overall number of shares in the Bank, representing the same number and percentage of the total votes at the General Meeting of the Bank. After the transaction, Aberdeen Asset Management PLC holds 13,071,767 shares in Bank, i.e. 4.98% of the overall number of shares in the Bank, representing the same number and percentage of votes at the General Meeting of the Bank.

After December 31, 2013, but before the approval of the financial statements, the Group refused to realise 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 December 31, 2013.

Corporate Governance

Corporate Governance

Introduction – Basic Corporate Governance Rules

The general corporate governance rules applicable at the Bank, i.e. the system of regulations and procedures defining guidelines for the activities of the Bank's governing bodies, are stipulated in the statutory provisions, including in particular the Commercial Companies Code and the Banking Act, capital market regulations, as well as the rules laid down in the *Code of Banking Ethics of the Polish Bank Association* and the *Code of Best Practice for WSE Listed Companies*, and the *UniCredit Integrity Charter*.

As required under the Act on Trading in Financial Instruments of July 29, 2005, the Bank has implemented internal procedures designed to monitor the performance of obligations relating to inside information, ban on transactions in the Bank's instruments during restricted periods, and on disclosing information on transactions in financial instruments connected with securities issued by the Bank made by significant persons related to the Bank.

In order to ensure the stability of the Pekao Group, the Bank coordinates and controls the operations of its subsidiaries through the Bank's representatives in the subsidiaries' governing bodies.

Compliance with the *Code of Best Practice for WSE Listed Companies*

Pekao S.A. has followed the *"Code of Best Practice for WSE Listed Companies"* since 2002, when the Supervisory Board of the Warsaw Stock Exchange for the first time formulated a set of corporate governance guidelines. As stated in the Preamble, *"The Code of Best Practice for WSE Listed Companies"* aims at enhancing transparency of listed companies, improving Bank quality of communication between companies and investors, and strengthening protection of shareholders' rights, including those not regulated by legislation, while refraining from imposing a burden on listed companies that may outweigh the benefits resulting from market needs".

The observance of the *"Code of Best Practice for WSE Listed Companies"* does not require a formal approval of the document by the Bank.

In 2013, the Bank adhered to the principles set out in the *"Code of Best Practice for WSE Listed Companies"*, adopted by the Supervisory Board of the WSE on November 21, 2012 in Resolution No. 19/1307/2012 with the exception of Principles I.12 and IV.10.2 related to providing the shareholders with an opportunity to participate in general meetings using electronic communication.

In the notice convening the Ordinary General Meeting of Bank Polska Kasa Opieki Spółka Akcyjna, published in the current report No. 17/2013 dated May 17, 2013, the Bank informed that: "Considering the fact that the Shareholder Structure of the Bank is characterised by a large number of shareholders and geographical and linguistic diversity, which means that the correct identification of the shareholders and ensuring the appropriate level of security of electronic communication would require that the Bank should use advanced technical solutions they currently do not have, in accordance with Art. 406[5] § 2 of the Commercial Companies Code and § 8a(2) of the Statute of the Bank, the Management Board of the Bank resolved that the participation in the Ordinary General Meeting of the Bank for the year 2012 using electronic communication will not be possible".

The Bank's Management Board allows participation in General Meeting with the use of electronic communication when it ensures that technical conditions have been met that are required to enable such participation.

Seeking to ensure compliance with the Rules of the Warsaw Stock Exchange, the Bank – as a listed company – publishes a Statement of Compliance with the corporate governance rules. The statement is part of each Annual Report and its scope and form is consistent with the standards set out in Resolution No. 1013/2007 of the Management Board of the WSE dated December 11, 2007.

A requirement to include in Annual Reports a Statement of Compliance with corporate governance standards has also been imposed under the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19, 2009.

The Bank's *Statement on Application of Corporate Governance Standards* in 2013 (*"Corporate Governance Statement"*), whose contents conform to the requirements, laid down by the two regulations, forms part of the Annual Report.

Compliance with Applicable Standards, Laws and Regulations

The Bank applies standards which aim to ensure compliance with the law, the Statute, internal regulations, recommendations from regulatory and supervision authorities, best practices and principles of ethics. In managing compliance risk, the Bank follows the guidelines and standards adopted across the UniCredit Group, unless these are in conflict with the provisions of Polish law.

The Bank Pekao S.A. Compliance Risk Policy sets out the assumptions that are consistent for all organisational levels of the Bank with respect to compliance risk as well as a compliance program covering the processes for the management of compliance risk (identification, assessment, control, monitoring and reporting).

The Policy also identifies the key procedures for the Bank and its employees in the area.

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

Compliance risk is managed at three separate levels:
– executive staff responsible for ensuring compliance,
– risk management functions by dedicated organisational units of the Bank not involved in business operations,
– internal audit, responsible for independent assessment of the functioning of the internal control system and monitoring of post-inspection activities.

Co-ordination of the Bank's compliance risk management activities is the responsibility of the Compliance Department. The tasks of the Department include in particular updating the Compliance Policy and monitoring of its observance; identification, assessment, monitoring and control of compliance risk in the regulatory areas in accordance with its authority; advisory services to organisational units related to legal acts, regulations, principles, codes, standards, business aspects and products in relation to compliance and reputation risk; strengthening the dialogue and the relationship with the supervisory and regulatory authorities, and performance of tasks related to prevention of involving the Bank in money laundering and terrorism financing activities. The Bank uses the CAMP methodology for compliance risk assessment and performs second-level compliance controls that ensure the assessment of compliance and effectiveness of processes with key legal requirements related to banking activities. The CAMP methodology, which operates as an early-warning system, provides for the implementation of mitigation measures in case of detecting irregularities. Organisational units of the Bank are involved in the process. The assessment of compliance risk and second-level compliance controls contribute to improvement of the internal control system at the Bank and therefore to minimisation of the compliance risk involved in the Bank's operations.

Code of Conduct of the Pekao Group

The Bank's commitment to complying with the applicable standards is manifested in the development and implementation of the *Code of Conduct of the Pekao Group* ("Code").

The Code is a set of rules identifying the appropriate way to take decisions and the correct conduct in specific situations. It sets forth the duties and the conduct anticipated of all the persons employed by Bank Pekao S.A. or another Legal Entity of the Capital Group of Bank Pekao S.A. on an employment contract basis or on any other legal relationship of a similar nature, including members of statutory bodies of Companies.

Observance of the rules set forth in the Code guarantees conduct compliant with the values, mission and corporate culture of the Group and a manifestation of commitment to the highest standards in performing their employee duties, provision of services and protecting the reputation of the Group.

The Code specifies the rules of conduct of the Employees, endeavouring to combine the mission of the Companies with the challenges of daily work. The rules set forth in the Code are expected to accompany the Employees at all times since they support them in ensuring compliance with laws, Regulators' recommendations, internal regulations and the standards of conduct approved by the Bank

In accordance with the provisions of the Code, each Employee is expected to act ethically, to be honest and loyal, to manifest an attitude promoting collaboration in achieving the Group's objectives, respect and prudently use the Group's assets, in particular:
- perform their duties with the highest standards of professional conduct to meet Customers' expectations and avoid behaviour which could be misinterpreted or interpreted in a manner not intended by an Employee,
- act in the best interest of the Customer,
- apply the applicable legal regulations and recommendations of the regulators,
- observe the Code and other internal regulations.

The Code further specifies that the Managers are expected to take all reasonable measures to ensure compliance of the Employees with the applicable law, regulators' recommendations, internal regulations and the standards of conduct approved by the Bank.

The core principles of the Code of Conduct of the Pekao Group apply to:
- protection of the Group's reputation,
- maintaining in their workplace of an atmosphere compliant with core ethical standards,
- protection of information,
- prevention of money laundering and terrorism financing,
- fair competition,
- prevention to market abuse related to trading in financial instruments,
- prevention of conflicts of interest (including appropriate management of conflicts of interest if they cannot be eliminated),
- anti-corruption activities,
- maintaining the applicable communication standards,
- protection of assets,
- non-trespassing on the entrusted business authority.

Corporate Governance

General Meeting of Shareholders

Convening of the General Meetings

General Meetings of Shareholders are convened in accordance with the applicable laws and the provisions of the Bank's Statute, which are consistent with the law.

Annual General Meetings of Shareholders are convened by the Bank's Management Board. They should be held no later than in June. The Bank's Supervisory Board is entitled to convene the Annual General Meeting if the Management Board has failed to do so by the prescribed time.

Extraordinary General Meetings of Shareholders are convened when needed, either by the Bank's Management Board acting on its own initiative, or upon the Supervisory Board's request. A shareholder or shareholders representing at least one twentieth of the share capital may request that an Extraordinary General Meeting of Shareholders be convened and specific items be placed on its agenda. An Extraordinary General Meeting may also be called by the Supervisory Board, if it deems it advisable, or by shareholders representing at least a half of the share capital or at least a half of the total vote at the Bank.

Announcement on convening of the General Shareholders Meeting is published at the Bank's website latest twenty six days before the date of the General Shareholders Meeting and in the manner prescribed for disclosing current reports in accordance with the Act of 29 July 2005 on Public Offering, Conditions Governing Introduction of Financial Instruments to Organised Trading, and Public Companies.

As prescribed by the Commercial Companies Code, on the same day on which the convening of a General Shareholders Meeting of the Bank is announced – all documents to be submitted to the General Shareholders Meeting including draft resolutions are also published at the Bank's website.

All matters submitted for consideration to the General Meeting must have the Supervisory Board's recommendation. Pursuant to Par. 9 of the Bank's Statute, all matters proposed to be debated by the General Meeting of Shareholders should first be submitted for the Supervisory Board's consideration.

The General Meetings of Shareholders are attended by members of the Supervisory and Management Boards, who provide shareholders with any desired explanations and information. The Bank's external auditor is obliged to attend the Annual General Meeting, as well as Extraordinary General Meetings convened to deal with the company's finances, for instance to review and approve the Bank's financial statements, the report on the Bank's operations, the consolidated financial statements of the Bank's Group and the report on the operations of the Bank's Group.

Powers of the General Meeting

The scope of powers vested with the General Meeting of Shareholders is defined in applicable laws, including the Commercial Companies Code and Banking Law, as well as in the Bank's Statute. The scope of powers of the General Meeting is discussed in more detail in the *Statement on Application of Corporate Governance Standards*.

Rules of Procedure

The General Meeting of Shareholders operates in accordance with the *Rules of Procedure for General Meetings of Shareholders of Bank Polska Kasa Opieki Spółka Akcyjna*, adopted by virtue of Resolution No. 19 of the General Meeting of Shareholders of April 8th 2003, amended with Resolution No. 41 of May 5th 2009 and Resolution No. 41 of June 1st 2012.

The Rules of Procedure for General Meetings of Shareholders set out detailed procedures for holding meetings and adopting resolutions.

The mode of operations of the General Meeting of Shareholders is presented in the *Statement on Application of Corporate Governance Standards*.

The text of the Rules of Procedure for General Meetings of Shareholders is available at the Bank's website.

Main Rights of Shareholders

The Bank ensures that its shareholders may effectively exercise their rights, notably the right to:
- request that a General Meeting of Shareholders be convened and specific items be placed on its agenda,
- participate in a General Meeting of Shareholders, either in person or through a proxy, and to exercise voting rights,
- participate in a General Meeting of Shareholders with the use of electronic communication means if the Bank's Management Board so decides,
- propose candidates for members of the Supervisory Board,
- request that members of the Supervisory Board be elected in block voting,
- inspect the book of minutes, and receive copies of resolutions certified by the Management Board.

Key shareholder rights are presented in more detail in the *Statement on Application of Corporate Governance Standards*.

Majority Rule and Protection of the Minority

As required under Art. 20 of the Commercial Companies Code, the Bank makes sure that all shareholders, irrespective of the size of their holdings, are given equal treatment in similar circumstances so that they are able to exercise their property and procedural rights defined in the Commercial Companies Code and in the Statute, such as the right to share in the Bank's profits or the right to obtain information about the Bank (as a rule, the right is exercised during General Meetings of Shareholders, as provided for in Art. 428 of the Commercial Companies Code), and that they have equal access to inside information of the Bank as a public company, which is communicated to the public by way of current and periodic reports published at the Bank's website in the manner prescribed in Art. 56 of the Act on Public Offering, Conditions Governing Introduction of Financial Instruments to Organised Trading, and Public Companies, dated July 29th 2005.

The Rules of Procedure for General Meetings of Shareholders stipulate a number of other measures which ensure equal treatment of all the shareholders.

Each participant of a General Meeting of Shareholders holding voting rights may take the floor to discuss issues included in the agenda, ask questions and demand explanations.

If so requested by even one shareholder, the Chairman of the Meeting calls a secret ballot.

Each participant of a General Meeting of Shareholders has the right to put forward a candidate or candidates to the Supervisory Board, and to submit his or her written statement to be included the minutes of the Meeting.

Each shareholder who raises an objection to the Meeting's resolution has the right to present a brief justification.

The statutory bodies of the Bank, in the course of carrying out the duties that have been assigned to them, seek to ensure that the achievement of the majority shareholder's interests is not detrimental to the minority shareholders.

The majority rule is established under Par. 10.2 of the Bank's Statute, which provides that a General Meeting of Shareholders may adopt resolutions if at least 50 percent of the share capital plus one share is represented at the Meeting, subject to the absolutely binding provisions of law. The purpose of this provision is to guarantee that resolutions on matters most important to the Bank and its shareholders are adopted by the General Meeting in the presence of shareholders representing jointly an absolute majority of the share capital. If a resolution is not adopted for lack of the quorum required under the Bank's Statute, it may be adopted at the next Meeting with the same agenda, in the presence of shareholders representing at least 20 percent of the share capital. Such a solution is designed to protect the interests of minority shareholders.

The Bank ensures that minority shareholders may exercise their right to request that a General Meeting of Shareholders be convened, that specific items be placed on the agenda of the next General Meeting of Shareholders, as well as the right to propose draft resolutions on matters which are or will be considered at a General Meeting of Shareholders.

As stipulated in the Rules of Procedure for General Meetings of Shareholders, the Chairperson of the Meeting is responsible for ensuring that the Meeting runs smoothly and due regard is paid to the rights and interests of all shareholders, as well as for preventing any abuse by the participants of their rights, and making sure that minority rights are respected.

The minority protection principle finds expression in the Bank's Statute, which provides that the Supervisory Board should include representatives of both majority and minority shareholders.

Supervisory Board

Appointment, Composition and Qualifications

Pursuant to Par. 14.1 of the Bank's Statute, the Supervisory Board is composed of seven to nine members, appointed by the General Meeting of Shareholders for a joint three-year term of office. The number of Supervisory Board members is determined by the General Meeting of Shareholders. The General Meeting of Shareholders may remove a Supervisory Board member from office at any time.

The Supervisory Board elects from among its members the Chairperson, two Deputy Chairpersons and the Secretary.

In the period from 1 January 2013 to 11 June 2013 the Supervisory Board was composed of eight members. On 12 June 2013 the Annual General Meeting of Pekao S.A. appointed Ms Małgorzata Adamkiewicz a member of the Supervisory Board for the current joint term of office.

Pursuant to Par. 14.3 of the Bank's Statute, at least half of the members of the Supervisory Board, including its Chairperson, should possess a thorough knowledge of the Polish banking market, i.e. they should meet all of the following criteria:

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

As at January 1st 2013, the aforementioned criteria were met by four members of the Supervisory Board, including the Chairman, and since June 12th 2013, the aforementioned criteria were met by five members of the Supervisory Board, including the Chairman.

The Supervisory Board members have the knowledge and experience required to perform their duties.

Their professional backgrounds may be viewed at the Bank's website.

Corporate Governance

Prof. Jerzy Woźnicki, Chairman of the Supervisory Board, Member of the Audit Committee and Remuneration Committee.

From 10th September 1999 to 19th January 2005 Deputy Chairman of the Supervisory Board of Bank Pekao S.A.; from 20th January 2005 to 1st June 2011 Chairman of the Supervisory Board; from 1st June 2011 to 1st June 2012 Deputy Chairman of the Supervisory Board; from 2nd June 2012 member and from 24th July 2012 Chairman of the Supervisory Board.

Mr J. Woźnicki is professor of technical science (in electronics), also having academic achievements in the field of social science (in public politics science). public. He went through all stages of academic career, from junior lecturer to full professor at the Warsaw University of Technology. The scope of his research covers the issues of IT and such fields as knowledge society, innovation and knowledge-based economy. He was Dean of the Electronics and IT Faculty and, subsequently, Rector of the Warsaw University of Technology. He was also President of the Conference of Rectors of Academic Schools in Poland, and for many years of the Organization and Legislation Committee in KRASP. Professor J. Woźnicki held a number of positions at various companies, including the position of President of Softex Sp. z o.o., Deputy Chairman of the Supervisory Board of PKN Orlen S.A., and member of the Board of the FIRE Innovation Centre. On 14th June 2013 the Minister of Economy appointed Prof. J. Woźnicki into the Economic Committee of the Strategic Thinking.

Currently Prof. J. Woźnicki is the President of the Polish Rectors Foundation and Director of the Institute of Knowledge Society, Chairman of the National Council for Science and Higher Education. He is also a member of the Committee of Ethics in Science operating at the Presidium of the Polish Academy of Sciences. He is the originator and co-author of the 'Code of Best Practices for Higher Education Institutions'.

During his over 14 year tenure on the Supervisory Board of Bank Pekao S.A. professor J. Woźnicki gained substantial expertise and experience in banking and in the Bank's operations. He was honoured with a medal 'For Merit to Banking' by the President of the National Bank of Poland. Moreover, he was awarded the Commander's Cross with the Star of the Order of the Rebirth of Poland and the Knight Cross of the French National Order of the Legion of Honour. In 2013 the Wrocław University of Environmental and Life Sciences awarded prof. J. Woźnicki with the title of Doctor Honoris Causa.

Roberto Nicastro, Deputy Chairman of the Supervisory Board of Bank Pekao S.A., Member of the Financial Committee and the Remuneration Committee.

Member of the Bank's Supervisory Board in the years 1999-2003; from 29th April 2010 a member and from 16th June 2010 to 1st June 2012 Deputy Chairman of the Supervisory Board. From 2nd June 2012 a member and from 24th July 2012 Deputy Chairman of the Supervisory Board.

Roberto Nicastro was born in Trento (Italy) on 9th December 1964.

He attended Bocconi University, where he became guest researcher after his degree in Business Administration.

He worked for Salomon Brothers (London) and McKinsey & Co (Milan) as Strategic Advisor, developing organizational-strategic projects for Financial and Regulatory Organization, and Consumer Companies based in Italy and South America.

Before joining UniCredit Group in 1997 he became Head of Planning & Participations in Credito Italiano. Later he has been appointed as Group Deputy General Manager and Head of the New Europe Division of the UniCredito, to develop a brand new leader position in Central and Eastern Europe.

In 2003 he was appointed Head of Retail Division and CEO of UniCredit Banca. In 2007 he assumed the position of Deputy CEO of the Group.

Since November 2010 he is General Manager of UniCredit, with responsibility on Austria, Central and Eastern Europe, Marketing Retail and Multichannel, Group Internal Control System, Fineco and relationship with Regulators.

He is member of the Supervisory Board of UniCredit Bank Austria – Vienna, and UniCredit Bank Zao – Moscow, Comitato Esecutivo ABI and Comitato Direttivo Assonime.

From 2009 until 2012 he served as Chairman of EFMA (European Financial Marketing Association).

Prof. Leszek Pawłowicz, Deputy Chairman of the Supervisory Board, member of the Audit Committee.

Member of the Supervisory Board of Bank Pekao S.A. since 8th January 1998, Deputy Chairman of the Supervisory Board since 7th November 2012. Member of the Audit Committee since 24th January 2000.

He graduated in economics from Gdansk University in 1973.

In 1977 he obtained a Ph.D. in economics and in 1988 habilitacja (the highest Polish academic qualification) in economics.

Since the beginning of his professional career he has been in Faculty of Production Economy (now: Faculty of Management) in Gdansk University where he passed by all levels of academic career. In 1993 he obtained the title of Professor of Gdansk University. Since 2003 he is Director of Banking Department of Gdansk University.

Since 1990 he is Deputy President of the Board of "Instytut Badań nad Gospodarką Rynkową" (The Gdańsk Institute for Market Economics).

Since 1992 he has been Director of Gdańsk Academy of Banking.

Previously he was Chairman and then Member of the Supervisory Board of Bank Gdański S.A., Member of the Programme Board of "Bank" Monthly, Member of the Expert Group for VBM of Polish Telecom S.A., Member of the Scientific Board of Bank Gospodarki Żywnościowej S.A., Chairman of Economic Section in Scientific Research Committee and Member of the Board of PPUP Poczta Polska.

Currently, prof. L. Pawłowicz is Member of the Supervisory Board of Warsaw Stock Exchange, Vice-Chairman of the Supervisory Board of PKN Orlen S.A., Member of the Supervisory Board of BEST S.A., Member of the Programme Board of the Finansowanie Nieruchomości (Real Estate Finance) quarterly and Member of the Programme and Scientific Council of the Bezpieczny Bank (Safe Bank) journal. He is Member of the Committee of Financial Sciences of the Polish Academy of Sciences.

Prof. L. Pawłowicz is an expert in the domain of banking, and an author of numerous dissertations and articles on the subject.

Alessandro Decio, Secretary of the Supervisory Board, member of the Audit Committee and Financial Committee.

Member of the Bank's Supervisory Board from 19th April 2011; from 1st June 2011 to 1st June 2012 Secretary of the Supervisory Board; from 2nd June 2012 member and from 24th July 2012 Secretary of the Supervisory Board.

A graduate from the Department of Economics, Commerciale L. Bocconi University, Alessandro Maria Decio holds an MA from INSEAD (the European Institute for Business Administration) and has worked as a research assistant for six months at Commerciale L. Bocconi University.

Starting his finance career at IMI International, Mr. A. Decio held the post of Vice President until 1991. Subsequently, he was employed by Morgan Stanley International as an associate and afterwards by McKinsey until 1994 with the same position.

At the end of 1994 Alessandro M. Decio joined the European Bank for Reconstruction and Development (EBRD) and left in 2000 as a Director.

In June 2000, he joined UniCredit Group as the Head of Foreign Banks Strategy, Mergers, Acquisitions, Planning and Control Group. In October 2002 he was appointed Chief Operating Officer (COO) for Zagrebacka Banka within UniCredit Group. He served as COO at Bulbank in Bulgaria, another UniCredit Group company between 2003 and 2005.

Mr A. Decio was appointed Manager of UniCredit Group's Germany Integration Project at the beginning of 2006, before going on to serve as UniCredit Group Deputy Head of Integration Office from July 2006 to July 2007. Appointed as Executive Director of Yapi Kredi on 26th April 2007, he also became the Chief Operating Officer of the Bank on 1st July 2007. As of 30th January 2009 A. Decio has been appointed as the Deputy CEO of Yapi Kredi.

In February 2011 he became Head of Family & SME Division in UniCredit, Responsible for Retail and SME for Italy, Austria, Germany and also Responsible for Global Leasing, Factoring, Consumer Finance, Asset Gathering (CEE Countries).

As of 1st August 2012, he has been appointed as Group Chief Risk Officer and Member of the Executive Management Committee.

He is also: Member of the Board of Mediobanca S.p.A., Member of the Board of Borsa Italiana S.p.A. – London Stock Exchange Group, Member of the Board of UBIS Scpa – UniCredit Business Integrated Solution, Member of the Supervisory Board of UniCredit Bank Austria and ZAO UniCredit Bank.

Małgorzata Adamkiewicz, member of the Supervisory Board since 12th June 2013.

Medical Doctor (PhD). Graduated from Faculty of Medicine at the Medical University of Warsaw. Holds first and second degree specialization in internal medicine, specializes in endocrinology. Graduate of the Stockholm School of Economics Executive Educations program.

In 1991-2002 practiced at the Clinic of Endocrinology at the Centre of Postgraduate Medical Education in Warsaw.

From its very beginning involved with the Adamed Group, a Polish pharmaceutical and biotechnological company – leader on the domestic market of new generation medicines. Holds a number of positions within the Group: Vice President of Zakłady Farmaceutyczne Adamed Pharma S.A., Vice President of Adamed Sp. z o.o., Member of the Supervisory Board of Adamed Consumer Healthcare S.A. and Chairman of the Supervisory Board of Pabianickie Zakłady Farmaceutyczne Polfa S.A. Since 2006 serves as Managing Director of the Adamed Group, which she is also the co-owner.

She is also a member of: Supervisory Board of the Polish Pharmaceutical Industry Employers Association, the Polish Business Roundtable, the International Endocrinology Society.

Paweł Dangel, Member of the Supervisory Board from 10th September 1999. Member and Chairman of the Audit Committee from 7th November 2012.

He obtained degree of master of arts in Directing and Producing a Theatre Production at Academy of Theatre Arts in Moscow.

In the years 1980-1984 he worked as a theatre producer in Poland and from 1984 to 1986 as a producer and lecturer in theatre academies in London.

Corporate Governance

In the years 1994-1997 he was Vice President of the Management Board and Sales and Marketing Director at the Life Insurance Company: Nationale-Nederlanden Polska S.A.

He has extensive experience in insurance and finance, having completed a number of specialist courses in management, insurance and finance.

From 1986 he worked as adviser, manager, financial and insurance director for the UK-based insurance companies.

Next, from 1997 to April 2013 he was President of the Management Boards of Insurance Company: Allianz Polska S.A. and Allianz Życie Polska S.A.; he was also Chairman of the Supervisory Board of PTE Allianz Polska S.A.

Ms Laura Stefania Penna, member of the Supervisory Board since June 2nd 2012.

Since July 24th 2012 member of the Audit Committee and Finance Committee.

Ms Laura Stefania Penna got a degree in Economics at Bocconi University, Milan, in 1989.

In January 1990 she started her career in the strategic consulting industry working for Accenture, where she remained till 1999 as Senior Engagement Manager for strategic services.

In November 1999 she joined Rolo Banca (an Italian bank then merged in UniCredito Italiano) as Head of Planning and Control.

In June 2001 she was appointed Head of Group Planning for UniCredit Group.

She covered such position till October 2005, when she was given the Financial Controlling responsibility within the Integration Office, a unit set up to manage the HVB integration in the UniCredit Group.

After setting up and heading, between September 2006 and March 2007, the Strategic Business Development Structure, in April 2007 she was appointed Head of UniCredit Management Consultancy, a highly specialized unit aiming at providing in-house high level strategic advisory to the Group.

Member of the Board of Directors and Member of Internal Control & Risks Committee of UniCredit Business Integrated Solutions SCPA, Member of the Board of Directors of Finecobank S.p.A., Member of the Board of Directors of Koc Finansal Hizmetler AS, Member of the Board of Directors of Yapi Ve Kredi Bankasi AS.

Wioletta Rosołowska, member of the Supervisory Board since 2nd June 2012.

Since 24th July 2012 member of the Remuneration Committee.

Wioletta Rosołowska holds a Master's degree in Psychology and a Postgraduate degree in Journalism from the University of Warsaw. She also is INSEAD Alumna and a graduate of Harvard Leadership Programme. She participated in many courses in marketing and leadership e.g. Oxford CEO Leadership Training.

From November 2007 to September 2013 Board Member of Tchibo GmbH in Germany, with responsibilities for E-Commerce, FMCG Coffee and Retail Business of Tchibo in Eastern and Central European markets: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Slovakia, Ukraine (2007-2009), Israel (2009-2011) and Turkey. W. Rosołowska was also Board Member in Tchibo companies in Poland, Czech Republic, Romania, Slovakia, Turkey and Hungary.

Prior to her appointment as Member of the Board, Ms Rosołowska served seven years (2000-2007) as General Manager of Tchibo Poland, with responsibility for strategy and operations (including manufacturing) in Poland, Estonia, Latvia and Lithuania. Throughout that period, Tchibo maintained a leading position in roasted coffee market in Poland and achieved double-digit sales growth. One of W. Rosołowska's prominent achievements was the launching of retail business on the Polish market.

W. Rosołowska started her career at Tchibo in marketing in 1993. She subsequently moved to sales and in 1998 was appointed to the position of Sales Director. In this role, she oversaw the development and implementation of sales strategy in Poland and Baltic States across all distribution channels.

Prior to joining Tchibo, Wioletta Rosołowska served as media manager at several advertising firms, including Saatchi & Saatchi and Young & Rubicam.

Since January 2014 Managing Director in L'Oreal.

Ms Doris Tomanek, member of the Supervisory Board since 2nd June 2012; since July 24th 2012 member of the Remuneration Committee.

D. Tomanek obtained a degree in Macroeconomics at the University of Economics, Vienna in 1981.

In the years 1975-1978 she started her career working in the banking sector at Creditanstalt.

In 1982 she joined Mobil Oil Austria AG, Vienna where she remained till 1988 when she moved to the Coca Cola Group.

She remained in Coca Cola for 17 years, covering positions of increasing responsibility, becoming in the end Head of Human Resources in Coca Cola HBC, the Hellenic company managing Coca Cola operations in 28 countries in Southern and Central Europe.

In 2005 she joined UniCredit Bank Austria AG as Head of Human Resources.

In 2006 she was also appointed Head of Human Resources CEE Division UniCredit Group.

In 2008 she received the UniCredit Group Title of Executive Vice President.

Since May 2010 she has been member of the Management Board of UniCredit Bank Austria AG, Head of Human Resources Austria & Central and Eastern Europe, member of the Supervisory Board of UniCredit Business Integrated Solutions Austria GmbH, member of the Supervisory Board of Public Joint Stock Company Ukrsotsbank.

Powers of the Supervisory Board

In addition to other rights and obligations provided for in the Commercial Companies Code and the Bank's Statute, the scope of powers and duties of the Supervisory Board include in particular:

- reviewing the Management Board's Report on the Bank's operations and the financial statements for the previous financial year,
- reviewing the Management Board's recommendations concerning the distribution of profit or coverage of loss,
- reviewing the Management Board's Report on the Group's operations and the consolidated financial statements for the previous financial year,
- presenting the General Meeting of Shareholders with a report on the results of the above reviews and a report on the Supervisory Board's activities in the previous financial year,
- requesting approval from the Polish Financial Supervision Authority for appointment of two members of the Management Board, including the President,
- appointing and removing from office the President of the Management Board and, upon the President's request, Vice Presidents and members of the Management Board,
- suspending from office a member (members) of the Management Board for important reasons,
- determining the terms and conditions of contracts governing employment relationships or other legal relationships between members of the Management Board and the Bank,
- giving opinions on long-term development plans and annual financial plans of the Bank,
- giving opinions on the Management Board's proposals concerning establishment of other companies or joining other companies as a shareholder, as well as disposal of shares or other equity interests, where a given transaction is related to a long-term strategic investment,
- approving the establishment or liquidation of foreign branches and representative offices of the Bank,
- adopting, upon the Management Board's request, rules governing the creation and use of funds specified in the Statute,
- approving the Management Board's proposals concerning purchase, encumbrance, or sale of real estate, an interest in or perpetual usufruct rights to real estate, where the value of a given transaction exceeds PLN 2m,
- approving the Management Board's proposals concerning the assumption of an obligation or disposal of assets, where the value of a given transaction executed with a single entity exceeds 5% of the Bank's equity,
- approving the Management Board's proposals to outsource services, where the services pertain to a strategic area of the Bank's business or their value equals or exceeds EUR 1m.

Functioning of the Supervisory Board

The Supervisory Board operates in accordance with its Rules of Procedure, adopted by virtue of Resolution No. 17/03 of May 22nd 2003 and amended by virtue of Resolution No. 20/05 of June 27th 2005. The Rules of Procedure are available at the Bank's website.

Meetings of the Supervisory Board are held when needed, but not less frequently than once in two months. The Rules of Procedure of the Supervisory Board provide that the meetings are accessible and open to members of the Management Board, unless they deal with matters relating directly to the Bank's Management Board or its members, and in particular with the appointment or removal from office of the President of the Management Board or, upon the President's request, Vice Presidents or members of the Management Board, their suspension from office, determination of responsibility or remuneration.

According to the Statute and the *Code of Best Practice for WSE Listed Companies*, every year the Supervisory Board submits to the General Meeting of Shareholders an evaluation of its work and a concise evaluation of the Bank's standing, with special focus on the internal control system and the system for managing risks material to the Bank. The documents are made available to the shareholders before the General Meeting.

The Rules of Procedure of the Supervisory Board stipulate, in line with the principles set out in the *Code of Best Practice for WSE Listed Companies*, that in the event of a conflict of interests, the Supervisory Board member concerned is obliged to inform the other members of its occurrence and refrain from discussing and voting on a resolution which relates to the matter in respect of which the conflict of interests has occurred.

The Bank has in place a procedure for obtaining information from members of the Supervisory Board on any personal, actual and organisational links. Such information is then disclosed in current and periodic reports in accordance with applicable laws and the *Code of Best Practice for WSE Listed Companies*.

In 2013, the Supervisory Board held 9 meetings, reviewed 132 information notes, analyses and proposals, and adopted 51 resolutions.

Independent Members

At least half of the members of the Supervisory Board should be independent members. Independent members of the Supervisory Board should not have any relations which could materially affect their ability to make impartial decisions.

Detailed criteria which must be satisfied by members of the Supervisory Board to be deemed independent members are set out in the Bank's Statute. Pursuant to Par. 14.5 of the Bank's Statute, to be deemed independent, a member of the Supervisory Board must meet all of the following conditions:
1) he or she is not and has not been in the last three years employed at the Bank, its subsidiaries or parent company,
2) he or she does not hold and has not held in the last three years a position of a member of the Management Board or other managerial position (irrespective of the legal basis of employment) at the Bank, its subsidiaries or parent company,
3) he or she is not and has not been in the last three years an auditor of the Bank, its subsidiaries or parent company, or an employee of an entity providing auditing services to the Bank, its subsidiaries or parent company,
4) he or she is not a shareholder holding more than 5% of the total vote at the Bank's General Meeting of Shareholders and is not employed by such a shareholder,
5) he or she does not receive any additional remuneration (except for remuneration payable on account of serving as a member of the Supervisory Board), or any other proprietary benefits from the Bank, its subsidiaries or parent company, except for the benefits due to that person as a client under an agreement concluded on standard terms with the Bank, its subsidiaries or parent company,
6) he or she is not and has not been in the last three years a spouse, a cohabitating partner or a relative through blood or marriage of a member of the Bank's Management Board or an employee holding a managerial position at the Bank,
7) he or she is not a member of the management board of another company in which a member of the Bank's Management Board serves as a member of the supervisory board,
8) he or she has no material business links with the Bank, its subsidiaries or parent company which might compromise his or her independence, and
9) if the election date falls within three years of the date of registration of the increase in the Bank's share capital made with a view to delivering shares to the shareholders of Bank BPH S.A. in connection with Bank BPH S.A.'s division by way of a spin-off – he or she is not related to Bank BPH S.A., its subsidiaries or parent companies in the manner referred to in Section 1, 2, 3 and 6 above.

According to the submitted representations, the independence criteria set forth in the Statute were satisfied as at 1, January 2013 by four out of eight members of the Supervisory Board – J. Woźnicki, P. Dangel, L. Pawłowicz and W. Rosołowska. As at the end of 2013, according to the submitted representations, all of the above criteria were satisfied by five members of the Supervisory Board – J. Woźnicki, M. Adamkiewicz, P. Dangel, L. Pawłowicz and W. Rosołowska.

Committees of the Supervisory Board

The Supervisory Board performs its functions during meetings and through the Audit, Remuneration and Finance Committees. Composition of the Committees is presented further on in the *Statement on Application of Corporate Governance Standards*.

The Audit Committee operates under Art. 86 of the Act on Qualified Auditors, their Self-Government, Entities Qualified to Audit Financial Statements and on Public Supervision, dated May 7th 2009 (Act on Qualified Auditors).

The Audit Committee supports the Supervisory Board in the performance of its supervisory duties, related in particular to the adequacy and effectiveness of the Bank's internal controls, including risk identification, measurement and management, compliance with applicable laws and procedures governing the Bank's operations, correctness of the application of accounting principles in the process of drawing up financial statements, ensuring impartiality of external auditors, and evaluation of resources at the Internal Audit Department.

The remit of the Audit Committee is defined in Art. 86.7 and 86.8 of the Act on Qualified Auditors. The detailed scope of powers and duties of the Audit Committee is laid down in the Supervisory Board's Resolution No. 9/12 of March 8th 2012.

The remit of the Audit Committee includes in particular:
- assessment of the effectiveness of the Bank's internal control system,
- review of material conclusions based on the work of the Bank's Internal Audit team and inspections carried out by external entities, oversight over remedial actions,
- making recommendations to the Supervisory Board regarding selection of an auditing firm to audit the Bank's financial statements, and evaluation of the cooperation with the auditor,
- examination of the process of preparing financial statements.

The Audit Committee is composed of five persons elected from among members of the Supervisory Board, including three independent members.

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

In 2013, the Audit Committee held 5 meetings (on March 12th, June 28th, July 31st, October 29th and December 13th). One of the meetings was planned to be coordinated with the date when the financial statements for 2012 were to be submitted for approval of the Supervisory Board. On July 31st 2013, the Audit Committee issued a recommendation to the Supervisory Board concerning the consolidated financial statements for the first half of 2013.

The Committee meetings are attended by the President of the Management Board and other top management staff if matters discussed fall within their respective scopes of responsibility. The Committee also holds meetings – without the presence of the Management Board representatives – with the Bank's external auditor.

The Remuneration Committee operates under the Supervisory Board's resolution of January 24th 2000 and the Rules of Procedure of the Supervisory Board and on the basis of the Rules of Procedure of the Remuneration Committee approved by the Supervisory Board at a meeting on December 13th 2013.

The major responsibilities of the Remuneration Committee include providing opinion and monitoring variable remuneration of persons in managerial positions at the Bank within the meaning of Par. 28.1 of Resolution No. 258/2011 of the Polish Financial Supervision Authority of October 4th 2011, related to risk management and compliance of the Bank's operations with law and internal regulations, as well as presenting the Supervisory Board with proposals concerning specific matters including:
- remuneration of the Management Board members;
- policy governing the remuneration of the Bank's management staff;
- recommendations as to the remuneration of the Supervisory Board members to be presented to the General Meeting of Shareholders.

The Committee meetings are held as need arises. In 2013, there were four meetings of the Committee.

The Finance Committee operates under the Supervisory Board's resolution of September 26th 2002. Its role is to exercise supervision over the finances of the Bank.

The Committee members may use the services of professional advisers appointed under the Supervisory Board's resolution. The advisers are obliged to keep confidential any information obtained while performing the tasks ordered by the Finance Committee.

The annual reports on the activities of all Committees are available to shareholders.

Management Board

Appointment, Composition and Qualifications

The Management Board is composed of five to nine members. Members of the Management Board are appointed by the Supervisory Board for a joint three-year term of office.

The Bank's Management Board comprises the President of the Management Board, Vice Presidents of the Management Board and Members of the Management Board. Vice Presidents and members of the Management Board are appointed and removed upon the request of the President. Appointment of two members of the Management Board, including the President, is subject to approval by the Polish Financial Supervision Authority. The body which applies to the Polish Financial Supervision Authority for the approval is the Supervisory Board. The Vice President of the Management Board, who is subject to approval by the Polish Financial Supervision Authority, is responsible for risk management, including credit risk, with the exception of managing compliance risk.

At least half of the members of the Management Board, including its President, should possess a thorough knowledge of the Polish banking market, i.e. they should meet all of the following criteria:
- they have professional experience gained on the Polish market, relevant for the performance of a managerial function at the Bank,
- they are permanently domiciled in Poland,
- they have command of the Polish language.

In the Management Board of the current term of office, all of the aforementioned criteria are met by five members.

The Management Board currently in office comprises six members, including the President and five Vice Presidents.

All Management Board members have extensive knowledge and experience needed to perform their duties on the Board. Their professional backgrounds may be viewed at the Bank's website.

Mr Luigi Lovaglio, President of the Bank's Management Board, CEO.

Luigi Lovaglio was elected the President of the Management Board, CEO of Bank Pekao in May 2011. Prior, since 2003 he hosted the position of Vice-President and General Manager of Bank Pekao.

He is an over 40-year veteran of banking services, most of this time devoted to the leading international banking group – UniCredit – which he joined in 1973. During next 20 years he held a number of management positions and in 1997 he assumed the responsibility of the Head of Strategic Planning of UniCredit Group where he participated in the process of mergers of newly acquired banks. Two years later, in 1999, following the development of the UniCredit Group in Central and Eastern Europe, with regard to his broad experience in mergers, he was appointed the Head of Foreign Banks Group Planning with the primary goal of Bank Pekao integration.

In the years 2000-2003 Luigi Lovaglio hosted the position of Deputy Chairman of the Management Board and Executive Director of Bulbank AD – the largest bank in Bulgaria.

In September 2003 he came back to Poland, assumed the responsibility of Vice President and General Manager at Bank Pekao,

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in 2011 he was elected the President of the Management Board, CEO of the Bank. He commenced strengthening the position of this Bank and as the result Bank Pekao has been recognized by major international financial institutions and magazines as one of the leading banks in Central and Eastern Europe.

Luigi Lovaglio was born in 1955 in Potenza, Italy. He is a graduate in Economics and Commerce at the University of Bologna.

In 2008 he was awarded the title of Italy's Commander of the Order of the Star of Italian Solidarity by Giorgio Napolitano, President of Italy, in recognition of his outstanding contribution to the development of economic cooperation between Poland and Italy.

Mr Diego Biondo, Vice President of the Management Board.

He completed business management studies at the University of Turin.

Mr Biondo started his professional career in 1990 at the Fiat Group in Turin, where he held a number of positions in the Finance Department. In 2000, he became Vice President and Deputy Treasurer of Fiat Finance North America of New York. In that role, he was responsible for the financing activities of the Fiat Group's companies in the US, Canada and Mexico. In the years 2001-2003, he was Vice President and Chief Financial Officer at Fiat Polska Sp. z o.o. in charge of the financing activities of the Fiat Group in Poland.

Mr Biondo joined Bank Pekao S.A. in 2003 as Executive Director, Head of the Risk Management Division (CRO).

Since December 11th 2008 he has served as Vice President of the Management Board, Chief Risk Officer.

Marco Iannaccone, Vice President of the Management Board until March 31st 2013.

A graduate from Universita degli Studi di Venezia-Ca Foscari and the Clemson University in the USA where he obtained his MBA diploma.

Mr Iannaccone's first job was as a junior researcher at the Departments of Applied Economics and Finance of Clemson University. In 1995, he worked for 3B S.p.A. and then served as a consultant at KPMG in Milan. He continued his work as a consultant at Andersen Consulting in Milan. In the years 1999-2002, he worked for Deutsche Bank S.p.A. in Milan where he was in charge of the biggest restructuring project of that bank in Italy.

In 2002, Mr Iannaccone joined the UniCredit Group. He was responsible for the Group's operations in the area of mergers and acquisitions (with the main focus on Private Banking and Asset Management Divisions). He then moved to the consultancy department at UniCredit Private Banking S.p.A., where he focused on wealth management. Since 2005, he pursued his career in the New Europe Business Division, where he was in charge of management – from the planning and development perspective – of foreign banks in Slovakia, the Czech Republic and Bulgaria. Since September 2006, after the merger of UniCredit and HVB, he was responsible for planning, strategy and controlling at UnCredit's companies in CEE countries, including Poland.

In September 2008, he was appointed Chief Financial Officer at Bank Pekao S.A. From December 11th 2008 to March 31st 2013 he was Vice President of the Bank's Management Board supervising the Finance Division (CFO).

Mr Andrzej Kopyrski, Vice President of the Bank's Management Board.

He is a graduate of Warsaw University of Technology and the University of Strathclyde (Glasgow).

He has been associated with the banking sector since 1992, when he joined Bank Pekao S.A. In 1993-1996, he worked in the corporate banking division at ING Bank Polska. Afterwards, he became Head of Structural Finance at Deutsche Bank Polska, and then in 1997-2001 he held the position of Head of Structural Finance and Capital Markets at ABN Amro Bank (Polska). In 2001, Mr Kopyrski was appointed member of the Management Board at HSBC Financial Services (Poland).

From April 2002, Mr Andrzej Kopyrski worked for Bank BPH S.A. as Managing Director responsible for Sales, Structural Finance and Capital Markets. After the merger with Bank Pekao S.A., he took charge of the Investment Banking and Structural Finance Department. He was appointed Vice President of the Management Board of Bank Pekao S.A. on June 4th 2008. Currently, he supervises the Corporate Banking, Markets and Investment Banking Division.

Mr Grzegorz Piwowar, Vice President of the Management Board.

He holds a master's degree in Electronics from the University of Science and Technology of Kraków, and completed post-graduate studies in banking at the Kraków School of Economics.

He has been associated with the banking sector since 1992, when he joined Bank BPH S.A. In the years 1996-2000, he worked as Head of the Brokerage Office and for another two years as Director of the Retail Banking Southern Region. In 2002, he was promoted to the position of Sales and Distribution Managing Director of the Retail Banking Division. In October 2006, he was appointed member of the Management Board of Bank BPH S.A. in charge of Retail Banking.

From November 30th 2007, he held the position of Vice President of the Management Board of Bank Pekao S.A. with responsibility for the Retail and Business Banking Division and since 2009 he has been responsible for the Retail Banking Division.

Stefano Santini, Vice President of the Bank's Management Board since April 1st 2013.

He graduated from the Faculty of Economics of Bocconi University where he defended his MA dissertation on the "Transformation of Central and East European countries to market economy".

Following a period of involvement in economic research, he embarked on a professional career in banking. In 2000, he joined the newly established New Europe Division as a macroeconomic analyst. He is also involved in the operations of planning and control.

In 2002, he supported P&C activities for the UniCredit Group and managed project integration in Croatia and Romania as an adviser to Members of the Supervisory Board of Zagrebacka Banka and UniCredit Romania. In 2003, as a representative of UniCredit he started supporting P&C, the Project Office of Bank Pekao S.A. In 2005, he joined Bank Pekao S.A. as Deputy Director of the Finance Division. In 2006, after the merger of UniCredit and HVB, he was appointed Project Manager responsible for the spin-off of BPH and merger of Bank BPH and Bank Pekao S.A. Reporting directly to the General Manager of Bank Pekao S.A., he coordinated the work of 14 project teams and he was also a member of the negotiating team of Bank Pekao S.A., responsible for the major contracts and terms and conditions of the spin-off and integration of Bank BPH and Bank Pekao S.A.

In 2008, he was appointed Head of the Capital Allocation and ALM Department. Following the onset of the economic crisis in Ukraine, he was appointed the Adviser to the Supervisory Board of UniCredit Bank Ukraine and Member of the Audit Committee.

In April 2010, he became member of the Management Board of UniCredit Bank Hungary Zrt. As CFO, he is responsible for planning and control, accounting, management information, asset and liability management and the tax area, while supervising the operations of the Bank's subsidiary companies. At the same time, he was elected Chairman of the Supervisory Board of UniCredit Jelzálogbank Zrt. (Mortgage Bank) and Chairman of ALCO.

Since 1 April 2013, he has been Deputy President of the Bank's Management Board supervising the Finance Division.

Mr Marian Ważyński, Vice President of the Management Board.

A graduate of Warsaw University, Faculty of Law and Administration; he also completed postgraduate studies in commercial bank management at the Warsaw School of Economics.

He has been working in the banking sector since 1986. In 1986-1990, Mr Ważyński was Director of the Office of the President of the National Bank of Poland. From 1990 till 1998, he held a number of managerial positions at commercial banks. He was a member of the Management Board of AmerBank and Animex Bank, and a Regional Director of Bank Depozytowo-Kredytowy S.A.

Since he joined Bank Pekao S.A. in 1998, he was Merger Manager responsible for a transaction involving merger of four banks, and then became Executive Director responsible for the Logistics Division. Since December 15th 2004, he has been a member of the Management Board of the Bank. In November 2007, Mr Ważyński was appointed Vice President of the Management Board; he supervises Logistics and Procurement Division.

Powers of the Management Board

The scope of powers of the Management Board is defined by the provisions of applicable laws, including the Commercial Companies Code, Banking Law and the Bank's Statute.

The Management Board runs the Bank's affairs and represents the Bank. The Management Board's powers include all matters which, pursuant to the provisions of applicable laws or the Bank's Statute, do not fall within the scope of competence of other governing bodies of the Bank.

The Management Board prepares the development strategy for the Bank and is responsible for the implementation of that strategy. Pursuing the principle of efficient and prudent management, the Management Board is responsible for initiation and implementation of programmes aimed at increasing the Bank's value and rate of return for the shareholders, as well as protection of the employees' long-term interests.

In its decisions, the Bank's Management Board makes every effort to ensure, to the maximum extent possible, the promotion of the interests of the shareholders, customers, employees, as well as other entities and persons cooperating with the Bank in its business activity.

Functioning of the Management Board

The rules and procedures governing the activities of the Bank's Management Board are stipulated in the Rules of Procedure for the Management Board of Bank Pekao S.A., approved under Resolution No. 101/VI/03 of the Bank's Management Board dated June 3rd 2003. The Rules of Procedure are available at the Bank's website.

The management of the Bank is based on professionalism, reliability and confidentiality. Relations with customers are characterised by reliability and fairness and operations compliant with law. These values are among the principles incorporated in the Code of Conduct and UniCredit Integrity Charter implemented at the Bank.

Each member of the Bank's Management Board is obliged to act in such a way as to further the Bank's interests. According to the Code of Conduct effective at the Bank, each member of the Management Board is expected to be honest and loyal in pursuing the common objectives, and to respect the Bank's resources and use them in a prudent manner.

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Moreover, members of the Management Board are prohibited from taking any decisions or actions that would lead to conflicts of interests or that would be incompatible with the Bank's interests or their official duties. A Management Board member is obliged to notify the Supervisory Board of any situation in which a conflict of interests might occur or has occurred.

A Management Board member who becomes aware of any situation where an employee or a representative of a business partner of the Bank demanded any benefits, regardless of their scope and nature, should promptly notify the Supervisory Board of such demand.

The Rules of Procedure for the Management Board specify the issues which require collective consideration by the Management Board. According to the Rules of Procedure, the following issues in particular require collective consideration by the Management Board:
- the Bank's development strategy,
- financial plans, reports on the operations and financial statements of the Bank and its Capital Group,
- proposed distribution of profit (coverage of loss),
- rules for and manner of implementation of: the investment policy, the assets and liabilities management policy, the credit policy, the HR policy, the remuneration policy, the employee benefits policy and the interest rates policy,
- matters relating to purchase, encumbrance and sale of real estate or interests in real estate,
- matters relating to the organisational structure of the Head Office, as well as the establishment and liquidation of the Bank's organisational units,
- adoption of rules for special accounts,
- establishment of other companies, joining other companies and disposal of shares (or other equity interests), where a given transaction relates to a long-term strategic investment,
- establishment of associations and foundations and joining associations and foundations,
- matters relating to the participation of the Bank's employees in supervisory boards of companies in which the Bank holds equity interests.

Furthermore, the Management Board collectively reviews all matters which are submitted to the Supervisory Board for consideration.

The Management Board is headed by the President, who convenes and presides over its meetings, presents its position to other governing bodies of the Bank and in relations with third parties, in particular with governmental authorities, and issues internal regulations. The President may delegate the authority to issue internal regulations to other persons.

In 2013, the Management Board held 46 meetings and adopted 513 resolutions.

Management Structure

Members of the Management Board coordinate and supervise the Bank's operations in line with the allocation of responsibilities adopted under a resolution of the Management Board and approved by the Supervisory Board. Mr Luigi Lovaglio, President of the Management Board, coordinated the activities of the Members of the Management Board and supervised a number of areas of the Bank's activity, in particular: internal audit, compliance risk management and corporate communication, including investor relations.

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

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

Mr Marco Iannaccone, Vice President of the Management Board, supervised the activity of the Finance Division until March 31 2013.

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

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

Mr Stefano Santini, Vice President of the Management Board, supervised the activity of the Finance Division from April 1st 2013.

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

The Management Board ensures that the management system at the Bank is transparent and effective, and runs the Bank's affairs in compliance with applicable laws and the rules of the *Code of Best Practice for WSE Listed Companies* and the *Code of Best Practice of the Polish Bank Association*.

The Bank's organisational structure is made up of:
- the Head Office,
- operational units of the Head Office,
- Regional Offices,
- domestic and foreign Branches with Sub-Branches and Banking Service Points,
- other organisational units, including Regional Corporate Centres.

The basic organisational units of the Bank's Head Office (departments and offices) may be combined into business divisions. Each business division is supervised by a member of the Management Board; it may be managed by an Executive Director / Head of Division.

The Bank's Head Office has the following standing Committees:

- Credit Committee of the Bank,
- Assets, Liabilities and Risk Committee,
- Liquidity and Market Risk Committee,
- Operational Risk Committee,
- Change Management Committee,
- Security Committee,
- Business Internal Control Committee,
- Committee for Relations with Regulatory and Control Bodies.

The respective remits, composition and rules for the functioning of the above Committees are set out in the Bank's internal regulations.

Additionally, ad hoc units may be set up at the Bank's Head Office (dedicated task teams, project teams).

Risk Management System

The risk management system in place at Bank Pekao S.A. is defined in the ICAAP Procedure, adopted by the Bank's Management Board and approved by its Supervisory Board.

The ICAAP strategy outlines the key elements of a comprehensive approach to the risks arising from the Bank's operations and business strategy, both at the level of the Bank and the entire Bank Pekao S.A. Group, by defining the risks identified by the Bank and the criteria for classifying risks as material, and by setting out the objectives and principles of risk management, the target structure of risk exposure arising from the Bank's operations, as well as the acceptable level and structure of the risk exposure.

A risk is defined as the possibility that the consequences of a given action or event may prove adverse, leading to foreseen or unforeseen losses of the Bank or limiting the Bank's ability to implement the business strategy it has adopted.

Every identified risk should be assessed in terms of its materiality and – if found to be material – measured (if classified as measurable), as well as monitored and controlled in line with the methods and procedures defined specifically for a given type of risk. The risk assessment and measurement methodologies are designed to ensure compliance with the applicable legal requirements, best market practices and the UniCredit Group's guidance.

The risk management system in place at the Bank constitutes an integral part of the Bank's management system.

The risk management system is used to identify, measure (estimate), monitor and control the risks inherent in the Bank's operations in order to ensure that the process of setting and attaining specific objectives related to the Bank's operations functions properly. Risk management improves the efficiency of the decision-making process, while ensuring compliance of the Bank's decisions with the best market practice and the applicable regulatory regime.

As part of its risk management system, the Bank uses formal rules to quantify and manage its risk exposures, and formal procedures to identify, measure or estimate, and monitor the risks, accounting also for expected future exposures. The Bank applies formal limits to mitigate the risks and defines rules to be followed in the event that the limits are exceeded, while the adopted management information system serves as a tool enabling it to monitor the risks. The Bank's organisational structure is adapted to the size and profile of its risk exposure. In managing risks at the Group level, the Bank oversees the risk exposures inherent in the operations of its subsidiaries.

Under the risk management system currently in place at the Bank, the Management Board is responsible for:

- developing and implementing a risk management strategy, including the objectives and key principles of risk management;
- developing, implementing and regularly updating written strategies, policies and procedures related to the area of risk management
- effectiveness of the risk management system and its continuous enhancement,
- taking appropriate steps with a view to ensuring that the Bank manages all the material risks inherent in its operations and the operations of its subsidiaries and that relevant procedures are in place; in particular, the Management Board appoints the relevant committees, ensures that internal regulations are issued serving to identify, measure, monitor and control the risks, and submits to the Supervisory Board periodic reports on the types of risk and size of the Bank's exposures;
- approving the system of limits adopted by the Bank for different types of risk and the level of general capital limits
- ensuring compliance of the Bank's operations with the law and effectively managing compliance risk
- introducing at the Bank an organisational structure adapted to the size and profile of the Bank's risk exposure and reflecting such division of responsibilities which ensures independence of the risk control function from the operating area responsible for the Bank's risk taking;
- transparency of the Bank's operations, making it possible to assess the Supervisory Board's and the Management Board's effectiveness in managing the Bank, monitoring its operational security and assessing its financial standing.

Decisions to implement new, or modify the existing products, including financial products (to the extent such decisions are not reserved for the Bank's Management Board), while ensuring their consistency with the Bank's strategy and defined business model, and prioritising the planned changes, have been entrusted to the Change Management Committee. All such decisions are preceded by a preparatory process as part of which material risks are identified, the product is included by the existing risk identification and measurement system, the internal limits are determined and the rules of accounting/reporting are set down.

Corporate Governance

The Bank's Management Board receives regular updates on the Bank's risk profile, the largest exposures and credit risk concentrations.

The Supervisory Board exercises supervision over the consistency of the Bank's risk-taking policy with its strategy and financial plan, by:
- approving the Bank's strategy and prudent management policies; in particular, the Supervisory Board approves the risk management strategy, including the objectives and key principles of the Bank's risk management;
- reviewing the Management Board's reports concerning the types and materiality of the risks to which the Bank is exposed, and in particular exercising supervision over the consistency of the Bank's risk-taking policy with its strategy and financial plan;
- setting up Committees of the Supervisory Board;
- appointing and removing from office members of the Bank's Management Board duly qualified to perform their functions;
- approving the division of responsibilities between members of the Management Board who coordinate and supervise the Bank's operations within their respective areas of responsibility, including the Bank's organisational structure – taking into account the size and profile of the Bank's risk exposures and ensuring independence of the risk control function from the operating area responsible for the Bank's risk taking;
- overseeing the management of compliance risk, approving the key assumptions of the Bank's policy in that area, and performing, at least annually, an assessment of the effectiveness of compliance risk management.

The risk management strategy and system in place at the Bank are subject to regular reviews and necessary updates to ensure that they remain adequate given the scale and complexity of the Bank's operations.

Internal Control System

The Bank's Internal Control System comprises all internal regulations, procedures, and organizational structures, which – acting together – aim to ensure:
- compliance with the Bank's strategy,
- efficiency and effectiveness of procedures,
- protection of assets,
- prevention of losses, errors and damage to the Bank's reputation,
- security, stability and efficiency of operations,
- reliability and completeness of accounting records and management information,
- compliance of transactions with the generally applicable laws, regulations issued by the competent supervisory authorities, as well as internal policies, plans, regulations and procedures, and
- support of the decision-making process.

The Bank's Internal Control System is adapted to its organizational structure, complexity of conducted operations, size and profile of the risks defined by: credit risk (including counterparty risk; concentration risk; residual risk; country risk), financial risk (market risk including interest rate risk in the banking book; liquidity risk), operational risk, Pillar II risks (real estate risk; macroeconomic risk; business risk including strategic risk; reputational risk; model risk), compliance risk.

Internal control is a continuous process, carried out at all levels of the Bank. The internal control system engages – in various roles – the statutory bodies of the Bank, individuals and organizational units of the Bank, supervising and directing at all levels of management and all employees.

The Supervisory Board is responsible for exercising effective supervision over the operation of the Internal Control System, which includes evaluation of its independence, reliability, adequacy and effectiveness. The Supervisory Board is assisted in the performance of those duties by the Audit Committee and the Internal Audit.

The Management Board is responsible for the development, implementation and regular revision of the policies, strategies and procedures of the Internal Control System as well as for the effectiveness of the Internal Control System, which is adapted to the size and profile of the risk associated with the Bank's operations. The President of the Management Board issues, in the form of an order, the Internal Control Regulations.

In 2012, the Internal Control Business Committee was set up whose tasks include the provision of opinions and recommendations supporting the efficiency and effectiveness of the Bank's Internal Control System. The Committee supports the President of the Management Board identifying remedial measures and priorities in their implementation, with a view to providing for the needs of the Bank's organisational units and of Clients, as well as to ensure compliance of the Bank's operations with internal regulations of the Bank and the generally applicable law.

Internal Control System includes three control levels:

1) Operational management

Controls carried out under operational management function are divided into line controls and functional controls.

a) Line control

Line control is carried out by each employee (self-control) based on existing procedures and based on duty of supervision by managers (hierarchical control). This control should ensure correctness of operations within the same operational structure in accordance with procedures.

b) Functional control

This control is performed in the units based on the control plans prepared by directors, performed by them, by delegated employees or by the supervising unit. The purpose of this control is to check the correctness and the quality of performed activities, in particular in the scope of risk assessment and risk monitoring, compliance with competences assigned to the job positions and checking coherence between limits of rights in the different functionality areas of operations.

2) Control of risk management

Control of risk management is performed by units not involved in business activity, in particular in the scope of security, finance, risk management and compliance. The purpose of this control is to measure, monitor and strengthen the effectiveness of risk management undertaken by operational units to support the owners of risks in determining the level of risk exposure and distribution of information regarding the risks in the Bank.

3) Internal Audit (institutional control)

This control covers audits performed by the Internal Audit Department (IAD) both on organizational units of the Bank and its Subsidiaries. The task of IAD is to review and evaluate independently and objectively the adequacy and effectiveness of the Internal Control System of the Bank by periodic verification of risk management procedures and internal controls. IAD activities are aimed to assess compliance of actions taken by the Bank's employees with current provisions of the law, including observance of prudential regulations and other external standards as well as the Bank's internal regulations in force.

Institutional control is exercised through audits performed in accordance with an officially accepted audit plan and unplanned ad hoc audits, as well as remote controls. The Internal Audit Department reports directly to the President of the Management Board. The Internal Audit Department also presents reports to the Audit Committee and Supervisory Board.

An independent quality assessment review of the Internal Audit function of the Bank was performed at the end of 2013 by PwC. According to PwC, the results of the review were very positive. The review confirmed that the Internal Audit Department generally conforms with the International Standards for the Professional Practice of Internal Auditing.

The Bank exercises the control functions at its subsidiary companies by having representatives in the Supervisory Board of each subsidiary. The Pekao Group's companies apply uniform standards and rules of the Internal Audit operation.

Protection of Inside Information and Prohibition of Trading During Restricted Periods

As regards prevention of unlawful use and disclosure of inside information and ensuring that investors have equal access to information, the Bank meets the high standards stipulated in the Act on Trading in Financial Instruments of July 29, 2005 and the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29, 2005, which transposed the provisions of Directive 2003/6/EC of the European Parliament and of the Council of January 28, 2003 on insider dealing and market manipulation (market abuse) into Polish law.

Pursuant to the provisions of the Act on Trading in Financial Instruments, the Bank prohibits the use of inside information and any trading in the Bank shares and financial instruments during restricted periods by any persons having access to such information.

Protection of inside information and ensuring that investors have equal access to information are among the basic duties of all the Bank's employees. The manner of performing those duties and detailed procedures in this respect are regulated by regulations of the President of the Management Board, by virtue of which the following documents have been introduced:

- *Rules for performing obligations related to inside information and disclosing information on trading in financial instruments related to the Bank's securities, executed by the Obliged Persons; and*
- *Rules for preparing and releasing by Bank Polska Kasa Opieki S.A. of current and periodic information to be published by issuers of securities.*

Additionally, the Bank guarantees protection of personal data and protects information embodying its business secret.

Protection of Inside Information

In order to prevent unlawful use and disclosure of inside information, the Bank has established an inside information protection system whose main purpose is to secure and protect documents containing inside information, protect systems containing inside information and control the circulation of documents containing inside information.

The currently binding Rules for performing obligations related to inside information and disclosing information on trading in financial instruments related to the Bank's securities executed by the Obliged Persons ("Rules") also include a prohibition on using or disclosing inside information, or recommending or inducing other persons to acquire or dispose of financial instruments on the basis of inside information which relates to such instruments.

The above prohibition applies to all persons who hold inside information as a result of performing various functions in the Bank's governing bodies, holding Bank shares, having access to such information in connection with their employment, practised profession, or a mandate contract or any other legal relation of a similar nature, and in particular to:

1) members of the Management Board, the Supervisory Board, proxies or attorneys-in-fact of the Bank, its employees, auditors or other persons related to the Bank under a mandate contract or any legal relation of a similar nature (primary insiders),
2) the Bank shareholders,
3) persons employed or holding posts referred to in item 1 in a subsidiary company or the1 parent company of the Bank, or bound with such company under a mandate contract or any other legal relation of a similar nature.

The Bank monitors compliance with the above prohibition in accordance with the Rules. The Rules also define the manner of proceeding in the event of a reasonable suspicion of unlawful use or disclosure of inside information, non-compliance with the disclosure requirements or entry into a prohibited transaction during a restricted period.

Prohibition of Trading During Restricted Periods

The persons described as "primary insiders" who have access to inside information are not allowed to enter, during the so-called restricted periods, into any legal transactions, for their own account or for the account of a third party, which lead or might lead to the disposal of the Bank shares, derivative rights attached to the Bank shares or financial instruments related to such shares.

A restricted period is:
- the time from the moment a primary insider receives inside information until such information is made public
- in the case of an annual report – two months preceding the release of the annual report or, if shorter, the period between the end of the financial year and the release of the report
- in the case of a semi-annual report – a month preceding the release of the report or, if shorter, the period between the end of a given six-month period and the release of the report
- in the case of a quarterly report – two weeks preceding the release of the report or, if shorter, the period between the end of a given quarter and the publication of the report.

All the Bank's employees are notified of the opening and closing dates of restricted periods related to the publication of the Bank's periodic reports.

The prohibition of entering into transactions does not apply if the primary insider had no access to the financial data serving as the basis for the preparation of a given report.

A primary insider who undertakes investment activity during a restricted period is liable to administrative sanctions for violating the provisions of the Act on Trading in Financial Instruments, as well as to criminal sanctions.

Reporting Transactions by *Obliged Persons*

Pursuant to the Rules, obliged persons are required to notify the Financial Supervision Authority and the Bank of any transactions, executed by such obliged persons or by persons closely related to them for their own account, involving purchase or disposal of the Bank shares, derivative rights attached to the Bank shares and other financial instruments related to such securities, admitted or sought to be admitted to trading on a regulated market.

Obliged persons include:
1) Members of the Management and Supervisory Boards and proxies of the Bank,
2) other persons who hold management posts in the organisational structure of the Bank, have permanent access to inside information related, directly or indirectly, to the Bank, and are authorised to make decisions concerning the Bank's development and business prospects.

The Bank promptly discloses the information it receives simultaneously to the company operating the regulated market (Warsaw Stock Exchange) and to the public in a current report prepared according to a pre-defined format and using the appropriate IT standards.

Relations with the External Auditor

Selection of the Auditing Firm to Audit Financial Statements

Pursuant to the Bank's Statute and the Rules of Procedure of the Supervisory Board, the auditing firm is selected by the General Meeting of Shareholders on the basis of a recommendation prepared by the Supervisory Board through its Audit Committee. The auditing firm to be mandated to audit the Bank's financial statements is selected in accordance with the relevant procedures applicable at the Bank, in a way that guarantees the auditor's independence in the performance of its responsibilities.

The Auditor's Independence

In compliance with the European Commission Recommendation 2002/590/EC and Directive 2006/43/EC, the Bank and the Pekao Group have internal regulations in place whose purpose is to guarantee independence of the auditors and reliability of the financial statements of the Bank and its subsidiaries.

In accordance with the above regulations, no financial, business or employment relations, or other relations of any kind, including those resulting from the provision of non-audit services, may exist between the auditor of financial statements and the audited entity (that is the Bank or any of its subsidiary companies).

The regulations include a list of prohibited services which may not be mandated to the Bank's auditor. The prohibited services include in particular: keeping accounting books and other services related to the preparation of accounting data or reports, development and implementation of financial information systems, outsourced management of internal control systems, advisory and other services concerning corporate organisation, relating to personnel recruitment and training, management, legal services and acting as a representative in court proceedings, as well as other non-audit services and activities, such as legal advisory and consultancy services.

Agreements for the provision of permitted services concluded between the Bank or any of its subsidiary companies and the auditor of financial statements have to specify the services in detail and meet certain expressly stipulated conditions. The services provided under such agreements and the related costs are monitored on an ongoing basis by the Bank's internal audit.

Credit Process for the Management Staff and Entities and Persons Related to the Bank

Pursuant to the provisions of the Banking Act and applicable regulations of the UniCredit Group, credit transactions with members of the Bank's Management and Supervisory Boards, with persons who hold managerial positions and entities related to them, and with persons included in the list of the UniCredit Group's corporate officers, are entered into on the basis of relevant Rules adopted by the Bank's Supervisory Board.

The Rules determine in detail the principles of the decision-making process as regards entering into transactions with the above-mentioned persons and entities, and they also specify levels of authority to make relevant decisions, and their authority limits. Specifically, the decision to grant a loan to a member of the Management or Supervisory Board or to entities related to them by equity or organisational links, is made by the Management and Supervisory Boards by way of separate Resolutions if the total exposure to such person or entity exceeds the PLN equivalent of EUR 10,000 translated at the mean exchange rate of the National Bank of Poland.

Members of the Bank's Management and entities related to them by equity or organisational links may use the Bank's credit products in accordance with the terms and conditions normally offered by the Bank. In particular, in relation to such persons and entities the Bank does not apply preferential interest rates; the credit risk assessment is made in line with the methodology routinely employed by the Bank in the case of a given customer segment and type of transaction.

With respect to entities related to the Bank the standard credit process is used, while the decisions on entering into transactions are made exclusively by relevant authorities at the level of the Bank's Head Office.

Facilitate

Effective business solutions.

Bank Pekao S.A. has been supporting companies in managing their finances. **Pekao Connect** is a set of innovative solutions providing for direct integration of financial and accounting systems of a company with the Bank. Pekao Connect ensures automation of sending payment orders to Pekao and collection of feedback information on the operations in bank accounts. The Pekao Connect solutions have been developed for companies interested in improving their comfort and security of electronic banking services. The Pekao Connect services are tailor-made to the company's needs and potential, and they save time required for daily handling of banking systems.

Bank Pekao S.A., Transactional Banking Department

Corporate Social Responsibility

Corporate Social Responsibility

Introduction

Corporate Social Responsibility is the foundation on which the Bank builds its relations with the outside world.

Bank Pekao S.A. Bank also observes *Code of Banking Ethics of Polish Bank Association* and the *Canon of Best Practices on the Financial Market,* a document endorsed by resolution of the Polish Financial Supervision Authority. Along with the UniCredit Integrity Charter, the documents set forth the rules of conduct in relations with customers, the rules of mutual relations among banks and of the Bank's conduct as an employer.

An integral part of consistent activities falling within the scope of the Bank's CSR strategy is social commitment. The bank favours long-term social commitments based on partnership with selected trustworthy organisations with a view to solving certain clearly identified problems.

UniCredit Integrity Charter

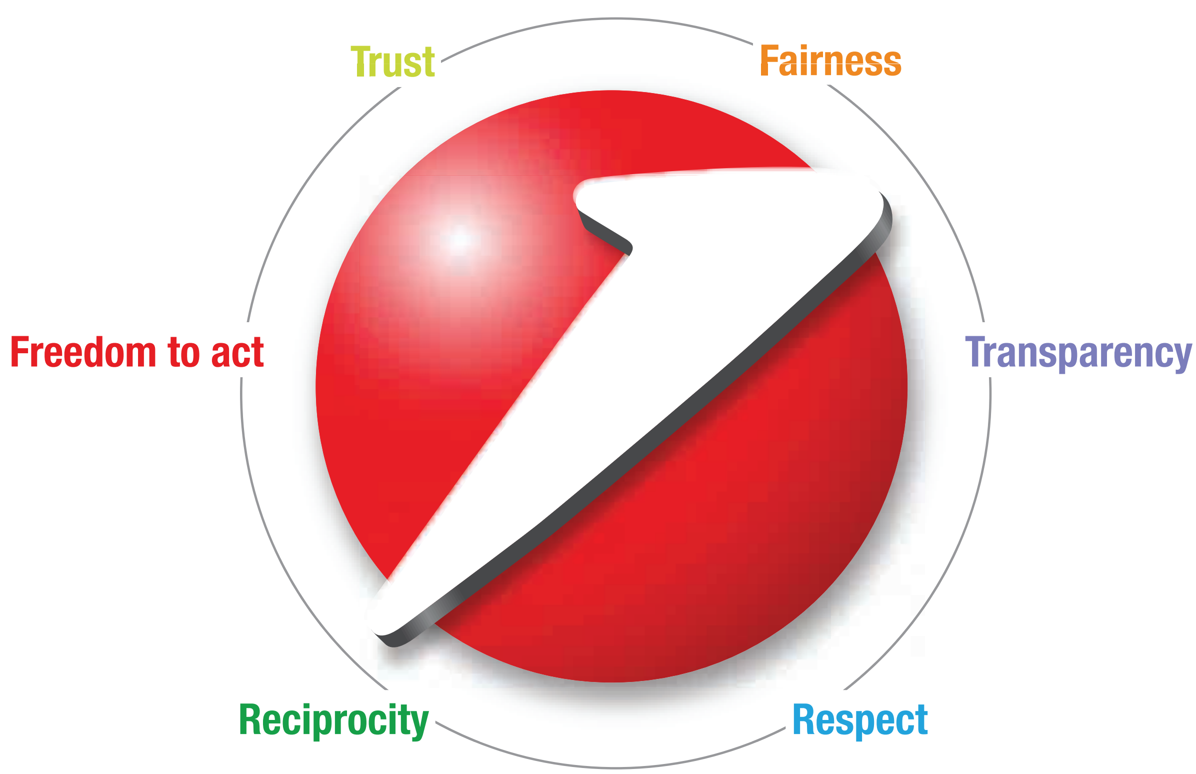
The Bank's overarching objective is to build sustainable value by offering customers the best quality of service, introducing simple, easy-to-use solutions, creating a work environment conducive to personal development, ensuring satisfaction with work, reinforcing a sense of pride in being part of the organisation among the employees, and contributing to the betterment of local communities in which we operate. The UniCredit Integrity Charter is an important instrument.

In order to establish the basis for cultural integration and a foundation of communal identity among more than 147 thousand employees across 17 countries, the UniCredit Integrity Charter was accepted in 2006 and implemented at all companies of the UniCredit Group.

The Charter is a collection of core corporate values. It identifies the values underpinning the relations with each stakeholder group, and indicates the models of conduct to be followed. Adherence to the Charter in relations with employees, customers, shareholders and communities is conducive to sustainable development, as it helps to build value for all stakeholder groups.

A project called ***"Justice with the Integrity Charter"*** is the practical application of the Integrity Charter by translating its values into real-life situations and workplace relations. It is based on the idea of restorative justice, which is implemented via Integrity Charter Ombudspersons.

The Bank's employees can contact the Ombudspersons if they witness or are affected by a behaviour which is incompliant with the values underlying the Integrity Charter. The role of the



Ombudspersons is to help solve problems resulting from non-adherence to those values. They take steps to reconcile the conflicting parties and restore the relation by using the available array of tools (a meeting, mediation, bringing the problem to the attention of the persons concerned).

For several years employees of the UniCredit Group companies have taken part in the UniCredit Day at Bank Pekao. In September 2013, the celebration was held for the fourth time. The purpose of the initiative is to promote the issues relating to corporate culture and business ethics based on the Group's values among the UniCredit Group employees. The purpose of the latest edition was to define and promote throughout the Group, including Bank Pekao, actual efforts that can be taken to continue improving the Bank's relations with customers. During team meetings, employees were looking for solutions that could further enhance customer satisfaction. The meetings were attended by over 55% of the Bank's employees, which is evidence of the growing understanding of the assumptions underlying the initiative and commitment to the discussed subjects. Similarly as in the year before, after the UniCredit Day celebrations employees were encouraged to share real-life stories describing their personal experience and highlighting the most effective solutions employed to respond to customers' needs and expectations. The stories were used to illustrate this Annual Report.

Investing in Human Capital

Human capital as a key asset

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

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

In 2013, these priorities were accompanied by a particular emphasis on promoting preferential values of corporate culture shared across UniCredit Group as defined in the Integrity Charter which was accepted in 2006. The ethical fundamentals promoted by the UniCredit Integrity Charter and the rules of conduct recommended by that document have come to be considered as universal standards of behaviour required of all employees of the Bank regardless of their position.

Training and professional development

The Bank creates learning opportunities and provides access to various forms of education for its employees. Key educational activities focus on training and implementing people management systems based on a culture of feedback.

The Bank supports its employees in building and managing long-term career within the organisation providing them in addition to various forms of training and competencies development also with promotions opportunities.

The Bank constantly extends not only its internal training programs tailored to the needs of the employees and ensuring professional services to customers but also methods and ways to deliver training. Training programs include class-room training, on-the-job training, electronic training, coaching and since 2012 the system of Virtual Class which provides training in the form of remote seminars. In 2013, the Virtual Class system was successfully used to organise a comprehensive program of risk culture developing and expertise knowledge on loans granting process.

In 2013, 79% of the total Bank's employees participated in the classroom training, i.e. a 15 p.p. increase as compared to the previous year.

In 2013, the main training priorities of the Bank were focused on:
- continuous professional skill development of the Bank's employees,
- efficiency increase in professional customer service area,
- managerial training,
- performance of mandatory training required under internal regulations and external market regulations.

Continuous professional skill development of the Bank's employees

In 2013, the Bank continued the process of developing professional knowledge of its employees. The Bank carried out 187 thousand class-room training hours attended by over 13 thousand employees.

The Bank continued a number of training projects aimed at increasing customer satisfaction and knowledge improvement regarding loan granting processes as well as the culture of risk perception and mitigation.

In 2013, the Bank successfully completed the training program co-financed by the European Union named "Complex Training Program as the way to quality changes in Bank Pekao S.A.". The program was carried out from 2011 and covered language courses, MS Office workshops, implementation of age management strategy and individual support in the form of coaching for employees over 45 years of age implemented in the last phase of the program.

Particular attention was also directed to the improvement of technical knowledge for employees of specialised organisational units such as the IT Division and training regarding the loan approval process and assessment of customers' financial condition dedicated to the employees of the Risk Management Division.

Efficiency increase in professional customer service area
With the aim to improve the employees' efficiency, the Bank carried out training projects mainly aimed at sales skill and customer service development. A key training priority in 2013 was the project supporting implementation of "Customer Service Standards" provided for 8.9 thousand employees mainly involved in direct customer service. At the same time, the project was supported by the program "Standards in life" for managerial staff which was aimed to strengthen changes in employees' behavior.

Managerial training
A key activity to strengthen managers' competences is development of managerial and leadership competencies as well as support in the implementation of the Bank's business strategy. When implementing this goal, the Bank took advantage of the expertise of the UniManagement – UniCredit Group leadership development centre recognised for using innovative approach to professional development. The co-operation with UniManagement gave employees an opportunity to share their knowledge and to develop their skills at the international level.

Performance of mandatory training required under internal regulations and external market regulations
Within the scope of mandatory training related to the introduction of new market regulations as well as the strategy of the Bank and UniCredit Group, the Bank has launched a number of training projects aimed at providing the Bank's employees with specialised knowledge. Among others, Anti-corruption, Antitrust and Code of Conduct training was carried out.

In 2013, the Bank delivered 233 thousand training hours, attended by over 95% employees confirming the efficient implementation of the required regulations and customer care.

Development programs and initiatives

One of the key elements of employees' professional development is the Bank's support to long-term career management.

In 2013, a number of initiatives for the Bank's employees were carried out and the employees had the opportunity to benefit from development advisers support in terms of career planning, professional aspiration and conditions of individual development.

Development processes

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

In order to achieve the goal, the Bank currently operates four main processes:
- **Executive Development Plan (EDP)** – an annual appraisal process for managers which consists of the following stages: effectiveness, competencies and potential appraisal step, development activities planning and implementation step. In 2013, 729 persons took part in the EDP,
- **Talent Management Review (TMR)** – an annual appraisal process of the potential and professional achievements aimed at managing and developing talents in the Bank and UniCredit Group. The process is based on the Leadership Competency Model and is composed of four key stages: identification, review, development and verification. In 2013, 275 persons took part in the process. The core effects of the EDP and the TMR processes include succession plans which are crucial for ensuring continuous employment on strategic positions, continuity of long-term projects and minimising operational risk. The Bank designed succession plans for all key positions,
- **Annual Employee Appraisal System** – a process of evaluation of the Bank's employees which comprises an appraisal of competencies, potential, personal development planning and business goals appraisal. In 2013, 15,107 employees took part in the process.

Furthermore, the Bank offers the following development initiatives focused on supporting the employees in their professional career development and improvement of their skills, knowledge and competencies:
- **Assessment Centre/Development Centre** session, survey of individual performance styles and communication and 180/360 Feedback – diagnostic tools for identification of strengths and development areas of the employees. In 2013, 799 employees participated in the survey as the examined persons and 6,032 employees as respondents,
- **Job Rotation, Mentoring and Coaching** – dedicated to selected employees to give them broader business perspectives and an opportunity to gain new experience,
- **UniQuest, UniFuture and MBA in banking** – initiatives held at UniCredit Group level enabling employees to get international experience,
- **Career Navigator and Internal Job Market** – tools supporting career development planning of the Bank's employees.

Internship and trainee programs

The Bank offers the following development programs to students and graduates:
- **UniChallenge** – a two year-long internship program, addressed to talented last-year MA students and graduates. It provides opportunities for its participants to gain work experience and professional knowledge in specific fields. The UniChallenge Program is used to spot high-potential candidates for employees,
- **UniStart, UniSummerStart** – apprenticeship programs addressed to students who are offered placements for the period ranging from 2 weeks to 3 months. These programs are an opportunity to gain experience in different areas of banking, in all of the Bank's divisions.

Remuneration policy

On July 31, 2013, the Supervisory Board of Bank Pekao S.A. approved the Remuneration Policy of the Bank, which reflects the mission and values of the Bank's approach to remuneration systems. The policy defines basics of remuneration, management of the structure, corporate and organisational processes and confirms the compliance requirements of the adopted remuneration system with the generally binding law, defines the rules for monitoring of market practices and the approach to remuneration systems, which ensure sustainability of the Bank. Furthermore, the Policy defines principles of the variable components of remuneration of Bank's managers. The principles support accurate and efficient risk management and discourage excessive risk-taking. Also, they reinforce the implementation of the business strategy.

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

The main remuneration policy tools include:
- retention plans,
- incentive systems: Management by Objectives (MBO), quarterly bonuses, Variable Remuneration System for Management,
- fringe benefits for employees.

Retention plans

In 2013, the following retention plans were being pursued:
- Retention Program 2010-2013 of Bank Pekao S.A. – a local retention program dedicated to key employees,
- Long-Term Incentive Plans of UniCredit Group (edition 2007 and 2008 – stock options) addressed to the top management,
- Long-Term Incentive Plans of UniCredit Group (edition 2011-2013) addressed to the top management.

As the conditions of the plan were not met, no rights to shares and stock options were granted.

In 2013, the Five-Year Loyalty Plan addressed to employees of key significance for achieving the Bank's business goals and to the most promising employees identified under the Talent Management scheme and UniCredit Group Long-Term Incentive Cash Plan edition 2010-2012 addressed to the top management were accomplished.

Incentive systems

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

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

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

The System of Variable Remuneration for Management is dedicated to people holding managerial positions who have influence on the risk management profile of the Bank. The aim of the System is to support the implementation of the Bank's operational strategy and to mitigate risk and conflicts of interest. The employees covered by the System may receive a bonus whose amount depends on the assessment of the effects of the person's work, of the organisational unit as well as the Bank's bottom line. In accordance with the applicable assumptions, at least 50% of variable remuneration is to constitute a special incentive for employees to contribute to the long-term results of the Bank and at least 40% of the bonus is deferred and paid after the end of the assessment period. The solution has been adopted as a result of the implementation of Resolution No. 258/2011 of the Financial Supervision Authority of October 4, 2011.

Fringe benefits for employees

The fringe benefits available to the employees vary according to the positions and responsibilities.

Employee Share Ownership Plan is the Bank's offer for all employees to invest in shares of UniCredit S.p.A. on preferential terms. In 2013, the fifth edition of the Plan was introduced.

The Bank contributes to the Social Benefit Fund which is spent on financial assistance to the Bank's current and former employees. The Social Benefit Fund covers the following payments:
- co-financing of sports, recreational, cultural, and educational services,
- co-financing of holidays,
- financial assistance to employees who find themselves in a difficult situation,
- loans for housing purposes.

Corporate values

The basis of the Bank's corporate culture and identity is the Integrity Charter which constitutes a code of corporate values including respect, reciprocity, transparency, fairness, trust and freedom (freedom to act). Since 2012, in the Bank has been operating "The Values System" which ensures practical application of corporate values into everyday professional relationships and in the work environment. The code of corporate values is intended to serve as a reference in difficult situations which are not covered by the external and internal regulations and allows to express the employees' personality in business and to respect the freedom to act.

The base for functioning of the system is the activity of the Integrity Charter Ombudspersons – independent and experienced retired managers of the Bank. The employees can report any behaviour

Corporate Social Responsibility

inconsistent with the Bank's corporate values to them. The Ombudspersons use the available tools such as meeting and alerting and take actions to restore the corporate values in the relationships among employees. Those actions directly support the Bank's internal communication and define certain standards of conduct and communication patterns for the employees to follow.

Relations with Trade Unions

In 2013, the co-operation with Trade Unions at the Bank with respect to consultation, negotiations and agreements was conducted under Labour law with respect to interests of both sides and principle of social dialogue. In 2013, 21 meetings were held with the trade unions.

Relations with the Works Council

Relationships with the Works Council of the Bank are based on the Act on employee information and consultation of April 7, 2006. The Bank pays strong attention to the role of the Works Council in social dialogue. On June 6, 2013, the Agreement on the rules of collaboration in compliance with the employees' right to information and consultation was signed. The Agreement defines, among others, the principles and procedure for informing and consulting the Bank's employees through the Works Council as their representation. In 2013, several meetings with the Works Council were held. Reports on the agreements made with the employer are made available to all employees of the Bank on the intranet.

Workforce in number

As at the end of December 2013, the Group employed 18,916 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 19,816 employees as at the end of 2012. The decrease in employment resulted mainly from the disposal of 100% shares of PJSC UniCredit Bank on July 16, 2013.

As at the end of December 2013, the Bank employed 17,092 employees as compared to 17,433 employees as at the end of 2012. The average age of the employees was 44.6 years, 62.6% of the employees are university graduates (61% in 2012), women represent 80% of the total workforce.

Our Customers

A key element in creating sustainable long-term value of the Bank is to take care of the satisfaction and involvement of all stakeholders, in particular the Customers and employees of the Bank. Continuing its activities from the previous years, in 2013 the Bank invested in People Surveys carried out by renowned research companies.

The results of the Surveys in 2013 generated valuable information on customers' expectations and a general picture of the banking service market; almost 43 thousand interviews with customers of all segments were held. The results were subject to a very detailed analysis with the application of appropriate methodologies. They disclose areas of competitive advantage of the Bank as well as those that require further development and improvement. The result of the Customer Satisfaction Survey, as a statistical tool, is a number expressed as a TRI*M index. The survey was performed by TNS, a company operating internationally for several dozen years.

Similarly as in the previous years, in 2013 a Reputation Survey was conducted covering over 2500 persons. Customers of the Bank, customers of competing banks and representatives of opinion-making groups were invited to participate. The results of the reputation survey reflect the strength of the Pekao brand and present the Bank as a financially stable institution that provides all of its stakeholders with a sense of security. The survey is based on the Rep Trak Pulse methodology, developed by Reputation Institute, a consulting firm specialising in reputation surveys of largest companies in 30 countries worldwide.

The Bank regularly surveys the opinions of its employees. Employee surveys are held in the form of interviews and visits creating opportunities for direct meetings with employees who provide service to customers in all of Poland.

A combination of the perspective of all the surveyed stakeholders and the perspective of the employees helps to identify projects that will promote an even more accurate adaptation of the Bank's services and offer to customers' needs.

The customer survey will be updated to better fit to the changing communication methods that are increasingly involving the Internet and mobile channels.

Protection of Clients' Interests

Regard for the interests of our clients is the main principle underlying the Bank's operations.

It is the Bank's goal to ensure that when purchasing a product or service a client correctly understands its value and is aware of the related risks. This is particularly important now, given the substantial growth of risk following from the development of increasingly more complex financial instruments. For a number of years, the Bank has consistently refrained from granting mortgage loans in foreign currencies, thus effectively protecting its clients against the currency risk, which hit many households severely when the złoty exchange rate plummeted.

Clients' protection against taking excessive risk in their investment decisions was further strengthened as a result of full implementation of the MiFID Directive at the Pekao Group. As a result, clients may expect stronger protection of their interests. Since April 2010 the Bank's employees started to assess the clients' knowledge and experience in the field of investing. Based upon an adequacy questionnaire completed by the client, the latter receives a feedback, if offered services to receipt and transmission of units of mutual funds, unit links or other investment products are adequate. Thanks to this procedure, the Bank's employee, on the basis of the questionnaire results, is able to adjust language and a scope of information to client's knowledge and experience.

Concurrently, the Bank implemented a suite of measures at the management and organisational levels aimed to increase the scope of clients' protection – a conflicts of interest management policy, a client classification/reclassification policy, and rules governing investment by the Bank's employees for their own accounts.

The Bank protects the interests of its clients, safeguarding their deposits and ensuring security of transactions executed in their accounts. Information relating to clients is protected in line with the security standards and the applicable law.

The security of funds which clients entrust with us is our top priority. The solutions offered by the Bank are among the most advanced, secure, user-friendly and convenient.

In developing its modern web platforms (Pekao24, PekaoFIRMA24 and PekaoBIZNES[24]), the Bank took care to ensure that they are convenient to use and absolutely secure. Account access is protected with a multi-layer security system. Bank Pekao's electronic banking systems guarantee the security of personal data, security of funds held in the accounts, and security of executed transactions.

Bank Pekao was the first bank in Europe to have introduced in 2010 the innovative method of biometric user authorisation in its transactional system dedicated to corporates. Users of PekaoBIZNES[24] log into the system and authorise their transactions using their fingerprints. The solution incorporates the best available security standard, while being user-friendly and convenient.

Through Pekao24, the Bank provides its individual customers with modern authorisation methods: PekaoToken – an application for smartphones, a hardware token and SMS codes. The PekaoToken, hardware token and SMS codes are all very convenient solutions, ensuring the best available security standards.

The Bank is constantly improving procedures and is taking necessary actions in order to react swiftly on clients' complaints and to resolve them smoothly, with regard to the clients' fair interests.

Business Partners – Suppliers

The Bank chooses its suppliers of products and services in an objective and unbiased process, compliant with both Polish regulations and best practices applied by the UniCredit Group. The Bank respects its business partners and their commercial practices.

In the procurement procedures, the Bank takes care to ensure that the specification of the ordered goods or services is the same for all business partners and includes objective technical and quality parameters, to guarantee fair competition. Any company may be invited to participate in a procedure and to submit a business proposal meeting the Bank's requirements.

The companies invited to participate in the procedure can make inquiries related to the received specification. To ensure equal access to information, replies to the inquiries are distributed among all the companies invited to participate in a given procedure.

The companies are entitled to withdraw or alter their proposals before the expiry of the submission deadline.

To ensure an unbiased selection process of suppliers of goods and services the Bank appoints Committees that prepare a recommendation of the best proposal.

The Bank uses the following criteria in the selection process:

- price,
- quality,
- reliability and experience of the prospective supplier.

In the case of outsourcing services the procurement procedure is subject to additional requirements defined in internal regulations of the Bank. The bidders are required to submit additional documents concerning their economic and financial standing, disaster recovery plans they have in place, as well as documents evidencing protection of data entrusted to them. This information is analysed in detail by dedicated units of the Bank in terms of financial and operational risk, information security, business continuity, and compliance with applicable laws. Close cooperation is maintained between the outsourcing company and the Bank, and the contract performance is monitored on a regular basis. The contracts signed with the outsourcing service providers selected in tender procedures contain provisions which facilitate the performance by the Polish Financial Supervision Authority of certain regulatory actions required under Banking Law.

In accordance with the procurement rules applied at the UniCredit Group, the Bank is consistently increasing its reliance on negotiations by electronic means (Internet auctions), thanks to which the procedure can have a local, national or international reach. A significant advantage of this solution is enhanced clarity and transparency of the negotiation and selection process. The results of a given procedure are sent to all participating bidders.

The Bank aims to ensure compliance with the Green Procurement Policy applied across the UniCredit Group. Since 2010 the suppliers participating in tender processes run by the Bank must complete a CSR form, in which they provide information concerning environmentally conscious management, social responsibility standards and labour-law compliance.

Corporate Social Responsibility

In many cases cooperation with suppliers is based upon general agreements signed at the Group's level. It is the case when it comes to cooperation with suppliers of IT equipment and services of key relevance for banking sector. Contracts with suppliers are signed after procedures with regard to individual terms and conditions of the banks – Group members had been carried out.

Environmental Protection

Environmental risk associated with lending activities

Bank Pekao S.A. is implementing an environmental awareness policy which follows from the United Nations Environment Programme Finance Initiative (UNEP FI) concerning natural environment and sustainability, considering environmental impact factors in performing credit risk analyses of its transactions and in transaction monitoring processes.

In its day-to-day activities Bank Pekao S.A. is strongly committed to protection of the environment. Environmental risk assessment is one of the crucial factors in evaluating credit transactions executed with businesses. It involves a number of steps: from review of a customer's business profile and preparation of a preliminary environmental risk assessment, to assessment proper, which includes an on-site visit and review of documents relating to the environmental aspects of an undertaking, to management phase, which includes a credit decision and agreement execution, to monitoring of environmental risks.

If a borrower's business profile entails environmental hazards, Bank Pekao S.A. works with the customer on reducing the potential implications of the environmental risks. They cooperate to identify such risks, assess their scale and mitigate their potential impact. Such cooperation, which forms part of credit risk assessment, relies on the methodology and industry guidance developed by the European Bank for Reconstruction and Development.

If the Bank establishes that a customer is unable to minimise its environmental risks, it defines certain conditions to be met during the transaction term, also by including relevant environmental provisions in the loan agreement.

The Bank does not finance certain types of business activities on environmental grounds. Such activities are enumerated in the Environmental Exclusion List drawn up on the basis of international standards, including the Convention on International Trade in Endangered Species (CITES). Furthermore, the Bank refuses to finance trade in goods representing environmental hazards or projects violating health and public safety laws.

The Bank's credit risk policy prohibits it to finance production of military equipment, nuclear power projects and activities which may be a source of major environmental hazards. Any exceptions to that policy require the approval of the Management Board and a positive opinion of the Supervisory Board.

In line with its credit policy, the Bank supports projects with environmental benefits.

Protection of the Polish bison

2014 marked the 85th anniversary of the bison reintroduction to the Białowieża Forest – an important date for all institutions and organisations for years involved in preserving the unique natural treasure for future generations. The commitment to the protection of the Polish bison has been an aspect of the development and promotion of the Bank's corporate social responsibility in the sphere of ecology. The Bank has been supporting five leading organisations devoted to conservation of the Polish bison, continuing collaboration that dates back to the years 2002 – 2005. These include:

- National Park of Białowieża
- Wildlife Society of the Province of West Pomerania
- "Panda" Foundation for Warsaw ZOO Development
- Toruń Zoobotanical Garden
- Society of Bison Lovers.

The donations provided by the Bank are used towards feeding animals as well as promoting the importance of bison conservation and scientific research.

Charity Activities

Marian Kanton Bank Foundation

The Bank engages in charity work through the Marian Kanton Bank Foundation. Serving as a vehicle through which the Bank fulfils its CSR mission, the Foundation supports both social organisations and individuals in need in the following areas:

- education of children and young people,
- scientific, R&D and teaching projects undertaken by academic institutions and schools,
- promoting knowledge in the field of banking,
- helping the ill and the disabled,
- promoting physical activity and sport,
- environmental protection,
- projects and activities undertaken by charities,
- promoting culture.

Established seventeen years ago, the Foundation has already donated to charities ca. PLN 17 m. It not only aims at relieving immediate needs, but also contributes to ensuring equal opportunities for children and young people from underprivileged backgrounds. In line with the intention expressed by the Bank as the founder, since 2005 the Foundation has helped fund merit scholarships awarded to talented pupils and students from poor backgrounds. Overall, the Foundation provided scholarship assistance to almost 50 pupils and students in 2013.

Every year, nearly a third of the Foundation's resources is applied to finance summer and winter holidays for youngsters as well as stays in rehabilitation centres for ill and disabled children. Committed to the promotion of health and fitness among the young generation, the Foundation has been supporting the activities of sports clubs.

The Foundation has been trying to reach directly those in the greatest need, in order to fund specific purposes. Financial aid offered by the Foundation is frequently targeted at individual recipients to help them fight a disease or to realise their dreams.

In exceptional cases, the Foundation engages in efforts designed to aid the Bank's employees and their relatives. In 2013, the Foundation again offered financial support to all persons, primarily disabled children of the Bank's employees, covered by the year-round charity initiative run by the Bank under the name "Let's Help One Another". The Foundation has assigned PLN 100 thousand for the purpose, thus supporting each of the persons concerned with the amount of PLN 2.5 thousand. Following a very positive feedback from the Bank's employees, the initiative will remain a permanent item in the Foundation's budget in the subsequent years.

The regular recipients of assistance provided by the Foundation include state-run and family children's homes, certain organisations and associations (including Caritas, Monar-Markot and Children's Friends Association), village schools and kindergartens, parishes, single mothers' homes, day-care centres, and hospices. In many cases, small institutions dedicated to the support of Polish families come to depend on the Foundation's assistance in order to exist.

Cooperation with the Great Orchestra of Christmas Charity

Among the CSR initiatives undertaken by the Bank, the cooperation with the Great Orchestra of Christmas Charity Foundation (Wielka Orkiestra Świątecznej Pomocy – WOŚP) is the one with the largest reach.

WOŚP is the largest non-governmental charity in Poland, whose aim is to save lives and health of children. Since its inception, WOŚP has purchased many modern medical devices for over USD 140m.

Starting in 2013, WOŚP has been also collecting funds for the dignified healthcare for the elderly. Raising funds for the elderly was the main purpose of the latest 22nd Grand Finale held in January 2014.

Bank Pekao has been cooperating with the Great Orchestra of Christmas Charity since 1999. It acts as the Charity's Banker, supporting the WOŚP Foundation in the organisation of the annual Great Finales.

The Bank was involved in the 22nd Finale as the Great Orchestra's Banker for the fifteenth time, with about 2100 employees of the Bank engaged in the event as volunteers. The employee's involvement is a classical example of an employee volunteer programme. Just like in the previous years, the Bank's employees spent the day at the television studios of the Second Channel of the Polish Television (TVP2), counting and sorting out the donations brought in by the Orchestra's volunteers. During the evening broadcast, President Luigi Lovaglio, accompanied by two members of the Bank's Management Board, donated PLN 2,000,000 to the WOŚP Foundation using the PeoPay application.

For the first time, the Bank's team comprising over 100 employees participated in the 8th "Let's Fight Diabetes" Race that was organised as part of the WOŚP Finale. The race was held in Warsaw and its name is closely related to a program operated by the WOŚP Foundation. The objective of the race was to promote diabetes awareness and the knowledge of diabetes prevention programmes, including the Insulin Pump Diabetic Pregnant Women Therapy Programme, and to collect money for the purchase of insulin pumps for pregnant women.

As in the past, many of the Bank's employees donated their own money for the Orchestra under a special "Gift Matching" programme, operated by UniCredit Foundation, a charity foundation of the UniCredit Group. Altogether, over PLN 50 000 was credited to the account of WOŚP from over 860 people. The collected amount was increased by the UniCredit Foundation and forwarded to WOŚP.

Promotion of Culture and Community Outreach Initiatives

In 2013, the Bank held patronage over selected major high culture projects. It continued its support to high culture for which it had been honoured with the title of the "Patron of Culture 2011" by the Minister of Culture and National Heritage, Mr. Bogdan Zdrojewski.

For many years now, the Bank has cooperated with major museums in Poland, including the Museum of Art in Łódź and the National Museum in Kraków. Since 2012, a new partner has been the Centre for Contemporary Art in Warsaw jointly with which the Bank, also in 2013, has been involved in a long-term comprehensive project supporting young art.

Bank Pekao S.A. Project Room

In April 2012, the Bank jointly with the Centre for Contemporary Art (CSW) Ujazdowski Castle in Warsaw, inaugurated a new biannual cultural project called *Bank Pekao S.A. Project Room* aimed at promoting and supporting young art. With the financial support of the Bank, selected young generation artists may pursue their artistic projects in a special exhibition hall at the CSW Ujazdowski Castle.

The *Pekao Project Room* not only supports young artists in gaining first experience in the world of art but it has also become a place of cooperation for art galleries, curators and artists involved in various spheres of art.

The artists selected for the programme have been presented by young curators supervised by an experienced CSW curator. The programme is addressed at Polish and foreign artists with CSW supervising the selection process in order to ensure the top level of the exhibitions.

In 2013, there were 16 exhibitions of young artists in the "Pekao Project Room". The exhibitions presented works that had not been displayed earlier to the larger public or that had been made specifically for the project. An expert commission selected 38 of the most interesting works from among those presented in 2012. They were purchased by the Bank and are now a part of the collection on deposit with the CSW Ujazdowski Castle in Warsaw.

Bank Pekao as Official Sponsor of the 21st edition of "POLITYKA Passports"

At the beginning of January 2014, young Polish authors and artists of noteworthy talent were awarded "POLITYKA Passports". POLITYKA Passports have been awarded since 1993 in six categories: film, literature, popular music, classical music, theatre, visual arts. They are amongst Poland's most prestigious cultural awards. The latest, twenty first, edition, was for the sixth time organised in collaboration with the Bank.

The award was established to honour and promote young, noteworthy authors and artists whose activity in the previous year made a visible impact on the Polish culture and its development, and who bring the Polish culture to the world and send out messages that reach the wider public.

Since 2002, a special award of "Laurels for the Creators of Culture" has been conferred on artists who have distinguished themselves with outstanding activity in the area of culture, its promotion and organisation. The 2013 laurels were handed to Tomasz Stańko, an outstanding jazzman *"for transgressing the borders in jazz and for winning new public for this musical genre. For acting as a bridge linking generations of musicians from different environments and for the promotion of Polish musicians abroad"*. Past winners of the award include Andrzej Wajda, Jerzy Owsiak and Krzysztof Penderecki.

The Bank's Patronage over "POLITYKA Passports" is one of the most recognisable positive image-building activities of the Bank in the sphere of high culture and contributed to the Bank's being perceived and appreciated not only as a financial institution but also as a patron of culture.

Social and Civic Initiatives

Third European Financial Congress

Since its first edition, the Bank has been the co-organiser of the European Financial Congress (EFC), held in Sopot by the Gdańsk Academy of Banking and the Gdańsk Institute for Market Economics. EFC is an event for experts and business people; from its first edition, it has been highly appreciated by the participants. The leading subject of the third edition held in 2013 was the "Financial safety and sustainable development of Europe and Poland ".

As a result of its active involvement in EFC, the Bank had an opportunity to be presented in the domestic and international financial circles as a competent institution with major analytical potential. The Bank acted as a partner to three major debates: "Role of the financial institutions in EU's New Financial Framework for 2014-2020", "About the inequality of parties in the infrastructure investment processes" and "Instruments or financing and financial security in cross-border transactions".

Bank's representatives also participated in other debates as panel experts.

The participants of the Third Sopot Congress defined numerous recommendations for institutions, regulators and business circles, pointing to practical solutions in the areas that are crucial for the economic development of Poland and the entire European Union.

Third European Forum for New Ideas

The European Forum for New Ideas (EFNI) is an international discussion forum of business circles concerned with the place and future of Europe. It has been organised since 2011 by the Lewiatan Confederation in cooperation with BUSINESSEUROPE, the City of Sopot and Polish and international companies and institutions.

The main question of the Forum held on 25 – 27 September 2013 in Sopot was: *Where to now, Europe? How to renew the Old Continent? A business perspective.* The event attracted about 800 guests, including 110 panellists. The Forum adopted the "Sopot Declaration" and "Recommendations" that were presented to political and economic decision-makers in Poland and the European Union.

For the first time, the Bank participated in the third edition of the European Forum for New Ideas as the exclusive partner of the Opening Gala during which the EFNI Award was handed to Lech Wałęsa. The speech in honour of the laureate was delivered by Prime Minister Donald Tusk. To celebrate the 30th anniversary of awarding the Nobel Peace Prize to Lech Wałęsa, a debate was held that was attended by Prof. Marek Belka, President of NBP, Mario Monti, former Italian Prime Minister and former EU Commissioner Günter Verheugen.

Cooperation with the CASE Foundation

The CASE Foundation was established in 1991 as a private, non-commercial and independent research institute focusing on the transition process, European integration and global economy.

The Bank has been cooperating with the CASE Foundation since 1999, pursuing one of its CSR priorities of furthering the knowledge about the economy and to support research in this area. In 2013, the most important project of the Foundation, supported by the Bank, involved the development of the Financial Stress Index (FSI) and Economic Sensitivity Index (ESI). The Indices were first published at the beginning of 2014. The project was carried out with the support of Bank Pekao SA.

Analyses show that FSI can be used to identify accurately trends prevailing in financial markets and their response to major events. Both of these mathematical tools have been used to analyse economic situation in twelve East and Central European countries (CEE) in 2001–2012. Additionally, the major instability features of financial markets and the economy were identified, as well as relations between the turbulences in the financial markets and public finance that strongly affected the region in the last decade.

The indices have been developed for international institutions such as OECD, World Bank, International Monetary Fund and European Commission, government institutions and agencies, academic circles, chief economists and analysts in financial institutions, analytical centres and corporations.

Support of Sport

21st Pekao Szczecin Open Tennis Tournament

In September 2013 the 21st edition of the ATP Pekao Open Men's Tennis Tournament was held in Szczecin. It is the most prominent tennis tournament in Poland and the major event in the West Pomerania region. The Bank has been accompanying the Tournament since the first game. Since 2009, when the City of Szczecin became involved in the organisation of the event as the other equal titular sponsor, The Bank and the City of Szczecin as strong and stable partners guarantee the high quality and success of the prestigious sports event, also contributing to the effective promotion of the region of West Pomerania.

Getting involved in the Pekao Szczecin Open Tennis Tournament, the Bank has been supporting a sport that is a symbol of elegance and fair play while contributing to the development of the region. Pekao Szczecin Open has also a number of accompanying events: a music festival, demonstration matches or an actor tournament. The players and guests meet in the Szczecin courts jointly contributing to the unique atmosphere of the Tournament.

Prospects for Development

Prospects for Development

Factors which will Affect the Results of the Group

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

In 2014 further acceleration of economic growth, the clear symptoms of which were already visible in the second half of 2013 should be expected. It is probable that the composition of growth will change. Whereas in the previous two years it was mostly supported by net exports, in 2014 it is expected stronger revival of domestic demand, mostly of consumer demand, which will be supported with improvement in the labor market and with stabilization of consumer sentiment. In the second half of 2013, signals of improvement in the labor market were visible, which in 2014 should gradually translate into acceleration of employment and wages' growth (and consequently, of wage bill in the corporate sector), which usually led to increase of private consumption. In the case of investments, positive occurrence of 2014 will be significantly smaller year-over-year decline of public investments, while at the end of year stronger inflow of EU money from the new financial perspective (2014-2020) is expected to begin, which in 2015 will be again a strong driver of growth. Private sector investments in 2014 will probably stay at a level only marginally higher than in 2013. In spite of good financial stance of the enterprise sector and improvement in the outlook for demand, still uncertainty makes enterprises very cautious with regard to starting new investments.

The change of the structure of economic growth and shifting of its main driver towards domestic demand should bring positive results for activity and financial results of the banking sector. The Monetary Policy Council will likely maintain interest rates at an unchanged level throughout the year (it has been officially announced that rates will stay unchanged "at least till mid-year").

A significant risk factor in relation to the pace of economic growth in Poland is political events in Ukraine directly affecting both the economy of that country as well as the increased geopolitical tensions in relations with Russia. Ukraine's financial needs over the next few years are evaluated for at least USD 35 billion with no defined specific assistance plans. A direct result of the events in Ukraine is the weakening of the local currency, which in combination with partial control of the capital will deter the international settlements, adversely affecting the export of Polish goods to Ukraine (2.9% of the total Polish exports). Given the increased risk of the imposition of economic sanctions on Russia, and the declarations of the Russian authorities for possible retaliation in the economic field, the difficulties in the export of Polish goods into the country should be considered, in particular foodstuffs.

In the fourth quarter of 2013, the volume of corporate deposits recorded strong growth. It accounted for 10.0% year on year against 7.6% in 2012. Household deposits also recorded an increase by 5.6% year on year, but its scale was smaller than in 2012 (7.7% year on year). In 2014, it should be expected a slowdown in growth of corporate deposits and it will be related to the recovery in investments. In the case of households, the general economic situation (stabilization on the labor market, a slightly higher growth of wages) should result in faster growth of income, but it will hardly translate into faster growth of deposits as propensity to save is expected to decline and risk appetite (which results in shifting savings to mutual funds) remains elevated. It results in transfer savings outside banking sector, e.g. to investment funds. Thus the stabilization in growth of households deposits on the similar level to those achieved in 2013 is more likely.

The year on year growth rate for loans to households was 4.5% as at the end of 2013. Taking into consideration fundamental factors in 2014, it is expected further, gradual recovery in housing loans. The segment of these loans will be supported by the introduction of a new government program "Apartment for the Young" ("Mieszkanie dla młodych"), record-low interest rates and the fact that prices in the housing market started to rise (this should attract to the market those waiting for a price bottom). Under high level of penetration with loans financing consumption expenditures, it is hardly to expect significant improvement in this category. In the case of corporate loans an increase in demand is expected. The demand should be driven by the growing need for working capital as well as gradual recovery in corporate investments.

Due to legal changes, in 2014, further reduction of interchange fee rates is expected. Lower rates will adversely affect the fee and commission income of banks related to card transactions.

In 2014, it should not be expected a decline in treasury bond yields and therefore impact of profits from banks bond portfolios can be lower. At the same time the banks results will remain adversely affected by the low interest rate environment (NBP and market rates), which lead to narrowing interest margins negatively impacting on net interest income of banks.

The banking business may be affected by the following regulatory and tax solutions:

- introduction of new banking charges aimed at improving the safety of the entire banking sector (the so-called prudential charge has already been introduced, it cannot be ruled out that another fee related to the creation of the banks recovery and resolution framework will be introduced),
- supervisory recommendations related to offering and settlement bancassurance products.

As a risk factor, the possibility of introducing unfavorable for the banking sector solutions related to the existing portfolio of mortgages denominated in foreign currencies it should be considered.

Directions of the Activities and Business Priorities

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

In 2013, the Bank strengthened its market position in the area of retail and corporate loans. Competitive advantage, stemming out from the strong capital and liquidity base, have been sustained. The Bank has achieved satisfying financial results thanks to high operational efficiency, effective risk management and high level of customer and employee satisfaction.

Prospects for the Polish economy for 2014 are optimistic. Economic growth rate should accelerate significantly, what should support demand for loans and positively influence financial results of the banking sector. The Bank is going to continue its commercial activity development focused on increasing of active customers number, further enhancement in strategic areas, reinforcement of products and services multichannel distribution, increasing of brand awareness, strengthening market leader reputation, continuation of customer and employees satisfaction improvement programs and projects aimed at optimization of the risk management processes and operating costs in order to improve its commercial efficiency.

The business model and competitive advantages

The Bank will continue its commercial activities in the financial services market within the framework of the developed model based on customer segmentation:

- in respect to the individual clients, retail, affluent and private banking segments were separated. Segmentation is based on the monthly inflows on current account or assets under management. Each segment has its own business model, tailored to the customers' needs,
- in respect to the small and micro enterprises (SME), professional products and services are provided by dedicated advisors,tailored to the customers' needs,
- in respect to the corporate customers, medium-sized and large companies segments were separated. Segmentation is based on the turnover, economic sectors, ownership type (private / public, domestic / international, other). Customers are served by dedicated advisors with a support of products specialists, what enables to optimize the level of service quality and costs. Customer advisors are focused on providing high quality and efficient service, using the best practices and integrated sales management tools.

The Bank offers competitive products and services on the Polish market, high level of customer service quality and remarkably well developed network of the branches and ATMs easily accessible across Poland, as well as professional call center and a competitive Internet platform and mobile banking for individual and corporate clients, and small and micro enterprises.

The scale of operations, solid capital and liquidity structure as well as strong balance sheet confirmed by a high level of capital adequacy ratio and high surplus of deposits to loans, give the Bank competitive advantage to successfully compete on the market.

Business priorities

In 2014, the Bank will continue its focus on the further development of the business and strengthen its market position while maintaining high risk management standards and further improvement of the operational effectiveness.

The priority in the area of commercial activities will be further extending of customer base and continuation of sale of consumer loans and PLN mortgage loans for individual clients, and loans to the SME segment, in particular, financing of medium-size enterprises and infrastructure projects.

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

Individual clients

The Bank is consistently working on number of clients increase and strengthening its market position on the PLN mortgage loans and consumer loans market.

The Bank intends to strengthen its market position in the consumer loans segment by effective and timely adjusting of its offer to the clients' needs, while maintaining ethical principles in lending and reasonable risk levels.

The Bank will also intend to further improve its strong position on the market of PLN mortgage loans leveraging on experience and specialization in sale of this product.

In the area of savings products the Bank will continue to offer attractive deposit, savings and investments products in order to meet the client's expectations and market trends.

The completion of the above goals will be supported by innovative changes in the electronic distribution channels, including mobile banking, continuation of processes automation and further development of sales model of the Bank.

Private Banking

The Bank will focus on further development of the products and services offer, maintenance of high service quality provided by a group of professional advisers and on increasing number of customers.

Prospects for Development

Corporate and small and micro enterprises

Bank Pekao S.A. is committed to strengthen its leading position in the corporate banking, corporate finance, transactional banking segments as well as organisation and servicing of corporate bonds issuance. It is also the Bank's goal to remain the leading partner of the public sector in financing major infrastructure projects and supporting development of the Polish cities.

Ensuring the highest quality service to the corporate and small and micro enterprises, the Bank will continue to develop its comprehensive offer and to provide innovative banking products that meet the most demanding requirements of the clients while using experience and relationships within UniCredit Group.

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

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

Representations of the Bank's Management Board

Representations of the Bank's Management Board

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

- Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2013 and comparative figures have been prepared in accordance with the binding accounting policies and that they reflect in a true, fair and clear manner Bank Pekao S.A. Group financial position and their results,
- Report on the activities of Bank Pekao S.A. Group for the year 2013 provides the true picture of Bank Pekao S.A. Group development, achievements and situation, including the main threats and risks.

The Management Board of Bank Pekao S.A. declares that the registered audit company performing the review of Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2013 has been selected in line with the binding legal regulations. The company and the registered auditors performing the review meet the requirements indispensable for issuing an objective and independent report on the annual consolidated financial statement, in line with the binding provisions of the law and professional standards.

Resolve

Anytime, anywhere.

"On her way back from holiday, one of my Customers had a problem with her car, forcing her to call for assistance.
The problem was serious, and the daily limit on her debit card did not permit our Customer and her husband to pay for the repairs.
She called me on the verge of panic, and I went straight to work to **solve the problem as quickly as possible**. They were able to pay their bill and set off again with peace of mind.
When they got home, I received a phone call from my Customer to thank me and let me know that after their **positive experience** with UniCredit, her husband **was becoming a Customer**."

Silvia Rieder – Commercial Bank
Pressbaum Branch 2099 – UniCredit Bank Austria

Statement of Bank Polska Kasa Opieki Spółka Akcyjna on Application of Corporate Governance Standards in 2013

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

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

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

In 2013 the Bank applied corporate governance rules laid down in the Code of Best Practice for WSE Listed Companies[4] set by WSE Board's Resolution No. 19/1307/2012 of November 21, 2012 excluding Rules I.12 and IV.10 point 2 regarding enabling the shareholders to participate in a General Meeting using electronic communication.

In the announcement on convening the Ordinary General Meeting of Bank Polska Kasa Opieki Spółka Akcyjna published in the current report 17/2003 on 17 May 2013 the Bank informed that: " Considering the fact that the Shareholding of the Bank is characterized by a large number of shareholders, geographical and linguistic diversity, which means that for the Bank to meet the requirements necessary to identify the shareholders correctly and to ensure the appropriate level of security of electronic communication it would be necessary to provide on the Bank's side highly advanced technical solutions which currently the Bank is not in possession of, in accordance with Art. 4065 § 2 of the Commercial Companies Code and § 8a sec. 2 of the Statute of the Bank, the Management Board of the Bank resolved not to allow participation with the use of electronic communication means in the Ordinary General Meeting of the Bank for the year 2012."

In each case of convening the General Meeting, the Management Board of the Bank defines whether the participation in the General Meeting with the use of electronic communication means is possible and what are the requirements and limitations necessary to identify of shareholders and to ensure the safety of electronic communication.

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

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

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

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

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

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

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

The accounting policies adopted by the Bank, which are compliant with the International Financial Reporting Standards (IFRS), the chart of accounts and reporting databases take into account the format and the extent of detail of the financial data disclosed in the financial statements, in accordance with the requirements and rules applied

[1] Journal of Laws of 2009 no.33 item 259, as amended
[2] Par. 91.5.4.a of the ordinance of the Minister of Finance of February19, 2009
[3] The document is publicly accessible on the Polish Bank Association web site: http://zbp.pl/dla-bankow/zespoly-rady-i-komitety/dzialania-w-obszarze-legislacyjno-prawnym/komisja-etyki-bankowej
[4] The document is publicly available on the WSE webpage: http://www.corp-gov.gpw.pl/publications.asp
[5] The document is publicly available on Bank Pekao S.A. webpage: http://www.pekao.com.pl/o_banku/misja/#tab2
[6] Par. 91.5.4.c of the ordinance of the Minister of Finance of February 19,2009

by the dominant entity. The Bank maintains its accounting books in the form of separate IT resources in its IT systems, in line with the adopted business structure. The IT systems ensure access to intelligible and centralized data, separately for each system, which confirm the accounting records and make it possible to control records continuity and transfer account activity and balances, as well as draw up financial statements.

The accounting books are reconciled against reporting databases.

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

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

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

UniCredit S.p.A. has been the Bank's major shareholder since August 1999. As at December 31, 2013, UniCredit S.p.A. held 50.10% share in the Bank's share capital and the same percentage of the total votes at the Bank's General Meeting of Shareholders, Aberdeen Asset Management PLC held 5.03% and the remaining shareholders' 44.87% share. Information about decreasing of UniCredit S.p.A. shares in the total number of votes at the General Meeting of the Bank which was the result of the sale of 23,936,267 shares in the Bank, accounting for 9.12% of the total number of votes at the General Meeting of the Bank, through a sale order executed on January 31, 2013 via off-session transactions concluded on the Warsaw Stock Exchange S.A. according to the Secondary Placing Agreement made on January 29, 2013 was included in the published current report no. 7/2013[8].

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

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

	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
SHAREHOLDER'S NAME	DECEMBER 31, 2013		DECEMBER 31, 2012	
UniCredit S.p.A.	131,497,488	50.10%	155,433,755	59.22%
Aberdeen Asset Management PLC	13,194,683	5.03%	13,194,683	5.03%
Other shareholders	117,777,863	44.87%	93,841,596	35.75%
Total	**262,470,034**	**100.00%**	**262,470,034**	**100.00%**

On January 8, 2014 Management Board of Bank Pekao S.A. in the current report no. 1/2014 informed that the Bank received notification from Aberdeen Asset Management PLC (and/or acting on its behalf and its' affiliates) with its registered office in Aberdeen about reduction of the total number of votes at the General Meeting of the Bank below 5%, as the result of the sale of 50,000 shares in the Bank through a sale order executed on January 3, 2014. Prior to the sale, Aberdeen Asset Management PLC held 13,121,767 shares in the Bank, accounting for 5.0% of the overall number of shares in the Bank, representing the same number and percentage of the total votes at the General Meeting of the Bank. After the transaction, Aberdeen Asset Management PLC held 13,071,767 shares in Bank, i.e. 4.98% of the overall number of shares in the Bank, representing the same number and percentage of votes at the General Meeting of the Bank.

3) Identification of holders of any securities with special control rights with description of those rights[9]

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

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

[7] Par. 91.5.4.d of the ordinance of the Minister of Finance of February 19, 2009
[8] The document is publicly accessible on the Polish Bank Association web site http://www.pekao.com.pl/informacje_dla_inwestorow/raporty/?r,main,reportId=44056
[9] Par. 91.5.4.e of the ordinance of the Minister of Finance of February 19, 2009

4) Identification of any restrictions of voting rights, such as restriction of voting rights of holders of given number or percentage of votes, temporary restrictions of voting or provisions according to which, with co-operation of a company, rights resulting from securities are separated from the fact of holding those securities[10]

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

5) Identification of any restrictions of ownership transfer of securities issued by the Bank[11]

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

6) Description of rules governing appointment and dismissal of members of managerial bodies and their rights, in particular right to decide whether to issue or repurchase shares[12]

Management Board

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

At least half of the Members of the Management Board, including its President, should possess a thorough knowledge of the Polish banking market, i.e. they should meet all of the following criteria:
– they have professional experience gained on the Polish market, relevant for the performance of a managerial function at the Bank,
– they are permanently domiciled in Poland,
– they have command of the Polish language.

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

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

7) Description of rules governing amendment of the Statute of the Bank[13]

Amendment of the Bank's Statute and drafting its consolidated text requires adoption by way of resolution of the Bank's General Shareholders Meeting as well as registering the amendment in the National Court Register. Procedure of the General Shareholders Meeting of the Bank[14] defines detailed rules of conducting the Bank's General Shareholders Meetings and adopting resolutions. The Bank's General Shareholders Meetings resolutions concerning the amendments of the Bank's Statute are being adopted by the three-quarter majority, whereas according to the Bank's Status the Bank's General Shareholders Meeting is entitled to adopting resolutions only if at least 50% of shares plus one share is represented. Moreover, as stated in Par. 34.2 of the Banking Act, any amendment of the Statute of the Bank shall require the authorization of the Polish Financial Supervision Authority where such amendment relates to:
– the company name,
– the bank's registered office, objects and scope of activity taking into consideration activities defined in par. 69.2.1-7 of the Act on Trading in Financial Instruments of July 29, 2005 that the bank intends to perform according to Par. 70.2 of this Act,
– the management bodies and their competences, including particularly the competences of the members of the management board appointed with acceptance by the Polish Financial Supervision Authority and in compliance with the decision making standards, the basic organisational structure of the bank, the procedures applicable to making legally binding statements regarding property rights and obligations, the procedures for issuing internal regulations and the procedure for making decisions concerning the undertaking of commitments or disposal of assets whose total value with regard to a single entity exceeds 5% of the bank's own funds,
– the principles of functioning of the internal control system,
– the own funds and financial management principles,
– voting preference or limitation attached to shares at a bank.

[10] Par. 91.5.4.f of the ordinance of the Minister of Finance of February 19, 2009
[11] Par. 91.5.4.g of the ordinance of the Minister of Finance of February 19,2009
[12] Par. 91.5.4.h of the ordinance of the Minister of Finance of February 19,2009
[13] Par. 91.5.4.i of the ordinance of the Minister of Finance of February 19,2009
[14] Adopted by virtue of the Resolution of the General Shareholders Meeting No. 19 of April 8, 2003

8) Functioning of the General Shareholders Meeting and its key powers, as well as description of the rights of shareholders and the manner of exercising these rights, in particular rules resulting from Rules of Procedure for the General Shareholders Meeting, unless these rules result directly from generally applicable law[15]

The operation of the Bank's General Shareholders Meeting is governed by the Rules of Procedure for the Bank's General Shareholders Meeting, adopted by way of Resolution No. 19 of April 8, 2003, amended by way of Resolution No. 41 of May 5, 2009 and Resolution No. 41 of June 1, 2012 which defines detailed rules of conducting General Shareholders Meetings and adopting resolutions. The Rules of Procedure are available to the public on the Bank's website[16].

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

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

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

The Statute allows the participation in the General Meeting with the use of electronic communication means if the Management Board adopts such decision. Management Board adopts decision mentioned in the previous sentence in the case of fulfilling by the Bank technical conditions necessary for participation in the General Meeting with the use of electronic communication means what covers in particular:
1. real-life broadcast of General Meeting,
2. real-time bilateral communication where shareholders may take the floor during a General Meeting from location other than the General Meeting,
3. exercising the rights to vote during a General Meeting either in person or through a plenipotentiary.

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

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

The full documentation which is to be presented to the Bank's General Meeting, together with the drafts of resolutions and information concerning the Bank's General Meeting are made available to persons entitled to participate in the Bank's General Meeting on the Bank's website and in paper form which is available in the Bank's Headquarters, Warsaw, Żwirki i Wigury Street 31. Information in this respect is covered by announcement about convening the General Meeting, in accordance with Art. 402^2 of Code of Commercial Companies.

[15] Par. 91.5.4.j of the ordinance of the Minister of Finance of February 19,2009
[16] http://www.pekao.com.pl/informacje_dla_inwestorow/walne-zgromadzenia-banku/

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Official copies of the Bank's Management Board on the Bank's operations and financial statements as well as copies of the Supervisory Board's report and external auditor's opinion are issued to shareholders upon request no later than 15 days prior to the Bank's General Meeting date.

The rights of the Bank's shareholders include in particular:
- the right of shareholders holding at least a half of the share capital or at least a half of the votes to convene Extraordinary Meeting of Shareholders. In this case, the shareholders elect the chairman of the Bank's General Meeting,
- the right of shareholders holding at least the twentieth of share capital to demand that specific issues be placed on the agenda of the next Bank's General Shareholders Meeting. The demand should include the justification and the project of resolution's project concerning proposed issue and should be submitted to the Management Board no later than 21 days prior to the Meeting date. The Management Board is obliged to announce changes in the Meeting agenda introduced because of shareholder's demand as fast as possible and no later than 18 days prior to the Meeting date. The Announcement takes place according to the way proper for General Meeting convocation,
- the right of shareholders holding at least the twentieth of share capital to submit via electronic communication media projects of resolutions concerning issues introduced to the Bank's General Meeting agenda or issues, which are supposed to be introduced to the Meeting agenda before the date of holding the Bank's General Meeting. The Bank instantly announces projects of resolutions on the Bank's website,
- the right of every shareholder to submit projects of resolutions concerning issues introduced to the Meeting's agenda,
- the right of shareholders to participate in the Bank's General Shareholders Meeting personally or by proxy,
- the right of shareholders holding a tenth of the share capital represented at the Bank's General Shareholders Meeting to demand that the attendance list of the Bank's General Shareholders Meeting be checked by a committee appointed for that purpose and composed of at least three persons, including one person appointed by the parties making the demand,
- the right according to which the Bank's General Shareholders Meeting is not allowed to adopt a resolution to remove an item from the agenda or not to consider an issue which was placed on the agenda upon request of shareholders unless the shareholders express their consent to the same,
- the right according to which the Bank's General Shareholders Meeting may not be adjourned deliberately to obstruct the exercise of the shareholders rights,
- the right of each individual participant of the Bank's General Shareholders Meeting to nominate one or more candidates for membership on the Bank's Supervisory Board,
- the right of shareholders holding at least a fifth of the share capital to demand block voting on the appointment of the Supervisory Board; a relevant request should be submitted to the Management Board in writing at such time as to enable its placement on the agenda of the Bank's General Shareholders Meeting,
- the right to inspect the book of minutes and to receive copies of resolutions authenticated by the Management Board,
- the right according to which the Chairperson of the Bank's General Shareholders Meeting is obliged to ensure that the rights of minority shareholders are respected,
- the right of shareholders who raise an objection against a resolution to justify the objection in a concise manner.

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

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

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

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

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

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

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

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

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

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

9) Composition of the Bank's managerial, supervisory or administrative bodies and it's committees, and its changes that occurred during last financial year as well as rules of procedure[17]

Management Board

As at January 1, 2013, the Bank's Management Board was composed of the following persons:

Luigi Lovaglio	President of the Management Board, CEO,
Diego Biondo	Vice President of the Management Board,
Marco Iannaccone	Vice President of the Management Board,
Andrzej Kopyrski	Vice President of the Management Board,
Grzegorz Piwowar	Vice President of the Management Board,
MarianWażyński	Vice President of the Management Board.

On March 12, 2013, Mr. Marco Iannaccone resigned from the function of Vice President of the Management Board of the Bank, effective from March 31, 2013. On March 12, 2013, the Supervisory Board of the Bank appointed, effective from April 1, 2013, Mr. Stefano Santini as Vice President of the Management Board of Bank Polska Kasa Opieki S.A. for the current, common term of office of the Management Board of the Bank.

On June 12, 2013, the mandates of Members of the Management Board of the Bank expired. Therefore, the Supervisory Board of Bank Polska Kasa Opieki Spółka Akcyjna at the meeting held on June 12, 2013 appointed the following persons for a new common term of office of the Management Board of the Bank, lasting three years, beginning as of June 13, 2013:

Luigi Lovaglio as President of the Management Board of the Bank,
Diego Biondo as Vice President of the Management Board of the Bank,
Andrzej Kopyrski as Vice President of the Management Board of the Bank,
Grzegorz Piwowar as Vice President of the Management Board of the Bank,
Stefano Santini as Vice President of the Management Board of the Bank,
Marian Ważyński as Vice President of the Management Board of the Bank.

As at December 31, 2013 the Bank's Management Board was composed of the following persons:

Luigi Lovaglio	President of the Management Board, CEO,
Diego Biondo	Vice President of the Management Board,
Andrzej Kopyrski	Vice President of the Management Board,
Grzegorz Piwowar	Vice President of the Management Board,
Stefano Santini	Vice President of the Management Board,
MarianWażyński	Vice President of the Management Board.

The Bank's Management Board acts according to the Bank's Statute and the Rules of procedure adopted by virtue of its Resolution No. 101/VI/03 of June 3, 2003. The Rules of procedure shall in particular define the matters which require joint consideration by the Management Board, as well as the procedure for adopting a resolution in writing. The Rules of Procedure of the Management Board are available on the Bank's website[18]. The members of the Management Board shall coordinate and supervise the activity of the Bank pursuant to the binding division of competence adopted by the Management Board and approved by the Supervisory Board.

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

Pursuant to the provisions of the Rules of procedure, the Bank's Management Board prepares the development strategy for the Bank and is responsible for the implementation and execution of that strategy. The Supervisory Board issues its opinions on the Bank's long-term development plans and annual financial plans, prepared by the Management Board.

[17] Par. 91.5.4.k of the ordinance of the Minister of Finance of February 19,2009
[18] http://www.pekao.com.pl/o_banku/wladze_Banku/

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The Management Board ensures that the management system at the Bank is transparent and effective, and runs the Bank's affairs in compliance with applicable laws and Best Practices. The core values underlying the management of the Bank are professionalism, credibility and confidentiality, while customer relations are underpinned by reliability and integrity, as well as compliance with applicable laws, including the provisions governing the prevention of money laundering and financing of terrorism.

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

Supervisory Board

As at January 1, 2013, the Bank's Supervisory Board was composed of the following persons:

Jerzy Woźnicki	Chairman of the Supervisory Board,
Roberto Nicastro	Deputy Chairman of the Supervisory Board,
Leszek Pawłowicz	Deputy Chairman of the Supervisory Board,
Alessandro Decio	Secretary of the Supervisory Board,
Paweł Dangel	Member of the Supervisory Board,
Laura Penna	Member of the Supervisory Board,
Wioletta Rosołowska	Member of the Supervisory Board,
Doris Tomanek	Member of the Supervisory Board.

On June 12, 2013, the Ordinary General Meeting of Bank Pekao S.A. appointed Ms. Małgorzata Adamkiewicz as a member of the Supervisory Board for current, common term of office.

As at December 31, 2013,the Bank's Supervisory Board was composed of the following persons:

Jerzy Woźnicki	Chairman of the Supervisory Board,
Roberto Nicastro	Deputy Chairman of the Supervisory Board,
Leszek Pawłowicz	Deputy Chairman of the Supervisory Board,
Alessandro Decio	Secretary of the Supervisory Board,
Małgorzata Adamkiewicz	Member of the Supervisory Board,
Paweł Dangel	Member of the Supervisory Board,
Laura Penna	Member of the Supervisory Board,
Wioletta Rosołowska	Member of the Supervisory Board,
Doris Tomanek	Member of the Supervisory Board.

The Supervisory Board acts on the basis of the Rules of procedure adopted by virtue of its Resolution No. 17/03 of May 22, 2003 (amended by way of Resolution No. 20/05 of June 27, 2005).

The Rules of procedure of the Supervisory Board are available on the Bank's website[19].

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

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

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

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

Audit Committee

As at January 1, 2013, the Audit Committee was composed of the following persons:

Paweł Dangel	President of the Committee,
Alessandro Decio	Member of the Committee,
Leszek Pawłowicz	Member of the Committee,
Laura Penna	Member of the Committee,
Jerzy Woźnicki	Member of the Committee.

The composition of the Audit Committee did not change till December 31, 2013.

[19] http://www.pekao.com.pl/o_banku/wladze_Banku/#tab2

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

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

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

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

Remuneration Committee

As at January 1, 2013, the Remuneration Committee was composed of the following persons:
Roberto Nicastro,
Wioletta Rosołowska,
Doris Tomanek,
Jerzy Woźnicki.

The composition of the Remuneration Committee did not change till December 31, 2013.

The Remuneration Committee operates on the basis of the Supervisory Board's resolution. Moreover on December 13, 2013, the Supervisory Board adopted Regulation of the Remuneration Committee. The goal of the Committee is supporting the Supervisory Board in performing its statutory duties, by submission of recommendations regarding conditions of agreements that regulate employment relationship or other legal relationship between members of the Management Board and the Bank, including the amount of remuneration to be paid to members of the Management Board, and regarding approval of the policy on variable components of the remuneration for persons holding managerial positions in the Bank in the meaning of resolution No. 258/2011 of Polish Financial Supervision Authority of October 4, 2011, and in order to submission of recommendations to the General Shareholders Meeting regarding the amount of remuneration to be paid to members of the Supervisory Board.

Financial Committee

As at January 1, 2013, the Financial Committee was composed of the following persons:
Alessandro Decio,
Roberto Nicastro,
Laura Penna.

The composition of the Financial Committee did not change till December 31, 2013.

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

Consolidated Financial Statements of Bank Pekao S.A. Group

for the period ended on 31 December 2013

Auditor's Opinion

To the Shareholders and Supervisory Board
of Bank Polska Kasa Opieki S.A.

We have audited the attached consolidated financial statements of the Bank Polska Kasa Opieki S.A. Capital Group ("Capital Group") with Bank Polska Kasa Opieki S.A. ("Bank"), with its registered office in Warsaw at Grzybowska 53/57, as the Parent Company, including consolidated statement of financial position prepared as of 31 December 2013, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity consolidated cash flow statement for the financial year from 1 January 2013 to 31 December 2013 and explanatory notes comprising a summary of significant accounting policies and other explanatory information.

Preparation of consolidated financial statements and a report on the activities of the Capital Group in line with the law is the responsibility of the Management Board of the Bank.

The Management Board of the Bank and members of its Supervisory Board are obliged to ensure that the consolidated financial statements and the report on the activities of the Capital Group meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330, as amended), hereinafter referred to as the "Accounting Act".

Our responsibility was to audit and express an opinion on compliance of the consolidated financial statements with the accounting principles (policy) adopted by the Capital Group and whether the financial statements present fairly and clearly, in all material respects, the financial and economic position as well as the financial result of the Capital Group.

Our audit of the financial statements has been planned and performed in accordance with:
– section 7 of the Accounting Act,
– national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) applied by the Bank and the subsidiaries of the Capital Group, verification – largely on a test basis – of the basis for the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the audited consolidated financial statements in all material respects:

– present fairly and clearly the information material to evaluate the economic and financial position of the Capital Group as of 31 December 2013 as well as its profit or loss in the financial year from 1 January 2013 to 31 December 2013,
– have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and secondary legislation to the Act,
– comply with the provisions of law applicable to the Capital Group which affect the contents of the consolidated financial statements.

The Report on the activities of the Capital Group for the 2013 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of

19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014, item 133) and consistent with underlying information disclosed in the audited consolidated financial statements.

Dorota Snarska-Kuman
Key Certified Auditor
conducting the audit
No. 9667

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Dorota Snarska-Kuman
– Vice-President of the Management Board of Deloitte Polska Sp. z o.o.
– which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 10 March 2014

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

Consolidated income statement

(in PLN thousand)

		2013			2012 RESTATED		
	NOTE	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 140 – 262 and annexes to the financial statements presented on pages I-VI 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 140 – 262 and annexes to the financial statements presented on pages I-VI 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 140 – 262 and annexes to the financial statements presented on pages I-VI 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 140 – 262 and annexes to the financial statements presented on pages I-VI 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 1.01.2012 (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 140 – 262 and annexes to the financial statements presented on pages I-VI 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**
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 140 – 262 and annexes to the financial statements presented on pages I-VI constitute an integral part of the consolidated financial statements.

Notes to the financial statements

(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.

(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.

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.

Notes to financial statements

(in PLN thousand)

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.

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.

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.

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.

(in PLN 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.

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**

(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.

(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 financial statements

(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.

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.

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.

Notes to financial statements

(in PLN thousand)

- 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

  - 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 ofexchange 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,
- 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 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.

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.

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.

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.

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

Intangible assets

Intangible assets

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.

(in PLN thousand)

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.

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.

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.

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,
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.

(in PLN thousand)

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

Risk Management Division

- 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.

(in PLN thousand)

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

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

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

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

(in PLN thousand)

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

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

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

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

SUPERVISORY CATEGORY	NOMINAL VALUE 31.12.2013	NOMINAL VALUE 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%**

(in PLN thousand)

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.

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	he 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.

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.

(in PLN thousand)

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**

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**

Notes to financial statements

(in PLN thousand)

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

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

(in PLN thousand)

Overall characteristics of monitoring process

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

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

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

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

Overall characteristics of provisioning model

The 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 financial statements

(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.

(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 financial statements

(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 ofPLN 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

	DERIVATIVES						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
RATING	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	TOTAL
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**

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

	DERIVATIVES						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
RATING	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	TOTAL
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**

(in PLN thousand)

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**

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%**

(in PLN thousand)

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.

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.

(in PLN thousand)

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 threat 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**

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.

Notes to financial statements

(in PLN thousand)

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

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.

(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.

(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'.

Structure of financial liabilities by contractual maturities

31.12.2012	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks	3,612,070	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	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.

(in PLN thousand)

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.

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).

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.

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).

(in PLN thousand)

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).

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,
- 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 December 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 and interests held,
- pursuant to § 3 Sec. 1 Point 1, Sec. 3 and § 5 of the Resolution No. 325/2011 Polish Financial Supervision Authority of 20 December 2011, equity exposure to financial institutions is included in 50% of their amount in deductions from the core capital and the remaining 50% in the supplementary funds. However, if 50% of the equity exposure to financial institutions exceeds the supplementary funds, the difference is deducted from the core capital. Therefore the core capital in connection with this position amounted to PLN 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).

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, reputation and 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.

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 toLevel 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.

(in PLN thousand)

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	–	–	–	–

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	–	–	–	–

(in PLN thousand)

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	–

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	–

(in PLN thousand)

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.

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.

(in PLN thousand)

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 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.

(in PLN thousand)

31.12.2012	CARRYING AMOUNT	FAIR VALUE	OF WHICH: LEVEL 1	LEVEL 2	LEVEL 3
ASSETS					
Cash and due from Central Bank	9,207,285	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, CDMMobile) 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.

(in PLN thousand)

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.

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	–
Liabilities due to hedging deposits	–	33
Other liabilities	506	464
Total liabilities	**510**	**497**

(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 managed 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.

(in PLN thousand)

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

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING CONTINUED OPERATIONS	CORPORATE AND INVESTMENT BANKING DISCONTINUED OPERATIONS	ASSETS AND LIABILITIES MANAGEMENT AND OTHER (*)	TOTAL
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 financial statements

(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).

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).

(in PLN 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)**

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).

(in PLN 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).

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)**

(in PLN thousand)

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)**

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**

17. Net impairment losses on financial assets and off-balance sheet commitments (in PLN thousand)

2013	OPENING BALANCE	INCREASES: IMPARIMENT CHARGES	INCREASES: OTHER (*)	DECREASES: WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	DECREASES: RELEASE OF IMPARIMENT CHARGES	DECREASES: OTHER (*)	CLOSING BALANCE	IMPACT ON INCOME STATEMENT(**)
Impairment of financial assets and off – balance sheet commitments								
Loans and advances to banks valued at amortized cost	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 financial statements (cont.)

(in PLN thousand)

2012	OPENING BALANCE	INCREASES: IMPARIMENT CHARGES	INCREASES: OTHER (*)	DECREASES: WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	DECREASES: RELEASE OF IMPARIMENT CHARGES	DECREASES: OTHER (*)	CLOSING BALANCE	IMPACT ON INCOME STATEMENT(**)
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks valued at amortized cost	72,516	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.

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.

Notes to financial statements

(in PLN thousand)

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)**

(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**	**–**

(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)**

(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 %).

(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.

(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**

(in PLN thousand)

Financial assets and liabilities held for trading by currencies

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

31.12.2012	ASSETS	LIABILITIES
PLN	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.

(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**

(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**

Nominal value of trading derivatives

	CONTRACTUAL MATURITY					
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
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**

(in PLN thousand)

Nominal value of trading derivatives

31.12.2012	CONTRACTUAL MATURITY UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Interest rate transactions						
Interest Rate Swaps (IRS)	3,691,426	8,470,978	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**

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**

(in PLN thousand)

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).

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.

(in PLN thousand)

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**	

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).

(in PLN thousand)

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).

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.

(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

	CONTRACTS ACCORDING TO 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
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**

	CONTRACTS ACCORDING TO MATURITIES					
31.12.2012	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
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**

(in PLN thousand)

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)

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.

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.

(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	–	–

(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**

(in PLN thousand)

31. Reclassification of securitiesh

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

		31.12.2013		31.12.2012	
	AMOUNT OF RECLASSIFICATION	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**

(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.

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.

(in PLN thousand)

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

	1.01.2013 – 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:

	1.01.2013 – 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 financial statements

(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:

	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**

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.

(in PLN thousand)

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.

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.

Notes to financial statements

(in PLN thousand)

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

2013	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
GROSS VALUE					
Opening balance	**90,934**	**1,929,766**	**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**

(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.

(in PLN 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**

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**

(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						
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.

(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.

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)

(in PLN thousand)

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.

(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**

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**

Notes to financial statements

(in PLN thousand)

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**

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

(in PLN thousand)

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.

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.

(in PLN thousand)

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.

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.

(in PLN thousand)

- 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).

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:

	STOCK OPTIONS		PERFORMANCE SHARES	
2013	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.

	STOCK OPTIONS		STOCK OPTIONS	
2012	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

Notes to financial statements

(in PLN thousand)

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.

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.

(in PLN thousand)

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 program settlement, which in case of this program coincides with the vesting date.

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

The 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.

(in PLN thousand)

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 participantsmay 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.

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 1 years 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 1 years 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).

(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**

(in PLN thousand)

Securities underwriting

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

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

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

(in PLN thousand)

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

NAME OF ISSUER	TYPE OF SECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT ITSELF	CONTRACT LIFE
Client 1	bonds	772,000	23.07.10 – 30.06.15
Client 2	bonds	410,900	15.11.10 – 31.10.13
Client 3	bonds	540,000	29.07.12 – 15.12.17
Client 4	bonds	60,000	29.07.12 – 15.12.17
Client 5	bonds	71,710	25.08.11 – 30.06.13
Client 6	bonds	13,500	22.08.11 – 31.12.13
Client 7	bonds	2,500	19.08.11 – 30.12.13
Client 8	bonds	10,000	27.09.11 – 31.12.13
Client 9	bonds	58,770	20.12.11 – 30.03.13
Client 10	bonds	10,000	20.12.11 – 30.03.13
Client 11	bonds	2,310	20.12.11 – 31.03.13
Client 12	bonds	37,000	03.01.12 – 15.08.13
Client 13	bonds	3,440	19.01.12 – 30.12.13
Client 14	bonds	22,850	15.05.12 – 30.12.13
Client 15	bonds	22,000	07.03.12 – 30.03.13
Client 16	bonds	1,020,000	21.06.12 – 31.12.17
Client 17	bonds	4,000	10.09.12 – 30.09.13
Client 18	bonds	21,000	13.09.12 – 31.12.14
Client 19	bonds	241,150	06.12.12 – 31.03.16
Client 20	bonds	318,800	28.12.12 – 31.03.15
Client 21	bonds	200,000	01.07.11 – 20.12.14

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

Off-balance commitment received

Commitment 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

Change in the number of shares (pcs):

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

(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.

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).

(in PLN thousand)

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.

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**

(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.

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**

(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**

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 financial statements

(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**

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)**

(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)**

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 financial statements

(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**
GUARANTESS ISSUED							
UniCredit S.p.A. – the Bank's parent entity	3,000	–	–	13,904	11,742	19,699	48,345
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	29,967	463	980	65,182	14,768	2,447	113,807
Total	**32,967**	**463**	**980**	**79,086**	**26,510**	**22,146**	**162,152**

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**

(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.

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**

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 financial statements

(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**

(in PLN thousand)

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.

	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**

(in PLN thousand)

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

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**	
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.

- **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)** 'IncomeTaxes'

  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.

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.

Annexes to the financial statements

- **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.

- **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.

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.

- **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.

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.

Support

Flexibility to meet Customer needs.

"As the result of a discussion among different sections of the Risk Division, we realized that it is important to tailor communications according to the needs of each Customer. We worked together as a team, sharing our research and knowledge. This ultimately led to more flexible reports and made us more responsive and proactive, **improving the skills and cohesion of all internal departments**."

Francesco Ivan Pomarico
Group Financial Risk - UniCredit Holding

UniCredit Group Profile

Highlights

UniCredit operates in 17 Countries with more than 147,000 employees and over 8,800 branches.

UniCredit benefits from a strong European identity, extensive international presence and broad customer base.

Its strategic position in Western and Eastern Europe gives the Group one of the region's highest market shares.

1. Data as at December 31, 2013. FTE = "Full Time Equivalent": number of employees counted for the rate of presence. Figures include all employees of subsidiaries consolidated proportionately, such as Koç Financial Services Group employees.
2. Data as at December 31, 2013. Figures include all branches of subsidiaries consolidated proportionately, such as Koç Financial Services Group branches.

* Data as at December 31, 2013.

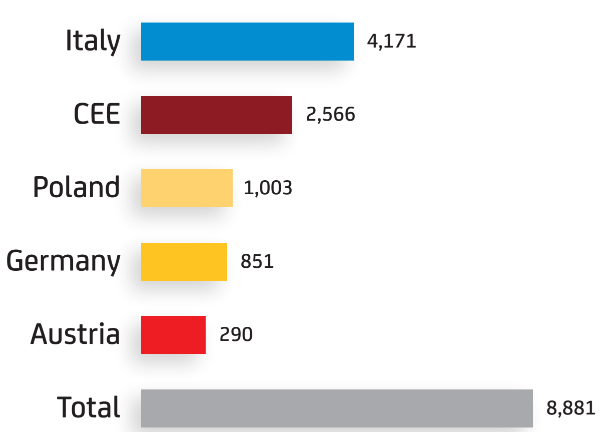
EMPLOYEES[1]

over 147,000

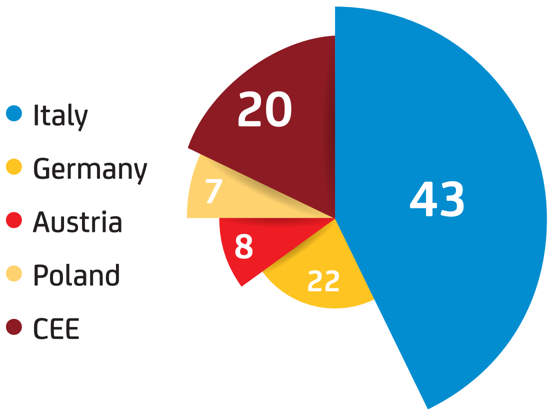
BRANCHES[2]

over 8,800

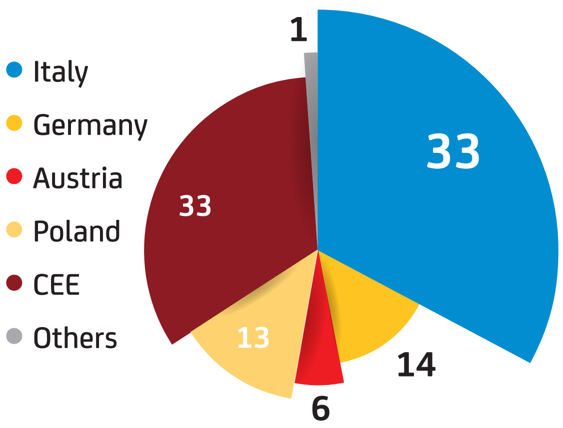
Branches by Country[2]



Revenues by Region* (%)



Employees by Country[1] (%)



Focus

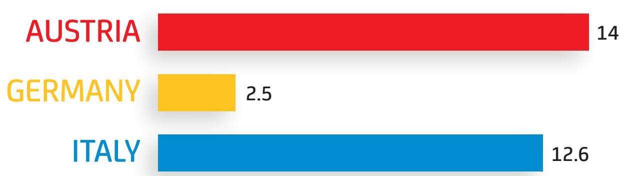
AUSTRIA, ITALY AND GERMANY

UniCredit occupies a strategic position in Italy, Germany and Austria. With about 4,171 branches in Italy, 851 in Germany and 290 in Austria, UniCredit comprises one of the largest banking networks in the heart of Europe. Accounting for more than one-third of the GDP of the European Union, these three countries benefit from their close ties to the growing economies of Central and Eastern Europe.

Following the introduction of the ECB's Outright Monetary Transactions (OMT) program in the summer of 2012, markets' normalization process is enduring, with a gradual restoration of investors' risk appetite. At the beginning of 2014, the growth recovery across the OECD area is gaining good momentum, while global trade is picking up quite nicely. We expect eurozone growth accelerate to an annual average of about 1.5% in 2014, from -0.4% in 2013. Germany is projected to be the engine of growth in 2014, on the wake of brighter export prospects, the unloading of pent-up demand in investment in machinery and equipment, and some strengthening of private consumption; the tight intra-European trade links will secure that the positive effect will be felt in the eurozone periphery as well as Central Eastern Europe. In Italy, the recovery is underway, although the pace of GDP growth is likely to remain subdued at 0.7% in 2014. The main growth drivers will be a steady recovery in exports and a moderate pick-up in capital expenditures, amid still tight credit conditions, while private consumption is likely to be the weak spot. Finally, while the recovery of export markets is kick-starting the domestic economy, domestic demand, mainly investment, will ultimately constitute the main pillar of economic growth in Austria in 2014.

In the medium-to-longer term, the OMT has helped to create a more favorable environment for politicians to implement structural reforms, while repairing the transmission mechanism of monetary policy remains the ECB's most daunting challenge. Pushing ahead with the structural reforms remains essential to achieving a sufficient degree of macroeconomic and fiscal convergence across the eurozone, while efforts continue to shape a credible pan-European architecture. This process is vital to making the eurozone stronger and more competitive moving forward. In Italy, the sustainability of the recovery will largely depend on the effective implementation of reforms to restore long-term competitiveness and reduce public debt. Taking into account the reforms that have already been implemented in Italy, we expect real economic growth to continue at an average annual rate of roughly 1% in Italy and 1.8%-1.9% in Austria and Germany from 2015 to 2018.

Market share[1] (%)



1. Market share in terms of total Customer Loans as at December 31, 2013.
Source: UniCredit, National Central Banks.

CENTRAL AND EASTERN EUROPE

UniCredit is a market leader in Central and Eastern Europe, it has a broad network of roughly 3,600 branches.*

Its regional footprint is diverse, and include a direct presence in 14 countries. It is ranked in the top five in 10 of these counties*. In fact the CEE now accounts for 28 percent of the Group 's revenues.**
Across the newer EU states, economic performance is expected to continue improve. A recovery was already visible over much of 2013. In part this improvement captures a stronger external environment, supporting industry and exports as EMU continues to use much of the region as a competitive production base.
Over 2014 this recovery should extend more visibly into domestic demand. Following a multi year period of fiscal consolidation, the drag to growth on this front should be much more muted going forward while some countries will enjoy a positive impulse. Public debt ratios remain considerably below the average for advanced economies. In many cases labour markets have stabilized.

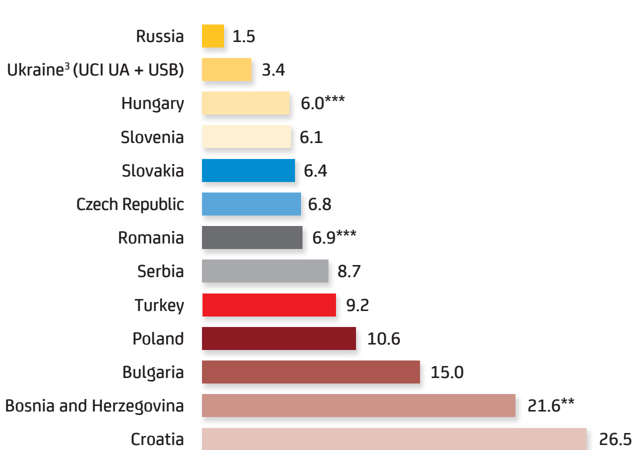
Monetary policy is also exceptionally accommodative across the region while rate hikes are likely to materialize only gradually. Progress on banking union should also bring positive spillovers to the newer EU states while in many countries we see credit proving more supportive of domestic demand. In many of the newer EU states we expect GDP growth of above 2% this year.

Within Turkey and Russia the near term challenges are greater. Following a multi year period of strong growth, momentum will slow this year in Turkey. Political uncertainty plays a role. A slowdown in foreign capital inflows, prompted in part by Fed tapering, is also having an impact. In contrast, stronger industry and export performance brings benefits, as is the case in the newer EU states.

Russia continues to adjust to stable rather than consistently increasing energy prices. This adjustment is aided by increased currency flexibility, a large stock of foreign reserves and improvements in the inflation-targeting regime. Within this environment, real GDP growth over the coming 1-2 years will be more muted than in the past but remain positive.

From a medium- to long - term perspective, we believe that the majority of Central and Eastern Europe economies will continue to see an increase in living standards as growth is supported by competitive labor costs, flexible labor markets and a gradual recovery in foreign direct investment.

Market share[2] (%)



* as at 30 September, 2013.
** as at 30 June, 2013.
*** as at 31st December 2012.
2. Market Share in terms of Total Assets as 30 September 2013. Market share in Azerbaijan not available.
3. Pro-forma (Ukrsotsbank + UniCredit Bank Ukraine).
Source: UniCredit Research, UniCredit CEE Strategic Analysis.

Our Approach

The current economic situation poses a new challenge for the banking sector. It must remake itself into a driver of the real economy - and must be able to meet the needs of society, maintaining sustainable operations.

How are we tackling this challenge at UniCredit? By applying a long-term, multi-stakeholder approach to every area of our activity:

- commercial banking - by improving our business model and competencies in order to work more closely with customers and meet their needs more effectively;
- corporate citizenship - by using our expertise to nurture the economic participation of all people and conserve natural resources;
- philanthropic initiatives - by supporting programs that go beyond a bank's traditional scope and respond to basic social needs, especially in times of crisis.

Indeed, to succeed in the current climate, a bank must address economic, social and environmental issues both in its strategic outlook and in its day-to-day work.

Such an approach depends on a cultural shift - one that is now the basis for our service model - and it also relies on proper risk management. With this in mind, we are improving cooperation between our business units and the departments in charge of risk management. This enables us to develop solutions that are in line with the objectives and needs of our Group and our customers.

The management of risk is the cornerstone of our business, and a deep knowledge of our customers is essential if we are to understand and control risk as effectively as possible.

In order to build even closer relationships with our customers and respond more quickly to their needs, we have simplified many procedures and delegated more decision-making powers to our national operations.

At the same time, we continue to increase efficiency in our operations. Throughout our Group we are adopting technological innovations that are opening up new ways to interact with customers. We are determined to leverage the opportunities presented by multi-channel communications to form stronger and more productive relationships with our clients.

Embracing innovation is one of UniCredit's key objectives. It is why we seek to develop a fully integrated multi-channel banking system that combines traditional and digital communications. The physical branch remains at the heart of this model, particularly in times that call for personal relationships and direct interaction. However, the branch banking experience will be increasingly complemented by the new channels in which we are investing.

It is an approach that stems from paying close attention to our stakeholders' genuine expectations. After all, dialogue with them is our guiding principle for generating lasting value and for successfully supporting the development of the countries in which we operate.

Our extensive physical presence and strong local representation formed the fundamental character of UniCredit. Fifteen years ago, we laid the groundwork for our geographic expansion and operational diversification. It was a sound decision – and it has made our Group a leading financial institution, respected throughout Europe.

15 years of UniCredit

15 years

UniCredit

1999

Group UniCredito Italiano establishment
Merger of Credito Italiano, Rolo Banca 1473, Cariverona, Cassa di Risparmio di Torino, Cassamarca, Cassa di Risparmio di Trento e Rovereto, Cassa di Risparmio di Trieste.

Beginning of international growth.
The expansion process in Central and Eastern Europe starts with the acquisition of the Polish Bank Pekao.

2000

Geographical growth and diversification
Development in emerging markets. Acquisition of Bulbank (Bulgaria) and Pol'nobanca - then Unibanka - (Slovakia).

Acquisition of the US fund manager Pioneer Investment of Boston and establishment of Pioneeer Global Asset Management.

2005

Merger with the German HVB Group and establishment of a single large European bank
UniCredit merged with the German HVB Group, which was created in 1998 from two Bavarian banks (Bayerische Vereinsbank and Bayerische Hypotheken-und Wechsel-Bank), so establishing a single, large European bank.

Acquisition of Yapi Kredi by Koç (Turkey).

2007

Merger with Capitalia. Strengthening the presence of the Group in Italy and abroad
UniCredit strengthen its position in the Italian market thanks to the integration with the Capitalia group – established in 2002 from the merger of Banca di Roma Group, the Bibop-Carire Group, Banco di Sicilia, MCC and Fineco.

The Group also strengthen its presence in CEE with the acquisition of Ukrsotsbank in Ukraine.

2010

A new service model: "Together for our customers"
Together with customer is the organic business evolution program designed to better focus on customers' needs and enhance proximity to territories through a set of interventional measures to combine the specialization of our businesses with the simplification of the Group structure.

2012

The new UniCredit
A rock solid commercial bank leader in Europe which combines operational efficiency and customer satisfaction by investing both in the traditional and digital communication.

2014

UniCredit Tower, the new Headquarter
UniCredit Tower represents a model of:
- sustainability, with more than a 40% reduction in CO_2 emissions;
- modernity, as it's ranked among the world's 10 most beautiful skyscrapers (source: Emporis Building Data Company);
- efficiency, resulted in a reduction in occupied office space, saving almost 25 million euros annually, with better efficiency.

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Bank Pekao Member of UniCredit