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Bank Pekao

Member of UniCredit

The world is changing

Let's change together

2014 Annual Report

Bank Pekao Member of UniCredit

This year's report depicts how innovative Bank Pekao products and ideas help our customers and businesses respond to the challenges of this changing world.

By spotlighting sophisticated, new multichannel products and services we have developed to meet the modern needs of our customers, we show how our Bank is adapting to rapid changes – and how our solutions are helping our customers adapt at the same time.

At Bank Pekao, we make it easy for the people who bank with us to take full advantage of the technologies and customized services now available to them – so that they can achieve their goals and live their lives on their own terms. As their partner, we have a clear responsibility to provide them the flexibility, the foresight and the tools they need to overcome obstacles and seize new opportunities.

The world is changing. Let's change together.

2014 Annual Report

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Highlights of Bank Pekao S.A. Group

	2014	2013	2012	2011	2010	2009
INCOME STATEMENT CONTINUED OPERATIONS – SELECTED ITEMS(*)						(in PLN million)
Operating income	7,346	7,494	7,790	7,567	7,022	6,802
Operating costs	(3,426)	(3,438)	(3,542)	(3,586)	(3,558)	(3,574)
Operating profit	3,920	4,055	4,248	3,981	3,463	3,228
Profit before income tax	3,360	3,433	3,619	3,519	3,047	2,964
Net profit for the period attributable to equity holders of the Bank	2,715	2,767	2,906	2,842	2,488	2,397
INCOME STATEMENT (IN PLN MILLION) – SELECTED ITEMS						(in PLN million)
Operating income	7,346	7,565	7,953	7,808	7,340	7,151
Operating costs	(3,426)	(3,483)	(3,626)	(3,672)	(3,649)	(3,673)
Operating profit	3,920	4,082	4,327	4,136	3,691	3,478
Profit before income tax	3,360	3,454	3,664	3,593	3,102	2,998
Net profit for the period attributable to equity holders of the Bank	2,715	2,785	2,943	2,899	2,525	2,412
PROFITABILITY RATIOS						
Return on average equity (ROE)	11.5%	12.0%	13.3%	14.2%	13.1%	14.1%
Net interest margin	3.1%	3.4%	3.7%	3.7%	3.5%	3.3%
Non-interest income / operating income	38.3%	39.6%	37.3%	40.6%	43.1%	45.9%
Cost / income	46.6%	46.0%	45.6%	47.0%	49.7%	51.4%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS						(in PLN million)
Total assets	167,625	158,522	150,755	146,590	134,090	130,616
Net loans and advances to customers(**)	114,978	103,937	97,559	95,679	80,840	79,455
Amounts due to customers	125,609	119,797	107,993	108,437	99,807	97,250
Debt securities issued	3,857	3,064	4,759	3,044	1,177	2,032
Equity	24,046	23,514	23,264	21,357	20,257	18,371
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS						
Net loans / total assets	68.6%	65.6%	64.7%	65.3%	60.3%	60.8%
Securities / total assets	15.0%	22.2%	19.5%	20.4%	23.4%	21.0%
Deposits(***) / total assets	77.2%	77.5%	74.8%	76.0%	75.3%	76.0%
Net loans / deposits(***)	88.8%	84.6%	86.5%	85.8%	80.1%	80.0%
Equity / total assets	14.3%	14.8%	15.4%	14.6%	15.1%	14.1%
Total capital ratio (Basel III)(****)	17.3%	18.3%	18.1%	17.0%	17.6%	16.2%
EMPLOYEES AND NETWORK						
Total number of employees	18,765	18,916	19,816	20,357	20,783	20,874
Number of outlets (Bank Pekao S.A. and PJSC UniCredit Bank)	1,034	1,001	1,040	1,051	1,073	1,089
Number of ATMs (Bank Pekao S.A. and PJSC UniCredit Bank)	1,825	1,847	1,919	1,910	1,910	1,968

(*) As financial data of the year 2014 don't include results of PJSC UniCredit Bank – sold on July 16, 2013 – to ensure comparability, the section "Income statement continued operations – selected items" was added where for the previous periods only results of continued operations, i.e. excluding PJSC UniCredit Bank, are reported.

(**) 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.

(****) The total capital ratio for the period of 2012-2014 was calculated in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 in force since January 1, 2014. The total capital ratios (previously capital adequacy ratios) for the period of 2009-2011 were calculated in accordance with the methodology which were in force before January 1, 2014.

Note: Since 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 2009 – 2012 have been restated in comparison to those previously published.

In relation to changes in accounting policy in 2013 (for description refer to the Note 5 to the Consolidated Financial Statement of Bank Pekao S.A. Group for the period ended on December 31, 2014) data for 2013 and 2012 have been presented in accordance with the new rules. Data for earlier periods remain unchanged.

Highlights of Bank Pekao S.A. Group for 2014 include data of Spółdzielcza Kasa Oszczędnościowo Kredytowa named Mikołaj Kopernik in Ornontowice, took over by Bank Pekao S.A. following decision of The Polish Financial Supervision Authority on December 5, 2014.

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 Penna	
Wioletta Rosołowska	
Doris Tomanek	

Management Board

Luigi Lovaglio	President of the Management Board, 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 Pekao will remain the leading financial institution in the Polish banking sector, setting new trends and playing a key role in ensuring the financial security of Polish families and supporting the development of Polish enterprises and economy. Solid fundamentals, developed competitive advantages and gained business experience, enable the Bank to compete effectively and to achieve sustainable value growth for all the Bank's Stakeholders. It was confirmed by the fact that Bank Pekao S.A. closed the year as the company with the highest market capitalization on the Polish stock exchange."

Dear Ladies and Gentlemen,

The Supervisory Board has made an assessment of the Bank's situation in 2014 in compliance with legal requirements and corporate governance rules set forth i. a. in the "Code of Best Practice for the WSE Listed Companies", adopted by the Warsaw Stock Exchange.

In the Supervisory Board's opinion, the economic and financial situation of the Bank is good. Again the Bank achieved very good results and reinforced its market position in strategic business areas while maintaining top standards of risk management and high cost efficiency, confirming effectiveness of the Bank's business model and creditability of the applied strategy.
The development of the Bank was performed in a sustainable way with maintaining high service quality and business social responsibility standards. Strong capital and liquidity position were preserved. All requirements for safe operations were met ensuring the safety of the entrusted funds.

The changes occurring in the banking sector require skills of quick adoption to the new market conditions and flexibility of the business model. Not only does the Bank meet these conditions, but it also sets new directions and standards in the Polish banking sector.

The 2014 results of the Bank and the entire Bank Pekao S.A. Group, which were positively assessed by the Supervisory Board, allowed to achieve a return on equity at a level of 11.5%, while maintaining a safe level of capital adequacy ratio Core Tier 1 amounting to 17.3%. The consolidated net profit exceeded PLN 2.7 billion and was close to the previous year result, despite further interest rates cuts and negative impact of regulatory pressures on the Bank's operating results.

The Bank continued its dynamic growth in the scale of operations, significantly increasing lending activity and strengthening its market position in key areas. The volume of loans increased by more than PLN 11 billion and deposits by more than PLN 12 billion, resulting in a double-digit volume growth and enabling further market share gains. The Bank consistently pursued to increase the number of served clients allowing another 370 thousand new customers acquisition.

It was possible also thanks to the further development of product range and investments in innovative and modern solutions such as mobile banking and PeoPay mobile payment system.

The Bank's achievements and performance are recognised on the market, as confirmed by numerous awards and distinctions received. The Bank believes that as one of the largest financial institutions in the Central European region it cannot be only concentrated on the business development, but it also should support society in promoting culture, art and implementation of pro-social projects, such as the Great Orchestra of Christmas Charity long-term engagement.

The Bank's responsibility and concern of the banking sector stability prompt the Bank to take over SKOK Kopernik assuring safety of the funds entrusted by its customers.

Despite high business activity the Bank maintained strict cost control and good loan portfolio quality. For years, the Bank has been paying special attention to cost optimization fostering high operational efficiency. It is one of the competitive advantages developed by the Bank. Also, the cost of risk remained consistently below the sector average.

Bank Pekao S.A. as one of the very few was not involved in the sale of mortgage loans denominated in Swiss franc, which significantly diminished the loan portfolio risk.

In 2014, the Bank launched its 2014-2020 development plan. The plan is based on a customer-centric approach, adjusting product offer and operating model to the changing clients' needs, focused on building long-term relationships with the clients, innovative development and ensuring sustainable growth while maintaining a high level of profitability and cost-efficiency.

The Supervisory Board performed an analysis and assessment of internal control and risk management systems functioning in the Bank and in the Pekao Group.

In the Supervisory Board's opinion, the internal control system functions properly and reliably, providing effective and efficient control of the processes. Internal control is a continuous process carried out at all levels of the organization by the statutory bodies of the Bank, its particular organizational units, supervisors and all Employees. The internal control system is characterized by pursuance to completeness and comprehensive approach. Dedicated organizational structures fully cover the most important risk areas 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 risk management system. This system is comprehensive and consolidated, covering all units of the Bank and its subsidiaries, adjusted to the Bank's operations and organizational structure, the complexity of the business, 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 and it was approved by the Supervisory Board.

The high quality of the Bank's management, its resilience and financial strength reflect high ratings assigned by the leading rating agencies: Fitch Ratings, Standard & Poor's Ratings Services and Moody's Investors Service.

Pekao Group's unique capital strength the and resistance to the shock scenarios were also confirmed during the assets quality review (AQR) and stress tests conducted by the Polish Financial Supervision Authority in accordance with the ECB methodology.

The Supervisory Board is convinced that Bank Pekao will remain the leading financial institution in the Polish banking sector, setting new trends and playing a key role in ensuring the financial security of Polish families and supporting the development of Polish enterprises and economy. Solid fundamentals, developed competitive advantages and gained business experience, enable the Bank to compete effectively and to achieve sustainable value growth for all the Bank's Stakeholders. It was confirmed by the fact that Bank Pekao S.A. closed the year as the company with the highest market capitalization on the Polish stock exchange.

On behalf of the Supervisory Board I would like to thank all the Bank's Customers and Stakeholders for their trust. I would also like to thank the Management Board and Employees of the Bank and Group companies for the commitment, hard work and contribution to achieving very good results.

Warsaw, April 2015

Jerzy Woźnicki
Chairman of the Supervisory Board

CEO's Letter to the Shareholders

LUIGI LOVAGLIO
President of the Management Board, CEO

"Fair approach to Customers and Employees, continuous improvement of the way we operate and a lot of hard work."

Dear Shareholders,

Group Pekao reports strong results with PLN 2 715 m net profit for year 2014. This year brought another confirmation that our business model of focusing on sustainable revenue sources, constant efficiency improvements and drive for excellence in risk management, delivers satisfactory results and makes the Bank less sensitive to external shocks compared with competitors.

Year 2014 was challenging for global economy. Rising political tension in number of European countries, again disappointing low growth in Europe, emergence of new conflicts in Ukraine and Middle East having truly global impact, significant movements of different assets prices created together very difficult combination.

Polish economy proved that its fundamentals are sound, which made our market resilient to these external shocks. GDP growth reached 3.3%, banking sector loans increased by 6% and deposits by 9%. Improvement in domestic demand was strong enough to offset negative impact of weaker growth in EU and consequences of Ukrainian conflict. This positive for banking sector scenario was however negatively impacted by further cuts of already record low interest rates. Banks also faced, similarly as in many other banking sectors, increased regulatory burden, impacting both revenues and costs.

In this environment we perform very well, progressing on the path of 2020 plan. We reinforced our growth attitude, focusing on customers acquisition, significantly increasing volumes and investing in innovations, while maintaining high standards in risk management. We improve the agility of the company and our capability to adapt to the changes. Thanks to this, we continue to deliver high profitability, with nominal ROE reaching 11.5% in deflationary environment, while keeping very safe level of capital with Core Tier I ratio at 17.4%.

We continued improving our market shares in lending, increasing our financing to Polish enterprises and families by more than PLN 11 bn. Key retail loans increased by 13.7% y/y, and corporate loans by 10.5% y/y. We were one of the main lenders for key infrastructure projects, which improved quality of life and increased economy competitiveness.

We invested in each of our distribution channels to provide the most value to our customers. In 2014 we invested heavily in developing our mobile banking and internet platforms, increasing their functionalities. Almost 600 ths. customers use already our mobile banking and more than 2.7 million use our internet banking.

Our leading position in banking technological innovations was confirmed by being the first bank in Poland and second in Europe who offered customers convenient mobile payment system PeoPay based on HCE technology. Easy and fast to use system, transferring mobile phone into payment tool will reshape the whole payment system.

Regardless of the channel that a customer chooses, our focus is on providing exceptional service every time, as it increases customer loyalty and grows referrals.

Constant focus on cost efficiencies is one of key strategic pillar of our Bank. In 2014 we reduced our costs again by 1.7%, despite that following new regulations we had to pay significantly higher contribution to Bank Guarantee Fund.

Managing expenses well allows us to realize the full benefits of our scale without diminishing customer experiences or increasing operational risk.

We launched in 2014 new initiative, "Agromania", focused on one of the sectors of Polish economy, where we were not present – agriculture. Dedicated product offer, separate internal structure and full commitment of the whole network allowed us to deliver quickly first tangible results. We provided PLN 3 bn new financing to this sector and acquired more than 3 thousand agriculture customers.

I strongly believe that banks who strive for long term success must act beyond simple focusing on short term profits. We believe that being a leading institution requires us to contribute not only through our business activity, but also supporting key values of our society. We do this by sponsoring and promoting art, culture, social and environmental projects. We are the long term partner of "The Great Orchestra of Christmas Charity", the leading social and beneficence initiative in Poland.

Year 2014 brought challenges to Cooperative Credit-Saving Unions (SKOK) system, with number of them facing very material losses from lending activity and in consequence, risk of bankruptcy. Two such Unions were declared bankrupt, creating financial burden for the whole financial market.

We were asked and we decided to take over SKOK Kopernik, small entity operating locally in South-West part of Poland. In this way we provide support to the stability of the financial system ensuring full safety of deposits kept by customers in this SKOK.

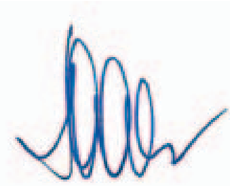
Recently Polish banking sector faced challenge of mortgage granted in CHF because of significant appreciating of this currency. Ethical concerns were the main reason, why since 2003 we decided not to participate in CHF mortgage business. We always believed in long term value of ethical business. This decision costed us in the past significant amount of lost profits, but we struggled against the market pressure and kept such approach. Today benefit of such decision for our customers and investors is visible to everybody. I believe that in the banking there is no room for shortcuts.

Our reputation will continue to be one of our most important assets, influenced by what we do and how we deal with our customers and our society. We believe that consistent focus on responsible, traditional banking practices was and is the key for sustainable success.

Fair approach to Customers and Employees, continuous improvement of the way we operate and a lot of hard work, that is what we need to deliver good results in a sustainable way.

Our long term strategy of sustainable returns was recognized also in recent results of the AQR and Stress Test, where our Bank was positioned on the top among all European key players.

On behalf of Management Board, I would like to thank our Clients and Shareholders for their trust and loyalty and Supervisory Board members for their strong support. Let me close by thanking all our Employees. I believe we have great people. The enthusiasm, commitment, energy and hard work of each of them to achieve our goals are evident. Together we have built a successful, future proof organization, based on healthy fundamentals and values. I am really grateful.



Luigi Lovaglio
President of the Management Board, CEO

Summary of Performance

Net profit of Bank Pekao S.A. Group attributable to equity holders for 2014 amounted to PLN 2,714.7 million allowing return on average capital (ROE) at the level of 11.5% achieved with a strong capital base reflected by the total capital ratio at 17.3% (Basel III). Normalized ROE (return on minimum equity equivalent to the total capital ratio at 10%) amounted to 17.3%.

As financial data of 2014 don't include results of PJSC UniCredit Bank – sold on July 16, 2013 – in the subsequent part of this chapter, financial information dynamics is discussed excluding PJSC UniCredit Bank from the year 2013 to ensure comparability.

The Group's net profit attributable to equity holders reported for 2014 was lower by PLN 52.6 million, i.e. 1.9% in comparison to 2013, mainly due to lower trading result and the impact of regulatory constraints.

The strength of the liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 88.8% at the end of December 2014. This together with strong equity level enables for further sound and stable development of the Group's activities.

In the area of mortgage lending, 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 only 4.3% of total loans of the Bank.

- In 2014, the Group's operating income amounted to PLN 7,345.7 million, a decrease of PLN 147.9 million, i.e. 2.0% in comparison with 2013 mainly due to decrease in net non-interest income partially compensated by higher net interest income achieved despite significant pressure of lower interest rates.

- Total net interest income, dividend income and income from equity investments in 2014 amounted to PLN 4,532.8 million and was higher by PLN 22.8 million, i.e. 0.5% compared to the previous year thanks to higher volumes fully compensating negative impact of lower interest rates including reduction of the NBP Lombard rate determining the maximum interest rate applicable to loans. In 2014, average WIBOR 3M rate stood at the level of 2.51%, and was lower by 52 b.p. than in 2013, while the NBP Lombard rate went from 4.0% at the end of 2013 to 3.0% at the end of 2014.

- The Group's net non-interest income in 2014 amounted to PLN 2,812.9 million, a decrease of PLN 170.7 million, i.e. 5.7% in comparison with 2013 mainly due to lower net fee and commission income (affected by lower interchange rates decreasing card related fees, unfavorable market conditions influencing mutual funds and brokerage fees as well as OFE reform and migration to the Internet channels) and lower trading result, in particular lower gains on disposal of available for sale financial assets.

- In 2014, the operating costs were kept under control and amounted to PLN 3,425.5 million. They were lower than the operating costs in 2013 by PLN 12.7 million, i.e. 0.4% despite new prudential charge of Banking Guarantee Fund introduced in the fourth quarter of 2013.

- The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 559.6 million in 2014, a decrease of PLN 98.9 million, i.e. 15.0% as compared with 2013.

  As at December 31, 2014, the ratio of impaired receivables to total receivables amounted to 6.8% and was better by 0.5 p.p. in comparison to the end of 2013.

- As at the end of December 2014, the total amounts due to the Group's customers and debt securities issued amounted to PLN 129,466.0 million, an increase of PLN 6,605.6 million, i.e. 5.4% in comparison to the end of 2013, despite a decrease by PLN 6,122.5 million of liabilities to Open Pensions Funds (OFE) due to pension funds reform introduced in the first quarter of 2014. Excluding OFE, total amounts due to the Group's customers and debt securities issued increased by PLN 12,728.1 million, i.e. 11.3% in comparison to the end of 2013.

  The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 55,934.6 million at the end of December 2014, an increase of PLN 4,518.3 million, i.e. 8.8% in comparison to the end of 2013.

  The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 17,115.1 million at the end of December 2014, an increase of PLN 703.6 million, i.e. 4.3% in comparison to the end of 2013.

  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 73,531.4 million at the end of December 2014, an increase of PLN 2,087.3 million, i.e. 2.9% as compared to the end of 2013, excluding OFE an increase of PLN 8,209.8 million in comparison to the end of 2013.

- As at the end of December 2014, the volume of total customers' financing amounted to PLN 121,192.8 million, an increase of PLN 11,642.2 million, i.e. 10.6% in comparison to the end of 2013.

  As at the end of December 2014, the volume of retail loans amounted to PLN 49,264.0 million, an increase of PLN 4,788.6 million, i.e. 10.8% in comparison to the end of 2013.

  The volume of corporate loans, non-quoted securities, reverse repo transactions and securities issued by non-monetary entities amounted to PLN 71,928.8 million, an increase of PLN 6,853.6 million, i.e. 10.5% in comparison to the end of 2013.

External Activity Conditions

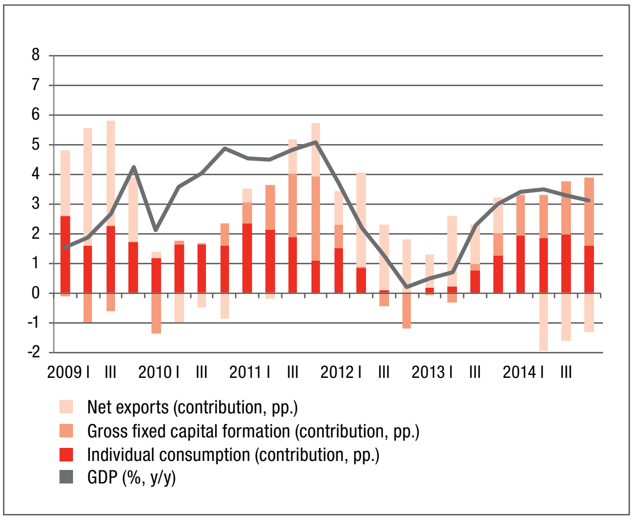
External Activity Conditions

Economic growth

In 2014, the estimated GDP growth in Poland amounted to 3.3% as compared with economic growth of 1.7% achieved in 2013. The signs of economic recovery that appeared in the second half of 2013 were reinforced in the following year.

Domestic demand was the main source of economic growth in 2014, it increased by ca. 4.6% after an increase of merely 0.2% in the previous year and was supported by both, consumption and investments. Households consumption increased by 3.0% in 2014 vs. an increase of 1.1% in 2013 thanks to systematic improvement on the labour market and price stability, what translated into higher purchasing power of households. In 2014, a significant intensification of investment activity was observed. Gross fixed capital formation increased by 9.4%, after an increase of merely 0.9% in 2013. Foreign trade decreased the GDP growth in 2014 by 1.2 p.p., while the positive contribution of net exports to the GDP in 2013 amounted to 1.5 p.p.

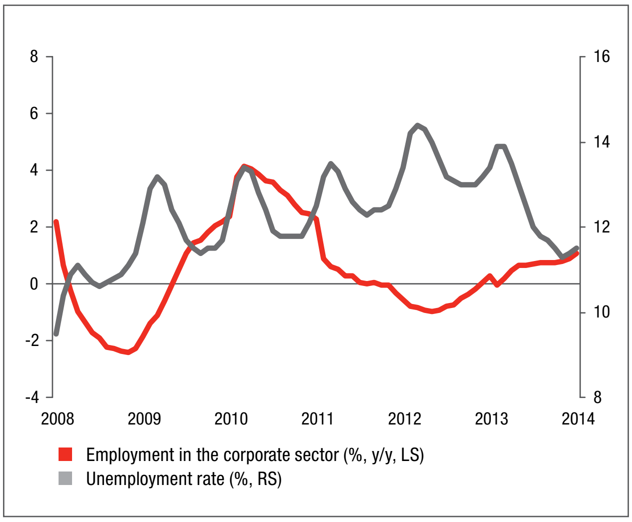
In 2015, the GDP growth is expected to stabilize at the level of ca. 3.3%. Economic growth should still be based on domestic demand, in particular on consumption growth. Since the process of accepting Poland's operational programs by the European Commission is prolonged, the beginning of public investments cycle financed by the EU funds under the 2014-2020 financial perspective may be delayed. As a consequence, in 2015, the overall fixed investments growth is likely to be lower than in the previous year. Economic outlook will be affected by increasing uncertainty associated with the situation in Russia, limitations in food products export to the eastern markets as well as a potential slowdown in economic growth in the largest emerging markets.



Labour market

In 2014, average employment in the corporate sector increased by 0.6% and in December 2014 amounted to 5,549 thousand, i.e. by 58 thousand more than in December 2013. The increase in employment in 2014 was a continuation of the upward trend in the number of jobs, which was started in mid-2013 and clearly accelerated in 2014. An increase in employment was recorded mainly in the manufacturing sector and trade and services, while in the construction sector and the mining industry a decrease in employment was observed.

In 2014, wage pressure in the Polish corporate sector remained at a moderate level, which was supported by a decline in inflation expectations of households along with the emergence of deflation. The average wage in the corporate sector increased in 2014 by 3.7% vs. 2.9% in the previous year. As a result, wage bill in the corporate sector increased in 2014 in nominal terms by 4.3% vs. 1.9% in 2013, which after adjusting for inflation, resulted in an increase in real terms by 4.3% in 2014 compared with 1.0% in 2013. In 2014, the beginning of a downward trend in the unemployment rate was noted, which as at the end of 2014 amounted 11.5% vs.13.4% in December 2013. Beyond the creation of new jobs, a factor that supported the decline in unemployment was the reform of the functioning of the labor offices imposing new requirements on the registered unemployed. It is expected that in 2015 the downward trend in the unemployment rate will be continued along with stabilization of economic growth.



Inflation and monetary policy

According to data of the Central Statistical Office in Poland, the average consumer price inflation amounted to 0.0% vs. 0.9% in 2013. Consumer price index has been below the lower limit of the allowed deviations from the inflation target of the National Bank of Poland since February 2013. The target is defined at the level of 2.5% and the range of permissible deviations is 1.5 – 3.5%. In December 2014, the CPI amounted to – 1.0% year on year.

The greatest impact on the persistence of low inflation came from food prices (mainly sugar and vegetables), clothing and footwear and transport. Consumer price index has been recording declines in year on year terms starting from the third quarter of 2014.

In 2014, there was a decline in core inflation (excluding food and energy prices) to the level of 0.6% from 1.2% in 2013. In addition to the decline in consumer price inflation, in 2014, there was a decline in prices of sold production of industry, which resulted primarily from a decrease in global commodity prices.

Low inflation in 2014 and the accompanying decline in households' inflation expectations prompted the Monetary Policy Council (MPC) to lower the reference rate in October by 50 b.p. to the level of 2.00%. The NBP Lombard rate was lowered by 100 b.p. to the level of 3.00% and the deposit rate was maintained at the level of 1.00%.

In 2015, it should be expected a slight increase in the CPI, which mainly will result from the higher food and fuel prices. In the second half of the year, increasingly important role for the inflation will be played by demand factors. However, it is estimated that by the end of 2015 inflation will not return to the inflation target.

Fiscal policy

According to the preliminary estimates of the Ministry of Finance, the 2014 state budget deficit could have been below PLN 30 billion vs. an annual limit of PLN 47.5 billion and at the end of November 2014 amounted to PLN 24.8 billion. Revenues were PLN 8.8 billion higher than envisaged in the budget execution plan, while expenditures were PLN 11.9 billion lower than planned. VAT collections were significantly higher than conservatively forecasted in the 2014 budget act. Lower expenditures resulted from changes in the pension system and savings were supported in particular by lower debt servicing costs, lower imbalance in the Social Security Fund due to so-called "suwak" and the fact that low percentage of insured decided to continue paying part of the contribution to the Open Pension Funds. In the environment of economic recovery, fiscal consolidation is progressing at a faster pace than required by the European Commission. The Ministry of Finance estimates that in 2014, the general government deficit will reach the level of 3.3% of the GDP vs. 3.9% of the GDP recommended by the European Commission.

The 2015 budget bill envisages the state budget deficit limit at the level of PLN 46.1 billion. The bill was prepared in accordance with the stabilizing expenditure rule, which curbs the level of public expenditure. For the first time, the rule was applied in a legally binding form. In 2015, the general government deficit should be reduced below 3% of the GDP, what may be the reason to remove from Poland the excessive deficit procedure, which was imposed by the decision of the European Council on July 7, 2009.

Foreign sector

The NBP data indicate that in the period January-November 2014, the current account deficit amounted to EUR 4.7 billion vs. EUR 4.6 billion in the comparable period of 2013, which translates into a decrease in 12-month relation to the GDP to 1.3% from 1.5%.

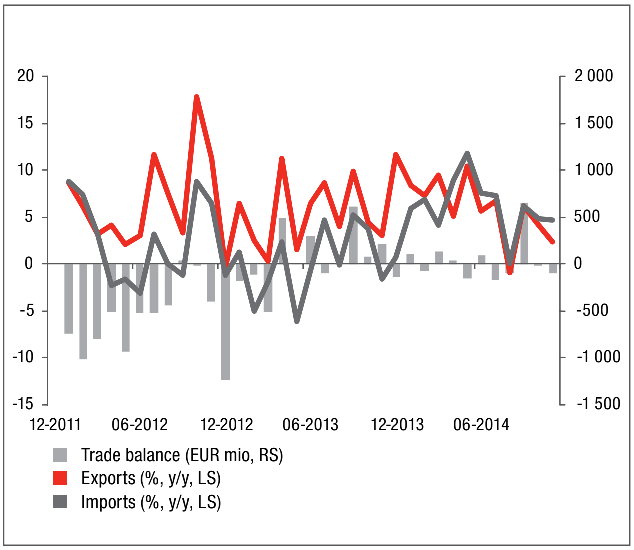
A slightly higher deficit of the current account was mainly due to a decrease of the services account surplus, while the secondary income deficit decreased. The surplus of the services account decreased to EUR 6.6 billion from EUR 7.5 billion in 2013, while the secondary income account recorded surplus at the level of EUR 0.3 billion vs. deficit in the amount of EUR 0.5 billion in January – November 2013. In the period January-November 2014, trade account recorded a surplus of EUR 0.4 billion in comparison with a surplus of EUR 0.8 billion in comparable period of 2013. At the same time, as a result of the acceleration of domestic demand, in the analyzed period the growth rate of imports increased considerably (to 6.1% year on year from 0.1% year on year in 2013), while the growth rate of exports recorded a slight increase (to 5.8% year on year from 5.2% year on year in 2013). On the primary income account, in the period January-November 2014, a deficit of EUR 12.0 billion vs. EUR 12.2 billion in the comparable period of 2013 was maintained.

In terms of financing, there was a significant increase in foreign direct investment (FDI), in the period January-November 2014 the FDI inflow was at EUR 11.7 billion vs. EUR 2.9 billion in the comparable period of 2013. Portfolio investment recorded also a significant improvement (to EUR 2.9 billion from EUR 1.5 billion in 2013). It resulted from a limitation of the capital inflow on the debt market (EUR 0.4 billion vs. outflow of EUR 0.5 billion in 2013). The inflow of funds into the stock market was also higher than the level from 2013 (EUR 2.5 billion vs. EUR 2.0 billion). An important source of financing for the current account deficit was also the inflow of capital transfers from the EU, which in the period January-November 2014 was only slightly lower than in the comparable period of 2013 (EUR 8.1 billion vs. EUR 8.4 billion in 2013).

In 2014, a moderate increase of the Treasury's foreign debt was recorded. According to the data of the Ministry of Finance, at the end of November 2014, the Treasury's foreign debt amounted to PLN 268.8 billion, which means an increase of ca. PLN 15.1 billion

External Activity Conditions

in comparison to December 2013 (by 5.9%). The growth of the Treasury's foreign debt was partly caused by a slight weakening of the złoty against foreign currencies, in which it is denominated.



Capital market

In 2014, the US dollar significantly appreciated against a basket of currencies in relation to systematically improving situation in the US economy and expectations that the Federal Reserve would abandon its ultra-accommodative monetary policy. The signs of recovery in the economy translated into a continuation of "bull market" on stock exchanges. The S&P 500 index gained more than 11%, setting historical records several times during the year.

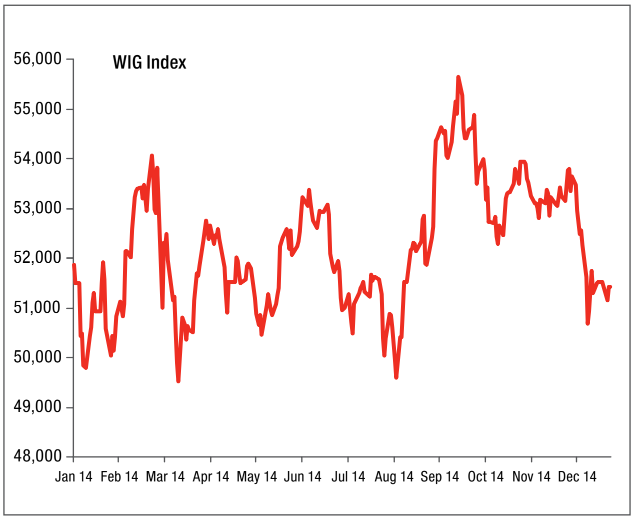
Optimistic sentiment was slightly noticed on the European markets, where investors were negatively surprised with worse than forecasted macroeconomic data for the euro zone. Changes in the main indices were moderate; German DAX gained 2.7%, while FTSE in UK decreased by 2.5%. Also, a sharp declines in commodity prices (mainly in oil) and deep sell-off of Russian assets limited the risk appetite on emerging markets.

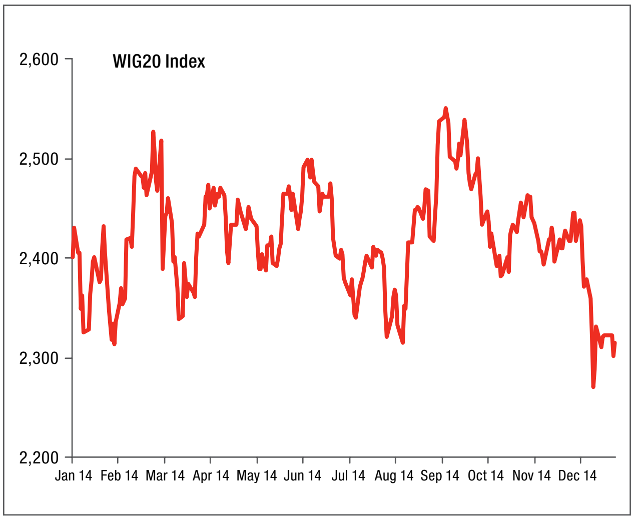
Beyond the fundamental factors, capitalization of the companies listed on the Warsaw Stock Exchange was affected by lower turnover, decreased activity of open pension funds and bigger demand for bonds than for equity funds by retail investors. The WIG index gained 0.3%, the index of blue chip (WIG20) decreased by 3.5% while the mWIG40 reached a relatively good level (increase by 4.1%).

In 2014, 28 new companies joined the main market and 7 companies left stock exchange. Capitalization of domestic companies decreased slightly to PLN 591.2 billion from PLN 593.5 billion in 2013. However taking into account foreign companies listed on the Warsaw Stock Exchange, capitalization increased by over 49% to PLN 1,253.0 billion. The value of turnover on the stock market amounted to PLN 232.9 billion and was lower than in the previous year (PLN 256.1 billion).

In 2014, investment funds' assets increased by 10.4% to a record-high level of PLN 208.9 billion. The net inflows amounted to PLN 11.5 billion of which the biggest inflows attracted debt, cash and non-public market funds. Funds with increased risk (equity and mixed) noted outflows by ca. PLN 2.3 billion.

There is a threat that the situation on the Warsaw Stock Exchange may not change in the coming months. Continuation of horizontal trend is very likely scenario in case of main indices. The risk of beginning of interest rate hikes cycle by the US Fed, deflation in Europe, situation in Russia and adverse sentiment may limit demand for risky assets. On the other hand, stronger than expected recovery in domestic economy would favor equities.





Banking sector

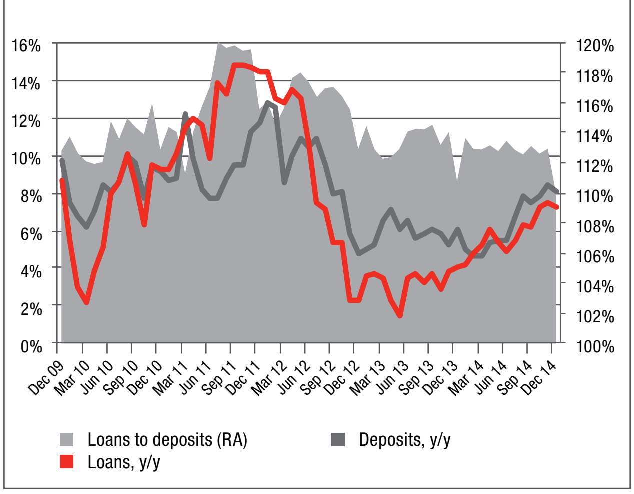
In 2014, situation on the banking sector was determined by improvement in the macroeconomic (acceleration in economic growth, decline in unemployment) and further lowering of interest rates (at the end of the year the NBP reference rate amounted to 2.0% in comparison to 2.5% as at the end of 2013). The banks' financial results improved as a consequence of an improvement in banking activity result with continuous cost control and moderate increase in the cost of risk and other reserves.

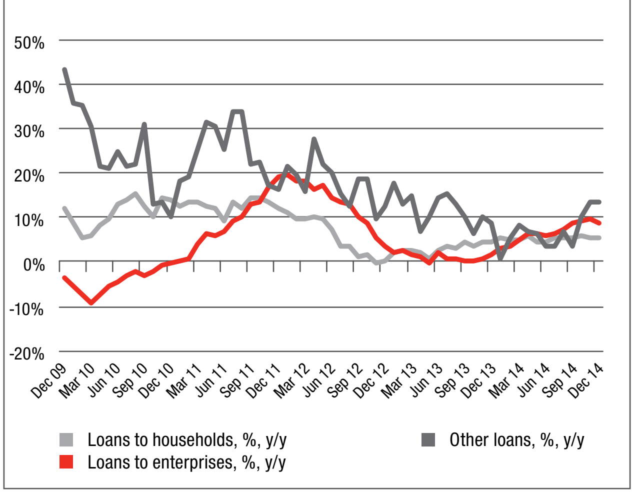
According to the Polish Financial Supervision Authority (KNF) data, the pace of growth of monetary financial institutions assets was at relatively high level, as at the end of 2014 amounted to 9.1% year on year (compared to 4.1% year on year in 2013). Deposits of monetary financial institutions increased in this period by 10.2% year on year (7.1% year on year in 2013) and loans by 6.8% year on year (3.4% year on year in 2013).

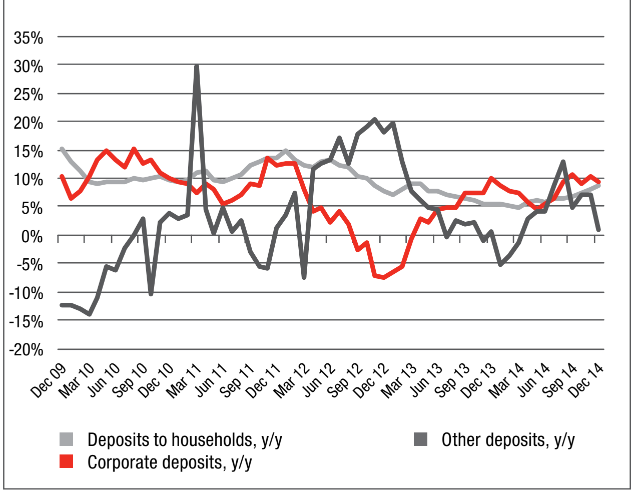
In terms of main deposit categories, in 2014 the following developments were noted (*):

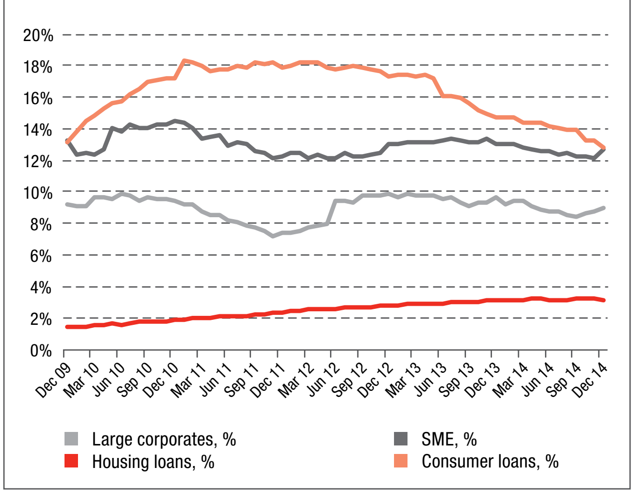
– an increase in household deposits by 8.9% year on year (by 5.6% year on year in 2013) resulting from probably higher risk aversion and lower propensity to invest in more risky assets (e.g. investment funds),
– increase in corporate deposits by 9.4% year on year (by 10.0% year on year in 2013) resulting from good financial performance of corporates and reduced expenditures for raw materials associated with declining in global prices,
– an increase in other deposits by 0.9% year on year (by 0.7% year on year in 2013) resulting from an increase in deposits of non-profit institutions serving households.

As at the end of 2014, household deposits accounted for 64.7% (64.3% as at the end of 2013), corporate deposits accounted for 24.7% (24.4% as at the end of 2013), and other deposits accounted for 10.6% (11.3% as at the end of 2013) of all deposits.









(*) Source: NBP – segment data on deposits and loans – monetary statistics.

External Activity Conditions

In terms of main loan categories, in 2014 the following developments were noted:
- an increase in loans to households by 5.5% year on year (by 4.5% year on year in 2013) resulting from increasing demand for consumer loans (associated with better macroeconomic situation), stabilization on housing loans market and record-low interest rates,
- strong increase in loans to corporates by 8.8% year on year (by 1.5% year on year in 2013) resulting from much stronger investments,
- an increase in other loans by 13.3% year on year (by 8.5% year on year in 2013) resulting from a high growth in loans to non-bank financial institutions.

As at the end of 2014, loans to households accounted for 59.0% (60.0% at the end of 2013), loans to corporates accounted for 29.7% (29.3% at the end of 2013) and other loans accounted for 11.3% (10.7% at the end of 2013) of all loans.

In terms of loan portfolio quality, in 2014 the following developments were noted:
- gradual decline in the share of NPLs in the portfolio of loans to corporates. As at the end of 2014, non-performing loans accounted for 11.2% of the portfolio, while as at the end of 2013 they stood at the level of 11.6%. Decrease in share of non-performing loans was seen both in loans to large corporates (9.0% in December 2014 vs. 9.6% at the end of 2013) and in SME sector (12.7% in December 2014 vs. 13.0% at the end of 2013),
- further, moderate decline in the share of NPLs in the portfolio of loans to households to the level of 6.5% as at the end of 2014 from 7.1% as at the end of 2013. In term of this portfolio, the share of NPLs in housing loans remain unchanged (3.1%) while in portfolio of non-housing loans the share of NPLs decreased from 13.1% as at end of 2013 to 11.8% as at the end of 2014.

In 2014, an increase in banking sector net profit was reported as compared to comparable period of 2013. According to the KNF data, net profit in this period was equal to PLN 16.2 billion (by 7.0% higher as compared to 2013). The improvement was mainly thanks to higher net interest income and control of operating costs. Cost of risk and other reserves increased moderately.

In the regulatory framework, important events in 2014 were, among others, launching of the government program "Mieszkanie dla Młodych" ("Apartment for the Young") supporting households in acquisition of apartment and reduction of interchange fee rates in the area of cards transactions. There was also an increase in contribution to the Bank Guarantee Fund.

Important Events and Achievements

Important Events and Achievements

Changes within the Group

The composition of Bank Pekao S.A. Group is presented in the Note 3 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December, 2014.

The most significant changes concerning the Group occurred in 2014 are presented below.

Acquisition of shares

On August 7, 2014, the Bank acquired 19.9% of the shares of Pekao Leasing Holding S.A. as a result of concluded agreement between UniCredit Leasing S.p.A as the Seller and Bank Pekao S.A. as the Buyer. Following the transaction, the Bank's share in equity and voting rights at the General Shareholders Meeting of Pekao Leasing Holding S.A. increased to 100%.

Merger of the companies

On September 26, 2014, the Registry Court registered the merger of two subsidiaries of the Bank: Pekao Property S.A. (Acquiring Company) and Property Sp. z o.o. in liquidation (Target/Acquired Company). The merger was accomplished by the transfer of all assets of the Property Sp. z o.o. in liquidation to the Pekao Property S.A. in exchange for shares of Pekao Property S.A.

Changes in the Statutory Bodies of the Bank

Supervisory Board

Composition of the Supervisory Board:

31.12.2014	31.12.2013
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	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

Composition of the Management Board:

31.12.2014	31.12.2013
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	Andrzej Kopyrski Vice President of the Management Board
Grzegorz Piwowar Vice President of the Management Board	Grzegorz Piwowar Vice President of the Management Board
Stefano Santini Vice President of the Management Board	Stefano Santini 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. Stefano Santini, Vice President of the Management Board of the Bank supervised the activity of the Finance Division.

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.

Organizational changes

In 2014, there were changes in the organizational structure of the Bank's Head Office.

In the Identity & Communication Area were grouped tasks of Internal Communication Office and the Group Media Relation Office in one unit – the Communication Office. The aim of the change was to further develop and to strengthen the visual identity of Bank Pekao S.A. Group and communication and co-operation strategy with all stakeholders.

In the Private Banking Division, the sixth Regional Sales Office West Area was established in order to better exploration of market potential and to strengthen the Bank's presence in Private Banking segment in the west of the country.

In the Logistics and Procurement Division, the Mailing Distribution Center was moved to Bank Services Department in order to concentrate tasks related to management and handling of correspondence in one unit.

In connection with the new requirements in customer service resulting from the FATCA (Foreign Account Tax Compliance Act) regulation, in Tax Department of the Financial Division FATCA Team was established, whose task is to monitor and carry out activities to ensure the Bank's compliance with the requirements of this regulation.

Awards and distinctions

BANK magazine – Two awards for Bank Pekao S.A. during "Horyzonty Bankowości 2014" edition
Bank Pekao S.A. took the second place in the ranking "50 largest banks in Poland" organized by BANK magazine and received special award of "Innovator of the banking market 2013" for innovative and groundbreaking solutions in the field of electronic banking: internet and mobile.

In June 2014, at a gala ceremony during "Horyzonty Bankowości 2014" edition the results of the 19th ranking of BANK magazine were announced. The ranking is one of the most prestigious and the most often quoted annual rankings of banks in Poland and the position of the bank in each category results from financial data evaluated by experts co-operating with the magazine editors.

Forbes magazine – Bank Pekao S.A. in the ranking „Najlepsze Banki dla Biznesu" (The Best Banks for Business)
In the ranking „Najlepsze Banki dla Biznesu" (The Best Banks for business) organized by magazine Forbes, Bank Pekao S.A. took the second place in the best account for SME category. Prestigious magazine distinguished package „Mój Biznes Mobilny" for the most economical solution within "Forbes basket" i.e. variety of offer and mobile service. According to the magazine editors, there are the most important parameters considered by entrepreneurs in evaluation of corporate account offer.

IR Magazine: Award for Bank Pekao S.A. Investor Relations
In edition of IR Magazine ranking in 2014, Investor Relations of Bank Pekao S.A. received award in the category "The Best Investment Relations in Poland" and in the category "The Best Director of Investment Relation" in the CEE region. Prestigious and international award is granted by IR Magazine for the highest quality of investment relations.

The winner of the ranking are chosen in independent survey, that consists of questionnaires and telephone interviews conducted with managers of portfolio assets and financial analysts from across Europe. On the basis of the opinions, IR Magazine honors individuals and teams that have achieved the highest quality of investment relations in the past 12 months.

Money.pl – Mobile banking and mobile payments system PeoPay of Bank Pekao S.A. won the ranking for the best mobile solution in the Polish banking
Bank Pekao S.A. won the ranking organized by financial service Money.pl for the best mobile solution for retail customers in the Polish banking sector. Authors of the ranking appreciated functionality of the Pekao24 mobile application and advantages of the PeoPay mobile payments system.

The study assessed 20 parameters associated with mobile banking, including among others, possibility of any payment execution, payment execution with the use of QR codes scanning, mobile payment in POS terminal, cash withdrawals from ATM and deposit placement. The number of available functionality and their usability were of the highest importance for the rank granted.

Money.pl – Mobile application PekaoFirma24 and mobile payments system PeoPay of Bank Pekao S.A. won the ranking for the best mobile solution for SME
Bank Pekao S.A. won the ranking organized by financial service Money.pl for the best mobile solution for SME customers.

Important Events and Achievements

The study assessed 27 parameters, including among others, possibility of any payment execution, payment execution with the use of QR codes scanning, mobile payment in POS terminal, cash withdrawals from ATM and deposit placement. There were also evaluated intuitiveness and convenience of using the mobile application.

QI Emblem for the Pekao Visa Infinite credit card
In 2014 the Bank was awarded the title of Laureate and QI Emblem in the category QI Product for the Pekao Visa Infinite credit card. The Bank was also recognized as "Highly commended Private Banking" in the prestigious Global Private Banking Awards 2014 in the category of Best Private Banking in Poland.

Bank Gospodarstwa Krajowego – Bank Pekao S.A. Leader of de minimis guarantees
Bank Pekao S.A. was honored with the statue of Leader of de minimis guarantees for realization of governmental program de minimis guarantees for micro, small and medium enterprises at a conference organized by Bank Gospodarstwa Krajowego.

The Bank is one of the most active banks participating in the program. Till the end of December 2014, the Bank granted ca. 8.9 thousand de minimis guarantees with the value of ca. PLN 2 billion.

Within the de minimis guaratnees program, enterprises can obtain guarantee as collateral of operating and investment loan. Loans are offered by Bank Gospodarstwa Krajowego through lending banks. It is the first governmental program where the risk associated with guarantees granted is taken over by the Treasury.

Forum Biznesu – The Innovation of the Year 2013 title for the PekaoBiznes24 system and Accounts OnLine
Electronic banking system for corporate clients PekaoBiznes24 has been awarded for the consecutive year the title Innovation of the Year by the judging panel of the competition held by Forum Biznesu, a supplement to Dziennik Gazeta Prawna newspaper. The experts distinguished project of the system revitalization and efficient migration of all users to the new platform.

The title Innovation of the Year 2013 was granted also to Accounts OnLine service which enables customers, among others, to apply for bank accounts opening through the PekaoBiznes24 system.

The awards for Bank Pekao S.A. confirm innovation and functionality of the electronic banking system PekaoBiznes24 and services available in the system.

WSE – Bank Pekao S.A. awarded for the highest value of debt issues in 2013 on the Catalyst market
Bank Pekao S.A for the second consecutive time was prized by the Warsaw Stock Exchange with prestigious award for "the highest value of debt issues in 2013 on the Catalyst market". As for the year 2013, the Bank kept the leader position on debt market.

In 2013, the Bank introduced to trading on the Catalyst market debt instruments (corporate and municipal bonds) with the value of PLN 2.4 billion which accounted for nearly 22% of the value of all last years' issues.

Global Finance: Pekao S.A. Best Subcustodian Bank in Poland
Bank Pekao S.A. for the third consecutive year won the title of the best custodian Bank in Poland – "Best Sub-Custodian Bank in Poland 2014" in the ranking organized by the Global Finance magazine what confirms professional and comprehensive approach to the Bank's custodian services.

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

Executive Club: Pekao S.A. Bank of the Year in Private Equity
Bank Pekao S.A. was honoured with the prestigous title Bank of The Year 2013 in a competition Diamonds of Private Equity organized by Executive Club.

Award is granted to individuals and companies associated with Private Equity sector, who contributed to the growth of the Polish companies, are distinguished by a high level of competencies and are characterized by a higher than average economic efficiency and innovations.

Executive Club is a forum of executive staff, whose aims at integration and exchange of experience in business environment. As one of the first such organizations in Poland, Executive Club connects people associated with various sectors of the economy.

Eurobuild Awards 2014: Bank Pekao S.A. for the fourth consecutive time The Bank of the Year in commercial real estate
Bank Pekao S.A. was honored with the title "Financing Provider of the Year, Poland 2014" by jury of competition organized by Eurobuild magazine which is one of the most influential specialized magazine on commercial real estate sector in CEE. Among the winners in their respective categories were also projects financed by the Bank.

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.

EuropaProperty: Bank Pekao S.A. the Bank of the Year 2013 in competition the CEE Retail Real Estate Awards
Bank Pekao S.A. won in the competition for the best bank in the CEE Retail Real Estate organized by EuropaProperty magazine.

The Bank's award in the competition is both a recognition of its position on commercial real estate financing market and confirmation of the Polish position in that field in the CEE. The most transactions of commercial real estate sector in the region are completed in Poland and Bank Pekao S.A. actively participated in banking service and financing of this sector in the country.

In a final gala participated 450 key commercial real estate companies and prizes were awarded in 31 categories by international jury panel composed of commercial real estate experts. The EuropaProperty CEE Retail Real Estate Awards gala is organized every year in order to highlight increasing importance of commercial real estate market in the CEE countries on the international arena.

EuropaProperty 2014: The Bank of the Year title for Bank Pekao S.A. in competition CEE Investment & Green Building Award
The Bank became a laureate in competition CEE Investment & Green Building Awards, organized by EuropaProperty magazine, which is dedicated to investments and building of sustainable development in the CEE region. Moreover, the Bank was granted with CEE Retail Award in recognition its participation in financing new shopping centers.

The aim of the EuropaProperty competitions is to promote investment opportunities emerging the CEE region.

Card of Bank Pekao S.A. "The best Polish prepaid card in 2014"
Prepaid card of Bank Pekao S.A. dedicated to corporate customers took the first place in competition "The best Polish prepaid card in 2014", whose honorary patrons are, among others, the Ministry of Economy and the Polish Banks Association.

The competition was organized within the framework of International Conference of Central European Electronic Card, which is an annual meeting of institutions and corporates representatives crucial for business card development in Poland and Europe.

Gold Emblem for investment funds of Pioneer Pekao TFI
Investment funds offered by Pioneer Pekao TFI took the first place and won the Gold Emblem in X edition of national consumer program Laur Klienta 2014.

Pioneer Pekao TFI was awarded the title of the High Reputation Company in a survey PremiumBrand conducted with a use of CATI method among the group of managers of the largest companies in Poland. Reputation assessment was carried out in five areas: references, media atmosphere, social commitment, company as an employer and as a business partner.

Technology is for young people.

Young people of all ages.

The future is for everyone.

Simplicity and transparency appeal to everyone. This is why Bank Pekao S.A. has created the Internet banking with an intuitive navigation and a clear system functions. **Pekao24** Mobile banking is as easy to use. Find out how fast and convenient mobile banking can be. The main features familiar from the website will always be there – within hand's reach – in a simple and transparent form.

Information for the Investors

Information for the Investors

The Bank's share capital and share ownership structure

As at December 31, 2014, 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.

The shareholders of Bank Pekao S.A. owning directly or indirectly through their subsidiaries at least 5% of the total number of voting rights at the General Meeting of Bank Pekao S.A. 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, 2014		AS AT DECEMBER 31, 2013	
UniCredit S.p.A.	131,497,488	50.10%	131,497,488	50.10%	131,497,488	50.10%
Aberdeen Asset Management PLC	n/a	n/a	n/a	n/a	13,194,683	5.03%
Other shareholders	130,972,546	49.90%	130,972,546	49.90%	117,777,863	44.87%
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, 2014, 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 and the remaining shareholders' 49.90% 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 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, 2014 OFE held in aggregate 15.0% of the Bank's shares.

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
	DECEMBER 31, 2014		DECEMBER 31, 2013	
Aviva OFE Aviva BZ WBK	11,620,872	4.43%	12,483,565	4.76%
ING OFE	5,464,868	2.08%	6,998,757	2.67%
OFE PZU „Złota Jesień"	5,641,651	2.05%	5,226,351	1.99%
MetLife OFE(*)	3,307,948	1.26%	3,853,470	1.47%
AXA OFE	2,873,652	1.09%	2,946,264	1.12%
Generali OFE	2,212,642	0.84%	2,289,234	0.87%
PKO BP Bankowy OFE(**)	2,199,597	0.84%	2,871,436	1.09%
Allianz Polska OFE(***)	1,824,961	0.70%	1,846,130	0.70%
Nordea OFE	1,685,090	0.64%	1,814,005	0.69%
Aegon OFE	1,742,820	0.66%	1,746,507	0.67%
OFE Pocztylion	797,022	0.30%	892,812	0.34%
Total	**39,371,123**	**15.00%**	**42,968,533**	**16.37%**

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.
(*) On September 12, 2014 OFE Amplico changed its name to MetLife OFE
(**) Assets presented as a total of PKO BP Bankowy and OFE Polsat. On July 19, 2013, OFE Polsat was acquired by PKO BP Bankowy.
(***) Assets presented as a total of Allianz Polska OFE and OFE Warta. On September 19, 2014 OFE Warta assets were transferred to Allianz Polska OFE

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.

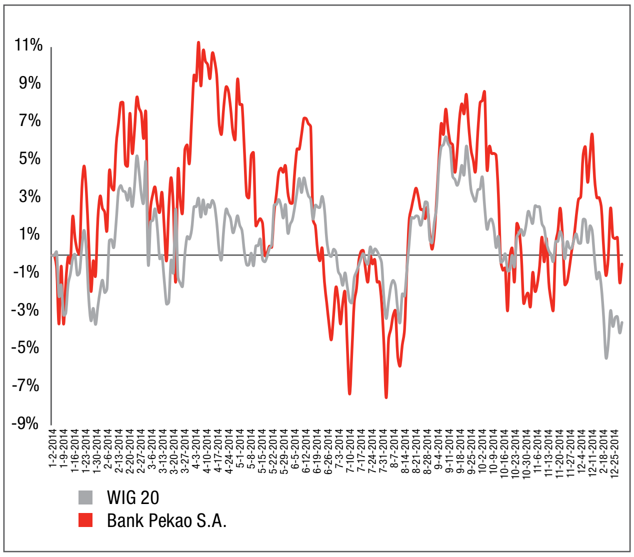
The Bank's market capitalization as at December 31, 2014 amounted to PLN 46.9 billion and making the Bank a company with the highest market capitalization on the Warsaw Stock Exchange. Given the high capitalization and liquidity the Bank's shares are a part of many important stock indices maintained 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 383 thousand and the worth of trading at PLN 17.5 billion in 2014, the share of the Bank's stock in trading on the WSE amounted to 8.52%.

The share price of Bank Pekao S.A. reached to PLN 178.70 at the end of December 2014 comparing to PLN 179.5 a year earlier. The Bank shares outperformed WIG20 index.

Over the year the Bank's share price fluctuated in a range from PLN 164.4 to PLN 199.75. Such a high volatility was mainly driven by the global markets sentiment.

Performance of Bank Pekao S.A.'s shares and WIG20 Index in year 2014.



Source: the WSE

Information for the Investors

Dividend payment history

In 2014, the Bank paid dividend for 2013 in the amount of PLN 9.96 per share. Dividend yield amounted to 5.6%.

The dividend payments for the years from 2003 to 2013 are presented below:

DATE	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Dividend for the year (in PLN million)	748	1,065	1,234	1,504	2,517	–	761	1,785	1,412	2,202	2,614
Dividend per 1 share (in PLN)	4.50	6.40	7.40	9.00	9.60	–	2.90	6.80	5.38	8.39	9.96

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 2014, there were four conferences held to present the Bank's financial performance and ca. 500 meetings with investors and analysts.

The Bank's financial results and its activity are regularly monitored by analysts representing Polish and foreign brokerage entities. In 2014, 28 analysts published reports and recommendations on the Bank.

The main activity 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.

Relevant information for the investors about the Bank is available on the Bank's website: http://www.pekao.com.pl/information_for_investors/. The Bank publishes also on-line annual report available on the Bank's website. In addition. on the Bank's website is posted "Information Policy of Bank Polska Kasa Opieki Spółka Akcyjna regarding communication with investors, media and customers".

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.

As at December 31, 2014, Bank Pekao S.A.'s creditworthiness was rated as follows:

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

(*) On February 6, 2015 agency Standard and Poor's upgraded ratings Outlook for Poland to Positive, inter alia due to the economic growth leading to a convergence of Polish incomes with the European Union countries, stable public finances and moderate external financing needs.
(**) Stable for Poland's economy and Negative for the Polish banking sector.

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 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. In September 2014, during the last revision of rating the outlook for covered bonds was changed from Positive to Stable.

Wide range of services is important.

Fitting them appropriately is crucial.

For us, Customer is the most important.

Thanks to the diversity of our offer, you will surely find a solution meeting all your expectations. **Mój Biznes Packages** are sets of products and banking services, perfectly fitted to the needs of every company. Every package contains, inter alia, a checking account, debit card, simple and user-friendly on-line banking with Autodealing, fully transactional mobile banking application and a guardianship of a dedicated advisor. Thanks to **Mój Biznes Packages** your company will gain a solid support it always deserved.

Activity of Bank Pekao S.A. Group

Activity of Bank Pekao S.A. Group

Important factors influencing the Group's activities and results

In 2014, the Group's activity was to large extent determined by the macroeconomic situation in Poland and abroad as well as by the trends observed in the banking sector.

Polish economy continued initiated in 2013 recovery, thanks to consumption strengthening and investments pick-up. Despite good export growth, due to the escalation of conflict in Ukraine, Russian embargo on Polish food and economic slowdown in the Eurozone, mainly in Germany, the contribution of net exports to the GDP growth for the first time since the fourth quarter of 2010 was negative. The estimated GDP growth rate amounted to 3.3%, comparing to 1.7% in 2013, with a slightly weaker growth rate in the second half.

In response to the persistent deflation and a slowdown in economic activity in the second half of the year, the Monetary Policy Council decided in October 2014 to reduce the reference rate by 50 b.p. to the level of 2.0%, and the NBP Lombard rate by 100 b.p. to the level of 3.0%, which had a negative impact on net interest margin in the banking sector and consequently on the dynamic of the net interest income. At the same time, an increase in the treasury bond prices and pressure on the interest rates cut allowed the banks to realise gains on the bond sale and partially offset the negative impact of lower interest rates on the net interest income.

The economic recovery in the historically low interest rates environment fostered lending activity growth. Household lending growth rate accelerated to 5.5% year on year from 4.5 year on year in 2013. PLN denominated mortgage sales was supported by record low interest rates, stabilisation in residential property prices and the government program "Mieszkanie dla Młodych" and improvement in labour market. The demand for corporate loans grew rapidly due to the economic upturn and commence of investments. Small and medium-sized enterprises lending was supported by the government program "de minimis" (Portfel Linii Gwarancyjnej de minimis). The increase in corporate loans amounted to 8.8% year on year comparing to 1.5% year on year in the previous year.

Household deposits growth accelerated to 8.9% year on year from 5.6% in the previous year, due to the real wages increase and low risk appetite. An interest in alternative forms of funds allocation, including investment funds, due to the increase of stock market uncertainty driven by the pension funds reform (OFE) and geopolitical risk, was low. Customers who decided to allocate funds to the investment products, usually selected products with capital protection or funds with lower risk (money market funds, bond funds). Corporate deposits growth was close to the last year level (9.4% year on year) driven by good financial results of enterprises. Non-monetary financial institutions deposits decreased as a result of pension fund reform and transfers of funds from OFE to ZUS.

The positive effect of increased scale of operations was partially diminished by interest rates cut and regulatory changes. Bank Guarantee Fund introduced in the fourth quarter of 2013 prudential charge for stabilization fund. Since July 1, 2014, cards interchange fee rate was reduced to the level of 0.5%.

Low interest rates and growing regulatory pressure on the banking sector profitability resulted in the increase of fees and commissions charged to customers by some banks, in particular in the case of low clients' activity.

The Banks actively compete for customers, offering a wide range of products and high service quality adjusted to the changing customers' needs and expectations. The Banks continued to implement new technologies, including remote access channels, in particular mobile banking and mobile payments.

Thanks to the progressing economic recovery and improvement in the labour market, asset quality has improved significantly in most of the segments of economy.

The results of the assets quality review (AQR) and stress tests conducted by the Financial Supervision Commission in accordance with the ECB methodology, confirmed stability and credibility of the Polish banking sector, its capital strength and resistance to shock scenarios.

Major sources of risk and threats

Risk management

Effective risk management is a prerequisite for 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. Moreover, business, real estate, financial investment, model, macroeconomic, reputation, compliance and bancassurance risks are also recognized.

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.

Credit, market and operational risks reports analyzing details of their development are provided to the Management Board of the Bank, Audit Committee and the Supervisory Board of the Bank.

The rules and instruments of managing each of the risks are described below. Information on the risk exposure is included in the Note 6 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2014.

Credit risk

Managing credit risk and maintaining it at a safe level is vital for the Bank's financial performance. In order to minimize credit risk, special procedures have been established, pertaining in particular to the rules of assessing transaction risk, collateralization 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 UniCredit Group, the Bank has continued to work on further rationalization of the credit process with an aim to obtaining better efficiency and security, including in particular enhancement of the procedures and tools for risk measurement and monitoring.

Credit risk concentration limits

According to the Banking Law 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 2014, 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 employs a system for monitoring the sector structure of its credit exposure. The system involves setting concentration ratios for particular sectors, monitoring the loan portfolio and procedures for exchanging information. The system is based on the lending exposure in particular types of business activity according to the classification applied by the Polish Classification of Economic Activities (Polska Klasyfikacja Działalności – PKD).

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

Liquidity and market risks

The management of liquidity and market risks is a vital element of the Group's risk management policy, which aims at optimizing 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 Asset, Liability and Risk Committee supports the Management Board in advising and recommending the appropriate action assuring proper realization of the Management Board policy. The Asset, Liability and Risk Committee is responsible, among others, for structural risk management of the Group's statement of financial position resulting from the liquidity gap between assets and liabilities, interest rate and exchange rate gap and other aspects of market and liquidity risk. The Committee monitors and controls the capital adequacy and the exposure to liquidity and market risks against the external limits imposed by supervisory authorities and internal limits adopted by the Group.

The liquidity and 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 procedures reflect the division into the trading book and the banking book.

Activity of Bank Pekao S.A. Group

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, avoid crisis situations, and define contingency solutions to be employed in the event of a crisis.

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

Short-term (operational) liquidity including transactions executed on financial markets and the available amount of liquid securities – 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 monthly basis.

The Bank's liquidity is managed by monitoring, setting the limits on, controlling and reporting to the Bank's management a number of liquidity indicators calculated for both the Polish zloty and the main foreign currencies, as well as on an aggregate basis. In accordance with the relevant recommendations by the financial supervision, 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 introduced coverage ratios determining ratios of adjusted maturing liabilities to adjusted maturing assets over 1, 2, 3, 4 and 5 years for: the total balance, the total balance of foreign currencies as well as balances of the main currencies.

The Group has contingency procedures in place protecting it against an increase in its liquidity risk exposure and against any substantial deterioration in its financial liquidity. The contingent liquidity management policy 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 four levels of liquidity risk depending on the level of early-warning indicators, the Group's situation as well as overall market situation. It defines also a source for covering of estimated cash inflows. Additionally, it defines the procedures for monitoring the liquidity levels, the procedures for emergency measures, the organizational structures of taskforces charged with restoring liquidity, and the scope of the Management Board's responsibility for making decisions necessary to restore the required liquidity level.

Scenario-based stress analyses, covering the Bank and selected subsidiaries, 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.

Pursuant to the PFSA'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 2014, 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 related to 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 organizational and methodological procedural framework designed to shape the statement of financial position structure and off-balance-sheet items in agreement with the strategic objectives. The main objective of market risk management is to optimize financial results 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 of the Bank.

Trading book market risk

In the process of trading book market risk management the Group seeks to optimize its financial results as well as quality of services within 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 a one-day loss that might be realized with a probability not exceeding 1%. VaR is determined using historical simulation method based on two years observation of 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 2014 have confirmed the model's adequacy.

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

Banking book interest rate risk

In managing the banking book interest rate risk, the Group aims to maximize the economic value of capital employed 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 (revaluation gap), VaR analysis, simulation analyses and stress testing.

Foreign Exchange risk
The foreign-exchange risk is managed jointly for the trading and banking book. The objective of foreign-exchange 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 foreign-exchange risk is measured by means of the Value at Risk (VaR) model.

Operational risk

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 Law, the Regulation No 575/2013 of the European Parliament and the Council of June 26, 2013, Polish Financial Supervision Authority Resolution 76/2010 (with amendments) and 258/2011, the Recommendation M and also UniCredit Group standards. Operational risk management embraces identification, assessment, monitoring, mitigation 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 Bank's self-assessment. Advanced Measurement Approach (AMA) is also used for assessment of operational risk of the Bank. The method is used also for capital adequacy assessment purposes. Monitoring actions are carried out on three control levels: operational control (all employees), risk management control (Financial and Operational Risk Management Department) and internal audit (Internal Audit Department). Operational risk mitigation includes, among others, internal control system, protective actions, business continuity plans, contingency plans as well as insurance policies.

Business risk

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

Earnings at Risk concept is used in business risk calculation. This concept enables the calculation of unexpected negative deviation in the realized financial result from the level assumed in the financial plan. In compliance with the approach assumed by the Group, EaR is assessed in one-year time horizon at 99.93% confidence level.

Real Estate risk

Real Estate risk is defined as potential losses in market value resulting from market fluctuations of the Group's own real estate portfolio. Real Estate risk does not include real estate being collaterals.

Real Estate risk is calculated in one-year time horizon using the Value at Risk model at 99.93% confidence level and standard method of determining capital requirements.

Financial investment risk

Financial investment risk is defined as unexpected, adverse changes in value of the Bank's equity holdings (shares and stocks) in companies not belonging to the Group.

Financial investment risk is assessed based on Value at Risk 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 implementing improperly constructed (defined) models, improper use of models or lack of their necessary updates. It is also the risk of inadequate control and monitoring during the model operation in the Bank.

Model risk covers the risks of: data, assumptions, methodology and model administration.

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

Macroeconomic risk

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

Estimation of capital buffer to counter the macroeconomic risk is made on the basis of the impact of economic downturn scenario analysis on the economic capital.

Reputation risk

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

Bancassurance risk

Bancassurance risk is the risk of losses incurred, associated with the offering of insurance products by the Bank on the basis of agreements between the Bank and the insurance company, including insurance investment or savings products.

Compliance risk

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

Compliance Policy of Bank Pekao S.A. establishes the Bank's assumptions on compliance risk management process and compliance program, encompassing, among other things, identification, assessment, control, monitoring and reporting, consistent at all organizational levels of the Bank. The Policy defines also the basic rules of conduct the Bank and its employees should follow in this area.

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

Compliance risk management takes place at three separate levels:
- management staff, responsible for ensuring compliance,
- risk management function, carried out by dedicated Bank's entities not engaged in the business activity,
- internal audit, responsible for carrying out an independent assessment of internal control system functioning 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 Policy and monitoring its observance; identification, assessing, monitoring and controlling of compliance risk in regulatory areas, in line with the scope of its competence; guidance provided to the organizational units on laws, regulations, rules, codes, standards, businesses and products in the area of compliance and reputation risk; strengthening dialogue and relationship with the supervisory and control authority and carrying out tasks related to the counteracting of the use of the Bank's activity for purposes of money laundering and terrorism financing.

The Bank uses a dedicated methodology for the compliance risk assessment (CRA) and conducts second level controls, which enable assessment of the selected Bank's processes in terms of effectiveness and compliance with the key regulations concerning the banking business. The CRA methodology acting on the rule of early-warning system includes conducting mitigation actions in the case of detecting of irregularities. Selected Bank's organizational units are involved in the process. The assessment of compliance risk and second level controls contribute to improvement of internal control system in the Bank and as a consequence to limitation of the compliance risk related to its activity.

New Capital Accord – Basel

Bank Pekao S.A. computes capital adequacy requirements for credit risk purposes under the Standardized Approach and for operational risk purposes under Advanced Measurement Approach, remaining fully compliant with Pillar I requirements. In 2008, it also prepared and approved the Internal Capital Adequacy Assessment Process – the basic constituent of Pillar II. The disclosure requirements under Pillar III are fulfilled as well.

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/UE on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending directive 2002/87/UE and repealing directives 2006/48/EC and 2006/49/EC.

The Bank performed appropriate adjustments in 2014 to the capital requirements calculation rules resulting from the introduction of the above mentioned European regulations.

Capital adequacy

Capital ratios are the basic measure applied for the measurement of capital adequacy. Since January 1, 2014 banks are obliged to apply new rules to calculate capital ratios due to entering into force a Regulation of the European Parliament and of the Council (EU) No 575/2013 of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

Capital ratios, capital requirements and own funds have been calculated in accordance with the above mentioned Regulation using so-called national options used for COREP reporting. In particular, this applies to the risk weights for claims secured by mortgages, which are consistent with Resolution No. 76/2010 of the Polish Financial Supervision Authority of March 10, 2010 as amended.

The table below presents the basic data concerning the Group capital adequacy as at December 31, 2014 and December 31, 2013 according to the new rules of Basel III.

(in PLN thousand)

CAPITAL REQUIREMENT	31.12.2014	31.12.2013
Credit risk	7,937,365	7,277,933
Exceeding large exposure limits	–	–
Market risk	192,563	127,683
Delivery and contractor risk	442,446	195,919
Exceeding exposure concentration limit	–	–
Operational risk	705,781	1,054,131
Total capital requirement	**9,278,155**	**8,655,666**
OWN FUNDS		
Common Equity Tier 1 Capital	20,063,716	19,836,692
Own funds for total capital ratio	20,063,716	19,836,692
Common Equity Tier 1 Capital ratio (%)	**17.3%**	**18.3%**
Total capital ratio (%)	**17.3%**	**18.3%**

The minimum Total Capital Ratio required by law cannot be lower than 8% while according to recommendation of European Banking Authority and Polish Financial Supervision Authority (KNF) total capital ratio must be not lower than 12% and Tier 1 Capital ratio not lower than 9%. At the end of December 2014 the total capital ratio of the Group amounted to 17.3% and was more than twice the minimum value required by the law and significantly higher than the level recommended by the EBA and the KNF.

Total Capital Ratio at the end of December 2014 compared with December 2013 decreased by 1 pp. Total capital requirement increased during this period by 7.2% and own funds increased by 1.1%.

Total capital requirement increased as a result of increase of capital requirement for credit risk (due to the Bank's credit portfolio increase), counterparty and market risk, with simultaneous decrease of capital requirement related to operational risk due to Advanced Measurement Approach (AMA) model change.

The strengthening of the Group's capital base in 2014 is mainly an effect of Bank Pekao S.A. Annual General Meeting decision on the allocation of the PLN 185.8 million of net profit from 2013 to the Bank's equity and lower unrealised losses from available for sale securities portfolio.

Activity of Bank Pekao S.A. Group

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 clients, mainly in Poland. Bank Pekao S.A. Group includes financial institutions operating in banking, asset management, pension funds, brokerage services, leasing and factoring markets.

Following decision of The Polish Financial Supervision Authority on December 5, 2014 Bank Pekao S.A. took over Spółdzielcza Kasa Oszczędnościowo Kredytowa named Mikołaj Kopernik in Ornontowice. Due to the above data of Bank Pekao S.A. Group for 2014 presented in this chapter include data of Spółdzielcza Kasa Oszczędnościowo Kredytowa.

Distribution channels

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

	31.12.2014	31.12.2013
Total number of outlets	1,034	1,001
Total number of own ATMs	1,825	1,847

The Bank's clients can also make commission-free cash withdrawals from the European network of the UniCredit Group ATMs.

As at the end of December 2014, the Bank maintained 5,214.3 thousand PLN-denominated current accounts, 287.9 thousand mortgage loan accounts and 593.8 thousand consumer loan accounts.

(in thousand)

	31.12.2014	31.12.2013
Total number of PLN current accounts(*)	5,214.3	5,107.5
of which packages	3,873.8	3,781.5
Number of mortgage loans accounts(**)	287.9	267.5
of which PLN mortgage loans accounts	249.7	226.6
Number of consumer loan accounts(***)	593.8	634.9

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

Individual clients

In 2014, Bank Pekao S.A. fostering its strong position on the retail banking market focused on a sale of the key lending products (Pożyczka Ekspresowa, Mortgage Loans), which amounted to over PLN 12 billion, on continuation of activities associated with acquiring of new customers within the project "Klientomania" what translated into acquisition of over 370 thousand of new customers and on increase in customers' satisfaction. The Bank strengthened its strong position on PLN mortgage loans market and was a leader in the sale of loans under the government program "Mieszkanie dla Młodych" ("Apartment for the Young").

The Bank supported the development of cashless transactions in Poland by promoting the expansion of payment card acceptance network and increase the number of POS terminals as well as the implementation of innovative and modern solutions for mobile payments.

In 2014, the Bank as the first bank in Poland and first among the largest European banks introduced mobile contactless payments in HCE technology. New solution enables users of the PeoPay mobile application to execute payments using smartphone in POS terminal accepting contactless payments in PayPass technology and is available in mobiles with Android (4.4 and higher) operational system.

The Bank accompanied its customers in a number of cultural and sport mass events promoting its modern package of mobile solutions. The Bank, in co-operation with the Great Orchestra of Christmas Charity, prepared for the consecutive time a dedicated prepaid card with the image of Woodstock Music Festival and promoted non-cash payments ensuring the opportunity to realize payments using payment cards at the festival. During the Pekao Szczecin Open tennis tournament, the Bank, strongly emphasizing its presence on local market, promoted „Mistrzowska oferta z Pekao S.A." with the products specially prepared for this event: Mistrzowska Oferta Eurokonta, Pożyczka Ekspresowa, mortgage loan and discounts provided by partners of the Discount Program.

Within the framework of activities addressed for young customers, the Bank conducted an educational campaign Academy of Finance Pekao, consisting of series of lessons in schools, universities and the Bank's outlets led by the Bank's employees. The Academy aims to provide students with the most important rules of the bank day-to-day services, secure management of savings and knowledge of the innovative banking products.

Savings and investment products

Increase in savings volume in 2014 was supported by development of deposit and investment products offer and in the area of the Premium Personal Banking through the professional assistance of qualified Personal Advisers ensuring support individual finance management. In total, the Bank's retail deposits increased by PLN 3.9 billion in comparison to the end of 2013 thanks to a wide range of deposit products, dedicated communication to clients and increase in e-deposits placed through the Pekao24 system and in Lokata Elastyczna, which interest rate is linked with WIBOR 1M rate plus fixed margin in the entire placement period.

The Bank continued its initiative to promote the idea of regular savings in pension programs. Promotion of the offer to selected groups of clients positively influenced on the sale of IKZE accounts in Dobrowolny Fundusz Emerytalny Pekao and IKZE Pioneer.

In 2014, the Bank implemented for distribution mixed fund of Pioneer Wzrostu i Dochodu Rynku Europejskiego which invests on shares and bonds market in euro zone, a bond sub-fund of Pioneer Obligacji i Dochodu conducted within Pioneer Funduszy Globalnych SFIO, started a new subscription of Strukturyzowany Certyfikat Depozytowy Rynku Brytyjskiego which ensures 100% capital protection at the end of investment and allows diversification of investment portfolio by assets associated with the British equity market, subscription of Strukturyzowany Certyfikat Depozytowy Spółek Europejskich which is based on a basket of shares of seven large and well-known European companies and a new subscription of Strukturyzowany Certyfikat Depozytowy Rynku Amerykańskiego.

Lending products
The Bank offers to its customers a wide range of lending products, including first of all PLN mortgage loans and consumer loans Express Loan (Pożyczka Ekspresowa).

Consumer lending
In the area of cash loans, the Bank was following the consequent strengthening of its position on the consumer goods financing market providing customers with transparent and attractive offer of Express Loan.

Efficiency, transparent rules of financing, possibility of insurance coverage within the available insurance packages adjusted to the individual needs and possibility to sign Express Loan agreement without visiting the Bank's outlet ensure the competitiveness of the Bank's offer among the offers of other banks. Value of cash loans granted in 2014 amounted to PLN 5.7 billion and was by 24% higher in comparison to 2013.

The Bank prepared also attractive loan offer for clients of selected business partners and clients of one of the largest retail chains in Poland.

The Bank continued local and country-wide marketing activities and actively used internal channels of marketing communication, including website dedicated to consumer loan, the Pekao24 system and mobile application.

Mortgage loans
In 2014, the Bank continued its policy of offering only PLN mortgage loans maintaining a leading market position in PLN mortgage loans in Poland. Value of PLN mortgage loans granted in 2014 stood at nearly PLN 6.8 billion and was higher as compared to 2013. The Bank's share in mortgage loans at the end of 2014 amounted to nearly 18% (in terms of volume) noting an increase in comparison to the end of 2013.

In January 2014, Bank Pekao S.A. as one of the first banks introduced to its offer mortgage loan "Mieszkanie dla Młodych" ("Apartment for the Young") under the government program supporting the persons aged up to 35 in acquisition of the first new apartment. The Bank is among leading banks offering mortgage loan "Mieszkanie dla Młodych" and its market share in the sale of these loans amounted to 41% in 2014.

The Bank prepared also a new website dedicated to mortgage loans built in the new technology, which adjusts automatically to the type of the device and informs in a simple and user-friendly way about the mortgage loans, including, in particular, about the program "Mieszkanie dla Młodych".

In addition, the Bank conducted local and country-wide promotional activities of mortgage loans, including promotional campaigns in the Internet and internal channels of marketing communication as well as participated on a regular basis in real estate fairs organized all over the country.

Payment cards
The Bank in cooperation with one of the largest retail chains in Poland, carried out a project that allows transactions using payment cards. Within the project more than 14 thousand of POS terminals has been installed in more than 2.5 thousand locations. Cooperation with the retail chain will enable the Bank to service more than 21.5% of the market of payment cards (in terms of transactions number). Number of retail points, where POS terminals are serviced by Bank Pekao S.A. increased to nearly 51.5 thousand and the number of active terminals exceeded 67 thousand.

In 2014, the Bank recorded growth of 45% in the number of transactions processed in POS terminals in comparison with the previous year. Record-high number of daily transactions in POS terminals of the Bank amounted to nearly 2 million transactions correctly authorized by the Bank's system.

The Bank continued the development of credit card offer and promoted non-cash payments executed with the use of cards issued in MasterCard and Maestro systems organizing competition "1,300 powodów by płacić kartą" (1 300 reasons to pay by card).

Bank Pekao S.A. is the only bank in Poland offering credit cards with the image of the UEFA Champions League and in the first half of 2014, the Bank provided also prepaid card UEFA Champions League.

In addition, the Bank prepared offer enabling issuance of additional credit cards for young persons (above 13 years of age) and continued educational actions for the payment cards users within the scope of contactless functionality. The customers were also provided with automated phone service which enables information on cards, PIN code accessing and payments execution.

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), a subsidiary Centralny Dom Maklerski Pekao S.A. (CDM) and associated entity Dom Inwestycyjny Xelion Sp. z o.o. (Xelion).

Activity of Bank Pekao S.A. Group

As at the end of 2014, the Group's brokerage entities maintained 353.0 thousand standard investment accounts and offered to its clients an electronic service of investment accounts allowing to buy and sell all instruments listed on the Warsaw Stock Exchange (WSE) and on the BondSpot market via the Internet. As at the end of 2014, the Group's brokerage entities had 181.2 thousand accounts with active access to services through remote channels.

As at December 31, 2014, the total value of assets deposited on investment accounts run by the Group's brokerage entities amounted to PLN 22.4 billion.

In 2014, Dom Maklerski and CDM participated in consortiums serving 5 public offers and in registration of records in the calls for the sale of shares of 29 companies.

Dom Maklerski conducted registration service of three series of Structured Certificates of Deposit in the framework of the Second Issuance Program, operates as the bidder in Covered Bonds Program of Pekao Bank Hipoteczny S.A. for two series of covered bonds as well as conducted registration service for the shares of UniCredit S.p.A under the Employee Share Ownership Plan dedicated to employees of UniCredit Group. The product offer of Dom Maklerski was enhanced by a new product – advanced orders, which on the basis of defined parameters automatically adjust the client's orders to the changing market conditions, allowing thereby for more efficient portfolio management.

As at the end of 2014, CDM had 15 distribution agreements concluded with investment funds, including two foreign partners and co-operated with three transfer agents. Within the framework of distribution of investment fund units, CDM served IKE Pioneer program based on two portfolio strategies. In CDM offer, customers were provided with close-end investment funds which are attractive investment form for investors, distributors as well as investment funds and with insurances in agent sales model (individual insurances).

In 2014, the Group's brokerage entities conducted projects related to adaptation to the European Parliament internal regulations within the scope of CRR, CRD IV and EMIR.

In 2014, functional development of the Pekao24Makler remote service were continued. There were implemented, among others, new authorization methods in telephone service, new access channel to account, transactions and orders, netting in securities, automatic settlements and reduced settlement process of cash market instruments which allow to lower costs of investment companies and increase of attractiveness of financial market. Additionally, in the Pekao24 mobile application, the ability to track online trading on the Warsaw Stock Exchange (WSE) and NewConnect as well as to make transactions on WSE, NewConnect and main European stock markets.

Pekao24 – electronic banking for individual clients

The Pekao24 electronic banking system is a convenient and safe system for accessing the accounts maintained by the Bank, Dom Maklerski and CDM. The system enables to manage the funds accumulated on the accounts through the Internet, fixed-line or mobile phone and through Contact Center.

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

As at the end of December 2014, the number of clients with an access to the Pekao24 system amounted to 2,661.2 thousand. In the fourth quarter of 2014, 1,448.4 thousand clients logged into the electronic banking services.

As at the end of December 2014, the number of clients with an access to mobile banking amounted to 595.9 thousand. In the fourth quarter of 2014, 229.9 thousand of clients logged into the mobile service m.pekao24.pl and the Pekao24 mobile banking application.

(in thousand)

	31.12.2014	31.12.2013
Number of individuals with an access to electronic banking Pekao24 as at the end of period	2,661.2	2,446.8
Number of individuals actively using electronic banking Pekao24(*)	1,448.4	1,352.0
Number of individuals with an access to mobile banking as at the end of period	595.9	373.1
Number of individuals actively using mobile banking(**)	229.9	149.1

(*) 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 application at least once during the last quarter.

The most important projects realized in 2014 in the Pekao24 electronic banking system included:

- implementation in the Pekao24 internet system the possibility of signing cash loan agreement and loan disbursement on customer account without visiting the Bank's outlet,
- providing the customer with preferential exchange rates,
- providing consultant service in the Pekao24 hotline available 24 hours and 7 days a week,
- providing opportunity to order and download a Credit Profile report from Biuro Informacji Kredytowej (Credit Information Bureau),
- offering Mobile Deposit dedicated to users of the Pekao24 mobile application.

Private Banking
Private Banking of Bank Pekao S.A. is the leader on the market in terms of assets under management. Customer service model is based on the professional care of dedicated advisers who provide customers with product solutions customized to their individual needs and market situation. The group of advisers consist of experienced employees holding certificates of qualification of reputable institution European Financial Planning Association. The advisers are supported by assistants and product specialists teams what combined with a unique experience and knowledge of local market and global know-how of UniCredit Private Banking allows to maintain high level of services and to develop an offer for most demanding customer segment.

Private Banking clients are provided with full access to the Bank's product offer and solutions offered exclusively to this segment such as; Eurokonto Prestiżowe package, prestigious credit cards, structured deposits Indeks na Zysk and dual currency deposits. Thanks to the Bank's co-operation with Pioneer Pekao TFI S.A. and Centralny Dom Maklerski Pekao S.A. (CDM) customers have an access to a wide range of investment offer, including both domestic and foreign investment funds.

In 2014, the activities in the area of Private Banking were focused on dynamic development of the Bank's offer dedicated to the wealthiest segment of clients as well as on initiatives aiming at acquiring of new customers.

The Bank's offer was enhanced by currency exchange service available in the PekaoInternet service for customers using the Pekao24 system and holding accounts in at least two currencies. The service provides customers with favourable exchange conditions and convenient way of transactions processing through the Internet.

The scope of co-operation with customers was extended by servicing companies accounts run by owners or shareholders who are Private Banking customers. Customers, through the contact with Private Banking advisor, have opportunity to make operational and investment orders both on individual as well as corporate accounts.

Private Banking, in the co-operation with selected external partners, extended its offer by a unique solution associated with private intergenerational transfer and assets transferred in succession process.

In the investment area, the Private Banking activities were focused on diversification of portfolios towards increasing exposure on global investment strategies using the opportunities offered by foreign investment funds included in offer dedicated exclusively to Private Banking customers. The investment's offer within the scope of foreign investment funds was enhanced by solutions provided by Schroders Investment Management.

The customers were also provided with opportunity to participate in the corporate bonds subscription denominated in EUR issued by a construction company operating in commercial real estate market. In addition, four subscriptions of structured products "Lokata Indeks na Zysk" were conducted and the customers were offered, among others, deposit with interest coupon depending on index fund Lyxor UCITS ETF Stoxx Europe 600 Healthcare.

Within the insurance of Plan Inwestycyjny Prestiż, a list of insurance equity funds was extended by a next 11 solutions representing investment strategies that complement the existing offer (including funds managed by JP Morgan). Currently, there are 51 insurance equity funds, including 3 funds in model portfolio formula.

In the Private Banking lending area, the Bank initiated a series of projects associated with adjustment of financing offer to expectations of the wealthiest customers, including the mortgage area financing.

In 2014, the Bank organized meetings with customers during which the experts of co-operating investment funds were discussing current situation on financial markets and appropriate investment solutions. In order to support acquiring activities and to strengthen relationship with customers, the Bank participated in prestigious events for wealthy customers.

Small and micro enterprises (SME)

Service of SME customers is based on relation model, under which customer has its dedicated Business Clients Advisers, responsible for identification of clients' needs and selection of appropriate products and services. The service is conducted by Advisers located in universal retail outlets and specialized Business Customers Centers.

In 2014, the Bank pursued a strategic project aimed at strengthening the Bank's position in the agri-food sector in Poland. The Bank redesigned customer service model dedicated to the agri-food sector, introduced special Agro zones in branches for individual farmers and companies from the agri-food industries and prepared a special products offer for the farmers which includes both working capital loans and investment loans. In addition, the loans granting process for these clients has been improved. Thanks to these activities, in 2014 the Bank acquired 3 thousand of new customers in the agri-food sector.

In 2014, in the segment of small and micro enterprises the Bank continued its policy to offer modern mobile solutions, i.e. PekaoFirma24 and mobile applications PeoPay and PeoPay mPOS. The main functionalities of PeoPay mPOS application are, among others, acceptance of PeoPay mobile payments and preparation of reports on sales which is particularly appreciated by customers of retail and service sector.

Activity of Bank Pekao S.A. Group

In selected outlets of the Bank the cash-in module have been installed in ATMs to deposit cash directly in the ATM. The service available 24 hours and 7 days a week is dedicated to individual and business clients.

The Bank's standard offer was enriched by two types of escrow accounts for cash settlements associated with completed and planned transactions, including a new product for developers Closed Escrow Account for Housing Developers (Zamknięty Mieszkaniowy Rachunek Powierniczy).

At the beginning of 2014, the Bank at a conference held in Warsaw presented the fourth edition of report "Raport o sytuacji mikro i małych firm w roku 2013" (Report on the situation of SME clients in 2013). The report has been prepared based on 7 thousand interviews conducted with the enterprises' owners employed up to 49 persons. The special subject of this edition was export activities of micro and small companies. In the following months of 2014, outcomes of the Report were presented at the 16 conferences organized in each voivodeship.

Moreover, the Bank in co-operation with selected partners of initiative "Pakiet Trwałych Korzyści" and organizations supported local business conducted a series of five conferences aimed at business development with the use of solutions dedicated to micro and small enterprises offered by partners of the Bank.

Electronic banking for SME clients

Business customers of Bank Pekao S.A. use the systems of electronic banking such as the PekaoFirma24, the Pekao24 for entrepreneurs and the PekaoBiznes24. Main system offered to clients within Pakiet Mój Biznes (My Business Package) is the PekaoFirma24 electronic banking system containing the Internet banking, fully transactional mobile banking application and phone banking.

In 2014, project of merger of the PekaoFirma24 and the PekaoBiznes24 platforms has been started. In 2015, thanks to this project, micro and small segment customers will be provided with an access to the PekaoBiznes24 system with a more convenient navigation and modern visualization.

As at the end of December 2014, 240.6 thousand clients had an access to the electronic banking systems, of which 159.5 thousand are active clients. The number of business clients with an access to electronic banking systems increased by 17.1 thousand compared to the end of 2013.

(in thousand)

	31.12.2014	31.12.2013
Number of business clients (SME) with an access to electronic banking systems as at the end of period	240.6	223.5
Number of business clients (SME) actively using electronic banking systems(*)	159.5	147.2

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

As at the end of December 2014, 13.8 thousand clients had an access to mobile banking application, of which 8.6 thousand are active clients. The number of business clients with an access to mobile banking application increased by 6.8 thousand compared to the end of 2013.

(in thousand)

	31.12.2014	31.12.2013
Number of business clients (SME) with an access to mobile banking as at the end of period	13.8	7.0
Number of business clients (SME) actively using mobile banking(*)	8.6	5.3

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

Corporate customers

Bank Pekao S.A. maintains leading position on the market of corporate clients financial servicing and has one of the widest product offers on the market. The Bank's offer is constantly adjusted to the needs of clients and changing market conditions.

In 2014, the Bank's activities in the area of corporate clients focused on strengthening the customer base and enhancing of the product offer.

Transactional services

The Bank holds its leading market position in a comprehensive offer of services and products for the clients of transactional services and awards granted by independent assessment institutions confirm the high quality of services.

In order to meet clients expectations and to promote products increasing the level of security of commercial transactions, the Bank introduced new and standardized model contracts for escrow and trust accounts. These types of accounts are used to conduct cash settlements under the wide range of commercial and investment contracts. The Bank as an independent party, ensures proper disbursement of funds collected on escrow or trust accounts, protecting interest of transaction parties in accordance with the terms of the agreement. By introducing new documentation it was also provided a high flexibility as regard to possibility of customizing contract, i.e. adjusting the conditions to the type of contract and client expectations.

Within the scope of implementation of a New Settlement Model by Izba Rozliczeniowa Giełd Towarowych (the Commodity Clearing House), Bank Pekao S.A. since the third quarter of 2014 acts as a House Members' Payer Bank and is one of eight banks participating in settlements of transactions of purchase/sale of energy on the Polish Power Exchange. Co-operation with the Commodity Clearing House enables the Bank to acquire new volumes of transactions in settlements conducted under the New Settlement Model both from existing and prospective clients – members of the Commodity Clearing House.

In 2014, the Bank introduced special visualization AGRO cards for MasterCard Corporate Prepaid Pekao, which increases the awareness of the Bank's brand in the agricultural sector. In 2014, the Bank recorded increase in the number of issued prepaid cards by 118% in comparison with 2013.

Corporate customers of the Bank use the widest range of foreign currencies offer on the market for payments execution which allows to reduce the number of currency conversions, to shorten time of settlements and to streamline the process of liquidity management.

Custodial services

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

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

In 2014, the Bank acquired new customers from investment funds and insurance segments and the value of client assets increased thanks to acquisition of one of the largest global custodian banks. The Bank maintained its leader position servicing more than 50% programs related to depository receipts.

Trade finance

In 2014, in the area of trade finance, Bank Pekao S.A. recorded a significant increase in turnover. Turnover volumes within the service eFinancing increased in 2014 by 23% in comparison to 2013 and the market share of the Bank accounted for 25%.

Trade finance products offered by the Bank are also available in electronic banking system PekaoBiznes24. In 2014, there was the integration of the Bank's operational systems with EDI platform allowing customers debts financing on the basis of e-invoices. The EDI platform is available for both, eFinancing and Kredyt Zaliczka services.

The next innovation of the Bank within the scope of trade finance was implementation of new models of chain supply with entire control of debtors over invoices. The Bank became a supporting partner for customers' counterparties.

The Bank's activity within the framework of guaranties issued and improvement of the situation on construction services market contributed to an increase in turnover of guarantee portfolio issued on behalf of corporates and SME customers by 72.5% in 2014. The increase in turnover was additionally supported by introduction into the offer guarantees that secure VAT refund, the execution of license on fuel trade and tax refund associated with sensitive goods as well as tenement guarantees.

In 2014, volume of import L/Cs issued in the Bank increased by 50.8% in comparison to 2013 thanks to increasing activity of the key Bank's customers from retail sector and thanks to document instruments that securing import of raw materials and chemicals products.

PekaoBiznes24

The electronic banking system PekaoBiznes24 that offers a wide range of services, the highest standards of security and flexibility in management of user access is dedicated to large companies, corporations and local government units. As at the end of 2014, over 14.3 thousand customers used the PekaoBiznes24 system.

The PekaoBiznes24 offers its corporate customers:
- convenient online access to a wide and modern products offer, including transactional banking and trade finance products, foreign exchange currency platform, deposits placement and lease transactions service,
- speed and efficiency of transactions processing,
- various types of reports adjusted to client's individual needs,
- the highest security standard thanks to application of latest methods of system securing, including biometric security measures,
- a user-friendly and intuitive system navigation,
- open architecture allowing for integration with ERP, financial and accounting systems.

Within the framework of continuous development of internet banking system PekaoBiznes24, in 2014, the customers were offered, among others:
- new fully electronic applications to access the PekaoBiznes24 system available 24 hours and 7 days a week that allow the customers to define the range of users rights in the system for their employees,
- new interactive PDF forms for access configuration in the PekaoBiznes24, which replaced many separate documents,
- possibility to adjust desktop to individual requirements of user (concept one – click).

As at the end of 2014, 2 thousand of customers used electronic applications and 97% applications was processed automatically.

In 2014, the number of incoming payments and the number and volume of SEPA transfers increased by 30%, 57% and 42% respectively as compared to 2013 which confirms 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 functionality of electronic banking system.

In 2014, the Bank recorded also an increase in the number and volume of external domestic payments by 14% and 10% respectively as compared to 2013. At the same time, the market recorded ca. 5% increase in the number and volume of external domestic payments.

Activity of Bank Pekao S.A. Group

Investment banking, structured financing and commercial real estate
The year 2014 was the record-high for the Bank in terms of the number and volume of commercial real estate structured financing. Dynamic of volume of new loan agreements amounted to 44% in comparison to 2013. The Bank participated in transactions from all market sectors i.e. real estate, energy, media, fuel, mining. The Bank granted loans for development and expansion of corporates, new construction facilities and refinanced the loans granted by other lenders.

The Bank introduced to its offer escrow accounts for developers in housing sector. Part of commercial real estate financing was realized in a strategic partnership with Pekao Bank Hipoteczny. The Bank ensures customer relationship conducting and structuration of transaction while Pekao Bank Hipoteczny ensures favourable refinancing in a form of issuance of covered bonds.

Within the framework of syndicated financing, the Bank acted as leading arranger in several transactions completed in 2014.

In 2014, the Bank participated in financing, among others, the following projects:
– extraction in the Baltic Sea, the total amount of financing amounted to PLN 1 billion and the Bank's share amounted to PLN 333 million,
– participation in loan granted to a leading Polish company operating in the mining industry, the total amount of financing amounted to USD 2.5 billion and the Bank's share amounted to USD 200 million,
– participation in syndicated loan granted to one of the leaders on media market, the total amount of financing amounted to PLN 3 billion and the Bank's share amounted to PLN 200 million,
– construction of container terminal, the total amount of financing amounted to EUR 290 million and the Bank's share amounted to EUR 49.9 million,
– construction of shopping center in Kraków, the total amount of financing and the Bank's share amounted to PLN 304 million,
– construction of shopping center in Gdańsk, the total amount of financing amounted to EUR 139 million and the Bank's share amounted to EUR 104 million.

Financial markets and commercial debt instruments of the capital market
In 2014, the Bank's offer was extended with products hedging the risk of changes in commodity prices, dedicated to commercial companies involved in trade of commodities as well as corporates using commodities in a production cycle or the services rendered by them are associated with global commodity market. The customers were offered with plain vanilla and Asian commodity options for 23 base indices.

In the Treasury area, optimization of corporate sales force was conducted that allows to increase operating efficiency and enables to offer Treasury products to potential client.

In 2014, development of electronic channels of distribution was continued through functionality extension of AutoDealing platform by FX Forward and FX Swap transactions and access to those channels was consistently promoted to customers interested in foreign exchange and on-line deposit of financial surplus.

In the area of organization and servicing of commercial debt securities issuance, as at December 31, 2014, Bank Pekao S.A. took the first place with market share of over 21% (based on the Rating & Market Bulletin published by Fitch Poland).

As at the end of 2014, the market position of the Bank in each category was as follows:
– 2nd place on corporate bonds market and corporate revenue bonds market (with maturities over 365 days) with a share of over 25%,
– 2nd place in the segment of short-term debt securities with over 18% market share,
– 2nd place on municipal bonds market (with maturities over 365 days) with a share of over 27%.

In the area of commercial debt, the Bank placed middle-term bonds for the total amount of ca. PLN 2.2 billion, of which a particular attention deserve the following transactions:
– the issue of 5-year bonds for the total amount of PLN 1.75 billion for a company in energy sector. The Bank acted as agent and dealer. It was the largest debt securities issue conducted in 2014 on the Polish market,
– the issue of 2 series of retail bonds for the total amount of PLN 300 million conducted in a public offer for a fuel sector company and offered to the Polish individual investors. The Bank acted as a global coordinator. Entities from Bank Pekao S.A. Group and UniCredit CAIB Poland S.A. participated in the issuance.

Comprehensive services for the public finance sector
The Bank consequently strengthens its leading position in public sector financing and the current financing of the local governments in Poland. The total volume of new transactions of public sector financed by Bank Pekao S.A. in 2014 amounted to over PLN 2.6 billion.

In 2014, the Bank completed transactions of financing projects associated with public utility for the amount of nearly PLN 1.1 billion and financed investments for the total amount of PLN 1.5 billion for budgets of the Polish largest cities, voivodeships and their subordinated units. The Bank financed the following projects:
– purchase, repair and modernization of tram fleet of local railway in Mazowsze,
– construction of psychiatric hospital in Drewnica,
– construction of modern stadium in Zabrze,
– modernization of university hostels of in Kraków in the form of public-private partnership,
– expansion and modernization of the Regional Airport in warmińsko-mazurskie voivodeship,

– broadband Internet development in kujawsko-pomorskie voivodeship,
– revitalization of Olympic Stadium in Wrocław.

Co-operation with international and domestic financial institutions
The Bank maintains correspondent relations with 2.3 thousand foreign and domestic banks (by number of swift keys).

At the end of 2014, the Bank maintained 75 nostro accounts in 29 countries and 55 banks. The Bank kept 304 loro accounts and current accounts for foreign and domestic financial entities, including 223 loro accounts for 210 foreign customers (banks and other financial institutions) in 48 countries and 42 current accounts for 39 foreign financial institutions.

The Bank intermediates in execution of transactions for customers of other domestic banks, keeping 39 loro accounts for 13 Polish banks and maintaining 7 nostro foreign currency accounts in 2 Polish banks used for the ZUS pension benefits as well as clearing and custodial services. The Bank renders also services for the Polish banks and branches of foreign banks in Poland related to purchase and sale of foreign and domestic currencies.

The Bank achieved a high level of STP rate (straight through processing) of processing customers and interbank transactions which resulted in receiving awards from nostro correspondents.

Co-operation with international clients
In 2014, the Bank participated in "The internationalization of group customers" project realized in UniCredit Group, which supports development of international clients co-operation and service of international business in Europe.

Within the scope of this project, the Bank selected 1.2 thousand of existing group customers and intensified sales activities towards these customers in order to significant extension of co-operation. Similar activities of the Bank were also addressed to potential clients which translated into acquisition of new international corporate customers.

Major areas of activities of the Group's subsidiaries

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

Dom Maklerski Pekao (Dom Maklerski), Centralny Dom Maklerski Pekao S.A. (CDM) and associated entity Dom Inwestycyjny Xelion Sp. z o.o. (Xelion) are specialized entities rendering brokerage services within the Group, which provide retail customers with a wide range of products and services on the capital markets. For detailed description of the brokerage activity refer to chapter "Individual clients".

Below are described the areas of operations of the Group's key companies from the financial sector.

Banking activity

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny
In 2014, Pekao Bank Hipoteczny, as a specialized mortgage bank, continued to pursue its strategy focused on the creation of a secure loans portfolio, strived to maintain competitive position on the market of commercial properties, as well as loans for purchase, construction, refurbishment or modernization of housing loans to individuals.

At the end of 2014, net value of loans portfolio of Pekao Bank Hipoteczny amounted to PLN 1,747.2 million, an increase by PLN 118.3 comparison to 2013. Loans granted to individual clients and loans granted to corporate and local governments represent comparable share in loan portfolio structure.

In 2014, within the framework of a strategy focused on financing middle size projects, the volume of new commercial real estate loans accounted for 82% of total loan sales.

In 2014, within the second Program of Covered Bonds to bearer, bank successfully conducted two public issuances of covered bonds thereof one denominated in foreign currency.

Asset management

Pioneer Pekao Investment Management S.A. – PPIM
As at December 31, 2014, the net asset value of 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 17,115.1 million, an increase of PLN 703.6 million (4.3%) as compared to the end of 2013.

At the end of 2014, Pioneer Pekao TFI S.A. maintained 907.1 thousand open customer accounts (decrease by 2.7% in comparison to the end of 2013), managing portfolios of 40 investment funds and sub-funds.

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, 2014, the number of open-end pension members was 338.4 thousand and was by 1.1% lower comparing to December 31, 2013. The number of persons with at least one contribution credited to their accounts was 330.8 thousand.

Activity of Bank Pekao S.A. Group

As at the end of 2014, the value of the pension fund's net assets was PLN 2,217.6 million and was lower by PLN 2,292.6 million (50.8%) as compared to the end of 2013. In February 2014, as a result of pension funds reform, net assets of Pekao OFE decreased by ca. PLN 2.3 billion as a result of portion of assets (mostly Treasury Bonds) transfer to The Social Insurance Institution (ZUS). As at the end of 2014, Pekao OFE held 1.5% share in the market of open-end pension funds, i.e. on the similar level in comparison to 2013.

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 space, both in the form of operating and finance leases.

In 2014, the Company concluded 9,599 new agreements. The value of leased assets increased in comparison to 2013 by 9.2% and amounted to PLN 1,861.9 million, of which 63.5% were vehicles, 20.3% – plant and equipment, 0.4% – real estates and 15.8% – 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 1,226.3 million, i.e. 65.8% sales of the Company and increased by 5.4% in comparison to 2013.

Other financial services

Centrum Kart S.A. – CK S.A.
The Company renders comprehensive services that include, among others, maintenance of payment card management systems, authorization of transactions and card personalization.

In 2014, CK S.A. continued realization of important IT projects allowing the extension of a range of products offered by the Bank.

The main projects realized in 2014 included implementation of the payment cards system in one of the largest retail chains in Poland and introduction of mobile contactless payments in HCE technology.

Pekao Faktoring Sp. z o.o. – Pekao Faktoring
The Company, besides the full range of factoring services (recourse and non-recourse factoring), offers additional services, such as collecting information on debtors' standing, payments collection, debt recovery, settlements accounting and monitoring of payments on an ongoing basis. Additionally, the Company offers settlement 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.

The Company secure the fourth position on the Polish factoring market, with 11% of market share.

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 1 January to 31 December, 2014 and 2013 respectively was presented in the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2014.

In relation to changes in accounting policy in 2013 (for description refer to the Note 5 to the Consolidated Financial Statement of Bank Pekao S.A. Group for the period ended on December 31, 2014) data for 2013 in the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2014 as well as in the Report on activities of Bank Pekao S.A. Group for the year 2014 have been presented after appropriate restatements.

The Report on activities of Bank Pekao S.A. Group for the year 2014 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.

Since 2013, to align the presentation to the standards implemented by the major Polish and European banks, in the income statement 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.

Following decision of The Polish Financial Supervision Authority on December 5, 2014 Bank Pekao S.A. took over Spółdzielcza Kasa Oszczędnościowo Kredytowa named Mikołaj Kopernik in Ornontowice. Due to the above, data of Bank Pekao S.A. Group for 2014 presented in this chapter include data of Spółdzielcza Kasa Oszczędnościowo Kredytowa. The detailed information concerning above mentioned take over is presented in the Note 2 of the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2014.

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 2014, 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.

	31.12.2014		31.12.2013		
ASSETS	PLN,MILLION	STRUCTURE	PLN,MILLION	STRUCTURE	CHANGE
Cash,and,due,from,Central,Bank	9,226.3	5.5%	4,191.2	2.6%	120.1%
Loans,and,advances,to,banks(*)	7,175.9	4.3%	7,554.5	4.8%	(5.0%)
Loans,and,advances,to,customers(**)	114,978.1	68.6%	103,937.3	65.6%	10.6%
Securities(***)	25,161.2	15.0%	35,184.1	22.2%	(28.5%)
Investments,in,associates	184.2	0.1%	176.0	0.1%	4.7%
Property,,plant,and,equipment,and,intangible,assets	2,171.2	1.3%	2,216.2	1.4%	(2.0%)
Other,assets	8,728.1	5.2%	5,262.4	3.3%	65.9%
Total,assets	**167,625.0**	**100.0%**	**158,521.7**	**100.0%**	**5.7%**

(*) 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.

EQUITY AND LIABILITIES	31.12.2014 PLN MILLION	31.12.2014 STRUCTURE	31.12.2013 PLN MILLION	31.12.2013 STRUCTURE	CHANGE
Amounts due to Central Bank	1.0	0.0%	1.0	0.0%	0.0%
Amounts due to other banks	5,344.7	3.2%	6,417.7	4.0%	(16.7%)
Amounts due to customers	125,609.0	74.9%	119,796.7	75.6%	4.9%
Debt securities issued	3,857.0	2.3%	3,063.7	1.9%	25.9%
Other liabilities	8,767.6	5.3%	5,728.4	3.7%	53.1%
Total equity, including	24,045.7	14.3%	23,514.2	14.8%	2.3%
non-controlling interests	28.0	0.0%	94.3	0.1%	(70.3%)
Total equity and liabilities	**167,625.0**	**100.0%**	**158,521.7**	**100.0%**	**5.7%**

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 2014, they accounted for 68.6% and 15.0% of the total assets, respectively, while as at the end of 2013, the respective figures were 65.6% and 22.2%.

Cash and due from Central Bank

(in PLN million)

	31.12.2014	31.12.2013	CHANGE
Cash and due from Central Bank, including:	**9,226.3**	**4,191.2**	**120.1%**
Cash	3,399.3	2,104.6	61.5%
Current account at Central Bank	5,826.8	2,086.3	179.3%
Other	0.2	0.3	(33.3%)

Customers' Financing

Customer structure of loans and advances

(in PLN million)

	31.12.2014	31.12.2013	CHANGE
Loans and advances at nominal value	**120,293.6**	**108,734.9**	**10.6%**
Loans(*)	104,108.3	96,727.3	7.6%
Retail	49,264.0	44,475.4	10.8%
Corporate	54,844.3	52,251.9	5.0%
Non-quoted securities	10,399.6	9,428.2	10.3%
Reverse repo transactions	5,785.7	2,579.4	124.3%
Other(**)	347.7	357.6	(2.8%)
Nominal value adjustment	107.2	48.1	122.9%
Impairment losses	**(5,770.4)**	**(5,203.3)**	**10.9%**
Total net receivables	**114,978.1**	**103,937.3**	**10.6%**
Securities issued by non-monetary entities(***)	899.2	815.7	10.2%
Total customers' financing(****)	**121,192.8**	**109,550.6**	**10.6%**

(*) 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 2014, the volume of total customers' financing amounted to PLN 121,192.8 million, an increase of PLN 11,642.2 million, i.e. 10.6% in comparison to the end of 2013.

As at the end of December 2014, the volume of retail loans amounted to PLN 49,264.0 million, an increase of PLN 4,788.6 million, i.e. 10.8% in comparison to the end of 2013.

In the area of mortgage lending, 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 only 4.3% of total loans of the Bank.

The volume of corporate loans, non-quoted securities, reverse repo transactions and securities issued by non-monetary entities amounted to PLN 71,928.8 million, an increase of PLN 6,853.6 million, i.e. 10.5% in comparison to the end of 2013.

Statement of Financial Position and Financial Results

Receivables and impairment losses (in PLN million)

	31.12.2014	31.12.2013	CHANGE
Gross receivables(*)	**120,458.0**	**108,853.6**	**10.7%**
Not impaired	112,255.8	100,940.4	11.2%
Impaired	8,202.2	7,913.2	3.7%
Impairment losses	(5,770.4)	(5,203.3)	10.9%
Interest	290.5	287.0	1.2%
Total net receivables	**114,978.1**	**103,937.3**	**10.6%**

(*) 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, 2014, the ratio of impaired receivables to total receivables amounted to 6.8% and was better by 0.5 p.p. in comparison to the end of 2013.

Impairment losses as at the end of December 31, 2014 amounted to PLN 5,770.4 million.

Loans and advances to customers by currency(*)

	31.12.2014		31.12.2013		
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	CHANGE
Denominated in PLN	99,594.0	82.5%	89,461.3	82.0%	11.3%
Denominated in foreign currencies(**)	21,154.5	17.5%	**19,679.3**	**18.0%**	7.5%
Total	**120,748.5**	**100.0%**	**109,140.6**	**100.0%**	**10.6%**
Impairment losses	(5,770.4)	x	(5,203.3)	x	10.9%
Total net	**114,978.1**	**x**	**103,937.3**	**x**	**10.6%**

(*) 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 2014, their share was 82.5%.

The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (59.6%), CHF (24.2%) and USD (15.6%).

Loans and advances to customers by contractual maturities(*)

	31.12.2014		31.12.2013		
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	CHANGE
Current and up to 1 month	18,848.8	15.6%	14,441.7	13.2%	30.5%
1 to 3 months	3,368.6	2.8%	3,076.5	2.8%	9.5%
3 months to 1 year	11,347.1	9.4%	11,092.7	10.2%	2.3%
1 to 5 years	38,136.7	31.6%	35,103.8	32.2%	8.6%
Over 5 years	48,699.6	40.3%	45,068.3	41.3%	8.1%
Other	347.7	0.3%	357.6	0.3%	(2.8%)
Total	**120,748.5**	**100.0%**	**109,140.6**	**100.0%**	**10.6%**
Impairment losses	(5,770.4)	x	(5,203.3)	x	10.9%
Total net	**114,978.1**	**x**	**103,937.3**	**x**	**10.6%**

(*) Including interest and receivables in transit.

Loans and advances with maturity over 5 years represents 40.3% 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 Note 28 and 29 to the Consolidated Financial Statements of Bank Pekao S.A. for the period ended on December 31, 2014.

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 2014, amounts due to customers and debt securities issued totaled PLN 129,466.0 million, and their share in the total assets was 77.2%, compared with 77.5% as at the end of 2013. The share of total shareholder's equity in the total assets was 14.3% as at the end of 2014, compared with 14.8% as at the end of 2013.

External sources of financing

(in PLN million)

	31.12.2014	31.12.2013	CHANGE
Amounts due to Central Bank	1.0	1.0	0.0%
Amounts due to other banks	5,344.7	6,417.7	(16.7%)
Amounts due to customers	125,609.0	119,796.7	4.9%
Debt securities issued	3,857.0	3,063.7	25.9%
Total external sources of financing	**134,811.7**	**129,279.1**	**4.3%**

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 2014, the geographical structure of deposits acquired through the Bank's domestic branches was as follows:

REGION	% OF TOTAL DEPOSITS
Warszawski	44.5%
Mazowiecki	11.2%
Małopolski	10.0%
Południowo-Wschodni	7.2%
Centralny	6.8%
Wielkopolski	4.5%
Śląski	4.1%
Pomorski	4.0%
Dolnośląski	3.9%
Zachodni	3.8%
Total	**100.0%**

Total customer savings

(in PLN million)

	31.12.2014	31.12.2013	CHANGE
Amounts due to corporate	**64,490.7**	**64,965.6**	**(0.7%)**
Non-financial entities	49,142.8	45,411.0	8.2%
Non-banking financial entities	9,138.8	13,734.0	(33.5%)
Budget entities	6,209.1	5,820.6	6.7%
Retail deposits	**55,275.7**	**50,777.2**	**8.9%**
Repo and sell-buy-back transactions	**4,976.3**	**3,665.7**	**35.8%**
Other(*)	866.3	388.2	123.2%
Amounts due to customers	**125,609.0**	**119,796.7**	**4.9%**
Debt securities issued, of which	**3,857.0**	**3,063.7**	**25.9%**
Structured Certificates of Deposit (SCD)	203.7	334.0	(39.0%)
Certificates of Deposit	2,594.7	1,901.9	36.4%
Pekao Bank Hipoteczny S.A. covered bonds	1,029.3	816.2	26.1%
Interest	29.3	11.6	152.6%
Amounts due to customers and debt securities issued, total	**129,466.0**	**122,860.4**	**5.4%**
Investment funds of Pioneer Pekao TFI	**17,115.1**	**16,411.5**	**4.3%**
Bond and money market funds	11,162.0	9,416.8	18.5%
Balanced funds	3,163.9	3,688.0	(14.2%)
Equity funds	2,789.2	3,306.7	(15.7%)
including distributed through the Group's network	16,669.7	15,609.6	6.8%

(*) Other item includes interest and funds in transit.

As at the end of December 2014, the total amounts due to the Group's customers and debt securities issued amounted to PLN 129,466.0 million, an increase of PLN 6,605.6 million, i.e. 5.4% in comparison to the end of 2013, despite a decrease by PLN 6,122.5 million of liabilities to Open Pensions Funds (OFE) due to pension funds reform introduced in the first quarter of 2014. Excluding OFE, total amounts due to the Group's customers and debt securities issued increased by PLN 12,728.1 million, i.e. 11.3% in comparison to the end of 2013.

Statement of Financial Position and Financial Results

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 55,934.6 million at the end of December 2014, an increase of PLN 4,518.3 million, i.e. 8.8% in comparison to the end of 2013. The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 17,115.1 million at the end of December 2014, an increase of PLN 703.6 million, i.e. 4.3% in comparison to the end of 2013.

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 73,531.4 million at the end of December 2014, an increase of PLN 2,087.3 million, i.e. 2.9% as compared to the end of 2013, excluding OFE an increase of PLN 8,209.8 million in comparison to the end of 2013.

Amounts due to customers by currency(*)

	31.12.2014		31.12.2013		
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	CHANGE
Denominated in PLN	106,221.9	84.6%	101,473.0	84.7%	4.7%
Denominated in foreign currencies	19,387.1	15.4%	18,323.7	15.3%	5.8%
Total	**125,609.0**	**100.0%**	**119,796.7**	**100.0%**	**4.9%**

(*) 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 2014 amounted to 84.6%. The majority of amounts due to customers denominated in foreign currencies were in EUR (61.3%) and USD (34.1%).

Amounts due to customers by contractual maturities

	31.12.2014		31.12.2013		
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	CHANGE
Current accounts and overnight deposits	59,847.4	48.0%	55,417.3	46.4%	8.0%
Term deposits	64,895.3	52.0%	63,991.2	53.6%	1.4%
Total deposits	**124,742.7**	**100.0%**	**119,408.5**	**100.0%**	**4.5%**
Interest accrued	194.6	x	209.1	x	(6.9%)
Funds in transit	671.7	x	179.1	x	275.0%
Total	**125,609.0**	**x**	**119,796.7**	**x**	**4.9%**

Off–balance sheet items

Statement of off-balance sheet items (in PLN million)

	31.12.2014	31.12.2013	CHANGE
Contingent liabilities granted and received	54,257.2	47,411.7	14.4%
Liabilities granted:	41,585.2	38,175.0	8.9%
financial	27,376.5	27,097.7	1.0%
guarantees	14,208.7	11,077.3	28.3%
Liabilities received:	12,672.0	9,236.7	37.2%
financial	496.5	111.8	344.1%
guarantees	12,175.5	9,124.9	33.4%
Derivative financial instruments	251,602.9	187,401.9	34.3%
interest rate transactions	147,004.1	116,772.1	25.9%
transactions in foreign currency and in gold	102,912.9	69,566.6	47.9%
transactions based on commodities and equity securities	1,685.9	1,063.2	58.6%
Other	32,292.0	33,185.3	(2.7%)
Total off-balance sheet items	**338,152.1**	**267,998.9**	**26.2%**

More detailed information on off-balance-sheet items is included in the Notes 27 and 48 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2014.

The structure of the net profit

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

(in PLN million)

	2014	2013	CHANGE
Net profit of Bank Pekao S.A.	**2,662.3**	**2,800.0**	**(4.9%)**
Entities consolidated under full method			
Pekao Leasing Sp. z o.o.	54.6	40.6	34.5%
Centralny Dom Maklerski Pekao S.A.	42.4	39.3	7.9%
Pekao Pioneer PTE S.A.	15.4	13.8	11.6%
Pekao Bank Hipoteczny S.A.	10.0	12.7	(21.3%)
Pekao Faktoring Sp. z o.o.	8.2	10.1	(18.8%)
Pekao Financial Services Sp. z o.o.	7.2	6.6	9.1%
Centrum Kart S.A.	2.6	1.7	52.9%
Centrum Bankowości Bezpośredniej Sp. z o.o.	2.4	3.9	(38.5%)
Pekao Leasing Holding S.A.(*)	1.0	27.9	(96.4%)
Pekao Fundusz Kapitałowy Sp. z o.o.	0.3	0.6	(50.0%)
Pekao Telecentrum Sp. z o.o. w likwidacji	0.1	0.2	(50.0%)
FPB “Media” Sp. z o.o.	(0.1)	0.0	x
Pekao Property S.A.(**)	(0.9)	(0.4)	125.0%
PJSC UniCredit Bank(***)	–	17.5	x
Property Sp. z o.o. w likwidacji(**)	–	0.3	x
Entities valued under the equity method			
Pioneer Pekao Investment Management S.A.	51.8	48.3	7.2%
Krajowa Izba Rozliczeniowa S.A.	10.0	10.0	0.0%
Dom Inwestycyjny Xelion Sp. z o.o.	1.5	1.1	36.4%
Exclusions and consolidation adjustments(****)	**(154.1)**	**(249.4)**	**(38.2%)**
Net profit of the Group attributable to equity holders of the Bank	**2,714.7**	**2,784.8**	**(2.5%)**
Net profit of the Group attributable to equity holders of the Bank – continued operations	**2,714.7**	**2,767.3**	**(1.9%)**

(*) The result of Pekao Leasing Holding S.A. for 2013 mainly include the dividend received from Pekao Leasing Sp. z o.o.
(**) On September 26, 2014, the merger of Pekao Property S.A. and Property Sp. z o.o. w likwidacji was accomplished.
(***) On July 16, 2013, the Bank sold 100% shares of PJSC UniCredit Bank based in Kiev to UniCredit S.p.A. based in Rome.
(****) 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)

	2014	2013	CHANGE
Net interest income	4,334.5	4,310.5	0.6%
Dividend income	153.6	143.8	6.8%
Total net interest income and dividend income	4,488.1	4,454.3	0.8%
Net non-interest income	2,546.6	2,733.0	(6.8%)
Operating income	**7,034.7**	**7,187.3**	**(2.1%)**
Operating costs	**(3,223.3)**	**(3,230.4)**	**(0.2%)**
Operating profit	**3,811.4**	**3,956.9**	**(3.7%)**
Net result on other provisions	(1.4)	13.8	x
Net impairment losses on loans and off-balance sheet commitments	(541.4)	(623.0)	(13.1%)
Net result on investment activities	1.5	88.7	(98.3%)
Profit before tax	**3,270.1**	**3,436.4**	**(4.8%)**
Net profit for the period	**2,662.3**	**2,800.0**	**(4.9%)**

In 2014, the Bank's net profit amounted to PLN 2,662.3 million, decrease of PLN 137.7 million, i.e. 4.9% in comparison to 2013 mainly due to lower trading result and the impact of regulatory constraints.

The Bank's operating profit reported for 2014 was lower by 3.7% in comparison with 2013 due to lower operating income affected mainly by lower net fee and commission income and lower trading result, partially compensated by better operating costs lower by 0.2%.

The main Bank's financial information are as follows:

	31.12.2014	31.12.2013	CHANGE
Total gross loans in PLN million(*)	100,330.6	93,186.8	7.7%
Impaired receivables to total receivables in %	6.6%	7.1%	(0.5) p.p.
Total deposits in PLN million(*)	120,279.7	115,843.7	3.8%
Repo and sell-buy-back transactions in PLN million	5,253.4	3,665.7	43.3%
Structured Certificates of Deposit in PLN million	203.7	334.0	(39.0%)
Certificates of Deposit in PLN million	2,594.7	1,901.9	36.4%
Total assets in PLN million	164,322.8	155,286.6	5.8%
Investment funds distributed through the Bank's network in PLN million	15,660.9	14,628.6	7.1%
Capital adequacy ratio (Basel III) in %	17.1%	18.3%	(1.2) p.p.

(*) The nominal value.

The volume of gross loans of the Bank's clients as at the end of December 2014 amounted to PLN 100,330.6 million, an increase of PLN 7,143.8 million, i.e. 7.7% as compared to the end of 2013. At the end of December 2014, the total volume of retail loans amounted to PLN 48,377.8 million and volume of corporate loans amounted to PLN 51,952.8 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 128,331.5 million, an increase of PLN 6,586.2 million, i.e. 5.4% as compared to the end of 2013, despite a decrease by PLN 6,122.5 million of liabilities to Open Pensions Funds due to pension funds reform introduced in the first quarter of 2014.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. and distributed through the Bank's network increased by PLN 1,032.3 million, i.e. 7.1% as compared to the end of 2013.

Results of the Bank's major related entities

Pioneer Pekao Investment Management S.A. – PPIM
In 2014, consolidated net profit of PPIM amounted to PLN 105.7 million compared with PLN 98.6 million in 2013. The Bank's share in the company's profit was **PLN 51.8 million**.

Pekao Leasing Sp. z o.o. – Pekao Leasing
In 2014, Pekao Leasing reported a net profit of PLN 54.6 million (the Bank's share equaled to **PLN 49.7 million**) compared with

PLN 40.6 million in 2013. Pekao Leasing result for 2014 on top of positive commercial income includes positive impact of VAT settlements.

Centralny Dom Maklerski Pekao S.A. – CDM
In 2014, net profit of CDM amounted to **PLN 42.4 million** compared with PLN 39.3 million profit earned in 2013.

Pekao Pioneer PTE S.A. – PTE
In 2014, PTE reported net profit of **PLN 15.4 million** (the Bank's share equaled to PLN 10.0 million) compared with net profit of PLN 13.8 million in 2013. The higher profit was achieved as a result of the Guarantee Fund settlement in the first half of 2014, conducted after transfer of assets from Open Pensions Funds (OFE) to The Social Insurance Institution (ZUS) as a consequence of pension funds reform.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny
In 2014, Pekao Bank Hipoteczny reported a net profit of **PLN 10.0 million** compared with PLN 12.7 million in 2013.

Pekao Faktoring Sp. z o.o. – Pekao Faktoring
In 2014, Pekao Faktoring reported a net profit of **PLN 8.2 million** compared with PLN 10.1 million in 2013.

Dom Inwestycyjny Xelion Sp. z o.o. – Xelion
In 2014, Xelion reported a net profit of **PLN 2.9 million** (the Bank's share equaled to **PLN 1.45 million**) and it was higher than the profit earned in 2013 in the amount of PLN 2.1 million.

The consolidated income statement – presentation form

Net profit of Bank Pekao S.A. Group attributable to equity holders for 2014 amounted to PLN 2,714.7 million allowing return on average capital (ROE) at the level of 11.5% achieved with a strong capital base reflected by the total capital ratio at 17.3% (Basel III). Normalized ROE (return on minimum equity equivalent to the total capital ratio at 10%) amounted to 17.3%.

As financial data of 2014 don't include results of PJSC UniCredit Bank – sold on July 16, 2013 – in the subsequent part of this chapter, additionally 2013 results are presented and financial information dynamics are discussed excluding PJSC UniCredit Bank from the year 2013 to ensure comparability.

The Group's net profit attributable to equity holders reported for 2014 was lower by PLN 52.6 million, i.e. 1.9% in comparison to 2013, mainly due to lower trading result and the impact of regulatory constraints.

The strength of the liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 88.8% at the end of December 2014. This together with strong equity level enables for further sound and stable development of the Group's activities.

The consolidated income statement – presentation form

(in PLN million)

	2014	2013 (EXCLUDING PJSC UNICREDIT BANK))	2013	CHANGE (EXCLUDING PJSC UNICREDIT BANK)
Net interest income	4,461.3	4,443.9	4,505.6	0.4%
Dividend income and income from equity investments	71.5	66.1	66.1	8.2%
Total net interest income, dividend income and other income from equity investments	**4,532.8**	**4,510.0**	**4,571.7**	**0.5%**
Net fee and commission income	2,043.7	2,131.7	2,142.8	(4.1%)
Trading result	679.5	755.2	752.8	(10.0%)
Net other operating income and expenses	89.7	96.7	98.0	(7.2%)
Net non-interest income	**2,812.9**	**2,983.6**	**2,993.6**	**(5.7%)**
Operating income	**7,345.7**	**7,493.6**	**7,565.3**	**(2.0%)**
Operating costs	**(3,425.5)**	**(3,438.2)**	**(3,483.4)**	**(0.4%)**
Operating profit	**3,920.2**	**4,055.4**	**4,081.9**	**(3.3%)**
Net result on other provisions	(2.7)	13.7	13.7	x
Net impairment losses on loans and off-balance sheet commitments	(559.6)	(658.5)	(663.7)	(15.0%)
Net result on investment activities	1.8	22.3	22.3	(91.9%)
Profit before tax	**3,359.7**	**3,432.9**	**3,454.2**	**(2.1%)**
Income tax expense	(634.6)	(655.4)	(659.2)	(3.2%)
Net profit for the period	**2,725.1**	**2,777.5**	**2,795.0**	**(1.9%)**
Attributable to equity holders of the Bank	**2,714.7**	**2,767.3**	**2,784.8**	**(1.9%)**
Attributable to non-controlling interest	10.4	10.2	10.2	2.0%

Statement of Financial Position and Financial Results

Operating income

In 2014, the Group's operating income amounted to PLN 7,345.7 million, a decrease of PLN 147.9 million, i.e. 2.0% in comparison with 2013 mainly due to decrease in net non-interest income partially compensated by higher net interest income achieved despite significant pressure of lower interest rates.

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

(in PLN million)

	2014	2013 (EXCLUDING PJSC UNICREDIT BANK)	2013	CHANGE (EXCLUDING PJSC UNICREDIT BANK)
Interest income	6,225.3	6,680.9	6,774.3	(6.8%)
Interest expense	(1,764.0)	(2,237.0)	(2,268.7)	(21.1%)
Net interest income	**4,461.3**	**4,443.9**	**4,505.6**	**0.4%**
Dividend income	8.3	6.7	6.7	23.9%
Income from equity investments	63.2	59.4	59.4	6.4%
Total net interest income, dividend income and income from equity investments	**4,532.8**	**4,510.0**	**4,571.7**	**0.5%**

Total net interest income, dividend income and income from equity investments in 2014 amounted to PLN 4,532.8 million and was higher by PLN 22.8 million, i.e. 0.5% compared to the previous year thanks to higher volumes fully compensating negative impact of lower interest rates including reduction of the NBP Lombard rate determining the maximum interest rate applicable to loans. In 2014, average WIBOR 3M rate stood at the level of 2.51%, and was lower by 52 b.p. than in 2013, while the NBP Lombard rate went from 4.0% at the end of 2013 to 3.0% at the end of 2014.

Net non-interest income

(in PLN million)

	2014	2013 (EXCLUDING PJSC UNICREDIT BANK)	2013	CHANGE (EXCLUDING PJSC UNICREDIT BANK)
Fee and commission income	2,536.2	2,635.9	2,655.1	(3.8%)
Fee and commission expense	(492.5)	(504.2)	(512.3)	(2.3%)
Net fee and commission income	**2,043.7**	**2,131.7**	**2,142.8**	**(4.1%)**
Trading result	679.5	755.2	752.8	(10.0%)
of which gains on disposal of AFS assets	253.5	308.4	308.4	(17.8%)
Net other operating income and expense	**89.7**	**96.7**	**98.0**	**(7.2%)**
Net non-interest income	**2,812.9**	**2,983.6**	**2,993.6**	**(5.7%)**

The Group's net non-interest income in 2014 amounted to PLN 2,812.9 million, a decrease of PLN 170.7 million, i.e. 5.7% in comparison with 2013 mainly due to lower net fee and commission income (affected by lower interchange rates decreasing card related fees, unfavorable market conditions influencing mutual funds and brokerage fees as well as OFE reform and migration to the Internet channels) and lower trading result, in particular lower gains on disposal of available for sale financial assets.

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

(in PLN million)

	2014	2013 (EXCLUDING PJSC UNICREDIT BANK)	2013	CHANGE (EXCLUDING PJSC UNICREDIT BANK)
Net fee and commission income	**2,043.7**	**2,131.7**	**2,142.8**	**(4.1%)**
on loans	446.4	431.8	431.8	3.4%
on cards	403.6	455.6	453.5	(11.4%)
capital market related	363.0	391.0	391.0	(7.2%)
other	830.7	853.3	866.5	(2.6%)

The Group's net fee and commission income in 2014 amounted to PLN 2,043.7 million and was lower by PLN 88.0 million, i.e. 4.1% in comparison with 2013, mainly due to lower cards related fee affected by interchange fee rate reduction in July 2014 and lower capital market related fee.

Operating costs

In 2014, the operating costs were kept under control and amounted to PLN 3,425.5 million. They were lower than the operating costs in 2013 by PLN 12.7 million, i.e. 0.4% despite new prudential charge of Banking Guarantee Fund introduced in the fourth quarter of 2013.

Excluding Banking Guarantee Fund charge and supervisory fees (Polish Financial Supervision Authority – KNF), the operating costs were lower by PLN 44.2 million, i.e. 1.3% in comparison with 2013.

(in PLN million)

	2014	2013 (EXCLUDING PJSC UNICREDIT BANK)	2013	CHANGE (EXCLUDING PJSC UNICREDIT BANK)
Personnel expenses	(1,905.1)	(1,860.0)	(1,881.2)	2.4%
Other administrative expenses (excl. BGF and KNF)	(1,039.7)	(1,112.0)	(1,133.3)	(6.5%)
Depreciation and amortization	(326.6)	(343.6)	(346.3)	(4.9%)
Operating costs (excl. BGF and KNF)	**(3,271.4)**	**(3,315.6)**	**(3,360.8)**	**(1.3%)**
BGF and KNF	(154.1)	(122.6)	(122.6)	25.7%
Operating costs	**(3,425.5)**	**(3,438.2)**	**(3,483.4)**	**(0.4%)**

In 2014, cost / income ratio amounted to 46.6% in comparison with 45.9% in 2013 mainly due to higher charge of Banking Guarantee Fund and supervisory fees (KNF).

As at the end of December 2014, the Group employed 18,765 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,916 employees as at the end of 2013.

As at the end of December 2014, the Bank employed 16,914 employees as compared to 17,092 employees as at the end of 2013.

The level of employment in the Bank and the Group as at the end of 2014 was influenced by take over of Spółdzielcza Kasa Oszczędnościowo Kredytowa named Mikołaj Kopernik in Ornontowice by Bank Pekao S.A. following decision of The Polish Financial Supervision Authority on December 5, 2014.

Net impairment losses

(in PLN million)

	2014	2013 (EXCLUDING PJSC UNICREDIT BANK)	2013	CHANGE (EXCLUDING PJSC UNICREDIT BANK)
Impairment losses on loans	(571.8)	(651.0)	(656.2)	(12.2%)
Impairment losses on off-balance sheet commitments	12.2	(7.5)	(7.5)	x
Total	**(559.6)**	**(658.5)**	**(663.7)**	**(15.0%)**

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 559.6 million in 2014, a decrease of PLN 98.9 million, i.e. 15.0% as compared with 2013.

Provisions, deferred tax assets and liabilities

(in PLN million)

	31.12.2014	31.12.2013	CHANGE
Total provisions	**442.5**	**393.5**	**12.5%**
of which:			
provisions for off-balance sheet commitments	102.4	113.9	(10.1%)
provisions for liabilities to employees	301.5	241.5	24.8%
other provisions	38.6	38.1	1.3%
Deferred tax liabilities	**2.1**	**3.3**	**(36.4%)**
Deferred tax assets	**877.4**	**895.3**	**(2.0%)**

Statement of Financial Position and Financial Results

Quarterly Income Statement

Consolidated income statement – long form

Consolidated income statement for 2014 – Provided for comparability purposes.

(in PLN thousand)

	Q1 2014			Q2 2014			Q3 2014			Q4 2014		
	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Interest income	1,571,029	–	1,571,029	1,584,757	–	1,584,757	1,594,530	–	1,594,530	1,474,974	–	1,474,974
Interest expense	(440,956)	–	(440,956)	(444,851)	–	(444,851)	(460,586)	–	(460,586)	(417,603)	–	(417,603)
Net interest income	**1,130,073**	**–**	**1,130,073**	**1,139,906**	**–**	**1,139,906**	**1,133,944**	**–**	**1,133,944**	**1,057,371**	**–**	**1,057,371**
Fee and commission income	631,965	–	631,965	664,663	–	664,663	612,307	–	612,307	627,346	–	627,346
Fee and commission expense	(119,066)	–	(119,066)	(138,499)	–	(138,499)	(107,285)	–	(107,285)	(127,696)	–	(127,696)
Net fee and commission income	**512,899**	**–**	**512,899**	**526,164**	**–**	**526,164**	**505,022**	**–**	**505,022**	**499,650**	**–**	**499,650**
Dividend income	**–**	**–**	**–**	**8,189**	**–**	**8,189**	**109**	**–**	**109**	**–**	**–**	**–**
Result on financial assets and liabilities held for trading	**105,443**	**–**	**105,443**	**111,177**	**–**	**111,177**	**105,102**	**–**	**105,102**	**121,579**	**–**	**121,579**
Result on fair value hedge accounting	**(10,725)**	**–**	**(10,725)**	**(3,392)**	**–**	**(3,392)**	**(1,598)**	**–**	**(1,598)**	**(1,532)**	**–**	**(1,532)**
Net result on other financial instruments at fair value through profit and loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Gains (losses) on disposal of:	**414**	**–**	**414**	**35,490**	**–**	**35,490**	**94,620**	**–**	**94,620**	**141,531**	**–**	**141,531**
loans and other financial receivables	414	–	414	670	–	670	–	–	–	17,495	–	17,495
available for sale financial assets and held to maturity investments	17	–	17	34,820	–	34,820	94,618	–	94,618	124,045	–	124,045
financial liabilities	(17)	–	(17)	–	–	–	2	–	2	(9)	–	(9)
Operating income	**1,738,104**	**–**	**1,738,104**	**1,817,534**	**–**	**1,817,534**	**1,837,199**	**–**	**1,837,199**	**1,818,599**	**–**	**1,818,599**
Net impairment losses on financial assets and off-balance sheet commitments:	**(147,502)**	**–**	**(147,502)**	**(142,666)**	**–**	**(142,666)**	**(134,194)**	**–**	**(134,194)**	**(135,213)**	**–**	**(135,213)**
loans and other financial receivables	(149,004)	–	(149,004)	(131,271)	–	(131,271)	(173,182)	–	(173,182)	(118,373)	–	(118,373)
off-balance sheet commitments	1,502	–	1,502	(11,395)	–	(11,395)	38,988	–	38,988	(16,840)	–	(16,840)
Net result on financial activity	**1,590,602**	**–**	**1,590,602**	**1,674,868**	**–**	**1,674,868**	**1,703,005**	**–**	**1,703,005**	**1,683,386**	**–**	**1,683,386**

Consolidated income statement for 2014 – cont.

(in PLN thousand)

	Q1 2014			Q2 2014			Q3 2014			Q4 2014		
	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Administrative expenses	**(776,702)**	**–**	**(776,702)**	**(784,046)**	**–**	**(784,046)**	**(778,424)**	**–**	**(778,424)**	**(762,962)**	**–**	**(762,962)**
personnel expenses	(471,380)	–	(471,380)	(484,010)	–	(484,010)	(479,962)	–	(479,962)	(469,718)	–	(469,718)
other administrative expenses	(305,322)	–	(305,322)	(300,036)	–	(300,036)	(298,462)	–	(298,462)	(293,244)	–	(293,244)
Depreciation and amortization	**(81,945)**	**–**	**(81,945)**	**(81,049)**	**–**	**(81,049)**	**(82,263)**	**–**	**(82,263)**	**(81,422)**	**–**	**(81,422)**
Net result on other provisions	**(1,188)**	**–**	**(1,188)**	**(1,962)**	**–**	**(1,962)**	**99**	**–**	**99**	**349**	**–**	**349**
Net other operating income and expenses	**34,237**	**–**	**34,237**	**22,337**	**–**	**22,337**	**12,677**	**–**	**12,677**	**5,085**	**–**	**5,085**
Operating costs	**(825,598)**	**–**	**(825,598)**	**(844,720)**	**–**	**(844,720)**	**(847,911)**	**–**	**(847,911)**	**(838,950)**	**–**	**(838,950)**
Gains (losses) on subsidiaries and associates	**19,282**	**–**	**19,282**	**15,411**	**–**	**15,411**	**15,320**	**–**	**15,320**	**13,197**	**–**	**13,197**
Gains (losses) on disposal of property, plant and equipment, and intangible assets	**(333)**	**–**	**(333)**	**(210)**	**–**	**(210)**	**122**	**–**	**122**	**2,218**	**–**	**2,218**
Profit before income tax	**783,953**	**–**	**783,953**	**845,349**	**–**	**845,349**	**870,536**	**–**	**870,536**	**859,851**	**–**	**859,851**
Income tax expense	(146,017)	–	(146,017)	(154,786)	–	(154,786)	(165,454)	–	(165,454)	(168,316)	–	(168,316)
Net profit for the period	**637,936**	**–**	**637,936**	**690,563**	**–**	**690,563**	**705,082**	**–**	**705,082**	**691,535**	**–**	**691,535**
Attributable to equity holders of the Bank	**634,244**	**–**	**634,244**	**685,077**	**–**	**685,077**	**704,370**	**–**	**704,370**	**691,023**	**–**	**691,023**
Attributable to non-controlling interest	3,692	–	3,692	5,486	–	5,486	712	–	712	512	–	512

Statement of Financial Position and Financial Results

Consolidated income statement for 2013 – Provided for comparability purposes.

(in PLN thousand)

	Q1 2013			Q2 2013			Q3 2013			Q4 2013		
	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUED 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		
	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUED 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)	–	(167,816)
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 statement of comprehensive income

Consolidated statement of comprehensive income for 2014 (continued and discontinued operations)

(in PLN thousand)

	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Net profit	**637,936**	**690,563**	**705,082**	**691,535**
Attributable to equity holders of the Bank	**634,244**	**685,077**	**704,370**	**691,023**
Attributable to non-controlling interest	3,692	5,486	712	512
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences	5	6	(8)	(72)
Change in fair value of available-for-sale financial assets	36,868	322,991	127,131	(4,924)
Change in fair value of cash flow hedges	(11,416)	113,138	74,877	(8,490)
Income tax expense on other comprehensive income	(4,836)	(82,865)	(38,381)	2,548
Items that will never be reclassified to profit or loss:				
Re-measurements of the defined benefit liabilities	–	–	–	(44,338)
Share in re-measurements of the defined benefit liabilities of associates	–	–	–	(38)
Tax on items that will never be reclassified to profit or loss	**–**	**–**	**–**	**8,424**
Other comprehensive income (net)	**20,621**	**353,270**	**163,619**	**(46,890)**
Total comprehensive income	**658,557**	**1,043,833**	**868,701**	**644,645**
Attributable to equity holders of the Bank	654,865	1,038,347	867,989	644,133
Attributable to non-controlling interest	3,692	5,486	712	512

Consolidated statement of comprehensive income for 2013 (continued and discontinued operations)

(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 income statement – presentation form

Consolidated income statement for 2014 (continued and discontinued operations)

(in PLN thousand)

	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Net interest income	1,130,073	1,139,906	1,133,944	1,057,371
Dividend income and income from equity investments	19,282	23,600	15,429	13,197
Total net interest income, dividend income and other income from equity investments	**1,149,355**	**1,163,506**	**1,149,373**	**1,070,568**
Net fee and commission income	512,899	526,164	505,022	499,650
Trading result	94,718	142,605	198,124	244,083
Net other operating income and expenses	32,856	22,995	12,148	21,664
Net non-interest income	**640,473**	**691,764**	**715,294**	**765,397**
Operating income	**1,789,828**	**1,855,270**	**1,864,667**	**1,835,965**
Operating costs	**(856,852)**	**(865,083)**	**(860,158)**	**(843,468)**
Operating profit	**932,976**	**990,187**	**1,004,509**	**992,497**
Net result on other provisions	(1,188)	(1,962)	99	349
Net impairment losses on loans and off-balance sheet commitments	(147,502)	(142,666)	(134,194)	(135,213)
Net result on investment activities	(333)	(210)	122	2,218
Profit before income tax	**783,953**	**845,349**	**870,536**	**859,851**
Income tax expense	(146,017)	(154,786)	(165,454)	(168,316)
Net profit for the period	**637,936**	**690,563**	**705,082**	**691,535**
Attributable to equity holders of the Bank	**634,244**	**685,077**	**704,370**	**691,023**
Attributable to non-controlling interest	3,692	5,486	712	512

Consolidated income statement for 2013 (continued and discontinued operations)

(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

Statement of Financial Position and Financial Results

Reconciliation of income statement – presentation form and long form

Consolidated income statement for 2014

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFFIED TO PRESENTATION FORM	2014	COMMENTS
Net interest income		4,461,294	
Dividend income and income from equity investments		71,508	
	Dividend income	8,298	
	Gains (losses) on subsidiaries and associates	63,210	
Total net interest income, dividend income and other income from equity investments		**4,532,802**	
Net fee and commission income	Net fee and commission income	2,043,735	
Trading result		679,530	
	Result on financial assets and liabilities held for trading	443,301	
	Result on fair value hedge accounting	(17,247)	
	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	253,500	
	(Gains) losses on disposal of financial liabilities	(24)	
Net other operating income and expenses		89,663	
	Net other operating income and expenses	74,336	
	less – Refunding of administrative expenses	(3,252)	/1
	Gains (losses) on disposal of loans and other financial receivables	18,579	
Net non-interest income		**2,812,928**	
Operating income		**7,345,730**	
Operating costs		(3,425,561)	
	Personnel expenses	(1,905,070)	
	Other administrative expenses	(1,197,064)	
	Refunding of administrative expenses	3,252	/1
	Depreciation and amortization	(326,679)	
Operating profit		**3,920,169**	
Net result on other provisions	Net result on other provisions	(2,702)	
Net impairment losses on loans and off-balance sheet commitments		(559,575)	
	Net impairment losses on loans	(571,830)	
	Net impairment provision for off-balance sheet commitments	12,255	
Net result on investment activities		1,797	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	1,797	
	Impairment losses on subsidiaries and associates	–	
	Gains (losses) on disposal of subsidiaries and associates	–	
Profit before income tax		**3,359,689**	
Income tax expense	Income tax expense	(634,573)	
Net profit for the period	**Net profit for the period**	**2,725,116**	
Attributable to equity holders of the Bank	**Attributable to equity holders of the Bank**	**2,714,714**	
Attributable to non-controlling interest	Attributable to non-controlling interest	10,402	

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 2013 (continued and discontinued operations)

(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".

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 2014.

Management Board and Supervisory Board remuneration

The total amount of remuneration and benefits (in cash, payments in kind or in any form) paid or payable to Management Board Members in 2014:

(in PLN thousand)

	FIXED REMUNERATION	PART OF VARIABLE COMPENSATION FOR 2013	DEFERRED PARTS OF VARIABLE COMPENSATION FOR 2012	OTHER BENEFITS FOR 2014
Luigi Lovaglio	3,849	1,673	1,487	161
Diego Biondo	2,003	228	212	1
Andrzej Kopyrski	1,325	359	359	117
Grzegorz Piwowar	1,285	390	348	112
Stefano Santini	1,115	107	–	1
Marian Ważyński	884	159	175	32

(in PLN thousand)

	SETTLEMENT OF VARIABLE COMPENSATION FOR 2011 IN PHANTOM SHARES
Luigi Lovaglio	2,090
Diego Biondo	327
Andrzej Kopyrski	525
Grzegorz Piwowar	582
Stefano Santini	–
Marian Ważyński	228

Part of the variable remuneration payable in the form of phantom shares for the Management Board Members, vested but not yet settled, amounted to PLN 2,838 thousand. The final settlement amount will depend on the share price of the Bank.

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, organizational unit and the Bank's bottom line as well as on the assessment of participant's compliance with generally applicable laws and adopted by the Bank standards. 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 2014, the Management Board Members did not receive nor are due any compensation from subsidiaries and associated entities.

The total amount of remuneration (in cash and payments in kind) paid or payable to Supervisory Board Members in 2014:

(in PLN thousand)

	TOTAL	COMMENTS
Jerzy Woźnicki	241	
Roberto Nicastro	–	Did not receive remuneration according to the Group's policy
Leszek Pawłowicz	222	
Alessandro Decio	–	Did not receive remuneration according to the Group's policy
Małgorzata Adamkiewicz	133	
Paweł Dangel	196	
Laura Penna	–	Did not receive remuneration according to the Group's policy
Wioletta Rosołowska	133	
Doris Tomanek	–	Did not receive remuneration according to the Group's policy

In 2014, the Supervisory Board Members did not receive nor are due any compensation from subsidiaries and associated entities.

The Incentive Programs

As at December 31, 2014, 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, 2014, 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 2014	FOR THE THIRD QUARTER OF 2014	FOR THE YEAR 2013
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, 2014 UniCredit S.p.A. shares were held by: Mr. Luigi Lovaglio – 64,290 shares without nominal value, Mr. Diego Biondo – 4,730 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 – 33,053 shares without nominal value, Mr. Grzegorz Piwowar – 1,666 shares without nominal value, Mr. Stefano Santini – 18,655 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 Labour 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.

Audit remuneration for services of Bank Pekao S.A. Group.
(in PLN thousand)

	2014	2013
Fee for the audit of annual financial statements	3,397	3,207
Fee for other attestation services, including review of financial statements	1,454	1,602

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

Other Information

Average interest rates in Bank Pekao S.A. in December 2014

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

PLN retail deposits	1.24% p.a.
PLN corporate clients deposits	1.54% p.a.

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

Total retail loans	5.06% p.a.
Mortgage	3.68% p.a.
Consumption	10.75% p.a.
Other	6.50% p.a.
Corporate loans	3.89% 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, 2014 amounted to PLN 2,442.6 million. In 2014, 449 titles of execution were issued on behalf of the Bank in the total amount of PLN 648.5 million.

For retail clients, the total value of the collateral for impaired transactions as at December 31, 2014 amounted to PLN 686.7 million. In 2014, 12,351 titles of execution were issued on behalf of the Bank in the total amount of PLN 240.8 million.

Pending litigations

In 2014, the number of the legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of the Group's liabilities was 726 with the total value amounting to PLN 1,205.6 million. The number of legal proceedings in respect of receivables was 14,441 with the total value of PLN 1,262.4 million.

In 2014, 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 2014, nor the proceedings in aggregate pose any threat to the Bank's financial liquidity.

Related party transactions

In 2014, 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 2014, 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 2014, 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 Note 27 and 30 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2014.

Accounting principles adopted in the preparation of the report

Accounting principles adopted in the preparation of the report are described in the Note 5 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2014.

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 203.7 million (principal value) as at the end of December 2014. There are 3 issues of Structured Certificates of Deposit open in PLN with the maximum maturity date set at March 24, 2016. Those liabilities that mature in 2015 and 2016 account for 34.3%, and 65.7% of its total value, respectively.

Certificates of Deposit

Certificates of Deposit are investment products denominated in PLN that guarantee 100% protection of invested funds also in case of termination before redemption date. The total value of the Bank's liabilities under these products amounted to PLN 2,594.7 million (principal value) as at the end of December 2014. There are 22 issues of Certificates of Deposit, and the maturity date up to 3 months accounts for 48.9%, up to 6 months accounts for 23.1% and up to 1 year accounts for 28.0% of its total value.

Pekao Leasing Sp. z o.o. bonds

The total value of the company's liabilities under bonds amounted to PLN 48.2 million as at December 31, 2014 with the maturity date up to 1 month.

Pekao Bank Hipoteczny S.A. covered bonds

The total value of liabilities due to covered bonds amounted to PLN 1,101.9 million as at December 31, 2014. The liabilities under covered bonds with maturity date up to 1 year account for 0.7%, with maturity date from 3 up to 5 years account for 34.7% and with maturity date from 5 up to 10 years account for 64.6% of the total nominal value.

Subsequent events

On January 1, 2015, the Bank acquired 100% of the share capital of UniCredit CAIB Poland S.A. and obtained control over the entity. UniCredit CAIB Poland S.A. specializes in corporate finance, in particular referring to mergers and acquisitions, public and private offering, as well as securities trading on secondary market. As a result of the acquisition, the Group extends the portfolio of services provided to the customers from corporate banking segment.

The detailed information concerning acquisition of 100% of the share capital of UniCredit CAIB Poland S.A. is presented in the Note 56 of the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2014.

In the current report No. 1/2015 dated January 23, 2015, the Management Board of Bank Pekao S.A. informs that it received a ruling of the Local Court for the Capital City of Warsaw in Warsaw concerning the deletion as at January 8, 2015 from the National Court Register of the Bank's subsidiary, Pekao Telecentrum Sp. z o.o. in liquidation. The Bank informed of the winding-up of Pekao Telecentrum Sp. z o.o. in the current report No. 34/2013 dated December 2, 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 following documents: *Code of Banking Ethics of the Polish Bank Association, the Code of Best Practice for WSE Listed Companies, and the UniCredit Integrity Charter.*

On October 14, 2014, by way of Resolution No. 356/X/14, the Bank's Management Board adopted for use the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority on July 22, 2014. On 5 November 2014, the Bank's Supervisory Board passed Resolution No. 33/14, whereby it provided positive opinion on the adoption of the Principles by the Bank. The Bank will apply the Principles of Corporate Governance for Supervised Institutions starting from January 1, 2015.

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*

Bank 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 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 2014, 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. 9/2014 dated May 16, 2014, 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 technological solutions that it currently does not have, in accordance with Art. 4065 § 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 2013 using electronic communication would not be possible."

The Bank's Management Board allows participation in General Meetings 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 on Application of Corporate Governance Standards. 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.

Publishing the Statement on Application of Corporate Governance Standards, the Bank has also been complying with PFSA's Recommendation of April 9, 2014 on the quality of reporting on corporate governance (the "comply or explain" approach).

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 2014 ("Corporate Governance Statement"), whose contents conform to the requirements laid down by the above given regulations, forms part of the Annual Report.

Compliance with Applicable Standards, Laws and Regulations

The Bank applies standards which aim to ensure compliance with 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 Policy sets out the assumptions that are consistent for all organisational levels of the Bank with respect to compliance risk management process as well as a compliance program covering, among others, the processes for the identification, assessment, control, monitoring and reporting of the risk. 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 reputational 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 dedicated compliance risk assessment (CRA) methodology and performs second-level compliance controls that ensure the assessment of compliance and effectiveness of selected processes with key legal requirements related to banking activities. The CRA methodology, which operates as an early-warning system, provides for the development and implementation of mitigation measures in case of detecting irregularities. Selected 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 persons employed by Bank Pekao S.A. or other Legal Entities of the Capital Group of Bank Pekao S.A. ("Group") on an employment contract basis or on any other legal relationship of a similar nature, including members of statutory bodies of Companies, which are members of the Group ("Company").

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 employee duties, provision of services and protecting the reputation of the Group.

The Code sets forth 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 the 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 prudent use of 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 Customers,
- apply applicable laws and recommendations of the regulators,
- observe the Code and other internal regulations.

The Code further identifies that the Managers are expected to take all reasonable measures to ensure compliance of the employees with the applicable laws, 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 the workplace of an atmosphere compliant with core ethical standards,
- protection of information,
- prevention of money laundering and terrorism financing,
- fair competition,
- prevention of market abuse related to trading in financial instruments,

Corporate Governance

- 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.

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 proposed day of the General Meeting and in the manner prescribed for disclosing current reports in accordance with the Act of July 29, 2005 on Public Offering, Conditions Governing Introduction of Financial Instruments to Organised Trading, and on 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 Section 9 of the Bank's Statute, all matters proposed to be debated by the General Meeting of Shareholders should be first submitted for the Supervisory Board's consideration.

General Meetings of Shareholders are attended by members of the Bank's 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, including 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 Act, as well as in the Bank's Statute. The scope of powers of the General Meeting is discussed in more detail in the *Corporate Governance Statement*.

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 8, 2003, amended with Resolution No. 41 of May 5, 2009 and Resolution No. 41 of June 1, 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 *Corporate Governance Statement.*

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 *Corporate Governance Statement*.

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 Bank's 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 29, 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 is entitled to propose a candidate or candidates to the Supervisory Board.

Each participant of a General Meeting of Shareholders is entitled to submit his/her written statement to be included in 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 Section 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 for 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 to 31 December 2014 the Supervisory Board was composed of nine members.

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 2014, 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.

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

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, 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 15 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 Chairman of 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. From 30th April 2014 Chairman of the Remuneration Committee.

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

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

Since 1992 he has been Director of the Gdansk Academy of Banking.

Previously he was Chairman and then Member of the Supervisory Board of Bank Gdański S.A., Member of the Expert Group for VBM of Telekomunikacja Polska 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 Vice-Chairman of the Supervisory Board of PKN Orlen S.A., Vice President 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 goodwill management; he is 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). She graduated from Faculty of Medicine at the Medical University of Warsaw. Holds first and second degree specialization in internal medicine, specializes in endocrinology. A graduate of the Stockholm School of Economics Executive Educations.

In 1991-2002 she 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 the Management Board of Zakłady Farmaceutyczne Adamed Pharma S.A., Vice President of the Management Board of Adamed Sp. z o.o., Member of the Supervisory Board of Adamed Consumer Healthcare S.A. and Chairwoman of the Supervisory Board of Pabianickie Zakłady Farmaceutyczne Polfa S.A. Since 2006 serves as Managing Director of the Adamed Group, of which she is also the co-owner.

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

Paweł Dangel, Member of the Supervisory Board since 10th September 1999. Member and Chairman of the Audit Committee since 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

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

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

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.

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.

Since 27th January 2014 P.Dangel has been a member of the Chapter of the Order of Polonia Restituta.

Laura Penna, member of the Supervisory Board since June 2nd 2012. Since July 24th 2012 member of the Audit Committee and Financial Committee.

Ms Laura 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.

Wioletta Rosołowska, member of the Supervisory Board of Bank Pekao S.A. since 2nd June 2012. Member of the Remuneration Committee since 24th July 2012 Wioletta Rosołowska developed her leadership skills, acquired business knowledge at senior manager courses in Insead, Harvard and Oxford. She got postgraduate degrees in journalism from the University of Warsaw, and in social rehabilitation at the Academy of Special Education.

From 1991 to 1993 she worked for international advertising agencies Young & Rubicam and Saatchi & Saatchi and was responsible for developing media strategies and purchasing of the media for customers of the Agencies.

In 1993 she started work for Tchibo in Poland, where she held the position of marketing director in Poland and Baltic countries. She was also responsible for international marketing for the Tchibo brand in Tchibo Gmbh in Hamburg.

From 2000 to 2007 she was general manager of Tchibo with responsibility for the FMCG business in Poland and Baltic countries, operations of Tchibo shops and a factory in Poland.

As member of the Management Board of Tchibo GmbH in Hamburg, from 2007 to 2013, she was responsible for developing the FMCG business, retail and e-commerce in eleven countries of Eastern Europe.

She was recognized twice by the Financial Times Deutschland as one of the most influential women in business.

In January 2014 Wioletta Rosołowska joined L'Oréal Group and in July 2014 she took up the position of the President of L'Oréal Polska.

In L'Oréal Polska she manages the group of over 900 people and she is jointly responsible for the operations of Kosmepol in Poland, which is one of the most important factories of the L'Oréal Group.

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

She holds a Master's degree in Macroeconomics at the University of Economics, Vienna in 1981, Mag.Rer.soc.oec.

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

She started her Human Resources career in 1982 in MobilOil Austria AG, where she soon advanced to a HR Generalist with experience in recruiting, compensation and benefits, organizational and employee development.

In 1988 she joined the Coca-Cola Organization where she held regional Human Resources positions with increasing responsibility, covering all Central and Eastern European countries as well as Austria, Italy, Switzerland and Nigeria.

2005 she joined UniCredit Bank Austria AG, where she became Head of Human Resources Austria and CEE in 2006. In 2008 she has been appointed Executive Vice President and became Member of the Board of Bank Austria in 2010.

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, and Member of the Supervisory Board of Public Joint Stock Company Ukrsotsbank, Ukraine. Since 2015 she has been Member of the Board of Directors of UniCredit and Universities Foscolo Foundation, Italy.

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 includes in particular:

- reviewing the Management Board's Report on the Bank's operations and the Bank's 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 2 M,
- approving the Management Board's proposals concerning 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 1 M.

Functioning of the Supervisory Board

In 2014, the Supervisory Board operates in accordance with its Rules of Procedure, adopted by virtue of Resolution No. 17/03 of May 22, 2003 and amended by virtue of Resolution No. 20/05 of June 27, 2005. The Rules of Procedure are available at the Bank's website.[1]

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 2014, the Supervisory Board held 8 meetings, reviewed 123 information notes, analyses and proposals, and adopted 42 resolutions.

Independent Members

In accordance with the Bank's Statute, 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

[1] By way of Resolution No. 10/15 of February 6, 2015 the Supervisory Board approved the new Rules of Procedure of the Supervisory Board

in the Bank's Statute. Pursuant to Section 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/she is not and has not been in the last three years employed at the Bank, its subsidiaries or parent entity,
2. he/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 entity,
3. he/she is not and has not been in the last three years an auditor of the Bank, its subsidiaries or parent entity, or an employee of an entity providing auditing services to the Bank, its subsidiaries or parent entity,
4. he/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/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 entity, except for the benefits due to that person as a consumer under an agreement concluded on standard terms with the Bank, its subsidiaries or parent entity,
6. he/she is not and has not been in the last three years a spouse, a life 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/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/she has no material business links with the Bank, its subsidiaries or parent entity which might compromise his/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/she is not related to Bank BPH S.A., its subsidiaries or parent entities 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 January 1, 2014 by five out of nine 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 Corporate Governance Statement.

The **Audit Committee** operates under Art. 9e.2 of the Banking Act, in accordance with Art. 86 of the Act on Certified Auditors, their Self-Government, Entities Qualified to Audit Financial Statements and on Public Supervision, dated May 7, 2009.[2]

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 Certified Auditors. The detailed scope of powers and duties of the Audit Committee is laid down in the Supervisory Board's Resolution of December 12, 2014.

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 of 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 2014, the Audit Committee held 5 meetings (February 27, April 30, July 31, November 5 and December 12).

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 and the Director supervising the operations of the Internal Audit Department.

The **Remuneration Committee** operates under the Supervisory Board's resolution of January 24, 2000 and the Rules of Procedure of

[2] By way of Resolution No. 41/14 of December 12, 2014 the Supervisory Board approved new scope of competences of the Audit Committee

the Supervisory Board[3] and on the basis of the Rules of Procedure of the Remuneration Committee approved by the Supervisory Board at a meeting of 13 December 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 Art. 28.1 of Resolution No. 258/2011 of the Polish Financial Supervision Authority of October 4, 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.

The **Finance Committee** operates under the Supervisory Board's resolution of September 26, 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 resolutions. 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 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. Applications to the Polish Financial Supervision Authority are submitted by 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 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, 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,

[3] In accordance with the new Rules of Procedure of the Supervisory Board, approved with Resolution No. 10/15 of February 6, 2015, the Supervisory Board nominates the Appointment and Remuneration Committee.

Corporate Governance

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 a t 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 f or 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.

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 Brokera ge Office and for another two years as Director of the Retail Banking Southern Reg ion. In 2002, he was promoted to the position of Sales and Distribution Mana ging 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 UniCredit supporting P&C activities for the UniCredit Group and managed project integration in Croatia and 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.

In 2008 he was appointed the Head of the Capital Allocation and ALM Department in Bank Pekao S.A. and 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 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 Act 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 of the Bank, 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 principles and mode of operation of the Management Board are set forth in the Rules of Procedure of the Management Board of Bank Pekao S.A., approved under Resolution of the Bank's Management Board No. 101/VI/03 of June 3, 2003. With Resolution No. 480/XII/2014 of December 22, 2014 the Bank's Management Board approved new Rules of Procedure of the Management Board. The Rules of Procedure of the Management Board are available on 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.

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 of 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:

- 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 rate 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 purpose funds,
- 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 remitted to the Management Board by the Supervisory Board,
- matters relating to the participation of the Bank's employees in supervisory boards of companies in which the Bank holds equity interests,
- approval and submission of a report on notifications of major abuses to the Supervisory Board.[3]

Furthermore, the Management Board collectively considers all matters which are submitted to the Supervisory Board for consideration, as well as matters submitted by the Bank's Management Board to the General Meeting of Shareholders.

[4] Modification implemented with the new Rules of Procedure of the Bank's Management Board.

Corporate Governance

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 2014, the Management Board held 53 meetings and adopted 491 resolutions.

Management structure

Members of the Management Board coordinate and supervise the Bank's operations in line with the delegation 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 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.

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 Banking Ethics 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 bureaus) may be combined into business divisions. Each business division is supervised by a member of the Management Board; it may be also managed by an Executive Director / Head of Division.

The divisions and basic organisational units of the Bank's Head Office may be combined into areas. Areas may be supervised directly by a member of the Management Board or they may be managed by an Executive Director / Director.

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
- Conflict of Interest Committee
- Data Management and Data Quality Committee

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 Procedure 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 outcome of an action or event could lead to adverse impacts resulting in losses or constraining the Bank's ability to meet its stated business strategy"*.

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, control and report 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 asses, 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 in the existing risk identification and measurement system, the internal limits are determined and the rules of accounting/reporting are set down.

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 together with prudent and stable 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;
- 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 organisational structures, which – acting together – aim to ensure:
- compliance of operations with the Bank's strategy,
- effectiveness and efficiency 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, supervisory regulations, internal policies, regulations and procedures,
- support of the decision-making process.

The Bank's Internal Control System is aligned with the Bank's organisational structure, the complexity of its business, scale and profile of the risk related to: 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 risk (real estate risk, macroeconomic risk, business risk, including strategic risk; reputational risk, model risk), compliance risk and bancassurance risk.

Internal control is an ongoing process, carried out at all organisational 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 supervises the internal control system and assesses its adequacy, effectiveness and efficiency. It is supported in the performance of these duties by the Audit Committee and Internal Audit.

The Management Board is responsible for the development and functioning of the internal control system and a regular review of its component policies, strategies and procedures as well as for overall 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 Bank's Management Board issues, in the form of a regulation, the Internal Control Regulations.

In 2012, the Business Internal Control 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 Customers, as well as to ensure compliance of the Bank's operations with internal regulations of the Bank and the generally applicable law.

The Internal Control System covers three levels of control:

1. **Operational management**
   Controls performed as part of the operational management function are divided into linear controls and functional controls.
   a) **Linear control** is carried out on an ongoing basis by each employee (self-control) based on the existing procedures and as part of the supervision by managers of the Bank's organisational units (hierarchical controls). This control should ensure correctness of operations within the same operational structure in accordance with the applicable procedures.
   b) **Functional control** is performed in the Bank's Units by Directors, by delegated employees or by the supervising unit on the basis of control plans prepared by Directors. The purpose of this control is to check the quality and correctness of performed activities, in particular in the scope of risk assessment and monitoring, compliance with competences assigned to the job positions and checking coherence between limits of rights in the different functionality areas of operations.
2. **Risk management control**
   The risk control management function is exercised by the Bank's units not involved in business activity, in particular in the scope of security, financial controlling and accounting, 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 risk owners 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 the Internal Audit Department is to review and evaluate independently and objectively the adequacy, effectiveness and efficiency of the Internal Control System, the compliance function and the risk management system. IAD acts to detect and eliminate any incompliance of Bank employees' activities with the applicable laws, including prudency regulations and other external standards, as well as the Bank's internal regulations.
   Institutional control is exercised through audits performed in accordance with an officially accepted audit plan, unplanned ad-hoc audits and remote controls. The Internal Audit Department reports directly to the President of the Management Board. The IAD 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 supervisory boards of each subsidiary. The Pekao Group companies apply uniform standards and internal 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 29th 2005 and the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005, which implemented the provisions of Directive 2003/6/EC of the European Parliament and of the Council of January 28th 2003 on Insider Dealing and Market Manipulation (Market Abuse) into Polish law.

Pursuant to the provisions of the Act of 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 orders 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 trades 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 admitted to public trading.*

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 Rules currently in effect also include a prohibition on using or disclosing inside information, or recommending or inducing another person 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, 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, and,
3) persons employed or holding posts referred to in item 1 in a subsidiary company or the 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.

Time is precious.

Give it more value.

Advice when you want it.

We value your time. That is why we combined the power of tradition and the might of innovation, creating **Private Banking** package. It is a fast and efficient solution, allowing you to manage all your banking matters with the support of a professional Consultant. In **Private Banking** service you do not wait for us – we are waiting for you. Detached offices with separate entrance and independent phone lines allow us to give you 100% confidentiality and complete discretion. We create a new quality of service, valuing your time and trust.

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

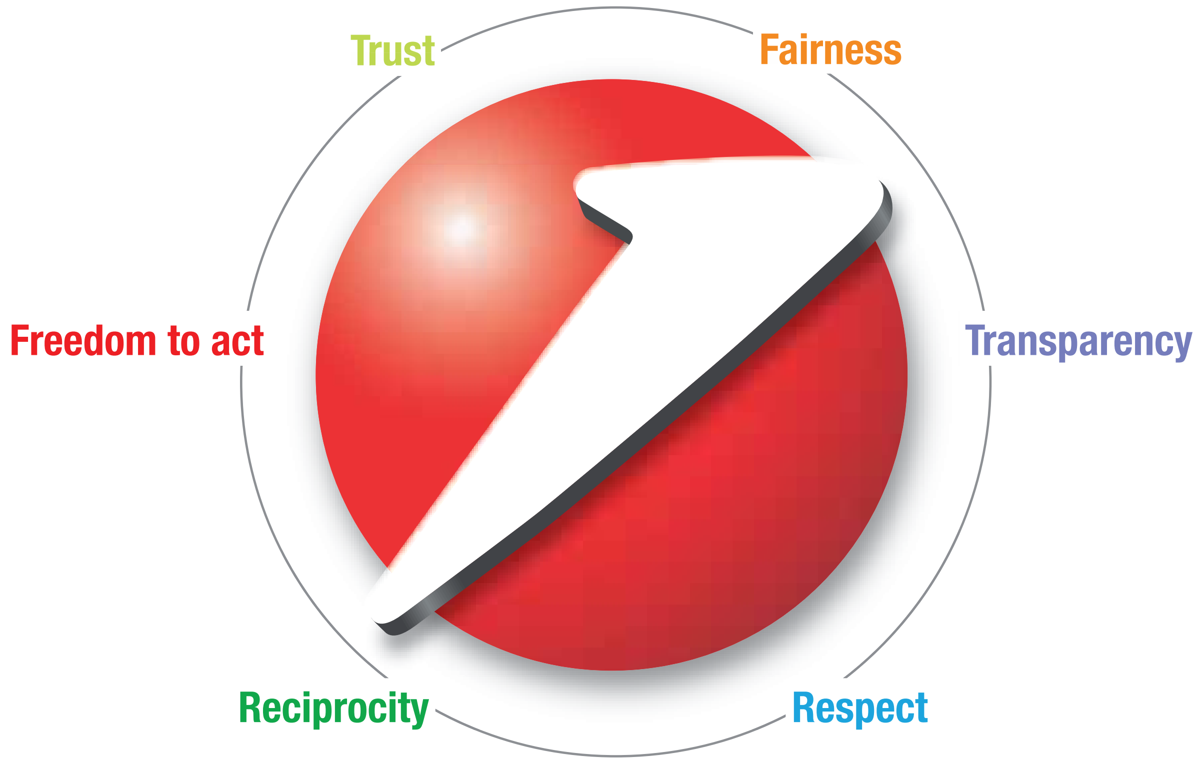
The Bank's overarching objective is to build sustainable value by offering customers the best quality of service, introducing simple, easy-to-use solutions, creating a work environment conducive to personal development of employees, ensuring their satisfaction with work, reinforcing their sense of pride in being part of the organisation and contributing to the wellbeing of local communities in which we operate. All those aspects are included in the UniCredit Integrity Charter.

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 in all companies of the UniCredit Group.

The Charter is a set 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.

The System of Values is the practical application of the Integrity Charter by translating its values into real-life situations and workplace relations. The project is based on the idea to enforce corporate values set forth in the Integrity Charter in everyday relations. The project is implemented with actions of Ombudspersons of the Integrity Charter.

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.



When notified, Ombudspersons take steps to reconcile the conflicting parties and restore the relation by using the available array of tools such as a meeting or 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 2014, the initiative was held for the fifth time. The purpose 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 went under motto: "Proper approach – higher efficiency". Employees together with managers were looking for behaviors and handlings that could result in building positive relations with internal and external clients and further enhance customer satisfaction. "Be helpful, prepare tailor-made solutions" approach got the highest score by the participants, among six proposed ways to approach clients. The meetings were attended by over 40% of the Bank's employees, which is evidence of the growing understanding of the assumptions underlying the initiative and commitment to the discussed subjects. Starting from 2015 the formula of the UniCredit Day will be modified. On the basis of internal analyses and interviews with representatives of the Group managerial staff it appears that the subject of corporate values should be present in daily relations with all stakeholders on a continuous basis – not just on the UniCredit Day. The results of the 2014 edition additionally manifested a close correlation of the discussed attitudes with the model of five competences of the UniCredit Group. Therefore, the Management of the Group proposed a modification to the initiative under the new name of the UniCredit Way which means a new annual approach, a new way of thinking of values, attitudes and competences. UniCredit Way covers a number of initiatives spread over time relying on the involvement of top and medium-level management.

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 a key for the Bank 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. Significant area of the Bank's personnel policy is outstanding talents spotting within the organization and investing in development of their skills.

In 2014, 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 behavior required of all employees of Bank Pekao S.A. 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 supported its employees in building and managing long-term career within the organization providing them except with various forms of training and competencies development also with promotions opportunities.

The Bank constantly extends its internal training programs ensuring professional services to customers and improves methods and ways to deliver training. Training programs include class-room training, on-the-job training, electronic training, coaching and system of Virtual Class which provides training at a distance in a form of remote seminars. In 2014, the Bank conducted also structured rotation program allowing for direct exchange of professional knowledge between experts.

In 2014, the main training priorities of the Bank were as follows:
- professional skills development of the Bank's employees,
- efficiency increase in the area of direct and phone customer service,
- development of middle managers,
- realization of mandatory training required under internal and external regulations.

During the period of the last three years, the Bank maintain the high level of participation of employees in class room training. In this period on average 70% of the employees attended class room training per year.

Professional skills development of the Bank's employees
In 2014, the Bank continued the process of developing professional knowledge of its employees. The Bank realized over 150 thousand training hours in which attended over 21 thousand participants.

The Bank continued a number of training projects aimed at reinforcement of risk culture and ways to manage it as well as conducts training within the scope of improvement of technical knowledge of employees employed in specialized organizational units such as IT Division and training regarding introduction of new lending products and mobile solutions.

Efficiency increase in the area of direct and phone customer service
Within the scope of employees efficiency increase, the Bank realized training projects mainly aimed at sales skills and customer service development. It is worth to mention training

cycle "Best Seller" dedicated to reinforce of sales skills of employees and managers of Retail Banking Division. In 2014, particular attention was given to introduction trainings for new employees and programs improving phone skills of the customer service. For employees dealing with large companies a training program Corporate Banking Academy has been realized which engaged higher managerial staff.

Development of middle managers
Development of managerial and leadership competences is one of the Bank's key goals. When implementing this goal the Bank took advantage of the expertise of UniManagement – UniCredit Group leadership development center recognized for using innovative approach to professional development. Co-operation with UniManagement gave employees the opportunity to share knowledge and develop their skills at the international level. Additionally, the Bank develops competencies of managers under Manager's Academy training program and under programs reinforcing skills of managerial supervision.

Realization of e-learning and other mandatory training required under internal and external 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 consecutive training projects aimed at providing the Bank's employees with specialized knowledge. There were realized, among others, Financial sanctions, Protection of electronic information, FATCA training, Introductory course in scope of Insurance products.

In 2014, the Bank delivered almost 280 thousand of training hours, in which attended over 99% employees confirming efficient implementation of required regulations and customer care.

Development programs and initiatives

One of the key element of employees' professional development is the Bank's support in long-term career management.

In 2014, a number of initiatives for the Bank's employees was realized and the employees had the opportunity to benefit from development advisers support in terms of carrier 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 current and future leaders of the Bank.

In order to achieve this goal, the Bank currently operates the following main processes:
- **Executive Development Plan (EDP)** – annual appraisal process for managers which consists of the following stages: effectiveness, competencies and potential appraisal step, development activities planning and realization step.
  In 2014, 721 persons took part in the EDP,
- **Talent Management Review (TMR)** – annual appraisal process of potential and professional achievements aimed at managing and development of talents in the Bank and UniCredit Group. The process is based on the Leadership Competency Model composes of four key stages: identification, review, development and verification. In 2014, 253 persons took part in the process,
  Key outcomes of the EDP and the TMR processes are succession plans which are crucial for ensuring continuous employment on strategic positions, continuity of long-term projects and minimizing operational risk. The Bank designed succession plans for all key positions,
- **Annual Employee Appraisal System** – process of evaluation of the Bank's employees which comprises appraisal of competencies, potential, personal development planning and business goals appraisal. In 2014, 14,994 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 style and communication and 180/360 Feedback – diagnostic tools for identification of strengths and development areas of the employees. In 2014, 1,129 employees participated in the survey as examined and 8,792 employees as respondent,
- **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 area** – initiatives held at UniCredit Group level enabling employees to get an international experience,
- **Career Navigator** tool supporting career development planning of the Bank's employees.

Internship and trainee programs

The Bank offers students and graduates the following development programs:
- **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 a certain field. The UniChallenge Program is used to spot high-potential candidates for employees,
- **UniStart, UniSummerStart** – an 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.

Increasing commitment of employees

Project Team Climate is a process realized within teams which aims at increasing commitment of employees through implementing actions that improve the work atmosphere. In 2014, 4,065 employees from 96 branches and Corporate Centers participated in the project.

Remuneration policy

On July 31, 2014, 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 structure, corporate and organizational processes and confirms compliance requirements of the adopted remuneration system with 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. These 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), system based on provisions of Corporate Collective Labour Agreement, Executive Variable Compensation System,
- additional benefits for employees.

Retention Plans

In 2014, there were realized the following retention plans:
- Retention Program 2010-2013 of Bank Pekao S.A. – a local retention program dedicated to the key employees,
- Long-Term Incentive Plans of UniCredit Group (edition 2007 and 2008 within the scope of 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 meet, the rights to shares and stock options were not granted.

Incentive systems

In the Bank, there are three main incentives systems: a system based on Management by Objectives (MBO), a system based on provisions of Corporate Collective Labour Agreement, which is based on quarterly bonuses and incentive reward and Executive Variable Compensation System.

MBO system covers employees employed under the management contract and refers in particular to the positions in the front-office sales and to the key positions, which play a significant role in achieving the Bank's commercial goals. The employees covered by the MBO system receive individual goals, which result from the adoption of the strategy and direction of the Bank's activities for particular year and successful completion of these tasks determines the amount of annual bonus.

A system based on the provisions of the Corporate Collective Labour Agreement (CCLA) applies to all employees who are subject to it. According to the provisions of the CCLA, the basis of the system are: quarterly bonus which is discretionary and depends on evaluation of employee's performance, quality and level of commitment to work and incentive bonus which is granted for outstanding work achievements and the Bank's results in a given year.

Executive Variable Compensation System is dedicated to people holding managerial positions, who have significant influence on the risk profile of the Bank. The aim of the System is to support the execution of the Bank's operational strategy and to mitigate excessive risk conflicts of interest. Participant covered by the System may receive a bonus, amount of which depends on the assessment of the effects of the person's work, organizational unit and the Bank's bottom line as well as on the assessment of participant's compliance with generally applicable laws and adopted by the Bank standards. In accordance with the assumptions, at least 50% of variable remuneration constitutes a special incentive for employees to care about the long-term welfare of the Bank and at least 40% of the premium is deferrable and paid after the end of

the evaluation period. This solution has been adopted as a result of the implementation of the Resolution No. 258/2011 issued by the Financial Supervision Authority on October 4, 2011.

Additional benefits for employees

Additional benefits available to the employees vary according to the positions and responsibilities.

The Bank offers all employees the opportunity to invest in the shares of UniCredit S.p.A under the Employee Share Ownership Plan (ESOP) at favorable conditions by obtaining Free Shares measured on the basis of the Investment Shares purchased by each participant.

The opportunity to participate in the Plan is offered to increase employee motivation and commitment in the activities of the UniCredit Group. In 2014, the sixth edition of the Plan was introduced. According to the Plan rules, the employee can purchase shares during two Election Windows (January and July) in a form of monthly or one-off contributions. The Holding Period last for 1 year – from January 2015 to January 2016 and from July 2015 to July 2016.

Corporate Social Responsibility

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:
- funding to purchase sport, recreation, cultural, and educational services,
- funding for recreation,
- financial assistance to employees who find themselves in a difficult life situation,
- loans for housing purposes.

Corporate values

The Bank has a "System of Values" implemented in 2012 which is the basis for the application of the corporate values in the daily business relations among Bank employees. The catalogue of universal values defined in the Integrity Charter, such as, respect, reciprocity, transparency, fairness, trust, and freedom (to act) is intended to provide a point of reference for the daily work and for problematic situation which may not always be regulated by external and internal regulations. The basis of this system is the work of Integrity Charter Ombudsmen who are independent, experienced, retired managers to whom the employees may report behaviors which clash with the corporate values. When the Ombudsmen take measures to restore the corporate values in relations among employees whenever they happen to suffer disrespect, they use such available tools as meetings and notices. Their work directly supports the Bank's internal communication and defines certain standards of conduct and communication patterns for all the employees to follow. The Integrity Charter Ombudsmen in 2014 held a number of meetings at Bank Branches in order to make the System of Values more familiar to the people working there.

Relations with Trade Unions

The co-operation between the Bank and the trade unions in the fields of consultation, negotiation, and agreements was carried out in 2014 according to the rules and procedures defined by the Labour Law and with respect to the interest of the parties and the principles of social dialogue. In conformity with the current Labour Law, a new Labour Regulation of Bank Pekao S.A. has been introduced in the Bank. In 2014, there were 12 meetings with trade union organizations.

Relations with Works Council

A Works Council of Bank Pekao S.A. Employees operates in the Bank. The Council is a representative of the workforce, authorized to get information and carry out consultation with the employees on matters defined by the Worker Information and Consultation Act of April 7, 2006. Several meetings with the Works Council were held in 2014 to discuss issues covered by the relevant legal regulations. Co-operation with the Works Council progressed with respect to the mutual rights of the parties involved. Reports on agreements made with the Employer are published on the Intranet pages available to all the Bank employees.

Workforce in number

As at the end of December 2014, the Group employed 18,765 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,916 employees as at the end of 2013.

As at the end of December 2014, the Bank employed 16,914 employees as compared to 17,092 employees as at the end of 2013. The average age of the employees was 45.1 years, 63.2% of the employees are university graduates (62.6% in 2013), women represent 80% of the total workforce.

The level of employment in the Bank and the Group as at the end of 2014 was influenced by take over of Spółdzielcza Kasa Oszczędnościowo Kredytowa named Mikołaj Kopernik in Ornontowice by Bank Pekao S.A. following decision of The Polish Financial Supervision Authority on December 5, 2014.

Quality of collaboration

Monitoring of the quality of collaboration between organisational units of the Bank is of major importance. This is possible due to the Internal Customer Satisfaction Survey and the results present an image of mutual relations manifested in: ease of contact, access to information and timely performance of tasks.

The involvement of the employees is of no less importance, their sense of belonging to the organisation as well as the opinion on the functioning of key areas of the Bank – this is regularly analysed on the basis of results of the Employee Opinion Polls.

The high participation rate in those surveys shows large interest in the interest in involvement of impacting directions of changes at the Bank. Therefore, in order to promote ongoing improvement and to align the organisation to market expectations, the initiative "A Day at a Branch" is organised twice a year. This is an opportunity for managers of the Head Office to communicate strategic directions of operations, to provide information on the projects under way and to receive opinions and suggestions from employees on the effectiveness of the implemented improvements.

In 2014 over 12.5 thousand opinions and comments were collected that contributed to simplifications in the existing procedures and processes.

Our Customers

One of the key elements in building long-term and sustainable value of the Bank is the attention given to the satisfaction and loyalty of our stakeholders, and in particular customers and employees of the Bank.

Continuing the activities undertaken in previous years, in 2014 the Bank was conducting an array of customer feedback projects focused on improving the quality of service and delivering against the expectations of the clients. The customer surveys conducted were using various channels: telephone, internet or in-depth personal interviews.

Summing up in 2014 around 46 thousand interviews were completed with customers from all segments. Comparing to the previous years, higher focus was placed on understanding customer experience associated with the service. The quality of service offered to the Customers in the Bank branches had been monitored on regular basis. Over 3 600 visits had been conducted during Mystery Shopping research.

As a result of detailed analysis and in line with the market practice, strengths, as well as areas for improvement were mapped. Conclusions of the analysis are systematically used to introduce actions that aim at increasing the quality of serving customers and targeting the needed trainings. A gradual improvement of indices measuring customer satisfaction and loyalty in all segments has been noted.

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 PekaoBiznes24), 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 PekaoBIZNES24 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.

The parties (the client and the Bank) may also refer to the Arbitration Court of the Polish Bank Association for resolution of any contractual disputes that arose between them. The competence of the Arbitration Court to resolve a given dispute results from a written agreement between the parties indicating the subject of dispute or the legal relationship which gave or may give rise to dispute (arbitration clause).

Business Partners – Suppliers

The Bank respects its business partners and their commercial practices.

In the selection process of suppliers, the Bank applies internal procedures, compliant with the best practices pursued in the UniCredit Group.

Suppliers of goods and providers of services are selected subject to good and fair business relations.

Corporate Social Responsibility

In the procurement procedures, the specification of the procurement is the same for all business partners 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. All companies that have submitted their initial proposals, are registered in the supplier base and will be taken into account in the development of supplier lists to which uniform invitations for proposals are dispatched. 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 establishes Commissions 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.

When a supplier is to provide services under outsourcing contracts in areas that are of major importance for the Bank (handling of critical processes, access to important data), the selection of partners invited to participate in the procurement procedure is subject to specific requirements. Close cooperation is maintained between the outsourcing company and the Bank, and the contract performance is monitored on a regular basis by both parties. 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. Such contracts contribute to an improved position of the provider in the service market, confirming its reliability and a high quality of the provided services.

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 transparency of the negotiation 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 2009, 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.

In many instances, collaboration with suppliers is subject to frame agreements concluded centrally by the UniCredit Group. The above applies inter alia to suppliers of material IT goods and services for the banking sector with which contracts are concluded subject to procedures providing for individual conditions and needs of the banks in the Group. In reliance of the frame agreements, local contracts are concluded providing for detailed terms and conditions of supply in the local market.

A rule of special relations with the largest suppliers of the Bank has been implemented consisting in assigning persons to contracts that have broad knowledge and good contacts with the specific supplier.

The companies that perform deliveries to the Bank are informed on the existing inconformity process and major provisions of the anti-corruption policy pursued by the Bank.

As a result of tender procedures, the Bank verifies prospective suppliers with respect to corruption risk and against sanction lists (USA and EU sanction lists) and PFSA's public warnings.

Environmental Protection

At Bank Pekao S.A. we care about the environment by for instance providing for ecological aspects in credit analysis processes, in our lending supporting of environment-friendly projects and by financial support to organisations and institutions that are involved in environmental protection projects with particular focus on bison 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

Bank Pekao S.A. has been long involved in the preservation of the Polish bison. The commitment to the protection of this unique and endangered species is an essential aspect of the development and promotion of the Bank's corporate social responsibility in various spheres of social life, including ecology.

2014 was an important year for all institutions and organisations involved in the protection of the Polish bison, marking the 85th anniversary of the bison re-introduction to the Białowieża Forest.

In 2014 the Bank supported five leading organisations devoted to conservation of the Polish bison, continuing collaboration commenced over ten years earlier:
- Białowieża National Park (BPN),
- Wildlife Society of the Province of West Pomerania,
- "Panda" Foundation for Warsaw ZOO Development,
- Toruń Zoobotanical Garden,
- Society of Bison Friends.

The effective protection of the bison in Poland is an outcome of multilateral cooperation. The donations provided by the Bank are used towards diversification and development of the population, maintenance of the BPN's Bison Breeding Centre, herd care, as well as promoting scientific and educational projects, e.g. on biodiversity.

Charity Activities

Bank Pekao collaborates with multiple public benefit organisations and supports them with donations for their statutory activities. Every year the Bank has been providing financial support to the Sports Association of Bank's Employees providing funding to sports events and rentals of sports facilities for its employees.

Marian Kanton Bank Foundation

Bank Pekao engages in charity work through the Marian Kanton Bank Foundation established in 1997. The Foundation's activities are rooted not only in social awareness but also in the fact that the Bank, as the sector's leader directly or indirectly present at homes of millions of Poles, is also responsible for the development of the society and country, promotion of important projects, supporting those in need and for the well-being of Polish families.

The Foundation has been trying to reach directly those in the greatest need, in order to fund specific purposes directly to beneficiaries. Financial aid offered by the Foundation is frequently targeted at children and young people, as well as at individuals who need help because of some fortuitous events. Every year, nearly a third of the Foundation's resources are applied to finance summer and winter holidays for families in need as well as stays in rehabilitation centres for ill and disabled children and teenagers. In this way the Foundation is able to improve the quality of life and create equal opportunities.

Additionally, the Foundation provides financial and in-kind assistance to schools and libraries in villages and small towns and supports sports clubs for children and teenagers, usually operating at schools or community culture centres.

In line with the Founder's intention, the Management Board of the Foundation assigns funds also for scholarships awarded to talented pupils and students from poor backgrounds. Financial assistance is also provided to organisations supporting universities.

The Foundation offers financial support to disabled children of the Bank employees who require rehabilitation or treatment, covered by the year-round charity initiative ran by the Bank under the name "Let's Help One Another". In 2014, the Foundation assigned PLN 100 thousand for the purpose, directly supporting each of the persons concerned.

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.

Reports from the activities of the Foundation are available at the Bank's web site.

Corporate Social Responsibility

"Gift Matching Program"

The "Gift Matching Program" ("Dary do Pary") is a philanthropic initiative of the UniCredit Foundation. The Program was set up in 2003 and since that time it has provided support to over 4000 projects. The objective of the program is support charity operations for employees of the UniCredit Group. Within the program, the UniCredit Foundation increases contributions made by employees for selected non-profit organisations. The organisations are selected directly by employees in line with the guidelines of the Foundation.

In 2014 employees of the Bank registered and financially supported 15 projects carried out by non-profit organisations. Overall 1100 donations were provided for the projects.

The Great Orchestra of Christmas Charity was the largest project supported by employees of Pekao who collected funds for the initiative. The donations of employees were also provided to the following: "Beautiful Angels" Association, Association for Children with Development Dysfunctions BRUNO, Association for Animal Care in Gliwice, Gaius Foundation, MONAR Association, AVALON Foundation, International Movement for Animals Foundation Viva!, SOS Children's Villages Association, "Help in Time" Foundation for Children, Non-Public Special Primary School for Children with Development Dysfunctions operated by the National Autism Association.

Cooperation with the Great Orchestra of Christmas Charity

Bank Pekao S.A. has been cooperating with the Great Orchestra of Christmas Charity (Wielka Orkiestra Świątecznej Pomocy – WOŚP) since 1999. Since the beginning it has acted as the Charity's banker, providing general assistance, comprehensive financial solutions and supporting projects carried out by the Foundation throughout the year. The Bank is involved in the organisation of the Orchestra's annual Grand Finales.

On 12 January 2014, during the 22nd Finale devoted to the "purchase of specialist equipment for children rescue medicine and decent medical care for seniors", the Bank played with the Orchestra for the 16th time. Traditionally, the Bank's employees spent the day at the television studios or at Bank's branches, counting and sorting out the funds brought in by the Orchestra's supporters and volunteers. The event saw the involvement of over 2,000 branch employees as well as of the personnel of the Head Office, who also, as each year, engaged in the organisation of the Finale.

As part of joint efforts to promote the organisation of the Finale of the Great Orchestra of Christmas Charity in January, the Bank transferred the amount of PLN 2,000,000 to the bank account of the WOŚP Foundation as subsidy. Additionally, the Bank offers a WOŚP bank card that can be used to support the Foundation throughout the year when making daily payments.

A team of Bank's employees with their families took part in the "Let's Fight Diabetes" run organised on the WOŚP Finale day. The name of the run is strictly related to a program pursued by the WOŚP Foundation. The purpose of the run is to popularise knowledge on diabetes and a program to fight the illness, including a Treatment Program with Personal Insulin Pumps for Pregnant Women with Diabetes and a collection of funds to purchase insulin pumps for pregnant women. Almost 140 people representing Bank Pekao S.A. turned up at the starting line of the run at Warsaw's Plac Defilad.

Pekao employees who make contributions to the Foundation make double contributions to the Orchestra. Every year the contributions made directly by Bank's employees are doubled by the UniCredit Foundation within its Gift Matching Program. This way the Foundation promotes and supports social direct commitment by the employees. In 2014 Bank's employees collected over PLN 50,000 and thus the Foundation's account was jointly credited with over PLN 100,000.

Support to culture and arts

For years Bank Pekao has been supporting culture and arts believing that this way it adds a beautiful dimension to the reality and contributes to the development of new ideas. Our activities in this area are focused on developing relations with the community and supporting its development. We have given up individual subsidies in favour of long-term social commitment based on partnership with selected organisations.

POLITYKA Passports

"POLITYKA Passports" have been awarded since 1993 by the "Polityka" weekly. The objective of this unique prize is to honour and promote young noteworthy artists. Last year's edition was for the seventh time organized in collaboration with Bank Pekao S.A.

The "Passports" are awarded on the basis of critics' recommendations in six categories: film, theatre, visual arts, classical music, popular music and literature. They are given to gifted young artists whose activity in the previous year made an unquestionable impact on the Polish culture and who are the best ambassadors of the Polish culture. The special "Creator of Culture" Award is given to outstanding personalities of the art world for special achievements in popularising Polish culture. The 2014 Laurels for the Creators of Culture were awarded to Agnieszka Holland, the film director. The other award winners included Jan Komasa, Zygmunt Miłoszewski, Jakub Woynarowski and Radosław Rychcik.

"Bank Pekao S.A. Project Room" at the Centre for Contemporary Art in Warsaw

"Bank Pekao Project Room" is a cultural project initiated in 2012 by the Bank and the Centre of Contemporary Art Zamek Ujazdowski (CSW) in Warsaw with the aim to support young art and artists.

With the financial support of the Bank, young generation artists may pursue their artistic projects in a special exhibition hall at the Castle. The project applies to the work of young upcoming artists. The works presented at the "Bank Pekao Project Room" are works that had not been displayed earlier to public at large or that had been made specifically for the project. Bank Pekao Project Room is a place focused on modernity and creativity. This is a platform to discuss contemporary art. In 2014, there were 15 exhibitions of young artists in the Bank Pekao Project Room. As a result of private patronage by the Bank, they get an opportunity to become known in the world of culture and promote their works. Every year the Bank has been acquiring the most interesting of the exhibited works. The acquired works begin to make up a Young Art Collection of Bank Pekao S.A. which apart from plastic works comprises sculptures, installations, films and photographs.

10th International Festival of Musical Personalities – Tansman 2014

Launched in 1996 as part of the Aleksander Tansman Year celebrations, the event has been since held every two years in Łódź. Since its first edition, the Bank has been supporting this important undertaking, featuring innovative programmes and concerts that reflect the ongoing transformations and trends in world's music.

The jubilee 10th Festival was held between 14 and 23 November 2014. The inauguration concert at the Grand Theatre, which was one of the event's highlights, saw the first Polish performance of "War & Peace", the latest offering from the famous musician and conductor Jordi Savall. Artists from over a dozen countries filled the stage, performing as part of three ensembles: Hesperion XXI, Le Concert des Nations and La Capella Reial de Catalunya. Other important events included the concerts of the outstanding Hungarian pianist Jozsef Balog and of the charismatic early music group Laberintos Ingeniosos, that were held at the Museum of the City of Łódź. The Festival closed with the Opera Gala at the Łódź Philharmonics.

19th Festival of Polish Composers

The Prof. Henryk Mikołaj Górecki Festival in Bielsko-Biała is a regular event supported by the Bank from its first edition in 1996.

Each year, the Festival celebrates the life and artistic output of brilliant composers, including Stanisław Moniuszko, Fryderyk Chopin, Witold Lutosławski and Krzysztof Penderecki. Last year's edition focused on the work of Oskar Kolberg, on his 200th birth anniversary, Jerzy Panufnik, on his 100th birth anniversary, as well as Henryk Mikołaj Górecki and his son Mikołaj. The three festival days proved to be a real musical feast, showcasing through musical performances the ample body of work of these distinguished composers. The concerts were held in the House of Music at the city's Culture Centre and in St. Andrew Bobola Church.

18th Shakespeare Festival

The Shakespeare Festival is a leading theatrical event in Europe, combining spectacles from all over the world with artistic activities, workshops and meetings with artists. The Festival boasts an extensive educational programme for teenagers, secondary students, Polish and foreign art school students, and young people who often do not have access to major works of art.

The Gdańsk Festival was the initiator of the European Shakespeare Festivals Network comprising Festivals from Poland, Romania, Hungary, Germany, the United Kingdom, Spain, the Czech Republic and Armenia. The network has its main office in Gdańsk.

The agenda of the 18th Festival included such events as "to be or not be" by Olo Walicki and Andrzej Seweryn, the "W.H. concert – Shakespeare Sonnets and Songs" and the staging of the "Taming of the Shrew" by the Stefan Żeromski Theatre.

The Bank has been supporting the Festival since 2000.

Podlasie Opera and Philharmonic

The Podlasie Opera and Philharmonic is currently the largest art institution in north-eastern Poland and the most modern culture centre in this part of Europe, hosting numerous important events, congresses, conferences and festivals.

In addition to operas and musicals, its extensive repertoire includes symphonic performances, popular concerts, musical interactive fairytales, as well as music and film festivals.

The Bank was one of the sponsors in the 2014/2015 season.

Polish PEN Club Awards

The Bank has been collaborating with the Polish PEN Club since 2006 and the first awards funded by the Bank were granted in 2007. In addition to the Jan Parandowski Award, the Bank sponsors prizes for publishing houses to reward their publishing excellence.

In 2014 the Parandowski Award was given to Ryszard Krynicki, an outstanding poet, translator of German poetry, laureate of the Kościelski Prize and of the Silver Gloria Artis Medal awarded for merit to culture by the Minister of Culture and National Heritage. The PEN Club award was granted to R. Kynicki for his lifetime literary achievements.

The 2014 Juliusz Żuławski Editorial Award went to Prof. Janusz Degler of Wrocław University, theatrologist, outstanding theorist of theatre studies and an expert in Witkacy's work. Prof. Degler has authored numerous theoretical works on the S. I. Witkiewicz's artistic output, including the multivolume Witkacy's Collective Works.

Corporate Social Responsibility

Besides the above initiatives, in 2014 the Bank supported a number of other local projects, including the Theatre Meetings in Zielona Góra, Gorzów Theatrical Meetings,International Organ Concert in Kamień Pomorski, Festival of Premieres in Teatr Polski in Bydgoszcz, Kraków Opera, Wawel Royal Castle.

Support to social and economic initiatives

4th European Financial Congress

The European Financial Congress (EFC), organised by the Gdańsk Academy of Banking and the Gdańsk Institute of Market Economics is held annually in Sopot. The Bank has been a co-organiser of the event since its first edition.

The EFC serves as a forum for the exchange of views on the future safety and stability of the European Union. Its aims to encourage debates whose conclusions will exert actual impact on the decision-making process of the most important European institutions.

Every year the Congress is attended by representatives of top EU and national authorities, politicians, members of management and supervisory boards of financial institutions, representatives of financial market regulators, academia and NGOs.

The latest edition focused around the main topic of “Financial safety and energy security in the light of the European Union integration”.

4th 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. In 2014 the Bank participated in this important European event for the second time as the exclusive partner of the Opening Gala.

The conference was attended by over 800 guests, including over one hundred panellists. As a result of several dozen panels and discussions, the “Sopot Declaration” and “Recommendations” were developed that were presented to government entities, analytical and economic organisations in Poland and the European Union.

The head topic of the Forum was to ensure safety and competitive edge for the Old Continent. The most important subjects included: models and conditions for competitiveness and innovation, modern threats to freedom, future of the democracy, barriers to the development of an entrepreneurial and civic Europe, development opportunities and potential to be created for Europe with the negotiated trade and investment treaty with the USA and safety in political, economic, energy and digital aspects.

650th Jubilee of the Jagiellonian University

In 2014 the Jagiellonian University – the oldest university in Poland and the largest in Kraków – celebrated its 650th anniversary. The celebrations were carried out throughout the academic year 2013/2014 to culminate in May 2014.

Bank Pekao was among the sponsors of the great jubilee.

Cooperation with the CASE Foundation

The Center for Social and Economic Research (CASE Foundation) was established in 1991 as an independent research institute focusing on European integration and global economy. The Bank has been collaborating with the Foundation since 1999.

In 2013-2014, 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.

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.

Support of sport

22nd Pekao Szczecin Open Tennis Tournament

Pekao Szczecin Open is an International Men’s Tennis ATP Tournament – the most prominent event of this kind in Poland and the most important event in the West Pomerania region. The Bank has been the titular sponsor of the Tournament since the very beginning.

The Tournament has a very good reputation among tennis players and tennis fans. It has also been contributing to the promotion of Szczecin. Getting involved in the Tournament, the Bank has been supporting a sport that is a symbol of elegance and fair play, while contributing to the development of the city and the region.

Pekao Szczecin Open offers great tennis experience and 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.

In September 2014 the Tournament was held for the 22nd time.

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 2015, dynamic of economic growth should remain on the similar level to dynamic achieved in 2014 (3.3%). Internal dynamic is positive and the factors supporting growth are expected, further improvement on the labor market, which should translate into real wage bill and private consumption increase, most likely continuation of rebound in investments, which will be supported by EU funds from the new financial perspective and the weakening of the złoty that additionally improve competitiveness of Polish goods on foreign markets.

Considering the above factors it could be expected even stronger growth than currently anticipated, however risks from external environment can negatively influence on the Polish economy.

The significant external threats is continuation of declines of crude oil prices, which constitutes significant risk factor for the stability of public finance in Russia and in the long term could undermine stability of the Russian currency and thus the entire financial system of this country as well as budget liquidity maintenance in Ukraine, which needs external financial support at least in the amount of USD 15 billion. On the other hand, in 2015, there will be elections in many EU countries (UK, France, Spain, Greece) and possible materialization of political risks (the increase of support for the radical forces) could influence on the situation on the financial markets and in the real economy.

A general risk for the global economy is the risk of economic slowdown, which would translate into lower demand for the Polish goods and services, lower propensity to invest among corporates and lower propensity to consume among households.

The risk factors mentioned above tend to be cautious in formulating economic projections. Stronger, than anticipated, increase in the internal dynamics of the Polish economy is likely provided that external risks do not materialize.

In 2015, in the banking sector, it should be expected a slight deceleration of dynamic in deposits growth, which in case of households will be associated with higher propensity to consume (resulting from stable labor market situation and record-low level of interest rates) and in case of corporates, the lower growth in deposits can resulting from engagement of funds into working and fixed capital.

Dynamic in loans to households as at the end of December 2014 amounted to 5.5% year on year. Taking into consideration fundamental factors, in 2015, it can be expected further, gradual increase in loans to this segment thanks to the record-low interest rates and relatively stable macroeconomic situation. In the case of corporate loans, in 2015, it can be expected maintaining of relatively strong demand for loans driven by capital investments related to projects started in 2014 as well as new investments.

Due to legal changes in 2015, banks results will be adversely affected by further reduction of interchange fees seen in the fee and commission income related to card transactions. As a consequence of interest rate cuts (NBP and market rates), interest margins have been narrowed what have negative impact on net interest income of banks.

Within the framework regulatory and tax changes, the banking business in 2015 may be affected by further increase of contributions to the Bank Guarantee Fund and supervisory recommendations related to offering bancassurance products.

An important factor impacting results of the banking sector will be the issue of Swiss franc to zloty exchange rate. After the decision of the Swiss National Bank to lift the minimum EUR-CHF exchange rate, previously held at 1.20, the Swiss currency saw strong appreciation, also vs. the zloty. This, in turn meant increase of both installments and valuation expressed in PLN of loans drawn in CHF. Deterioration of the situation of creditors brought ideas to help them. The details of final solutions are not yet known, but they potentially may increase the burdens of the banking sector. It should be stressed that potentially taken solutions will have very limited impact on Bank Pekao as mortgage loans in CHF (almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA in 2007) represent a marginal share in the total asset of the Group.

Directions of the activities and business priorities

Bank Pekao S.A. is a universal bank focused on conducting business activity on the Polish market. The strategic objective of the Bank is to further develop the business and dynamic growth thanks to its strong capital and liquidity position, while maintaining the highest standards in risk management and further improvement of cost efficiency. The Bank aims to increase its share in the banking sector income through further strengthening its market position in the areas with the largest value creation potential.

The Bank's philosophy is based on the customer-centric approach, adjusting its products offer and operational model to the clients' needs, aimed at building long-term relationships with clients, allowing to ensure sustainable business growth.

The Bank's business model is based on customer segmentation identifying the following groups of customers:

– individual customers – embracing retail, affluent and private banking clients. Segmentation is based on monthly inflows or assets under management. Each segment has its own business model adjusted to the clients' needs,

- small and micro enterprises (SME) – customers are served by dedicated advisors with the support of product specialists. Service is carried out in retail branches as well as in specialized Business Customer Hubs. Customers are offered professional products and services adjusted to individual clients' needs,
- corporate customers – embracing medium and large companies. Segmentation takes into account the turnover value, sector, type of ownership (public/private, domestic/international, etc.). Customers are served by dedicated advisors with the support of product specialists enabling to optimize service level and cost. Customer advisors are focused on providing high-quality and effective service, using the best practices and integrated sales management tools.

The Bank offers competitive products and services on the Polish market, high service quality and nationwide, well-developed and easily accessible network of branches and ATMs as well as professional call center and a competitive Internet and mobile banking platform for individuals, corporate, small and micro enterprises.

Thanks to the scale of operations, strong capital and liquidity structure and balance sheet strength with a high level of solvency ratio and high surplus of deposits in relation to granted loans, the Bank has competitive advantages that allow effectively compete on the market.

Directions of the activities and business priorities for the year 2015

The Bank's activities will be conducted in accordance with the guidelines set by the development plan for 2014-2020.

This plan is based on the analysis of demographic trends, expected changes in clients' preferences and banking sector. The banking sector in the coming years will be affected by following trends: stagnant population and change in the age structure, increase in the number of consumers with the bank account and wealth accumulation in affluent clients group. The number of customers using remote channels will continue to grow, but customers still using branches remain an important group, also in the last years of the plan.

In 2015, the Bank will be focused on further business development and reinforcing its market position, while maintaining the developed standards in risk management and further improvement of business efficiency.

The continuation of economic recovery resulting in further improvement in the labour market should enable further growth in loans demand. The Bank intends to increase lending activity and strengthen the market position in strategic areas.

In the individual customer segment, the Bank will continue to sell consumer loans and mortgage loans denominated in PLN, leveraging on long-term experience in selling these products through effective and efficient adaptation of the offer to the clients' needs, while maintaining ethical principles in lending and reasonable risk level. In order to adopt, the best suit, to clients' requirements offer, the Bank will continue to develop CRM system and multi-module analytical tools. At the same time, the Bank will develop sales of lending products via remote channels.

In the business customer segment, the Bank's goal is to reinforce its leading position in the corporate lending, transactional banking as well as organisation and servicing of corporate bonds issuance. The Bank intends to remain a leading partner of the public sector in financing major infrastructure projects and supporting the development of Polish cities.

In order to ensure the highest service quality for corporate as well as small and micro enterprises (SME), the Bank will constantly develop its comprehensive offer and deliver innovative banking products that meet the highest requirements of clients.

The Bank's goal is to reinforce its position of the most recognizable bank for corporate clients in Poland thanks to the professionalism, customer satisfaction and value creation for the clients. Bank Pekao S.A. activities on the financial services market will be focused on building value for customers and increasing their level of satisfaction through by the best adjusting to the clients' needs, continuous improvement of service quality and providing customers with easy and affordable solutions that enable them to achieve their financial goals.

The Bank will continue acquisition of new clients consistently working on the number of clients increase in all customer segments.

In response to changing clients preferences and in order to optimize the commercial efficiency, the Bank will continue the development of its remote distribution channels (multi-channels), including Internet and mobile banking, leveraging on innovative solutions available on the market. The Bank will continue to develop the PeoPay system that allows mobile payments and acceptance of mobile payments, focusing on number of users increase.

Representations of the Bank's Management Board

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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 2014 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 2014 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 2014 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.

Statement of Bank Polska Kasa Opieki Spółka Akcyjna on application of Corporate Governance Standards in 2014

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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 Best Practice for WSE Listed Companies and Code of Banking Ethics of Polish Bank Association.

In 2014 the Bank applied corporate governance rules laid down in the Code of Best Practice for WSE Listed Companies[3] 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 9/2014 on May 16, 2014 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. 406[5] § 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 2013."

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.

The Bank applies corporate governance rules laid down in the Code of Banking Ethics of Polish Bank Association.[4]

On October 14, 2014 by Resolution No. 256/X/14 the Management Board of the Bank adopted to follow the Principles of Corporate Governance for Supervised Institutions issued by the Financial Supervision Authority on July 22, 2014. The Supervisory Board of the Bank on November 5, 2014 by Resolution No. 33/14 expressed the positive opinion on the adoption by the Bank of the above mentioned Principles. The Bank will apply the Principles of Corporate Governance for Supervised Institutions starting from January 1, 2015.

Furthermore, the Bank applies corporate governance rules resulting from UniCredit Group Integrity Charter[6] as requirements beyond requirements under national law.

The activities undertaken by the Bank comply with the laws regulations, Bank's 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[7]

The Management Board of the Bank is responsible for developing and implementing of an adequate, effective and efficient 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, effectiveness and efficiency 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.

[1] Journal of Laws 2014.133 unified text
[2] Par. 91.5.4.a of the ordinance of the Minister of Finance of February 19, 2009
[3] The document is publicly available on the WSE webpage: http://www.corp-gov.gpw.pl/publications.asp
[4] 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
[5] The document is publicly accessible on the Polish Financial Supervision Authority web site: http://www.knf.gov.pl/regulacje/praktyka/index.html
[6] The document is publicly available on Bank Pekao S.A. webpage: http://www.pekao.com.pl/o_banku/misja/#tab2
[7] Par. 91.5.4.c of the ordinance of the Minister of Finance of February 19, 2009

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 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[8]

UniCredit S.p.A. has been the Bank's major shareholder since August 1999. As at December 31, 2014, 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. The remaining shareholders held 49.90% share in the Bank's share capital and the same percentage of the total votes at the Bank's General Meeting of Shareholders.

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, 2014		DECEMBER 31, 2013	
UniCredit S.p.A.	131,497,488	50.10%	131,497,488	50.10%
Aberdeen Asset Management PLC	n/a	n/a	13,194,683	5.03%
Other shareholders	130,972,546	49.90%	117,777,863	44.87%
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.

[8] Par. 91.5.4.d of the ordinance of the Minister of Finance of February 19, 2009
[9] Par. 91.5.4.e of the ordinance of the Minister of Finance of February 19, 2009

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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 organizational 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, 2014 the Management Board of the Bank 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,
Marian Ważyński	Vice President of the Management Board.

The composition of the Management Board did not change till December 31, 2014.

The Management Board of the Bank acts according to the Bank's Statute and the Rules of procedure adopted by virtue of its Resolution No. 480/XII/2014 of December 22, 2014. The previously binding Resolution of the Management Board No. 101/VI/03 of June 3, 2003 expired. 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. 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 on anti-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, 2014 the Supervisory Board of the Bank 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.

[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 composition of the Supervisory Board did not change till December 31, 2014.

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, 2014 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, 2014.

The scope of the Audit Committee's remit has been determined by the Supervisory Board's Resolution No. 41/14 of December 12, 2014. Previously in force Supervisory Board's Resolution No. 9/12 of March 8, 2012 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, 2014, 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, 2014.

[19] http://www.pekao.com.pl/o_banku/wladze_Banku/#tab2

The Remuneration Committee operates on the basis of the Supervisory Board's resolution. 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, 2014, 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, 2014. 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 2014

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"), for which Bank Polska Kasa Opieki S.A. ("Bank") with its registered office in Warsaw, at Grzybowska 53/57 is the Parent Company. Those consolidated financial statements include: consolidated statement of financial position prepared as of 31 December 2014, 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 2014 to 31 December 2014 and explanatory notes comprising a summary of significant accounting policies and other explanatory information as required by the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations.

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 give a true and fair view of the financial and economic position as well as the financial performance 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:

- give a true and fair view of the information material to evaluation of the economic and financial position of the Capital Group as of 31 December 2014 as well as its financial performance in the financial year from 1 January 2014 to 31 December 2014,
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and its executory provisions,
- 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 2014 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 February 2015

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)

		2014			2013		
	NOTE	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Interest income	10	6,225,290	–	6,225,290	6,680,942	93,348	6,774,290
Interest expense	10	(1,763,996)	–	(1,763,996)	(2,237,054)	(31,674)	(2,268,728)
Net interest income		**4,461,294**	**–**	**4,461,294**	**4,443,888**	**61,674**	**4,505,562**
Fee and commission income	11	2,536,281	–	2,536,281	2,635,887	19,175	2,655,062
Fee and commission expense	11	(492,546)	–	(492,546)	(504,215)	(8,003)	(512,218)
Net fee and commission income		**2,043,735**	**–**	**2,043,735**	**2,131,672**	**11,172**	**2,142,844**
Dividend income	**12**	**8,298**	**–**	**8,298**	**6,756**	**–**	**6,756**
Result on financial assets and liabilities held for trading	**13**	**443,301**	**–**	**443,301**	**467,407**	**(2,350)**	**465,057**
Result on fair value hedge accounting	**30**	**(17,247)**	**–**	**(17,247)**	**(17,423)**	**–**	**(17,423)**
Gains (losses) on disposal of:	**14**	**272,055**	**–**	**272,055**	**305,139**	**–**	**305,139**
loans and other financial receivables		18,579	–	18,579	(67)	–	(67)
available for sale financial assets and held to maturity investments		253,500	–	253,500	308,355	–	308,355
financial liabilities		(24)		(24)	(3,149)	–	(3,149)
Operating income		**7,211,436**	**–**	**7,211,436**	**7,337,439**	**70,496**	**7,407,935**
Net impairment losses on financial assets and off-balance sheet commitments:	**18**	**(559,575)**	**–**	**(559,575)**	**(658,435)**	**(5,215)**	**(663,650)**
loans and other financial receivables		(571,830)	–	(571,830)	(650,899)	(5,215)	(656,114)
off-balance sheet commitments		12,255	–	12,255	(7,536)	–	(7,536)
Net result on financial activity		**6,651,861**	**–**	**6,651,861**	**6,679,004**	**65,281**	**6,744,285**
Administrative expenses	**15**	**(3,102,134)**	**–**	**(3,102,134)**	**(3,100,022)**	**(42,459)**	**(3,142,481)**
personnel expenses		(1,905,070)	–	(1,905,070)	(1,860,030)	(21,145)	(1,881,175)
other administrative expenses		(1,197,064)	–	(1,197,064)	(1,239,992)	(21,314)	(1,261,306)
Depreciation and amortization	**16**	**(326,679)**	**–**	**(326,679)**	**(343,662)**	**(2,696)**	**(346,358)**
Net result on other provisions		**(2,702)**	**–**	**(2,702)**	**13,661**	**–**	**13,661**
Net other operating income and expenses	**17**	**74,336**	**–**	**74,336**	**102,212**	**1,210**	**103,422**
Operating costs		**(3,357,179)**	**–**	**(3,357,179)**	**(3,327,811)**	**(43,945)**	**(3,371,756)**
Gains (losses) on subsidiaries and associates	**19**	**63,210**	**–**	**63,210**	**59,425**	**–**	**59,425**
Gains (losses) on disposal of property, plant and equipment, and intangible assets	**20**	**1,797**	**–**	**1,797**	**22,276**	**–**	**22,276**
Profit before income tax		**3,359,689**	**–**	**3,359,689**	**3,432,894**	**21,336**	**3,454,230**
Income tax expense	**21**	**(634,573)**		**(634,573)**	**(655,386)**	**(3,854)**	**(659,240)**
Net profit for the period		**2,725,116**	**–**	**2,725,116**	**2,777,508**	**17,482**	**2,794,990**
1. Attributable to equity holders of the Bank		2,714,714	–	2,714,714	2,767,297	17,482	2,784,779
2. Attributable to non-controlling interests	51	10,402	–	10,402	10,211	–	10,211
Earnings per share (in PLN per share)							
basic for the period	22	10.34	–	10.34	10.54	0.07	10.61
diluted for the period	22	10.34	–	10.34	10.54	0.07	10.61

Notes to the financial statements presented on pages 138-262 and annexes to the financial statements presented on pages 263-268 constitute an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

(in PLN thousand)

	NOTE	2014	2013
Net profit		**2,725,116**	**2,794,990**
1. Attributable to equity holders of the Bank		2,714,714	2,784,779
2. Attributable to non-controlling interest s	51	10,402	10,211
OTHER COMPREHENSIVE INCOME			
Item that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		(69)	25,565
Change in fair value of available-for-sale financial assets		482,066	(558,622)
Change in fair value of cash flow hedges	30	168,109	34,832
Tax on items that are or may be reclassified subsequently to profit or loss	21	(123,534)	94,634
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liabilities	45	(44,338)	(41,524)
Share in remeasurements of the defined benefit liabilities of associates		(38)	–
Tax on items that will never be reclassified to profit or loss	21	8,424	7,890
Other comprehensive income (net of tax)		**490,620**	**(437,225)**
Total comprehensive income		**3,215,736**	**2,357,765**
1. Attributable to equity holders of the Bank		3,205,334	2,347,554
2. Attributable to non-controlling interests	51	10,402	10,211

Notes to the financial statements presented on pages 138-262 and annexes to the financial statements presented on pages 263-268 constitute an integral part of the consolidated financial statements.

Consolidated statement of financial position

(in PLN thousand)

	NOTE	31.12.2014	31.12.2013
ASSETS			
Cash and due from Central Bank	24	9,226,254	4,191,229
Bill of exchange eligible for rediscounting at Central Bank		165	230
Loans and advances to banks	25	7,169,872	7,547,785
Financial assets held for trading	26	448,453	188,377
Derivative financial instruments (held for trading)	27	4,447,975	1,996,934
Loans and advances to customers	28	111,871,948	101,012,515
Receivables from finance leases	29	3,112,048	2,931,248
Hedging instruments	30	470,822	250,186
Investments (placement) securities	31	24,712,776	34,995,737
1. Available for sale		23,111,208	33,033,967
2. Held to maturity		1,601,568	1,961,770
Assets held for sale	33	37,102	45,864
Investments in associates	34	184,228	176,002
Intangible assets	35	627,032	626,571
Property, plant and equipment	36	1,544,139	1,589,636
Investment properties	37	35,295	31,131
Income tax assets		879,991	995,766
1. Current tax assets		2,572	100,446
2. Deferred tax assets	21	877,419	895,320
Other assets	38	2,856,928	1,942,501
TOTAL ASSETS		**167,625,028**	**158,521,712**
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	24	971	985
Amounts due to other banks	40	5,344,702	6,417,657
Financial liabilities held for trading	26	591,311	309,742
Derivative financial instruments (held for trading)	27	4,417,706	2,051,501
Amounts due to customers	41	125,609,000	119,796,706
Hedging instruments	30	1,484,428	1,007,884
Fair value hedge adjustments of hedged items due to interest rate risk		–	2,084
Debt securities issued	42	3,857,043	3,063,737
Income tax liabilities		70,257	5,016
1. Current tax liabilities		68,164	1,753
2. Deferred tax liabilities	21	2,093	3,263
Provisions	43	442,456	393,537
Other liabilities	44	1,761,422	1,958,692
TOTAL LIABILITIES		**143,579,296**	**135,007,541**
Equity			
Share capital	49	262,470	262,470
Other capital and reserves	50	20,990,344	20,564,611
Retained earnings and profit for the period	50	2,764,875	2,592,802
Total equity attributable to equity holders of the Bank		**24,017,689**	**23,419,883**
Non – controlling interests	51	28,043	94,288
TOTAL EQUITY		**24,045,732**	**23,514,171**
TOTAL LIABILITIES AND EQUITY		**167,625,028**	**158,521,712**

Notes to the financial statements presented on pages 138-262 and annexes to the financial statements presented on pages 263-268 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 INTERESTS	TOTAL EQUITY
Note	49	50							50		51	
Equity as at 1.01.2014	**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**
Management options	**–**	**(697)**	**–**	**–**	**–**	**–**	**–**	**(697)**	**–**	**(697)**	**–**	**(697)**
Options exercised (share issue)	–	–	–	–	–	–	–	–	–	–	–	–
Revaluation of management share options	–	(697)	–	–	–	–	–	(697)	–	(697)	–	(697)
Comprehensive income	**–**	**490,620**	**–**	**–**	**–**	**490,689**	**(69)**	**–**	**2,714,714**	**3,205,334**	**10,402**	**3,215,736**
Remeasurements of the defined benefit liabilities (net of tax)	–	(35,952)	–	–	–	(35,952)	–	–	–	(35,952)	–	**(35,952)**
Revaluation of available-for-sale investments (net of tax)	–	390,473	–	–	–	390,473	–	–	–	390,473	–	**390,473**
Revaluation of hedging financial instruments (net of tax)	–	136,168	–	–	–	136,168	–	–	–	136,168	–	**136,168**
Foreign currency translation differences	–	(69)	–	–	–	–	(69)	–	–	(69)	–	(69)
Net profit for the period	–	–	–	–	–	–	–	–	2,714,714	2,714,714	10,402	2,725,116
Appropriation of retained earnings	**–**	**(71,614)**	**–**	**–**	**(74,995)**	**–**	**–**	**3,381**	**(2,542,641)**	**(2,614,255)**	**(4,823)**	**(2,619,078)**
Dividend paid	–	–	–	–	–	–	–	–	(2,614,202)	(2,614,202)	(4,823)	(2,619,025)
Profit appropriation to other reserves	–	(71,614)	–	–	(74,995)	–	–	3,381	71,561	(53)	–	(53)
Other	**–**	**7,424**	**–**	**–**	**7,424**	**–**	**–**	**–**	**–**	**7,424**	**(71,824)**	**(64,400)**
Acquisition of non-controlling interests	–	7,424	–	–	7,424	–	–	–	–	7,424	(71,824)	(64,400)
Equity as at 31.12.2014	**262,470**	**20,990,344**	**9,137,221**	**1,937,850**	**9,002,629**	**540,806**	**1,169**	**370,669**	**2,764,875**	**24,017,689**	**28,043**	**24,045,732**

Notes to the financial statements presented on pages 138-262 and annexes to the financial statements presented on pages 263-268 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	KAPITTOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON – CONTROLLING INTERESTS	TOTAL EQUITY
Note	49	50							50		51	
Equity as at 1.01.2013	**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 138-262 and annexes to the financial statements presented on pages 263-268 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement

(in PLN thousand)

	NOTE	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES – INDIRECT METHOD			
Net profit for the period		**2,714,714**	**2,784,779**
Adjustments for:		**(7,953,110)**	**4,114,320**
Depreciation and amortization	16	326,679	346,358
Share of profit (loss) of associates		(63,210)	(59,425)
(Gains) losses on investing activities		(255,130)	(313,359)
Net interest income	10	(4,461,294)	(4,505,562)
Dividend income	12	(8,298)	(6,756)
Interests received		6,231,689	6,874,786
Interests paid		(1,765,173)	(2,493,899)
Income tax		528,404	713,122
Income tax paid		(577,671)	(782,587)
Change in loans and advances to banks		257,414	(685,459)
Change in financial assets held for trading		(261,239)	413,415
Change in derivative financial instruments (assets)		(2,451,041)	652,163
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank		(10,855,537)	(6,201,359)
Change in receivables from finance leases		(180,800)	(213,317)
Change in investment (placement) securities		(1,313,325)	(941,681)
Change in other assets		(956,834)	1,844,002
Change in amounts due to banks		(1,071,167)	(1,358,790)
Change in financial liabilities held for trading		281,569	63,164
Change in derivative financial instruments (liabilities)		2,366,205	(569,297)
Change in amounts due to customers		5,829,409	11,967,345
Change in debt securities issued		73,855	17,034
Change in provisions		48,919	34,031
Change in other liabilities		323,466	(679,609)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**(5,238,396)**	**6,899,099**
Cash flow from investing activities			
Investing activity inflows		**407,980,528**	**434,021,780**
Disposal of discontinued operations net of cash disposed		–	627,248
Sale of investment securities		407,198,470	432,511,919
Sale of intangible assets and property, plant and equipment		9,108	6,371
Dividend received	12	8,298	6,756
Other investing inflows		764,652	869,486
Investing activity outflows		**(395,889,319)**	**(439,262,333)**
Acquisition of investments in subsidiaries		(64,400)	–
Acquisition of investment securities	31	(395,559,593)	(438,962,156)
Acquisition of intangible assets and property, plant and equipment	35, 36	(265,326)	(300,177)
Net cash flows from investing activities		**12,091,209**	**(5,240,553)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Financing activity inflows		**6,015,875**	**3,667,197**
Issue of debt securities	42	6,015,875	3,667,197
Financing activity outflows		**(7,928,366)**	**(7,524,671)**
Redemption of debt securities	42	(5,314,164)	(5,322,547)
Dividends and other payments to shareholders		(2,614,202)	(2,202,124)
Net cash flows from financing activities		**(1,912,491)**	**(3,857,474)**
Total net cash flows		**4,940,322**	**(2,198,928)**
including: effect of exchange rate fluctuations on cash and cash equivalents held		183,208	4,924
Net change in cash and cash equivalents		**4,940,322**	**(2,198,928)**
Cash and cash equivalents at the beginning of the period		**10,615,862**	**12,814,790**
Cash and cash equivalents at the end of the period	**52**	**15,556,184**	**10,615,862**

Notes to the financial statements presented on pages 138-262 and annexes to the financial statements presented on pages 263-268 constitute an integral part of the consolidated financial statements.

Notes to financial statements

(in PLN thousand)

The accompanying notes to the financial statements 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). The 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 2014 contain financial information of the Bank and its subsidiaries (together referred to as the 'Group'), and associates 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.

2. Takeover of Spółdzielcza Kasa Oszczędnościowo-Kredytowa im. Mikołaja Kopernika by Bank Pekao S.A.

Based on the decision of the Polish Financial Supervision Authority ('KNF') of 5 December 2014 the Bank took over Spółdzielcza Kasa Oszczędnościowo – Kredytowa im. Mikołaja Kopernika ('SKOK Kopernik') on 22 December 2014, and thereby entered into all of its rights and obligations. The acquisition of SKOK Kopernik was not associated with the transfer of the payment by the Bank. The scope of acquired business consisted of, among others, gathering deposits and to implement a program of systematic saving, granting loans to its members, carrying financial settlements on their behalf.

KNF decision was intended to ensure the safety of the deposits gathered by SKOK Kopernik and was taken in accordance with article 74c.4 of the Act on Credit Unions of 5 November 2009 (the 'Act on Credit Unions'). According to this article, if there is no possibility to acquire one credit union by another one, KNF taking into account the need to protect financial market stability and security of the deposits gathered in accounts of credit union's members, may decide on acquisition of credit union as a whole or its selected property rights or liabilities by a domestic bank, with its consent or otherwise decide to liquidate a credit union.

The acquisition and restructuring of SKOK Kopernik proceeds with the financial support expected to be granted by the Bank Guarantee Fund ('BFG') pursuant to article 20g of the Act on Bank Guarantee Fund of 14 December 1994. The Management Board of BFG has declared the possibility of support in the form of grants to cover the difference between the value of the acquired property rights and liabilities arising from guaranteed funds in the accounts of depositors of SKOK Kopernik and a guarantee to cover losses arising from the risks associated with the acquired property rights or liabilities of SKOK Kopernik.

(in PLN thousand)

The fair value of the identifiable assets and liabilities acquired are shown in the table below.

ITEM	
Cash and due from Central Bank	5,714
Loans and advances banks	30,425
Financial assets held for trading	23,898
Loans and advances to customers	235,503
Intangible assets	5,111
Property, plant and equipment	4,711
Current tax assets	1,892
Other assets	5,937
TOTAL ASSETS	**313,191**
Amounts due to customers	405,179
Deferred tax liabilities	2,425
Provisions	1,963
Other liabilities	6,510
TOTAL LIABILITIES	**416,077**
TOTAL NET ASSETS	**(102,886)**

Following the acquisition, the Bank recognized goodwill in the amount of PLN 960 thousand, calculated as the difference between the net amount of the identifiable assets acquired and liabilities assumed (PLN minus 102 886 thousand), and the amount of grant expected to be received from BFG (PLN 101 926 thousand). The goodwill results from a potential ability to achieve additional benefits from expected synergies relating to the expansion of the distribution network. At the same time the Bank recognized PLN 4 700 thousand of assets that meet the conditions for recognition as intangible assets. These assets resulted from acquired customer relationships created in former SKOK Kopernik.

Until the date of approval of these financial statements, the Bank has fulfilled a number of conditions to receive grants from BFG and therefore believes that it has reasonable assurance that allows him to recognize the grant. Presented amount of the grant is temporary until the final decision of the BFG.

Goodwill is not subject to the tax deductions.

Information on the acquired receivables are presented in the table below.

	FAIR VALUE	GROSS VALUE	IMPAIRMENT ALLOWANCES
Loans and advances to banks	30,425	30,425	–
Loans and advances to customers	235,503	465,499	(229,996)

Given the market practice used by other banks, the Bank presented gross value of loans and advances to customers (including in the adjustment to fair value) separately from impairment allowance. Allowances have been adjusted to conform to the methodology and the rules of the Bank.

The Bank incurred acquisition-related costs of PLN 759 thousand. These costs have been included in ‘Administrative expenses’ in the income statement.

The interest income and commission income included in the consolidated income statement since 22 December 2014 contributed by SKOK Kopernik business was PLN 1 829 thousand. SKOK Kopernik also contributed net profit of PLN 762 thousand for the same period.

If the acquisition had occurred on 1 January 2014, it is estimated that interest income and commission income of the Group would have been PLN 8 842 528 thousand, and the net profit for the year attributable to equity holders of the Bank would have been PLN 2 724 433 thousand.

(in PLN thousand)

3. 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	
			31.12.2014	31.12.2013
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	100.00	80.10
Pekao Leasing Sp. z o.o.	Warsaw	*Leasing services*	*63.51*	*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
FPB – Media Sp. z o.o.	Warsaw	*Real estate development*	*100.00*	–
Property Sp. z o.o. (in liquidation), including:	Warsaw	Real estate management	–	100.00
FPB – Media Sp. z o.o.	Warsaw	*Real estate development*	–	*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

(*)The TOTAL share of the Group in Pekao Leasing Sp. z o.o. equity is 100.00% (36.49% directly and 63.51% via Pekao Leasing Holding S.A.).

As at 31st December 2014, all of the subsidiaries have been consolidated.

Associates

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
			31.12.2014	31.12.2013
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 2014, the Group held no shares in entities under common control.

(in PLN thousand)

Changes in Group structure

Merger of Pekao Property S.A. with Property Sp. z o.o. w likwidacji

On 26 September 2014 Pekao Property S.A. (the acquiring entity) merged with Property Sp. z o.o. w likwidacji (the acquired entity). The main purpose of the transaction was to decrease general costs of the combined entities.

For the merger purposes, Pekao Property S.A. issued shares that was taken up by the Bank, the shareholder of Property Sp. z o.o. w likwidacji, in exchange for the assets of liabilities of Property Sp. z o.o. w likwidacji that was contributed into Pekao Property S.A. As a result of the above transaction, the share capital of Pekao Property S.A. was increased by PLN 16 046 thousand through the issue of 160 464 shares with a nominal value of PLN 100 each share.

The merger transaction was classified as intragroup transaction and recognized at book value. Pekao Property S.A. as the acquiring entity recognized the assets and liabilities of the acquired entity at their book values, adjusted exclusively for the purpose of aligning the accounting principles. Pursuant to the transaction, neither goodwill nor badwill was recognized.

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 assets and liabilities of Property Sp. z o.o. w likwidacji that was contributed to Pekao Property S.A. at the merger day are presented in the below table.

ITEM	26 SEPTEMBER 2014
Cash	2,905
Loans and advances to customers	13,760
Other assets	48
TOTAL ASSETS	**16,713**
Other liabilities	1
TOTAL LIABILITIES	**1**
TOTAL NET ASSETS	**16,712**

The Group incurred acquisition-related costs of PLN 13 thousand. These costs have been included in 'Administrative expenses' in the consolidated income statement.

Acquisition of additional interests in subsidiaries

On 7 August 2014, the Bank acquired the remaining 19.90% of the issued shares of Pekao Leasing Holding S.A. for a purchase consideration of PLN 64 400 thousand. The Group now holds 100% share in the equity of Pekao Leasing Holding S.A. As a result of the transaction the Group also increased its total share in the equity of Pekao Leasing Sp. z o.o. to 100% (36.49% via Bank and 63.51% via Pekao Leasing Holding S.A.).
The carrying amount of the non-controlling interests in Pekao Leasing Holding S.A. and Pekao Leasing Sp. z o.o. on the date of acquisition was PLN 71 824 thousand. The Group derecognized non-controlling interests amounting to PLN 71 824 thousand and recorded an increase in equity attributable to equity holders of the Bank amounting to PLN 7 424 thousand.

The effect of changes in the ownership interest of Pekao Leasing Holding S.A. and Pekao Leasing Sp. z o.o. on the equity attributable to equity holders of the Bank during the reporting period is presented in the table below.

	2014	2013
Carrying amount of non-controlling interests acquired	71,824	–
Consideration paid to non-controlling interests	(64,400)	–
Increase in equity attributable to equity holders of the Bank	**7,424**	**–**

4. Approval of the Financial Statements

These Consolidated Financial Statements were approved for publication by the Bank's Management Board on 10 February 2015.

5. Significant accounting policies

5.1 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.

5.2 Basis of preparation of Consolidated Financial Statements

General information

These Consolidated Financial Statements of the Group, which have been prepared for the period from 1 January to 31 December 2014, 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 2014, 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 statements of the Group, with the exception of IFRS 9 'Financial Instruments'.

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 impairment model – expected credit losses model,
- 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 Group is currently assessing the impact of the IFRS 9 implementation on its financial statements. Due to the nature of the Group, it is expected that these changes will have a significant impact on the Group's financial instruments valuation and presentation.

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.

5.3 Consolidation

Consolidation principles

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 2014. The financial statements of the subsidiaries are prepared at the same reporting date as those of the parent entity, using consistent accounting policies 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 all entities over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. The subsidiaries are consolidated from the date of obtaining control by the Group until the date when the control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The Group measures any non-controlling interests in the acquiree at fair value or at the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets. Acquisition-related costs are expenses as incurred (in the income statement under "Administrative expenses").

If the business combination is achieved in stages, the acquirer remeasures its previously held equity interests in the acquiree at fair value at the acquisition date (date of obtaining control) and recognizes the resulting gain or loss in the income statement.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

The above policy does not apply to the business combinations under common control.

The changes in a parent entity's ownership interest in a subsidiary that do not result in the parent entity losing control of the subsidiary are accounted for as equity transactions (i.e. transactions with owners of parent entity). The Group recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attributes it to the owners of the parent entity.

When the Group ceases to have control over the subsidiary, any retained interest in that subsidiary is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in the income statement.

Recognition of business combinations under common control 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. has adopted the accounting policy consistently applied 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 acquirer recognizes the assets and liabilities of the acquired entity at their current book value adjusted exclusively for the purpose of aligning the accounting principles. Neither goodwill, nor badwill is recognized.

Any difference between the book value of the net assets acquired and the fair value of the consideration paid is recognized in the Group's equity. In applying this book value method, 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 rights in an associate. The equity method is calculated using the financial statements of the associates. The balance sheet dates of the Group and its associates are 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 Group recognizes the investments in associates applying the equity method. The investment in associates is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share in net assets of the associate after the date of acquisition, net of any impairment allowances. The Group's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. Distributions received from an associate reduce the carrying amount 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 associates are eliminated pro rata to the Group's share in the associates.

5.4 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 6.7 '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 45.

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 35.

(in PLN thousand)

5.5 Foreign currencies

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

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

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

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

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

  - to translate statement of financial position items as at 31 December 2014 and as at 31 December 2013, average exchange rates announced by the NBP on 31 December 2014 and on 31 December 2013, respectively, have been used:

	31.12.2014	31.12.2013
PLN for EUR 1	4.2623	4.1472

  - for translation of income statement items for the period from 1 January 2014 until 31 December 2014 and for the period from 1 January 2013 until 31 December 2013, 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 2014 until 31 December 2014 and during the period from 1 January 2013 until 31 December 2013, respectively, as follows:

	2014	2013
PLN for EUR 1	4.1893	4.2110

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.

5.6 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.

(in PLN thousand)

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.

Income and expense from bancassurance

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

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

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

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

In 2014 the Bank recognized upfront 12% of bancassurance revenue associated with cash loans and 30% of bancassurance revenue associated with mortgage loans. The remaining portion of bancassurance revenue is amortized over the life of the associated loans as part of effective interest rate.

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.

5.7 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.

The Group classifies the exposure as past due in case the borrower has failed to make payment on the principal and/or interest in the contractual maturity date. The Group presents the whole amount of exposure as past due, regardless of whether the delay of payment affects the whole exposure, or only part of it (installment). The number of days past due for receivables paid by installments is assumed as the period from the date of maturity of the earliest installment, when the repayment is delayed.

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.

(in PLN thousand)

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

Fair value hedge accounting principles

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

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

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

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

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

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.

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

Intangible assets

Goodwill

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

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

Other intangible assets

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

These mainly include:

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

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

(in PLN thousand)

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.

Notes to the financial statements

(in PLN thousand)

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 from the measurement of the defined benefit plans obligations, 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'.

Government grants

The Group recognizes government grants when there is reasonable assurance that it will comply with any conditions attached to the grant and the grant will be received. Government grants are recognized in profit or loss in the periods in which the related expenses are recognized which the grants are intended to compensate. For the settlement of the grant, the Group uses the income method. Government grants related to assets are presented in the statement of financial position of the Group as a reduction in the carrying value of the asset.

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, including phantom shares, and shares of UniCredit S.p.A. (see Note 46).

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 as liabilities presented in 'Other liabilities'.

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.

5.9 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. The receivables resulting from taxes are disclosed if the Group's companies has sufficient certainty that they exist and that they will be recovered.

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.

5.10 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 Central Bank' and loans and receivables from banks with maturities of up to three months.

6. 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.

6.1 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, among others, 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.

Committees

In performing these tasks, in terms of risk management, the Board is supported by committees:

- Assets, Liabilities and Risk Management Committee (ALCO) – in terms of market risk management, liquidity and capital adequacy,
- Operational Risk Committee – in operational risk management,
- Credit Committee – in making credit decisions within the powers and in the case of the largest transactions in preparing recommendations for the Board of Directors,
- Change Management Committee – in the implementation of new or modification of existing products and processes in business and outside business,
- Safety Committee – in the field of security and business continuity management.

6.2 Credit risk

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

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

The Bank established the following portfolio limits:

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

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

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

Rating models utilized in the credit risk management process

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

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

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

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

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

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

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

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

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

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

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

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

Rating scale

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

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

(in PLN thousand)

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	
		31.12.2014	31.12.2013		31.12.2014	31.12.2013		31.12.2014	31.12.2013
1	0.00% <= PD < 0.19%	3.5%	4.9%	0.00% <= PD < 0.30%	4.4%	4.8%	0.00% <= PD < 0.01%	0.8%	0.7%
2	0.19% <= PD < 0.24%	9.5%	10.6%	0.30% <= PD < 0.50%	6.4%	6.8%	0.01% <= PD < 0.03%	10.2%	10.2%
3	0.24% <= PD < 0.31%	28.2%	29.5%	0.50% <= PD < 0.60%	4.0%	4.8%	0.03% <= PD < 0.04%	2.8%	2.8%
4	0.31% <= PD < 0.40%	45.4%	41.9%	0.60% <= PD < 0.80%	10.5%	12.1%	0.04% <= PD < 0.07%	6.9%	7.1%
5	0.40% <= PD < 0.61%	5.0%	5.0%	0.80% <= PD < 1.30%	15.7%	17.0%	0.07% <= PD < 0.15%	17.0%	17.3%
6	0.61% <= PD < 1.02%	2.0%	1.1%	1.30% <= PD < 2.10%	21.4%	20.3%	0.15% <= PD < 0.25%	17.5%	18.0%
7	1.02% <= PD < 2.20%	1.7%	1.9%	2.10% <= PD < 3.70%	19.1%	16.7%	0.25% <= PD < 0.59%	9.0%	9.6%
8	2.20% <= PD < 6.81%	1.7%	1.9%	3.70% <= PD < 7.20%	8.9%	7.2%	0.59% <= PD < 1.20%	8.6%	10.3%
9	6.81% <= PD < 14.10%	0.9%	1.0%	7.20% <= PD < 15.40%	3.4%	3.2%	1.20% <= PD < 2.58%	5.3%	5.1%
10	14.10% <= PD <100.00%	2.1%	2.2%	15.40% <= PD < 100.00%	6.2%	7.1%	2.58% <= PD < 100.00%	21.9%	18.9%
Total		**100.0%**	**100.0%**		**100.0%**	**100.0%**		**100.0%**	**100.0%**

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

RATING CLASS	RANGE OF PD	NOMINAL VALUE	
		31.12.2014	31.12.2013
1	0.00% <= PD < 0.11%	2.0%	1.4%
2	0.11% <= PD < 0.22%	4.4%	4.1%
3	0.22% <= PD < 0.45%	9.3%	9.7%
4	0.45% <= PD < 1.00%	17.3%	16.5%
5	1.00% <= PD < 2.10%	18.1%	19.3%
6	2.10% <= PD < 4.00%	15.6%	15.8%
7	4.00% <= PD < 7.00%	12.5%	12.8%
8	7.00% <= PD < 12.00%	8.6%	8.4%
9	12.00% <= PD < 22.00%	6.3%	6.8%
10	22.00% <= PD < 100.00%	5.9%	5.2%
Total		**100.0%**	**100.0%**

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

RATING CLASS	RANGE OF PD	NOMINAL VALUE	
		31.12.2014	31.12.2013
1	0.00% <= PD < 0.15%	10.1%	8.7%
2	0.15% <= PD < 0.27%	10.5%	10.8%
3	0.27% <= PD < 0.45%	14.9%	17.9%
4	0.45% <= PD < 0.75%	14.6%	12.9%
5	0.75% <= PD < 1.27%	12.8%	11.9%
6	1.27% <= PD < 2.25%	11.0%	9.0%
7	2.25% <= PD < 4.00%	3.9%	8.5%
8	4.00% <= PD < 8.50%	20.6%	16.7%
9	8.50% <= PD < 100.00%	1.6%	3.6%
Total		**100.0%**	**100.0%**

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

Notes to the financial statements

(in PLN thousand)

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

SUPERVISORY CATEGORY	NOMINAL VALUE 31.12.2014	31.12.2013
High	33.3%	16.2%
Good	46.0%	76.4%
Satisfactory	20.5%	4.2%
Low	0.2%	3.2%
Total	**100.0%**	**100.0%**

Client/transaction rating and credit risk decision-making level

Decision-making level connected with transaction approval is directly dependent upon client's rating.

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

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

Validation of rating models

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

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

Group's exposure to credit risk

The maximum credit risk exposure

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

	31.12.2014	31.12.2013
Due from Central Bank	5,826,907	2,086,608
Loans and advances from banks and from customers (*)	119,041,985	108,560,530
Receivables from finance leases	3,112,048	2,931,248
Financial assets held for trading	448,453	188,377
Derivative financial instruments (held for trading)	4,447,975	1,996,934
Hedging instruments	470,822	250,186
Investment securities	24,712,776	34,995,737
Other assets (**)	2,917,662	2,001,186
Balance sheet exposure (***)	**160,978,628**	**153,010,806**
Obligations to grant loans	27,281,560	26,718,217
Other contingent liabilities	14,338,636	11,725,220
Off-balance sheet exposure	**41,620,196**	**38,443,437**
Total	**202,598,824**	**191,454,243**

(*) 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.

(in PLN thousand)

Credit risk mitigation methods

Bank Pekao S.A. Group has established specific policies with regard to collateral accepted to secure loans and guarantees. This policy is reflected under internal rules and regulations, which are based on supervision rules, specified in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

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

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

The financial effect of pledged collaterals for exposure portfolio with recognized impairment defined individually amounts to PLN 1 585 989 thousand as at the 31 December 2014 (1 532 423 thousand as of the 31 December 2013). 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.

Notes to the financial statements

(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

31.12.2014	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	4,918,797	(3,860,033)	(239,865)	818,899
Reverse-repo transactions	531,315	(530,528)	(385)	402
TOTAL	**5,450,112**	**(4,390,561)**	**(240,250)**	**819,301**

31.12.2014	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	5,902,134	(3,860,033)	(1,140,883)	901,218
Repo transactions	2,391	(2,391)	–	–
TOTAL	**5,904,525**	**(3,862,424)**	**(1,140,883)**	**901,218**

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**

(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

31.12.2014	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	4,274,548	Derivative financial instruments (held for trading)	4,447,975	173,427	27
	470,822	Hedging instruments	470,822	–	30
Reverse-repo transactions	531,315	Loans and advances to banks	7,169,872	6,638,557	25
FINANCIAL LIABILITIES					
Derivatives	4,323,991	Derivative financial instruments (held for trading)	4,417,706	93,715	27
	1,484,428	Hedging instruments	1,484,428	–	30
Repo transactions	2,391	Amounts due to other banks	5,344,702	5,342,311	40

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	27
	165,954	Hedging instruments	250,186	84,232	30
Reverse-repo transactions	2,130,711	Loans and advances to banks	7,547,785	5,417,074	25
FINANCIAL LIABILITIES					
Derivatives	1,921,502	Derivative financial instruments (held for trading)	2,051,501	129,999	27
	1,007,884	Hedging instruments	1,007,884	–	30
Repo transactions	450,113	Amounts due to other banks	6,417,657	5,967,544	40

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.

(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 (*)	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
– not past due	–	–	606,657	1,198,456
– up to 1 month	–	–	49,537	106,104
– between 1 month and 3 months	–	–	115,710	465,519
– between 3 months and 1 year	–	–	773,426	480,219
– between 1 year and 5 years	9,160	18,089	2,690,334	2,185,912
– above 5 years	–	–	1,146,735	891,043
Total gross carrying amount	**9,160**	**18,089**	**5,382,399**	**5,327,253**
ALLOWANCE FOR IMPAIRMENT				
– not past due	–	–	(197,636)	(353,300)
– up to 1 month	–	–	(8,787)	(50,808)
– between 1 month and 3 months	–	–	(60,488)	(134,547)
– between 3 months and 1 year	–	–	(317,684)	(187,465)
– between 1 year and 5 years	(9,160)	(9,788)	(1,462,240)	(1,215,406)
– above 5 years	–	–	(925,460)	(764,625)
Total allowance for impairment	**(9,160)**	**(9,788)**	**(2,972,295)**	**(2,706,151)**
Net carrying amount of exposure individually impaired	**–**	**8,301**	**2,410,104**	**2,621,102**
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
– not past due	–	–	74,332	79,187
– up to 1 month	–	–	34,439	34,588
– between 1 month and 3 months	–	–	51,263	31,796
– between 3 months and 1 year	–	–	366,923	419,020
– between 1 year and 5 years	–	–	1,511,446	1,499,976
– above 5 years	9,800	15,662	816,260	554,932
Total gross carrying amount	**9,800**	**15,662**	**2,854,663**	**2,619,499**
ALLOWANCE FOR IMPAIRMENT				
– not past due	–	–	(44,747)	(47,205)
– up to 1 month	–	–	(17,188)	(17,655)
– between 1 month and 3 months	–	–	(26,512)	(16,259)
– between 3 months and 1 year	–	–	(212,986)	(243,582)
– between 1 year and 5 years	–	–	(1,217,252)	(1,164,615)
– above 5 years	(9,800)	(15,662)	(777,124)	(534,163)
Total allowance for impairment	**(9,800)**	**(15,662)**	**(2,295,809)**	**(2,023,479)**
Net carrying amount of exposure collectively impaired	**–**	**–**	**558,854**	**596,020**

(*) 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	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
– not past due	7,176,334	7,546,525	64,973,743	57,931,568	45,042,713	40,549,982
– up to 30 days	–	–	438,304	558,198	1,300,910	1,349,761
– between 30 days and 60 days	–	–	108,516	141,798	198,014	187,471
– above 60 days	–	–	146,870	171,797	302,346	303,184
Total gross carrying amount	**7,176,334**	**7,546,525**	**65,667,433**	**58,803,361**	**46,843,983**	**42,390,398**
IBNR PROVISION						
– not past due	(442)	(300)	(253,479)	(216,141)	(128,724)	(124,897)
– up to 30 days	–	–	(4,326)	(5,031)	(74,108)	(86,629)
– between 30 days and 60 days	–	–	(2,122)	(1,989)	(22,575)	(22,280)
– above 60 days	–	–	(1,227)	(1,219)	(15,672)	(15,443)
Total IBNR provision	(442)	(300)	(261,154)	(224,380)	(241,079)	(249,249)
Net carrying amount of exposure with no impairment	**7,175,892**	**7,546,225**	**65,406,279**	**58,578,981**	**46,602,904**	**42,141,149**

(*) 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 (*)	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
IMPAIRED EXPOSURE				
Gross carrying amount	18,960	33,751	8,237,062	7,946,752
Allowance for impairment	(18,960)	(25,450)	(5,268,104)	(4,729,630)
Total net carrying amount	**–**	**8,301**	**2,968,958**	**3,217,122**
EXPOSURES WITH IMPAIRMENT TRIGGERS FOR WHICH NO IMPAIRMENT HAS BEEN IDENTIFIED				
Gross carrying amount, in this:	–	–	64,755	154,064
Exposure with collateral value included in expected discounted cash flow, in this	–	–	64,755	154,064
Past due exposures	–	–	25,804	42,524
IBNR provision	–	–	(1,820	(3,588
Total net carrying amount	**–**	**–**	**62,935**	**150,476**
EXPOSURES WITH NO IMPAIRMENT TRIGGERS				
Gross carrying amount	7,176,334	7,546,525	112,446,661	101,039,695
IBNR provision	(442)	(300)	(500,413)	(470,041)
Total net carrying amount	**7,175,892**	**7,546,225**	**111,946,248**	**100,569,654**

(*) 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.

(in PLN thousand)

Classification of exposures to debt securities according to Standard & Poor's ratings as at 31 December 2014

RATING	DEBT SECURITIES: HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS	TOTAL
AA+ to AA-	–	1,048,585	–	–	1,048,585
A+ to A-	310,653	14,891,849	750,123	7,716,100	23,668,725
BBB+ to BBB-	–	248,985	–	–	248,985
no rating	137,800	6,850,034(*)	851,445(**)	–	7,839,279
Total	**448,453**	**23,039,453**	**1,601,568**	**7,716,100**	**32,805,574**

(*) including NBP bills in an amount of PLN 6 147 781 thousand.
(**) including NBP bills in an amount of PLN 851 445 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 derivative financial instruments according to Standard & Poor's ratings as at 31 December 2014

RATING	DERIVATIVES						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	TOTAL
AAA	155	–	–	–	–	–	155
AA+ to AA-	165,233	–	–	7,996	–	–	173,229
A+ to A-	2,672,019	275,856	–	415,222	–	–	3,363,097
BBB+ to BBB-	490,530	–	1,129	20,649	–	–	512,308
BB+ to BB-	26,026	–	2,623	–	–	–	28,649
B+ to B-	–	–	103	–	–	–	103
no rating	304,009	201,825	308,467	21,383	5,572	–	841,256
Total	**3,657,972**	**477,681**	**312,322**	**465,250**	**5,572**	**–**	**4,918,797**

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

RATING	DERIVATIVES						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
	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**

Notes to the financial statements

(in PLN thousand)

Forbearance measures

With reference to European Securities and Markets Authority (ESMA) document 2012/853 and instructions issued by European Banking Authority in terms of disclosure as far as forborne exposures, the Group in cooperation with its mother company has implemented a process of classification of this type of exposures.

Forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Based on these difficulties, the Group decides to modify the terms and conditions of the contract to allow the borrower sufficient ability to service the debt or refinance the contract, either totally or partially. Modification of the terms and conditions of the contract may include i.e. the reduction of the interest rate, principal, accrued interest or the rescheduling of the dates of payment of principal and/or interests.

In particular, the Group assumes that the forbearance has taken place when:

- the modified contract was classified as impaired and the modifications were made within restructuring activities;
- the modified contract was totally or partially past-due by more than 30 days (without being impaired) at least once during the three months prior to its modification or would be more than 30 days past-due, totally or partially, without modification;
- simultaneously with or close in time to the concession of additional debt by the Group, the debtor made payments of principal or interest on another contract with the Group that was totally or partially 30 days past due at least once during the three months prior to its refinancing.

The classification as forborne exposure shall be discontinued when all the following conditions are met:

- the contract is considered as exposure without impairment triggers;
- a minimum 2 year probation period has passed from the date the forborne exposure was considered as exposure without impairment triggers;
- regular payments of more than an insignificant amount of principal or interest have been made;
- none of the exposures to the debtor is more than 30 days past-due at the end of the probation period of forborne exposure.

If a decision is made to extend a concession, modify the contractual terms or refinance, which is not related to the financial difficulties of the borrower, then forbearance has not occurred.

The forbearance agreements are monitored for fulfillment of contractual provisions. Dedicated units of the Bank manage the agreements with identified forbearance measures and monitor such agreements on a current basis.

When the exposure is classified as forborne and at each balance sheet date the Group assesses whether there is any objective evidence that the exposure is impaired. The accounting policies in respect to the evaluation and the provisioning of the forborne exposures generally follow the principles in line with the provisions of IAS 39, i.e. whether there are objective evidences that it has incurred a loss for impairment of loans valued at amortized cost, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet incurred) discounted at the original effective interest rate of the loan.

When the forbearance measures lead to derecognition of the original loan, the Group recognizes the new loan at its fair value. The difference between the carrying amount of the original loan and the fair value of the new loan is recognised in income statement.

The Group also performs an in-depth analysis of the credit risk characteristics of assets for which forbearance measures have been applied, when assessing for specific as well as collective impairment.

Share of forborne exposures in the Group's loan portfolio

	31.12.2014	31.12.2013
LOANS AND ADVANCES TO CUSTOMERS		
Exposures with no impairment, of which:	**112,009,181**	**100,720,130**
forborne exposures	450,050	377,681
Impaired exposures, of which:	**2,968,958**	**3,217,122**
forborne exposures	1,718,075	1,554,655
Total net carrying amount, of which:	**114,978,139**	**103,937,252**
forborne exposures	2,168,125	1,932,336

(in PLN thousand)

The quality analysis of forborne exposures

	31.12.2014	31.12.2013
Exposures with no impairment		
Gross carrying amount	490,667	408,582
IBNR provisions	(40,617)	(30,901)
Net carrying amount	**450,050**	**377,681**
Impaired exposures		
Gross carrying amount, of which:	2,866,373	2,440,750
exposures individually impaired	2,725,502	2,439,955
exposures collectively impaired	140,871	795
Allowances for impairment, of which:	(1,148,298)	(886,095)
exposures individually impaired	(1,066,135)	(885,672)
exposures collectively impaired	(82,163)	(423)
Net carrying amount	**1,718,075**	**1,554,655**
Total net carrying amount	**2,168,125**	**1,932,336**

The Group holds the collaterals for forborne exposures amounting to PLN 1 255 658 thousand as at 31 December 2014 (PLN 987 047 thousand at 31 December 2013).

The quality analysis of forborne exposures broken down by delays in repayment

	31.12.2014	31.12.2013
Gross carrying amount of exposures with no impairment, of which:	**490,667**	**408,582**
– not past due	353,409	288,727
– up to 30 days	98,513	91,646
– between 30 days and 60 days	22,848	17,875
– above 60 days	15,897	10,334
IBNR provisions for exposures with no impairment, of which:	**(40,617)**	**(30,901)**
– not past due	(21,727)	(13,879)
– up to 30 days	(12,099)	(12,024)
– between 30 days and 60 days	(3,793)	(2,952)
– above 60 days	(2,998)	(2,046)
Gross carrying amount of impaired exposures, of which:	**2,866,373**	**2,440,750**
– not past due	614,634	1,101,692
– up to 1 month	47,492	41,995
– between 1 month and 3 months	110,956	209,585
– between 3 months and 1 year	651,006	356,285
– between 1 year and 5 years	1,434,933	729,621
– above 5 years	7,352	1,572
Allowances for impairment, of which:	**(1,148,298)**	**(886,095)**
– not past due	(199,283)	(308,090)
– up to 1 month	(12,309)	(6,121)
– between 1 month and 3 months	(63,454)	(106,455)
– between 3 months and 1 year	(225,414)	(121,250)
– between 1 year and 5 years	(641,220)	(343,031)
– above 5 years	(6,618)	(1,148)
Total net carrying amount	**2,168,125**	**1,932,336**

Notes to the financial statements

(in PLN thousand)

Changes in net carrying amount of forborne exposures

	2014	2013
Net carrying amount at the beginning of period	**1,932,336**	**1,718,376**
Amount of exposures recognized in the period	749,272	672,165
Amount of exposures derecognized in the period	(155,873)	(197,814)
Changes in impairment allowances in the period	(162,465)	(195,484)
Other changes	(195,145)	(64,907)
Net carrying amount at the end of period	**2,168,125**	**1,932,336**
Interest income	198,910	190,916

Forborne exposures by type of forbearance activity

	31.12.2014	31.12.2013
Modification of terms and conditions	3,165,429	2,664,960
Refinancing	191,611	184,372
Total gross carrying amount	**3,357,040**	**2,849,332**
Impairment allowances	(1,188,915)	(916,996)
Total net carrying amount	**2,168,125**	**1,932,336**

Forborne exposures by product type

	31.12.2014	31.12.2013
Mortgage loans	471,910	270,514
Current accounts	332,691	310,180
Operating loans	583,040	738,724
Investment loans	1,467,691	1,387,785
Purchased debt receivables	266,330	1,497
Other loans and advances	235,378	140,632
Total gross carrying amount	**3,357,040**	**2,849,332**
Impairment allowances	(1,188,915)	(916,996)
Total net carrying amount	**2,168,125**	**1,932,336**

Forborne exposures by industrial sectors

	31.12.2014	31.12.2013
Corporations	2,846,155	2,538,263
Manufacturing	670,068	431,703
Construction	654,406	770,692
Real estate activities	493,325	542,885
Professional, scientific and technical activities	475,414	367,642
Accommodation and food service activities	217,619	186,292
Wholesale and retail trade	151,153	120,132
Mining and quarrying	71,658	66,556
Transportation and storage	51,361	45,383
Agriculture, forestry and fishing	45,055	2,196
Other sectors	16,096	4,782
Individuals	510,885	311,069
Total gross carrying amount	**3,357,040**	**2,849,332**
Impairment allowances	(1,188,915)	(916,996)
Total net carrying amount	**2,168,125**	**1,932,336**

(in PLN thousand)

Forborne exposures by geographical structure

	31.12.2014	31.12.2013
Poland	3,091,289	2,849,225
Ukraine	254,098	–
Cyprus	10,880	–
Other countries	773	107
Total gross carrying amount	**3,357,040**	**2,849,332**
Impairment allowances	(1,188,915)	(916,996)
Total net carrying amount	**2,168,125**	**1,932,336**

Credit risk concentration

According to the Banking Act the total exposure of a Group 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 Group's equity. In 2014 the maximum exposure limits set forth in the Banking Act were not exceeded.

a) Breakdown by individual entities:

As at 31.12.2014

EXPOSURE TO 10 LARGEST CLIENTS OF THE GROUP	% SHARE OF PORTFOLIO
Client 1	1.9%
Client 2	1.1%
Client 3	0.9%
Client 4	0.9%
Client 5	0.9%
Client 6	0.8%
Client 7	0.8%
Client 8	0.7%
Client 9	0.7%
Client 10	0.7%
Total	**9.4%**

b) Concentration by capital groups:

As at 31.12.2014

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE GROUP	% SHARE OF PORTFOLIO
Group 1	2.2%
Group 2	2.1%
Group 3	1.9%
Group 4	1.4%
Group 5	1.1%
Total	**8.7%**

(in PLN thousand)

c) Breakdown by industrial sectors:

In order to mitigate credit risk associated with excessive sector concentration the Group 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	31.12.2014	31.12.2013
Wholesale and retail trade; repair of motor vehicles	14.2%	12.9%
Public administration and defence	11.9%	13.0%
Real estate activities	10.4%	12.6%
Financial and insurance activities	9.6%	5.9%
Electricity, gas, steam	9.0%	8.8%
Transportation and storage	6.8%	6.3%
Construction	5.1%	5.8%
Information and communication	5.0%	4.3%
Mining and quarrying	3.9%	3.0%
Manufacture of metals, metal products and machinery	3.8%	3.8%
Manufacture of food products and beverages	3.1%	3.4%
Manufacture of chemicals, pharmaceuticals and refined petroleum products	2.8%	3.8%
Manufacture of rubber, plastic and non-metallic products	1.9%	2.3%
Other manufacturing	4.5%	5.4%
Other sectors	8.0%	8.7%
Total	**100.0%**	**100.0%**

(in PLN thousand)

Credit exposures towards Ukraine

As at 31 December 2014, the Group carried the level of net direct balance sheet exposures towards Ukraine amounting to PLN 962 million (0.6% of total Group exposures).

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

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

The below table presents the Group's exposure towards the Ukrainian entities:

	31.12.2014	31.12.2013
Balance sheet exposure		
Loans and advances to banks	713,178	611,436
Loans and advances to customers	269,487	244,195
Total gross carrying amount	**982,665**	**855,631**
IBNR / Impairment allowances	(20,505)	(15,825)
Total net carrying amount	**962,160**	**839,806**
Off-balance sheet exposure		
Credit lines granted	4,028	3,895
Total gross carrying amount	**4,028**	**3,895**
IBNR	(14)	(11)
Total net carrying amount	**4,014**	**3,884**

6.3 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 the 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 2014 and 2013 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 2014 and 2013:

	31.12.2014	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	44	11	413	2,183
interest rate risk	1,365	936	1,792	3,710
Trading portfolio	1,282	872	1,819	3,772

	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

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. for the end of December 2014 and December 2013, 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) and parallel changes in Central Bank's interest rates. The increase in sensitivity of interest income comes from the reduced level of the lombard rate at the end of 2014 and the potential impact of its further lowering on the interest income of the Bank.

SENSITIVITY IN %	31.12.2014	31.12.2013
NII	(12.17)	(7.41)
EVE	(0.32)	(1.81)

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	31.12.2014	31.12.2013
Currencies TOTAL (*)	490	229

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

(in PLN thousand)

6.4 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 2014 the share of government securities (including NBP securities) in total securities portfolio was 64% and 13% 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 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 presented below include, inter alia, the adjustments concerning the stability of core deposits and their maturities, adjustments of flows due to off-balance sheet commitments for financial liabilities granted and guarantees liabilities granted and assets without contractual repayment schedules. On top of that, included are also 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 additionally financial liabilities arranged according to contractual maturities.

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

Notes to the financial statements

(in PLN thousand)

Adjusted liquidity gap

31.12.2014	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	7,394,324	(3,313,804)	8,223,344	22,264,541	(35,543,283)	(974,878)
Cumulated gap		4,080,520	12,303,864	34,568,405	(974,878)	

31.12.2013	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN1 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)	

Structure of financial liabilities by contractual maturities

31.12.2014	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	2,007,821	233,470	360,834	1,030,528	1,941,187	5,573,840
Amounts due to customers	99,800,692	14,198,585	11,196,512	712,407	50,317	125,958,513
Debt securities issued	79,083	1,211,065	1,453,224	560,727	755,557	4,059,656
Financial liabilities held for trading	–	–	362,582	173,090	55,639	591,311
Total	**101,887,596**	**15,643,120**	**13,373,152**	**2,476,752**	**2,802,700**	**136,183,320**
OFF-BALANCE SHEET COMMITMENTS (**)						
Off – balance sheet commitments Financial liabilities granted	27,376,548	–	–	–	–	27,376,548
Off – balance sheet commitments Guarantees liabilities granted	14,208,684	–	–	–	–	14,208,684
Total	**41,585,232**	**–**	**–**	**–**	**–**	**41,585,232**

(*) 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

31.12.2013	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'.

(in PLN thousand)

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
31.12.2014	109,831	66,827	157,420	2,488,681	1,594,385	**4,417,144**
31.12.2013	37,843	82,418	170,401	1,221,091	505,495	**2,017,248**

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
31.12.2014						
inflows	20,372,845	11,645,192	5,339,427	8,072,682	3,000,995	**48,431,141**
outflows	20,369,706	11,635,627	5,451,489	8,811,935	3,084,889	**49,353,646**
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**

6.5 Operational risk

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 that are consistent with the law requirements, resolutions, recommendations and guidelines of the supervisor, and the standards of UniCredit Group. Operational risk management includes identification, assessment, monitoring, preventing and reporting. Identification and assessment of operational risk is based on an analysis of internal factors and external factors that may have a significant impact on the achievement of the objectives of the Group. The main tools used in identifying and assessing operational risk are: internal operational events, external operational events, key risk indicators, scenario analysis and self-assessment of operational risk. Monitoring activities are conducted on three levels of control: operational control (all employees), risk management control (Financial and Operational Risk Department) and internal audit (Internal Audit Department). Preventing operational risk includes definition of operational risk limits, and the obligation to initiate protective action in the event they are exceeded, the system of internal control, business continuity plans and insurance coverage. Operational risk reporting system enables the assessment of the Group's exposure to operational risk and the effective management of this risk, and also plays a fundamental role in the process of informing the Supervisory Board, the Management Board and executives of the Group's exposure to operational risk. It is based in particular on the quarterly operational risk control reports that include, among others: profile of operational risk, loss limit utilization, analysis of trends in the relevant categories of operational risk, potential losses, information on key indicators of operational risk and operational risk capital requirement.

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 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.

Operational risk management system is subjected to internal validation at least once a year. Validation aims to examine compliance with regulatory requirements and standards of the UniCredit Group.

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 of intended fraud, 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.

(in PLN thousand)

OPERATING EVENTS BY CATEGORIES	2014	2013
Internal frauds	36.32%	20.76%
External frauds	24.51%	18.38%
Clients, products and business practices	14.78%	15.12%
Execution, delivery and process management	10.29%	19.72%
Damages to physical assets	8.88%	14.42%
Employment practices and workplace safety	4.62%	10.20%
Business disruption and system failures	0.60%	1.40%
Total	**100.00%**	**100.00%**

In 2014, operating losses were dominated by internal and external frauds. The largest share was a loss of internal frauds category, which accounted for 36.32% of total losses (20.76% in 2013). The second category of high losses was external frauds, representing 24.51% of the total losses (18.38% in 2013), while the third category – clients, products and business practices accounted for 14.78% of all registered losses (15.12% in 2013).

6.6 Equity management

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

- assurance of safe operating by maintaining the balance between the capacity to undertake risk (limited by own fundd), and the risk levels generated,
- maintenance of capital for covering risk above the minimum stated levels in order to assure further business operations, taking into consideration the possible, future changes in capital requirements and to safeguarding the interests of shareholders,
- maintenance of the optimal 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 has put in place a formalized process of capital management and monitoring, established within the scope of ICAAP procedure. The Finance Division under the Chief Financial Officer is responsible for functioning of the capital management process in the Bank. The ultimate responsibility for capital management is allocated to the Management Board of the Bank, supported by the Assets, Liabilities and Risk Management Committee, which approves the capital management process. The Bank has also implemented the Capital Contingency Policy which establishes rules and obligations in the event of crisis appearance or further development that would significantly reduce capitalization level of the Bank or Group. The policy defines the principles of supervision including split of responsibilities for the purpose of early and consistent management in case of crisis situation development.

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 capital for risk coverage, long-term capital targets, capital limits system, sources of additional capital under contingency situations and the structure of capital management process.

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 ratios 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 activities development are performed assessing the compliance with capital requirements. Forecasting and monitoring of risk weighted assets, own funds and capital ratios 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 are used in the analyses of income generated compared against the risk taken as well as for the optimization of capital usage for different types of operations.

(in PLN thousand)

Regulatory capital requirements

Capital Ratios are the basic measures applied for the measurement of capital adequacy. The minimum Total Capital Ratio required by law cannot be lower than 8% while according to recommendation of European Banking Authority and Polish Financial Supervision Authority total capital ratio must be not lower than 12% and Tier 1 Capital ratio not lower than 9%.

Calculations of the regulatory capital requirements at both report dates were done based on Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

As at 31 December 2014 total capital ratio of the Group amounted at 17.3% (as at 31 December 2013 – 18.3%).

	31.12.2014	31.12.2013
CAPITAL REQUIREMENTS		
Credit and counterparty risk	8,379,811	7,473,852
Market risk	192,563	127,683
Operational risk	705,781	1,054,131
Total capital requirement	**9,278,155**	**8,655,666**
OWN FUNDS		
Common Equity Tier 1 Capital	20,063,716	19,836,692
Own funds for total capital ratio	**20,063,716**	**19,836,692**
OWN FUNDS REQUIREMENTS		
Common Equity Tier 1 Capital ratio (%)	**17.3%**	**18.3%**
Total capital ratio (%)	**17.3%**	**18.3%**

Total Capital Ratio at the end of December 2014 compared with the end of December 2013 decreased by 1 p.p. Total capital requirement increased during this period by 7.2% and own funds increased by 1.1%. Total capital requirement increased as a result of increase of capital requirement for credit risk (due to Bank's credit portfolio increase), counterparty and market risk, with simultaneous decrease of capital requirement related to operational risk due to Advanced Measurement Approach (AMA) model change.

The strengthening of the Group's capital base in 2014 is mainly an effect of Bank Pekao S.A. Annual General Meeting decision on the allocation of the PLN 185.8 million of net profit from 2013 to the Bank's equity and lower unrealised losses from available for sale securities portfolio.

For the purpose of capital requirement calculation the Group uses:
- Standardized Approach for credit risk capital requirement calculation,
- Financial Collateral Comprehensive Method for credit risk mitigation,
- Advanced Measurement Approach for operational risk measurement in case of Bank and Standard Measurement Approach for Bank's subsidiaries,
- Standard approach for foreign-exchange risk capital requirement calculation,
- Simplified approach for commodities risk capital requirement calculation,
- standardized method for own funds requirements for credit risk valuation adjustment risk,
- standard method for specific risk and maturity-based calculation for general risk capital requirement calculation.

(in PLN thousand)

Own funds

The Group defines components of own funds in line with the binding law, particularly with Regulation No 575/2013 and The Banking Act.

Group's own funds consist only of Common Equity Tier 1 Capital. Additional Capital Tier 1 and Tier 2 Capital are not identified in the Group.

	31.12.2014	31.12.2013 (*)
OWN FUNDS		
Capital	**24,045,732**	**23,514,171**
Different scope of consolidation	**14,052**	**–**
Component of the capital not included into own funds, in which:	**(2,714,714)**	**(2,784,779)**
Current year net profit	(2,714,714)	(2,784,779)
Regulatory adjustments, in which:	**(1,281,354)**	**(892,700**
Intangible assets	(560,804)	(559,406)
Capital from revaluation	(112,283)	68,690
Unrealised loss from debt and capital instruments available for sale	3,279	37,513
Unrealised gain from debt and capital instruments available for sale	(525,676)	(306,372)
Deferred tax assets that rely on future profitability	(22,856)	–
Additional value adjustments due to prudent calculation	(34,972)	(38,837)
Minority interests	(28,042)	(94,288)
Common Equity Tier 1 Capital	**20,063,716**	**19,836,692**
Own funds for total capital ratio	**20,063,716**	**19,836,692**

(*) Data calculated according to Regulation No 575/2013.

Components of capital not included into own funds:
- Current year net profit – net profit of current reporting period, verified by statutory auditor responsible for auditing of the Group's accounts reduced by all foreseeable charge and dividend, can be included into Common Equity Tier 1 Capital only with the permission of Polish Financial Supervision Authority. As at 31 of December 2014, current profit of the Group was not included into Common Equity Tier 1 Capital.

Regulatory adjustments:
- Intangible assets (after deduction of deferred tax liabilities) decrease Common Equity Tier 1 Capital, according to Article 36 of Regulation No 575/2013.
- Capital from revaluation reflects fair value of cash flow hedges decrease Common Equity Tier 1 Capital, according to Article 33 of Regulation No 575/2013.
- Unrealised losses from debt and capital instruments classified as available for sale according to Article 467 of Regulation No 575/2013 and KNF decision, decrease Common Equity Tier 1 capital in 80%.
- Unrealised gains from debt and capital instruments classified as available for sale according to Article 468 of Regulation No 575/2013 and KNF decision are removed in 100% from Common Equity Tier 1 Capital.
- Deferred tax assets based on future profitability decrease Common Equity Tier 1 Capital, according to Article 36 of Regulation No 575/2013.
- Additional value adjustments due to prudent valuation are created for every asset measured at fair value, according to Article 34 of Regulation No 575/2013.
- Minority interests are deducted from Group's capital in line with Regulation No 575/2013.

Internal capital adequacy assessment

To assess the internal capital adequacy of the Group, the Bank applies methods designed internally. In internal capital adequacy assessment, the Bank takes the following risk types into consideration:
- credit risk,
- operational risk,
- market risk (banking book and trading book),
- liquidity risk,
- real estate risk,
- macroeconomic risk,
- business risk (including strategic risk),
- compliance risk,

- reputational risk,
- model risk,
- leverage risk,
- bancassurance risk,
- financial investment risk.

For each risk deemed material, the Group develops and applies adequate risk assessment and measurement methods. The 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, reputational and bancassurance risks),
- assessment by estimation of capital buffer, for risks that are not easily quantifiable however some aggregate assessment of their impact is possible (model risk and macroeconomic risk),
- quantitative assessment – applied for risks which can be measured with the use of economic capital (other risk types apart from liquidity risk and leverage risk) or based on other risk-specific measures (liquidity risk and leverage risk).

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, the Group uses modified 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 impact of the economic slowdown scenario on economic capital in the forecast horizon.

Model risk is assessed qualitatively based on the analysis of data, assumptions and methodologies used. An additional element of the model risk assessment are scenario analyses making it possible to evaluate the impact of potential model inconsistencies 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 Group.

6.7 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 a given instrument (mark-to-market).

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

As of 31 December 2014 and on 31 December 2013, the Group classified the financial assets and liabilities measured at fair value into the following three categories based on the valuation method:
- 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, corporate and central bank debt securities, linear and non-linear derivative instruments of interest rate markets (including forward transactions on debt securities), equity instruments, commodities and foreign currency exchange, except for those cases that meet the criteria belonging to Level 3,
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors. This method is applicable to corporate and municipal debt securities and for linear and non-linear derivative instruments of interest rate and foreign currency exchange markets for which unobservable parameters (e.g. credit risk factors) are recognized as significant.

(in PLN thousand)

The measurement at fair value is performed directly by a unit within Risk Management Division, independent from front-office units. The methodology of fair value measurement, including the changes of its parameterization are subject to approval of Assets and Liabilities Committee (ALCO). The 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. The principles of classification are regulated by internal procedures and subject to approval of the Management Board Member, responsible for the Financial Division.

31.12.2014	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	**16,308,012**	**11,803,880**	**366,566**	**28,478,458**
Financial assets held for trading	310,653	38,016	99,784	448,453
Derivative financial instruments, including:	–	4,445,008	2,967	4,447,975
– Banks	–	3,654,969	2,967	3,657,936
– Customers	–	790,039	–	790,039
Hedging instruments, including:	–	470,822	–	470,822
– Banks	–	465,249	–	465,249
– Customers	–	5,573	–	5,573
Securities available for sale	15,997,359	6,850,034	263,815	23,111,208
Liabilities:	**591,311**	**5,902,134**	**–**	**6,493,445**
Financial liabilities held for trading	591,311	–	–	591,311
Derivative financial instruments, including:	–	4,417,706	–	4,417,706
– Banks	–	3,687,513	–	3,687,513
– Customers	–	730,193	–	730,193
Hedging instruments, including:	–	1,484,428	–	1,484,428
– Banks	–	1,484,428	–	1,484,428
– Customers	–	–	–	–

31.12.2013	POZIOM 1	POZIOM 2	POZIOM 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	–	–	–	–

(in PLN thousand)

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

2014	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE	DERIVATIVE FINANCIAL INSTRUMENTS (LIABILITIES)
Opening balance	**–**	**2,625**	**263,668**	**–**
Increases, including:	13,997,309	4,541	9,979	–
Acquisition	13,996,268	–	–	–
Derivatives transactions made in 2014	–	1,488	–	–
Gains on financial instruments	1,041	3,053	9,979	–
recognized in the income statement	1,041	3,053	9,979	–
Decreases, including:	(13,897,525)	(4,199)	(9,832)	–
Reclassification	–	–	–	–
Settlement/redemption	(1,432,830)	(4,199)	(9,832)	–
Sale	(12,464,143)	–	–	–
Loss on financial instruments	(552)	–	–	–
recognized in the income statement	(552)	–	–	–
Closing balance	**99,784**	**2,967**	**263,815**	**–**
Unrealized income from financial instruments held in portfolio until end of period, recognized in:	**(343)**	**1,479**	**470**	**–**
Income statement:	117	1,479	292	–
net interest income	117	–	292	–
result on financial assets and liabilities held for trading	–	1,479	–	–
Other components income	(460)	–	178	–

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

2013	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE	DERIVATIVE FINANCIAL INSTRUMENTS (LIABILITIES)
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	–

(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 Level 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 and at the end of the reporting period.

In the period from 1 January till to 31 December 2014, 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 2014, there was no transfer of instruments measured at fair value between Level 2 and Level 3.

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 2014 and 31 December 2013 is as follows:

FINANCIAL ASSET/ LIABILITY	FAIR VALUE AS AT 31.12.2014	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2014	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Equity derivatives	2,967	Black Scholes Model	Correlation	0-1	263	(581)
Corporate debt securities	348,069	Discounted cash flow	Credit spread	0.53%-0.95%	4,530	(1,264)

FINANCIAL ASSET/ LIABILITY	FAIR VALUE AS AT 31.12.2013	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2013	
					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 the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

As of 31 December 2014 and on 31 December 2013, the Group classified the financial assets and liabilities not measured at fair value in the consolidated statement of financial position into the following three categories based on the valuation level:

- Level 1: mark-to-market. Applies to government securities quoted on the liquid market and cash,
- 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, corporate and central bank debt securities,
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors. This method is applicable to corporate and municipal debt securities and 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 amount to be received with impairment considered, the fair value was assumed to be equal to carrying amount. The above applies in particular to cash and other financial assets and liabilities.

In the case of loans for which no quoted market values are available, the fair values presented are generally estimated using valuation techniques taking into consideration the assumption, that at the moment when the loan 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 at the balance sheet date. The discount rate is defined as the appropriate market risk-free rate plus the credit risk margin and current sales margin (taking commission income into consideration) for the given loan products group. The margin is computed on loans granted during last three months broken down by loan product groups and maturity. For the purpose of the fair value of foreign currency loans estimation, the margin on PLN loans adjusted by the cross-currency basis swap quotes is used. The fair value of impaired loans

Notes to the financial statements

(in PLN thousand)

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), the fair value was assumed as equal to the carrying amount.

For the Group's capital exposure, 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 from financial sector, associated with the use of the financial and banking infrastructure and payment card services and companies taken-over as a result of debt restructuring.

Since no quoted market prices are available for deposits, their fair values have been generally 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 at the relevant balance sheet date. The cash flow discount rate is defined as the relevant market risk-free rate, increased by the sales margin. The margin is computed on deposits acquired during last three months broken down by deposit product groups and maturity. In case of short term deposits (current deposits, overnights, saving accounts), the 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 which prepayment model is used, is calculated based on contractual cash 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.

31.12.2014	CARRYING AMOUNT	FAIR VALUE	OF WHICH: LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	9,226,254	9,226,254	3,399,335	5,826,919	–
Loans and advance to banks	7,169,872	7,197,178	–	5,340,515	1,856,663
Loans and advances to customers (*)	111,872,113	110,749,476	–	7,513,821	103,235,655
Receivables from financial leases	3,112,048	3,165,120	–	–	3,165,120
Debt securities held to maturity	1,601,568	1,616,035	764,589	851,446	–
Total Assets	**132,981,855**	**131,954,063**	**4,163,924**	**19,532,701**	**108,257,438**
Liabilities					
Amounts due to Central Bank	971	997	–	–	997
Amounts due to other banks	5,344,702	5,408,323	–	1,126,766	4,281,557
Amounts due to customers	125,609,000	125,249,984		5,257,218	119,992,766
Debt securities issued	3,857,043	3,921,735	–	3,921,735	–
Total Liabilities	**134,811,716**	**134,581,039**	**–**	**10,305,719**	**124,275,320**

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

(in PLN thousand)

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	2,104,621	2,086,608	–
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**	**3,250,892**	**15,304,838**	**98,316,198**
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.

7. Custody activity

Custody activities are performed by virtue of a permit, issued by the Polish Financial Supervision Authority. The Bank's clients include a number of domestic and foreign financial institutions, banks offering custody and investment services, insurance companies, investment and pension funds, as well as non-financial institutions. The Bank provides custody services, including, inter alia, the settlement of transactions effected on domestic and international markets, custody of clients' assets, running of securities 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 2014, the Bank acquired a number of new clients from the segment of investment funds, insurance companies and foreign banks. Particularly, Bank increased value of the assets under custody thanks to mandate given by one of the leading global custodian banks. The Bank also maintained its leading position in terms of depositary notes, by handling more than 50% of all programmes.

As at 31 December 2014 the Bank maintained 8 812 securities accounts (in comparison to 4 865 securities accounts as at 31 December 2013).

8. 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, Private Banking Offices of Bank Pekao S.A. and through remote service channels of CDM24 (CDMInternet, TeleCDM, CDM Mobile) fully integrated with the Bank's electronic banking platform Pekao24.

(in PLN thousand)

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

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

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

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

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

	31.12.2014		31.12.2013	
	QUANTITY (PCS)	VALUE	QUANTITY (PCS)	VALUE
CLIENTS' FINANCIAL INSTRUMENTS				
Held on securities accounts	3,707,046,151	20,495,143	6,176,866,746	23,970,699
Equity securities and rights to such financial assets	3,699,876,483	18,868,524	6,157,981,756	22,330,882
Debt instruments and rights to such financial assets	7,169,668	1,626,619	18,884,990	1,639,817
Stored in a form of document	1,917,485,196	16,334,391	1,836,411	16,441,579
Equity securities and rights to such financial assets	1,917,485,196	16,334,391	1,836,411	16,441,579

Customers' cash on brokerage accounts

	31.12.2014	31.12.2013
Deposited on cash accounts in brokerage house and paid for securities bought in IPO or on the primary market	857,732	814,281
Other customers' cash	41,558	41,944
Total	**899,290**	**856,225**

Settlements due to unsettled transactions

	31.12.2014	31.12.2013
Receivables from exchange transactions, including:	28	2,747
Liabilities from exchange transactions, including:	2,519	1,159

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

	31.12.2014	31.12.2013
Receivables from clearing fund	1,826	2,304
Receivables from margin deposits	21,518	20,069
Other receivables	161	184
Total receivables	**23,505**	**22,557**
Amounts due to clearing fund	–	4
Amounts due to clearing fund	–	–
Other liabilities	315	506
Total liabilities	**315**	**510**

(in PLN thousand)

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

	31.12.2014	31.12.2013
Receivables from compensation fund	9,286	8,578
Prepaid expenses – system maintenance fees	1,192	951
Deferred income – benefits from system	(10,478)	(9,529)
Total net balance sheet items concerning participation in the compensation fund	**–**	**–**

Settlement with entities running regulated securities markets and commodity exchanges

	31.12.2014	31.12.2013
Amounts due to Warsaw Stock Exchange	187	620
Total liabilities	**187**	**620**

9. 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 is focused all the components of income statement up to the gross profit level. Therefore, the income from the segment's 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 arm's 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 and maturity, including liquidity margins.

Operating segments

The operating segments of the Group are as follows:

- Retail banking – all banking activites related to retail customers (excluding private banking customers), small and micro companies with annual turnover not exceeding PLN 20 million, as well as results of the subsidiaries, and shares in net profit of associates accounted for using the equity method, that are assigned to the retail banking activity,
- Private banking – all banking activites related to the most affluent individual customers,
- Corporate and Investment banking – all banking activites related to the medium and large companies, interbank market, debt securities and other instruments, and results of the of the subsidiaries that are assigned to the Corporate and Investment banking activity,
- Assets and Liabilities Management and other – supervision and monitoring of fund transfers, other activities centrally managded as well as the results of subsidiaries and share in net profit of associated accounted for using equity method that are not assigned to other reported segments.

Notes to the financial statements

(in PLN thousand)

Operating segments reporting for the period from 1 January to 31 December 2014

	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	**2,581,237**	**39,084**	**1,487,563**	**–**	**424,918**	**4,532,802**
Net non-interest income	**1,642,311**	**29,712**	**1,062,910**	**–**	**77,995**	**2,812,928**
Operating income	**4,223,548**	**68,796**	**2,550,473**	**–**	**502,913**	**7,345,730**
Personnel expenses	(1,148,820)	(23,158)	(257,301)	–	(475,791)	(1,905,070)
Other administrative expenses	(1,371,724)	(26,687)	(414,797)	–	619,396	(1,193,812)
Depreciation and amortization	(161,164)	(1,139)	(20,602)	–	(143,774)	(326,679)
Operating costs	**(2,681,708)**	**(50,984)**	**(692,700)**	**–**	**(169)**	**(3,425,561)**
Operating profit	**1,541,840**	**17,812**	**1,857,773**	**–**	**502,744**	**3,920,169**
Net result on other provisions	62	329	(2,457)	–	(636)	(2,702)
Net impairment losses on financial assets and off-balance sheet commitments	(221,502)	515	(339,198)	–	610	(559,575)
Net result on investment activities	59	–	248	–	1,490	1,797
Profit before income tax	**1,320,459**	**18,656**	**1,516,366**	**–**	**504,208**	**3,359,689**
Income tax expense (continued operations)						(634,573)
Income tax expense (discontinued operations)				–		–
Net profit for the period (continued operations)						**2,725,116**
Net profit for the period (discontinued operations)				**–**		**–**
Attributable to equity holders of the Bank						**2,714,714**
Attributable to non-controlling interest						10,402
Allocated assets	54,171,667	246,530	97,717,747	–	1,517,301	153,653,245
Unallocated assets						13,971,783
Total assets						**167,625,028**
Allocated liabilities	63,726,590	6,760,983	69,271,939	–	(3,856,684)	135,902,828
Unallocated liabilities						31,722,200
Total liabilities						**167,625,028**

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

(in PLN thousand)

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

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING		ASSETS AND LIABILITIES MANAGEMENT AND OTHER (*)	TOTAL
			CONTINUED OPERATIONS	DISCONTINUED OPERATIONS		
Net interest income	**2,515,129**	**35,081**	**1,542,768**	**61,674**	**417,091**	**4,571,743**
Net non-interest income	**1,779,541**	**35,800**	**1,104,477**	**10,032**	**63,748**	**2,993,598**
Operating income	**4,294,670**	**70,881**	**2,647,245**	**71,706**	**480,839**	**7,565,341**
Personnel expenses	(1,103,907)	(17,565)	(270,525)	(21,145)	(468,033)	(1,881,175)
Other administrative expenses	(1,431,952)	(26,240)	(400,175)	(21,314)	623,816	(1,255,865)
Depreciation and amortization	(159,695)	(1,188)	(23,450)	(2,696)	(159,329)	(346,358)
Operating costs	**(2,695,554)**	**(44,993)**	**(694,150)**	**(45,155)**	**(3,546)**	**(3,483,398)**
Operating profit	**1,599,116**	**25,888**	**1,953,095**	**26,551**	**477,293**	**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	(233,601)	1,971	(401,261)	(5,215)	(25,544)	(663,650)
Net result on investment activities	2,116	–	(452)	–	20,612	22,276
Profit before income tax	**1,367,131**	**26,251**	**1,565,968**	**21,336**	**473,544**	**3,454,230**
Income tax expense (continued operations)						(655,386)
Income tax expense (discontinued operations)				(3,854)		(3,854)
Net profit for the period (continued 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	49,255,118	355,978	101,926,774	–	(2,359,809)	149,178,061
Unallocated assets						9,343,651
Total assets						**158,521,712**
Allocated liabilities	58,275,387	6,758,459	69,903,254	–	(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.

Reconciliation of operating income for reportable segments

	2014	2013
Total operating income for reportable segments	**7,345,730**	**7,565,341**
Share in gains (losses) from associates	(63,210)	(59,425)
Net other operating income and expenses	(74,336)	(103,422)
Refunding of administrative expenses	3,252	5,441
Operating income	**7,211,436**	**7,407,935**

(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.

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

	POLAND	UKRAINE (DISCONTINUED OPERATIONS)	TOTAL
2014			
Net profit for the period attributable to equity holders of the Bank	2,714,714	–	2,714,714
Segment assets	167,625,028	–	167,625,028
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

10. Interest income and expense

Interest income

	2014	2013
Loans and other receivables from customers	4,997,044	5,287,947
Interbank placements	144,405	185,116
Reverse repo transactions	97,559	93,832
Investment securities	838,554	1,038,306
Hedging derivatives	137,056	157,139
Financial assets held for trading	10,672	11,950
Total	**6,225,290**	**6,774,290**

Interest income for 2014 includes income from impaired financial assets in the amount of PLN 322 458 thousand (in 2013 PLN 351 885 thousand).

Total amount of interest income for 2014 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 4 096 079 thousand (in 2013 PLN 4 161 426 thousand).

Interest expense

	2014	2013
Deposits from customers	(1,516,221)	(1,917,343)
Interbank deposits	(24,730)	(42,284)
Repo transactions	(80,005)	(102,411)
Loans and advance received	(48,899)	(56,756)
Debt securities issued	(94,141)	(149,934)
Total	**(1,763,996)**	**(2,268,728)**

Total amount of interest expenses for 2014, 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 1 479 896 thousand (in 2013 PLN 1 939 446 thousand).

(in PLN thousand)

11. Fee and commission income and expense

Fee and commission income

	2014	2013
Accounts maintenance, payment orders and cash transactions	677,182	711,471
Payment cards	827,438	895,197
Loans and advances	394,338	377,706
Investment products sales intermediation	281,267	296,950
Securities operations	114,885	115,666
Custody activity	63,867	55,913
Pension and investment funds service fees	53,025	65,508
Guarantees, letters of credit and similar transactions	49,940	51,926
Other	74,339	84,725
Total	**2,536,281**	**2,655,062**

Fee and commission expense

	2014	2013
Payment cards	(423,821)	(441,720)
Money orders and transfers	(20,798)	(21,064)
Securities operations and derivatives	(17,356)	(17,843)
Accounts maintenance	(3,346)	(4,838)
Custody activity	(10,710)	(8,790)
Pension funds management charges	(1,876)	(2,149)
Acquisition services	(2,833)	(2,117)
Other	(11,806)	(13,697)
Total	**(492,546)**	**(512,218)**

12. Dividend income

	2014	2013
From issuers of securities available for sale	8,298	6,756
Total	**8,298**	**6,756**

13. Result on financial assets and liabilities held for trading

	2014	2013
Foreign currency exchange result	363,435	402,864
Gains (losses) on derivatives	72,376	50,488
Gains (losses) on securities	7,490	11,705
Total	**443,301**	**465,057**

In 2014, 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 76 199 thousand (in 2013 PLN 58 113 thousand).

(in PLN thousand)

14. Gains (losses) on disposal

Realized gains

	2014	2013
Loans and other financial receivables	18,579	63
Available for sale financial assets – debt instruments	244,478	308,019
Available for sale financial assets – equity instruments	9,100	–
Investments held to maturity	–	899
Debt securities issued	6	444
Total	**272,163**	**309,425**

Realized losses

	2014	2013
Loans and other financial receivables	–	(130)
Available for sale financial assets – debt instruments	(78)	(563)
Debt securities issued	(30)	(3,593)
Total	**(108)**	**(4,286)**

Net realized profit	**272,055**	**305,139**

The change in fair value of financial assets available for sale transferred in 2014 directly to equity amounted to PLN 726 466 thousand (increase), in 2013 PLN 251 166 thousand (decrease).

The change in fair value of financial assets, transferred in 2014 from equity to financial income amounted to PLN 244 400 thousand (profit), in 2013 PLN 307 456 thousand (profit).

15. Administrative expenses

Personnel expenses

	2014	2013
Wages and salaries	(1 603 460)	(1 582 356)
Insurance and other charges related to employees	(288 542)	(293 502)
Share-based payments expenses	(13 068)	(5 317)
Total	**(1 905 070)**	**(1 881 175)**

Other administrative expenses

	2014	2013
General expenses	(998,148)	(1,098,678)
Taxes and charges	(44,854)	(40,060)
Bank Guarantee Fund fee	(137,742)	(106,962)
Financial supervision authority fee (KNF)	(16,320)	(15,606)
Total	**(1,197,064)**	**(1,261,306)**

Total administrative expenses	**(3,102,134)**	**(3,142,481)**

(in PLN thousand)

16. Depreciation and amortization

	2014	2013
Property, plant and equipment	(194,011)	(200,241)
Investment property	(2,940)	(2,141)
Intangible assets	(129,728)	(143,976)
Total	**(326,679)**	**(346,358)**

17. Net other operating income and expenses

Other operating income

	2014	2013
Rental income	23,727	26,683
Miscellaneous income	18,537	34,774
Credit insurance charges	21,643	29,715
Recovery of debt collection costs	17,533	25,222
Excess payments, repayments	23,617	16,927
Compensation, penalty fees and fines received (including received compensations from damages in relation to fixed assets)	40,140	13,464
Revenues from sale of products, goods and services	7,277	11,638
Revenues from leasing activity	1,285	4,916
Refunding of administrative expenses	3,252	5,441
Income from written off liabilities	690	3,099
Releases of impairment allowances for litigation and other assets	1,042	1,093
Gains on sale of leasing assets for third person and other assets	630	222
Other	7,027	9,433
Total	**166,400**	**182,627**

Other operating expenses

	2014	2013
Costs related to leasing activity	(9,833)	(5,728)
Credit insurance expenses	(26,138)	(27,817)
Reimbursement and deficiencies	(5,527)	(10,052)
Sundry expenses	(17,617)	(9,920)
Cost from sale of products, goods and services	(2,822)	(4,271)
Customers complaints expense	(2,594)	(3,016)
Impairment allowance for litigations and other assets	(12,030)	(3,096)
Costs of litigation and claims	(1,898)	(2,994)
Compensation, penalty fees and fines paid	(415)	(1,601)
Losses on disposal of leasing assets for third person and other assets	–	(83)
Other	(13,190)	(10,627)
Total	**(92,064)**	**(79,205)**

Net other operating income and expenses	**74,336**	**103,422**

Notes to financial statements

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

(in PLN thousand)

2014	OPENING BALANCE	INCREASES: BUSINESS COMBINATIONS	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	25,721	–	610	1,176	–	(7,937)	(210)	19,360	7,327
Loans and advances to customers valued at amortized cost	5,028,177	229,996	1,159,782	41,212	(207,144)	(586,612)	(82,933)	5,582,478	(573,170)
Receivables from financial leases	175,111	–	30,304	50	(4)	(17,560)	–	187,901	(12,744)
Financial assets available for sale	123	–	–	–	–	–	(1)	122	–
Off-balance sheet commitments	113,932	–	67,469	709	–	(79,724)	–	102,386	12,255
Total financial assets and off-balance sheet commitments	**5,343,064**	**229,996**	**1,258,165**	**43,147**	**(207,148)**	**(691,833)**	**(83,144)**	**5,892,247**	**(566,332)**
Impairment of other assets									
Investments in associates	60	–	–	–	–	–	–	60	–
Intangible assets	10,961	–	–	–	–	–	–	10,961	–
Property, plant and equipment	6,830	–	–	–	(163)	–	–	6,667	–
Investment properties	3,080	–	–	6,152	–	–	(550)	8,682	–
Other	65,544	–	12,030	–	–	(1,042)	–	76,532	(10,988)
Total impairment of other assets	**86,475**	**–**	**12,030**	**6,152**	**(163)**	**(1,042)**	**(550)**	**102,902**	**(10,988)**
Total	**5,429,539**	**229,996**	**1,270,195**	**49,299**	**(207,311)**	**(692,875)**	**(83,694)**	**5,995,149**	**(577,320)**

(*) 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 566 332 thousand and proceeds from recovered bad debt in the amount of PLN 6 757 thousand, the total is PLN minus 559 575 thousand.

(in PLN thousand)

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

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

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

(in PLN thousand)

19. Gains (losses) on subsidiaries and associates

Share of profit (losses) from associates

ENTITY	2014	2013
Share in gains (losses) from associates		
Dom Inwestycyjny Xelion Sp. z.o.o.	1,452	1,069
Pioneer Pekao Investment Management S.A.	51,795	48,324
Krajowa Izba Rozliczeniowa S.A.	9,963	10,032
Total share in gains (losses) from associates	**63,210**	**59,425**
Gains (losses) on disposal of subsidiaries and associates	**–**	**–**
Total gains (losses) from subsidiaries and associates	**63,210**	**59,425**

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

	2014	2013
Gains (losses) on disposal of property, plant and equipment classified as assets held for sale	561	22,895
Gains (losses) on de-recognition of property, plant and equipment and intangible assets other than classified as assets held for sale	1,236	(619)
Total gains (losses) on disposal of property plant and equipment and intangible assets	**1,797**	**22,276**

21. Income tax

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.

	2014	2013
Profit before income tax	**3,359,689**	**3,454,230**
Tax charge according to applicable tax rate	**638,341**	**656,304**
Permanent differences:	**(3,768)**	**2,936**
Non taxable income	(30,829)	(20,230)
Non tax deductible costs	29,400	19,309
Impact of other tax rates applied under a different tax jurisdiction	–	1,412
Impact of utilized tax losses	–	–
Tax relieves not included in the income statement	111	293
Other	(2,450)	2,152
Effective income tax charge on gross profit	**634,573**	**659,240**

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

(in PLN thousand)

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

	2014	2013
INCOME STATEMENT		
Current tax	**(735,376)**	**(625,386)**
Current tax charge in the income statement	(739,302)	(621,209)
Adjustments related to the current tax from previous years	7,433	899
Other taxes (e.g. withholding tax, income tax relating to foreign branches)	(3,507)	(5,076)
Deferred tax	**100,803**	**(33,854)**
Occurrence and reversal of temporary differences	100,803	(33,854)
Tax charge in the consolidated income statement	**(634,573)**	**(659,240)**
EQUITY		
Deferred tax	**(115,110)**	**102,524**
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments, cash flows hedges	(31,941)	(6,618)
revaluation of available for sale financial assets – debt securities	(92,952)	106,183
revaluation of available for sale financial assets – equity securities	1,359	(45)
Foreign currency translation differences	–	(4,886)
Tax on items that are or may be reclassified subsequently to profit or loss	**(123,534)**	**94,634**
Tax charge on items that will never be reclassified to profit or loss	**8,424**	**7,890**
revaluation of the defined benefit liabilities	8,424	7,890
Total charge	**(749,683)**	**(556,716)**

Notes to financial statements

(in PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2014									
	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	79,723	79,723	–	24,279	–	483	–	104,485	104,485	–
Change in revaluation of financial assets	70,017	47,751	22,266	65,258	123,534	66	–	258,875	113,075	145,800
Accelerated depreciation	129,630	129,630	–	(4,458)	–	319	–	125,491	125,491	–
Investment relief	6,867	6,867	–	(408)	–	–	–	6,459	6,459	–
Other	72,837	72,837	–	10,368	–	7,146	–	90,351	90,351	–
Gross deferred tax liability	**359,074**	**336,808**	**22,266**	**95,039**	**123,534**	**8,014**	**–**	**585,661**	**439,861**	**145,800**
DEFFERED TAX ASSET										
Accrued expenses – securities	21,676	21,676	–	76,024	–	–	–	97,700	97,700	–
Accrued expenses – loans and deposits	40,449	40,449	–	(720)	–	753	–	40,482	40,482	–
Downward revaluation of financial assets	195,156	195,156	–	103,198	–	–	–	298,354	298,354	–
Income received to be amortized over time from loans and current accounts	129,979	129,979	–	23,227	–	3,433	–	156,639	156,639	–
Loan provision expenses	533,732	533,732	–	(8,796)	–	–	–	524,936	524,936	–
Personnel related provisions	92,651	82,141	10,510	3,650	8,424	414	–	105,139	86,205	18,934
Accruals	18,045	18,045	–	7,231	–	55	–	25,331	25,331	–
Previous year loss	–	–	–	–	–	–	–	–	–	–
Other	219,443	219,443	–	(7,972)	–	935	–	212,406	212,406	–
Gross deferred tax asset	**1,251,079**	**1,240,621**	**10,510**	**195,842**	**8,424**	**5,590**	**–**	**1,460,987**	**1,442,053**	**18,934**
Deferred tax expenses	**X**	**X**	**X**	**100,803**	**(115,110)**	**(2,424)**	**X**	**X**	**X**	**X**
Net deferred tax assets	**895,320**	**907,076**	**(11,756)**	**X**	**X**	**X**	**X**	**877,419**	**1,004,285**	**(126,866)**
Net deferred tax provision	**3,263**	**3,263**	**X**	**X**	**X**	**X**	**X**	**2,093**	**2,093**	**X**

(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**	**X**

(in PLN thousand)

In the opinion of the Group the deferred tax asset in the amount of PLN 877 419 thousand reported as at 31 December 2014 is sustainable in total amount. The analysis was performed based on the past results of the Group's companies and assumed results in the future periods. The analysis assumed the five years' time horizon.

As at 31 December 2014 and 31 December 2013, 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 2014, 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 29 085 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 31.12.2014	AMOUNT OF DIFFERENCES AS AT 31.12.2013
2014	–	26
2015	602	–
2016	–	–
2017	49	49
2018	1,959	–
2019	–	–
No time limits	26,448	33,111
Total	**29,058**	**33,186**

22. 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

	2014	2013
Net profit	2,714,714	2,784,779
Weighted average number of ordinary shares in the period	262,470,034	262,470,034
Earnings per share (in PLN per share)	10.34	10.61

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 2014 there no diluting instruments in the form of convertible bonds in the Group.

	2014	2013
Net profit	2,714,714	2,784,779
Weighted average number of ordinary shares in the period	262,470,034	262,470,034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262,470,034	262,470,034
Diluted earnings per share (in PLN per share)	10.34	10.61

(in PLN thousand)

23. Dividend proposal

The Management Board of the Bank has decided to propose to the Ordinary General Meeting of Shareholders a dividend payment for 2014 in the amount of PLN 10.00 per share. Total dividend proposed to be paid amounts to PLN 2 624 700 thousand. The dividend has not been recognized as liabilities and there are no tax consequences for the Bank.

The final decision on the distribution of net profit and its allocating to dividend will be made by the General Meeting of Shareholders.

24. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	31.12.2014	31.12.2013
Cash	3,399,335	2,104,608
Current account at Central Bank	5,826,907	2,086,608
Other	12	13
Total	**9,226,254**	**4,191,229**

AMOUNTS DUE TO CENTRAL BANK	31.12.2014	31.12.2013
Term deposits	971	985
Total	**971**	**985**

Cash and balances with Central Bank by currencies

31.12.2014	ASSETS	LIABILITIES
PLN	7,719,529	971
EUR	834,006	–
USD	246,688	–
CHF	72,104	–
Other currencies	353,927	–
Total	**9,226,254**	**971**

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**

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.

As at 31 December 2014 the interest rate of funds held on the mandatory reserve account is at 1.8% (0.9 of NBP reference rate). As at 31 December 2013 the interest rate was at 2.475% (0.9 of rediscount rate for bills of exchange).

(in PLN thousand)

25. Loans and advances to banks

Loans and advances to banks by product type

	31.12.2014	31.12.2013
Current accounts and overnight placements	2,361,001	1,566,990
Interbank placements	1,024,821	1,356,616
Loans and advances	156,224	122,357
Cash collateral	1,675,036	1,094,355
Reverse repo transactions	1,930,808	3,119,010
Cash in transit	41,342	314,178
Total gross amount	**7,189,232**	**7,573,506**
Impairment allowances	(19,360)	(25,721)
Total net amount	**7,169,872**	**7,547,785**

Loans and advances to banks by quality

	31.12.2014	31.12.2013
Loans and advances to banks, including:		
non impaired (gross)	7,170,272	7,539,755
impaired (gross)	18,960	33,751
individual impairment allowances	(9,160)	(9,788)
collective impairment allowances (*)	(10,200)	(15,933)
Total	**7,169,872**	**7,547,785**

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

Loans and advances to banks by contractual maturities

	31.12.2014	31.12.2013
Loans and advances to banks, including:		
up to 1 month	6,185,886	6,554,525
between 1 and 3 months	194,601	185,922
between 3 months and 1 year	408,533	392,700
between 1 and 5 years	367,091	352,332
over 5 years	–	54,105
past due	33,121	33,922
Total gross amount	**7,189,232**	**7,573,506**
Impairment allowances	(19,360)	(25,721)
Total net amount	**7,169,872**	**7,547,785**

Loans and advances to banks by currencies

	31.12.2014	31.12.2013
PLN	2,709,014	3,884,267
CHF	3,457	23,506
EUR	2,739,042	2,254,636
USD	1,553,787	1,199,699
Other currencies	164,572	185,677
Total	**7,169,872**	**7,547,785**

Changes in the level of impairment allowances in 2014 and 2013 are presented in the Note 18.

(in PLN thousand)

26. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product structure

31.12.2014	ASSETS	LIABILITIES
Securities issued by State Treasury	310,653	591,311
T- bills	–	–
T- bonds	310,653	591,311
Securities issued by banks	54,688	–
Securities issued by business entities	83,112	–
Total	**448,453**	**591,311**

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**

Financial assets and liabilities held for trading by maturities

31.12.2014	ASSETS	LIABILITIES
Debt securities, including:		
up to 1 month	26,201	–
between 1 and 3 months	13,214	–
between 3 months and 1 year	65,729	362,582
between 1 and 5 years	163,072	173,090
over 5 years	180,237	55,639
Total	**448,453**	**591,311**

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**

(in PLN thousand)

Financial assets and liabilities held for trading by currencies

31.12.2014	ASSETS	LIABILITIES
PLN	403,194	591,311
EUR	41,876	–
USD	3,383	–
Total	**448,453**	**591,311**

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

27. 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

31.12.2014	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	3,772,307	3,768,010
Forward Rate Agreements (FRA)	4,558	6,956
Options	13,263	13,076
Other	110	84
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	37,844	70,612
Currency Forward Agreements	149,724	82,594
Currency Swaps (FX–swap)	143,469	146,153
Options for currency and for gold	46,657	52,016
Transactions based on commodities and equity securities		
Options	5,428	5,431
Swaps	274,615	272,774
Total	**4,447,975**	**4,417,706**

(in PLN thousand)

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**

Nominal value of trading derivatives

	CONTRACTUAL MATURITY					
31.12.2014	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)	1,147,611	6,245,573	13,828,726	73,737,584	22,134,988	117,094,482
Forward Rate Agreements (FRA)	1,000,000	3,250,000	14,850,000	–	–	19,100,000
Options	–	–	60,849	3,831,712	175,094	4,067,655
Other	280,688	–	–	–	–	280,688
Foreign currency and gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) – currency bought	–	–	–	1,147,838	663,859	1,811,697
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	–	–	–	1,166,047	663,859	1,829,906
Currency Forward Agreements – currency bought	4,813,416	4,020,619	2,985,569	1,027,281	–	12,846,885
Currency Forward Agreements – currency sold	4,811,056	3,966,133	2,986,073	1,046,140	–	12,809,402
Currency Swaps (FX swap) – currency bought	12,471,749	5,122,372	881,967	–	–	18,476,088
Currency Swaps (FX swap) – currency sold	12,456,157	5,131,739	877,453	–	–	18,465,349
Options bought	279,014	329,465	248,512	1,848,245	–	2,705,236
Options sold	273,929	332,571	248,814	1,848,245	–	2,703,559
Transactions based on commodities and equity securities						
Options	–	–	200,058	180,496	–	380,554
Swaps	435,895	–	–	869,387	–	1,305,282
Total	**37,969,515**	**28,398,472**	**37,168,021**	**86,702,975**	**23,637,800**	**213,876,783**

(in PLN thousand)

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**

28. Loans and advances to customers

Loans and advances to customers by product type

	31.12.2014	31.12.2013
Mortgage loans	40,799,856	37,094,691
Current accounts	10,892,636	10,868,100
Operating loans	15,253,042	13,364,851
Investment loans	20,177,440	19,233,353
Payment cards receivables	805,590	778,736
Purchased debt receivables	3,135,495	2,892,760
Other loans and advances	10,101,570	9,682,090
Debt securities	10,442,561	9,473,835
Reverse repo transactions	5,789,064	2,581,676
Cash in transit	57,172	70,600
Total gross amount	**117,454,426**	**106,040,692**
Impairment allowances	(5,582,478)	(5,028,177)
Total net amount	**111,871,948**	**101,012,515**

(in PLN thousand)

Loans and advances to customers by customer type

	31.12.2014	31.12.2013
Corporate	56,324,459	49,865,877
Individuals	49,309,571	44,592,881
Budget entities	11,820,396	11,581,934
Total gross amount	**117,454,426**	**106,040,692**
Impairment allowances	(5,582,478)	(5,028,177)
Total net amount	**111,871,948**	**101,012,515**

Loans and advances to customers by quality

	31.12.2014	31.12.2013
Loans and advances to customers, including:		
non impaired (gross)	109,456,509	98,334,335
impaired (gross)	7,997,917	7,706,357
individual impairment allowances	(2,965,669)	(2,677,820)
collective impairment allowances (*)	(2,616,809)	(2,350,357)
Total	**111,871,948**	**101,012,515**

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

Loans and advances to customers by contractual maturities

	31.12.2014	31.12.2013
Loans and advances to customers, including:		
up to 1 month	18,925,405	14,620,744
between 1 and 3 months	3,199,478	2,902,893
between 3 months and 1 year	10,576,253	10,315,304
between 1 and 5 years	36,359,689	33,406,176
over 5 years	42,303,745	39,629,626
past due	6,089,856	5,165,949
Total gross amount	**117,454,426**	**106,040,692**
Impairment allowances	(5,582,478)	(5,028,177)
Total net amount	**111,871,948**	**101,012,515**

Loans and advances to customers by currencies

	31.12.2014	31.12.2013
PLN	92,504,616	82,906,418
CHF	4,934,512	5,208,473
EUR	11,122,123	10,861,533
USD	3,187,087	1,986,642
Other currencies	123,610	49,449
Total	**111,871,948**	**101,012,515**

Changes in impairment allowances in 2014 and 2013 are presented in the Note 18.

(in PLN thousand)

29. 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:

31.12.2014	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASING PAYMENTS
Up to 1 year	1,400,757	1,270,838
Between 1 and 5 years	1,938,819	1,789,065
Over 5 years	276,817	240,046
Total	**3,616,393**	**3,299,949**
Unrealized financial income	(316,444)	
Net leasing investment	**3,299,949**	
Unguaranteed residual values accruing to the benefit of the lessor	–	
Present value of minimum lease payments	3,299,949	
Impairment allowances	(187,901)	
Balance sheet value	**3,112,048**	

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**	

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

	31.12.2014	31.12.2013
Receivables from financial leases from banks, including:		
non impaired (gross)	6,062	6,770
impaired (gross)	–	–
individual impairment allowances	(41)	(28)
collective impairment allowances (*)	(1)	(1)
Total	**6,020**	**6,741**

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

(in PLN thousand)

Lease financing receivables from customers by quality

	31.12.2014	31.12.2013
Receivables from financial leases from customers, including:		
non impaired (gross)	3,054,742	2,859,194
impaired (gross)	239,145	240,395
individual impairment allowances	(40,506)	(40,991)
collective impairment allowances (*)	(147,353)	(134,091)
Total	**3,106,028**	**2,924,507**

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

Receivables from finance leases by currencies

	31.12.2014	31.12.2013
PLN	2,007,147	1,995,032
CHF	3,483	5,752
EUR	1,096,026	922,159
USD	5,392	8,305
Total	**3,112,048**	**2,931,248**

Changes in impairment allowances in 2014 and 2013 are presented in the Note 18.

30. Hedge accounting

As at 31 December 2014 the Group applies fair value hedge accounting and cash flow hedge accounting.

In the period from 1 January to 31 December 2014 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 swaps (IRS) – described in 30.1,
- cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions – described in 30.2,
- cash flow hedge accounting for floating-rate financial assets hedged with interest rate swap (IRS) transactions – described in 30.3,
- cash flow hedge accounting for portfolio of variable rate loans in EUR and USD hedged with fx-swap instruments – described in 30.4.

In the period from 1 January till to 31 December of 2014 the Group:
- designated highly probable cash flow denominated in EUR (short position in EUR for the Group) hedged with foreign exchange forward transactions as a cash flow hedging relationship – described in 30.5 – and terminated the relationship. Termination of the relationship resulted from settlement of transactions included in the hedging relationship. Last cash flows from hedged items occurred on 31 December 2014,
- discontinued cash flow hedge accounting for floating rate EUR deposits portfolio hedged with interest rate swap (IRS) transactions – described in 30.6. Termination resulted from maturity of transactions included in the hedging relationship. The hedging instruments expired on 5 December 2014.
- terminated fair value hedge accounting for the portfolio of deposits in EUR hedged against interest rate risk with cross-currency interest rate swap (CIRS) transactions – described in 30.7. The hedging relationship was terminated due to expiration of the hedging instruments.

(in PLN thousand)

The table below presents the fair values of hedging derivatives

31.12.2014	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	–	298,881
Cross-currency interest rate swaps (CIRS)	–	–
Cash flow hedge accounting		
Interest rate swaps (IRS)	425,946	–
Cross-currency interest rate swaps (CIRS)	29,120	1,097,779
FX-swaps	15,756	87,768
Total	**470,822**	**1,484,428**

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**

The table below presents nominal values of hedging derivatives

	CONTRACTS ACCORDING TO MATURITIES					
31.12.2014	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)	–	–	–	1,027,033	1,214,295	2,241,328
Cross-currency interest rate swaps (CIRS)	–	–	–	–	–	–
Cash flow hedge accounting						
Interest rate swaps (IRS)	50,000	80,000	100,000	1,990,000	2,000,000	4,220,000
Cross-currency interest rate swaps (CIRS)	–	–	1,441,928	12,497,315	4,758,167	18,697,410
Fx-swaps	5,909,479	5,039,957	1,617,926	–	–	12,567,362
Total	**5,959,479**	**5,119,957**	**3,159,854**	**15,514,348**	**7,972,462**	**37,726,100**

	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**

(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

	2014	2013
Revaluation reserves (deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge – gross value)	138,622	(29,487)
Net interest income on hedging derivatives	179,276	207,273
Ineffective portion in changes in fair value of hedging transactions recognized in income statement	527	673

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

	2014	2013
Opening balance	**(29,487)**	**(64,318)**
Deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge	168,057	34,779
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	**138,622**	**(29,487)**

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

TYPE OF GAINS/LOSSES	2014	2013
Gains/losses from revaluation of hedging instruments to fair value	(146,149)	45,259
Gains/losses from revaluation of hedged item associated with hedged risk to fair value	128,902	(62,682)
Result on fair value hedge accounting	**(17,247)**	**(17,423)**
Net interest income of hedging derivatives	(42,220)	(50,134)

30.1 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 items

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 in the result on fair value hedge accounting. Interest accrued on the hedging derivatives under the fair value hedge accounting is presented in the net interest income.

(in PLN thousand)

30.2 Cash flow hedge of floating-rate loans and floating-rate 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 15 May 2029.

30.3 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 29 April 2020.

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

Description of hedging relationship
The 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 7 May 2015.

30.5 Cash flow hedge of expected future outflow in foreign currency – relationship completed

Description of hedging relationship
The Group hedged the volatility of cash flows denominated in EUR constituting the projected costs from expected purchase with the designated fx-forward transactions. The currency risk was being hedged. Discontinuation of the hedge accounting resulted from settlement of transactions included in the hedging relationship.

Hedged items
Projected purchase costs dependent on EUR and Polish zloty exchange rates were the hedged item.

Hedging derivatives
The hedging derivatives consisted of a portfolio of fx-forward transactions (fx-spot and series of fx-swap), in which the Group buys EUR currency in exchange for PLN currency on 31 December 2014 at an agreed exchange rate.

Financial Statements presentation
The amount of the settlement of hedging transactions adjusted the settlement of the hedged item.

30.6 Cash flow hedge of floating-rate deposits – relationship completed

Description of hedging relationship
The Group hedged a portion of the interest rate risk related to the volatility of cash flows on floating-rate deposits with the designated IRS transactions. Discontinuation of the hedge accounting resulted from maturity of transactions included in the hedging relationship.

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

Hedging derivatives
The hedging derivatives consisted of portfolio of IRS transactions (short position in fix-rate – the Group received floating-rate payments and paid fixed-rate).

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

(in PLN thousand)

30.7 Fair value hedge of interest rate risk for deposit portfolio – relationship completed

Description of hedging relationship

The Group hedged 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. Discontinuation of the hedge accounting resulted from maturity of transactions included in the hedging relationship.

Hedged items

The hedged item was a portfolio of deposits denominated in EUR and insensitive to interest rate changes.

Hedging derivatives

The hedging items consisted of CIRS transactions in which the Group received fixed-rate payments in EUR and paid 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 was presented in the income statement in the result on fair value hedge accounting. The remaining portion of change in the hedged items' fair value was recognized as a separate line in the liabilities. The interest on deposits were presented in the net interest income.

Changes in the fair value of hedging derivatives under the fair value hedge accounting were presented in the income statement in the result on fair value hedge accounting. Interest accrued on the hedging derivatives under the fair value hedge accounting was presented in the net interest income.

31. Investment (placement) securities

	31.12.2014	31.12.2013
Debt securities available for sale (AFS)	23,039,453	33,015,387
Equity securities available for sale (AFS)	71,755	18,580
Debt securities held to maturity (HTM)	1,601,568	1,961,770
Total	**24,712,776**	**34,995,737**

Debt securities available for sale (AFS)

	31.12.2014	31.12.2013
Securities issued by State Treasury	15,940,434	17,929,548
T-bills	–	–
T-bonds	15,940,434	17,929,548
Securities issued by Central Banks	6,147,781	14,159,186
Securities issued by business entities	248,985	248,865
Securities issued by local governments	702,253	677,788
Total	**23,039,453**	**33,015,387**
including impairment of assets	–	–

Equity securities available for sale (AFS)

	31.12.2014	31.12.2013
Shares	71,755	18,580
Total	**71,755**	**18,580**
including impairment of assets	(122)	(123)

(in PLN thousand)

Debt securities held to maturity (HTM)

	31.12.2014	31.12.2013
Securities issued by State Treasury	750,123	1,124,015
T- bills	–	–
T- bonds	750,123	1,124,015
Securities issued by Central Banks	851,445	837,755
Total	**1,601,568**	**1,961,770**
including impairment of assets	–	–

Investment debt securities according to contractual maturities

	31.12.2014	31.12.2013
Debt securities, including:		
up to 1 month	6,999,226	15,476,130
between 1 and 3 months	–	–
between 3 months and 1 year	590,517	461,915
between 1 and 5 years	13,506,159	12,787,788
over 5 years	3,545,119	6,251,324
Total	**24,641,021**	**34,977,157**

Investment debt securities according to currencies

	31.12.2014	31.12.2013
PLN	20,673,366	31,932,448
EUR	2,027,262	1,725,017
USD	1,940,393	1,319,692
Total	**24,641,021**	**34,977,157**

Changes in investment (placement) securities

	2014	2013
SECURITIES AVAILABLE FOR SALE (AFS)		
Opening balance	**33,033,967**	**25,887,288**
Increases (purchase)	351,556,577	400,589,361
Decreases (sale and redemption)	(362,969,923)	(393,529,727)
Changes in fair value	609,034	(651,263)
Exchange rate differences	301,923	(37,279)
Accrued interest	661,684	744,997
Other changes	(82,054)	30,590
Closing balance	**23,111,208**	**33,033,967**
DEBT SECURITIES HELD UNTIL MATURITY (HTM)		
Opening balance	**1,961,770**	**2,847,783**
Increases (purchase)	44,003,016	38,373,163
Decreases (sale and redemption)	(44,409,321)	(39,342,141)
Accrued interest	29,188	43,369
Other changes	16,915	39,596
Closing balance	**1,601,568**	**1,961,770**
Net total investment (placement) securities	**24,712,776**	**34,995,737**

(in PLN thousand)

32. Reclassification of securities

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

In 2014 and 2013, 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

		31.12.2014		31.12.2013	
	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	73,987	69,820	78,527	73,941
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	602,507	672,495	686,090	675,946	695,183
Total	**1,934,087**	**746,482**	**755,910**	**754,473**	**769,124**

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

31.12.2014	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	–	154
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	(5,641)	–
Total	**(5,641)**	**154**

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)**

Net interest income on reclassified financial assets

	2014	2013
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	2,511	7,376
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	15,922	20,996
Total	**18,433**	**28,372**

(in PLN thousand)

33. 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 2014, non-current assets classified as held for sale are as follows:
- real estate,
- other property, plant and equipment.

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

	31.12.2014	31.12.2013
ASSETS HELD FOR SALE		
Property, plant and equipment	14,587	23,349
Other assets	22,515	22,515
Total assets	**37,102**	**45,864**

In comparison to 31 December 2013 the Group has ceased to classify the investment property as held for sale due to the fact that the classification criteria are not longer met.

In 2013 the Bank sold its all shares in subsidiary PJSC UniCredit Bank to UniCredit S.p.A. (Parent Entity of the Bank). The details of transaction were presented in the consolidated financial statements of Bank Pekao S.A. Capital Group for the year ended 31 December 2013.

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

	2014	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**

(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	2014	2013
Opening balance	**45,864**	**2,374,173**
Increases including:	5,247	8,553
transfer from investment properties	5,150	1,581
transfer from property, plant and equipment	–	3,254
other changes	97	3,718
Decreases including:	(14,009)	(2,336,862)
PJSC UniCredit Bank's assets	–	(2,265,490)
transfer to investment properties	(13,277)	–
transfer to property, plant and equipment	–	(2,681)
disposal	(732)	(64,044)
other changes	–	(4,647)
Closing balance	**37,102**	**45,864**
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE		
Opening balance	**–**	**891,007**
Decreases including:	–	(891,007)
liabilities of PJSC UniCredit Bank	–	(891,007)
Closing balance	**–**	**–**

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

	2014	2013
Sales revenues	1,293	90,827
Net carrying amount of disposed assets (including costs to sell)	732	67,932
Profit/loss on sale before income tax	**561**	**22,895**

34. Investments in associates

The below tables present the information about associates that are material to the Group.

NAME OF ASSOCIATE	COUNTRY OF INCORPORATION AND PLACE OF BUSINESS	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/VOTING		MEASUREMENT METHOD	NATURE OF THE RELATIONSHIP
		31.12.2014	31.12.2013		
Dom Inwestycyjny Xelion Sp. z o.o.	Poland	50.00	50.00	Equity method	The strategic Entity providing affluent customers with services of assets management.
Pioneer Pekao Investment Management S.A.	Poland	49.00	49.00	Equity method	The Entity deals with management of investment funds assets and is of strategic importance for the Group that distributes and supporting such products.
Krajowa Izba Rozliczeniowa S.A.	Poland	34.44	34.44	Equity method	The Entity provides services in the area of interbank clearings and plays a key role for the Group, providing access to such services.

(in PLN thousand)

The summarized financial information of the associates are presented below. Considering Pioneer Pekao Investment Management S.A. and Krajowa Izba Rozliczeniowa S.A., the information derives from the financial statements, which are in the process of auditing by the entities authorizing to audit financial statements. The audit opinions on those financial statements will be expressed after the release date of the consolidated financial statements of Bank Pekao S.A. Group.

	DOM INWESTYCYJNY XELION SP. Z O.O.		PIONEER PEKAO INVESTMENT MANAGEMENT S.A.		KRAJOWA IZBA ROZLICZENIOWA S.A.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Current assets	42,537	42,016	333,727	319,301	48,991	51,732
Non-current assets	4,119	4,898	9,247	9,995	73,171	62,836
TOTAL ASSETS	**46,656**	**46,914**	**342,974**	**329,296**	**122,162**	**114,568**
Current liabilities	25,818	28,897	46,038	47,687	22,287	16,217
Non-current liabilities	3,683	3,767	7,171	4,775	2,121	1,869
TOTAL LIABILITIES	**29,501**	**32,664**	**53,209**	**52,462**	**24,408**	**18,086**
NET ASSETS	**17,155**	**14,250**	**289,765**	**276,834**	**97,754**	**96,482**

	DOM INWESTYCYJNY XELION SP. Z O.O.		PIONEER PEKAO INVESTMENT MANAGEMENT S.A.		KRAJOWA IZBA ROZLICZENIOWA S.A.	
	2014	2013	2014	2013	2014	2013
Revenue	51,818	52,088	389,431	402,877	124,131	113,276
Net profit (loss) for the period from continuing operations	2,905	2,138	106,006	98,781	30,792	29,527
Other comprehensive income	–	–	(78)	–	–	–
Total comprehensive income	**2,905**	**2,138**	**105,928**	**98,781**	**30,792**	**29,527**

Reconciliation of the summarized financial information to the carrying amount of the interests in associates

	DOM INWESTYCYJNY XELION SP. Z O.O.		PIONEER PEKAO INVESTMENT MANAGEMENT S.A.		KRAJOWA IZBA ROZLICZENIOWA S.A.		TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013
Group's interest in net assets at beginning of the year	7,125	6,056	135,649	130,559	33,228	31,821	**176,002**	**168,436**
Group's interest in net profit (loss) for the period (*)	1,452	1,069	51,795	48,324	9,963	10,032	**63,210**	**59,425**
Group's interest in other comprehensive income	–	–	(38)	–	–	–	**(38)**	**–**
Dividend received from associates	–	–	(45,421)	(43,234)	(9,525)	(8,625)	**(54,946)**	**(51,859)**
Group's interest in net assets at beginning of the year	8,577	7,125	141,985	135,649	33,666	33,228	**184,228**	**176,002**
Carrying amount of the interests	**8,577**	**7,125**	**141,985**	**135,649**	**33,666**	**33,228**	**184,228**	**176,002**

(*) Group's interest includes the changes in net profit (loss) for the previous period, that arose after the release date of financial statements of Bank Pekao S.A. Group and before the approval date of financial statements of particular associates.

(in PLN thousand)

35. Intangible assets

	31.12.2014	31.12.2013
Intangible assets, including:	571,512	572,011
research and development expenditures	10,412	12,031
licenses and patents	436,939	447,917
other	10,845	1,035
assets under construction	113,316	111,028
Goodwill	55,520	54,560
Total	**627,032**	**626,571**

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.

Moreover in the line "Goodwill" are presented:
- goodwill recognized upon acquisition of Spółdzielcza Kasa Oszczędnościowo – Kredytowa im. Mikołaja Kopernika by Bank Pekao S.A. It is determined the smallest identifiable cash-generating units ('CGU'), to which the goodwill has been allocated in the amount of PLN 960 thousand.
- 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 Bank's budget for 2015 and financial plan for 2016-2019. To discount the future cash flows, it is applied the discount rate of 7.64%, which includes the risk-free rate and the risk premium.

The impairment test performed as at 31 December 2014 showed the surplus of the recoverable amount over the carrying amount of the CGU, and therefore no CGU impairment was recognized.

(in PLN thousand)

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

2014	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
GROSS VALUE					
Opening balance	**90,484**	**2,034,712**	**38,668**	**111,028**	**2,274,892**
Increases including:	2,367	120,668	11,444	125,013	259,492
acquisitions	–	3,510	–	125,013	128,523
business combination	–	411	4,700	–	5,111
other	737	569	6,569	–	7,875
transfer from investments outlays	1,630	116,178	175	–	117,983
Decreases, including:	(3,489)	(23,321)	(449)	(122,725)	(149,984)
liquidation	(3,489)	(15,844)	(449)	(90)	(19,872)
other	–	(7,477)	–	(4,652)	(12,129)
transfer from investments outlays	–	–	–	(117,983)	(117,983)
Closing balance	**89,362**	**2,132,059**	**49,663**	**113,316**	**2,384,400**
ACCUMULATED AMORTIZATION					
Opening balance	**78,453**	**1,586,795**	**26,672**	**–**	**1,691,920**
Amortization	3,925	124,169	1,634	–	129,728
Liquidation	(3,489)	(15,844)	(449)	–	(19,782)
Other	61	–	–	–	61
Closing balance	**78,950**	**1,695,120**	**27,857**	**–**	**1,801,927**
IMPAIRMENT					
Opening balance	**–**	**–**	**10,961**	**–**	**10,961**
Closing balance	**–**	**–**	**10,961**	**–**	**10,961**
NET VALUE					
Opening balance	**12,031**	**447,917**	**1,035**	**111,028**	**572,011**
Closing balance	**10,412**	**436,939**	**10,845**	**113,316**	**571,512**

Notes to the financial statements

(in PLN thousand)

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 the period from 1 January to 31 December 2014, the Group acquired intangible assets in the amount of PLN 128 523 thousand (in 2013 – PLN 101 968 thousand).

In the period from 1 January to 31 December 2014 and in 2013 there have been no intangible assets whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 31 December 2014 the contractual commitments for the acquisition of intangible assets amounted to PLN 35 372 thousand, whereas as at 31 December 2013 – PLN 21 501 thousand.

(in PLN thousand)

36. Property, plant and equipment

	31.12.2014	31.12.2013
Non-current assets, including:	1,458,085	1,496,630
land and buildings	1,103,973	1,131,656
machinery and equipment	261,076	291,519
transport vehicles	47,301	35,999
other	45,735	37,456
Non-current assets under construction and prepayments	86,054	93,006
Total	**1,544,139**	**1,589,636**

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

2014	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
GROSS VALUE						
Opening balance	**2,277,707**	**1,500,970**	**86,167**	**343,302**	**93,006**	**4,301,152**
Increases, including:	44,678	73,992	29,165	17,494	122,356	287,685
acquisitions	75	1,150	3,128	645	121,022	126,020
business combination	3,006	1,261	144	295	5	4,711
other	–	653	25,893	58	1,329	27,933
transfer from non-current assets under construction	41,597	70,928	–	16,496	–	129,021
Decreases, including:	(19,271)	(79,444)	(20,822)	(16,499)	(129,308)	(265,344)
liquidation and sale	(19,271)	(78,787)	(19,938)	(16,465)	–	(134,461)
transfer to non-current assets held for sale	–	(657)	(884)	(34)	–	(1,575)
other	–	–	–	–	(287)	(287)
transfer from non-current assets underconstruction	–	–	–	–	(129,021)	(129,021)
Closing balance	**2,303,114**	**1,495,518**	**94,510**	**344,297**	**86,054**	**4,323,493**
ACCUMULATED DEPRECIATION						
Opening balance	**1,143,486**	**1,205,363**	**50,168**	**305,669**	**–**	**2,704,686**
Increases, including:	68,106	103,960	13,612	8,949	–	194,627
depreciation	68,106	103,393	13,612	8,900	–	194,011
other	–	567	–	49	–	616
Decreases, including: a\\	(15,016)	(78,842)	(16,571)	(16,197)	–	(126,626)
liquidation and sale	(15,016)	(78,246)	(16,571)	(16,163)	–	(125,996)
transfer to non-current assets held for sale	–	–	–	–	–	–
other	–	(596)	–	(34)	–	(630)
Closing balance	**1,196,576**	**1,230,481**	**47,209**	**298,421**	**–**	**2,772,687**
IMPAIRMENT						
Opening balance	**2,565**	**4,088**	**–**	**177**	**–**	**6,830**
Increases	–	–	–	–	–	–
Decreases	–	(127)	–	(36)	–	(163)
Closing balance	**2,565**	**3,961**	**–**	**141**	**–**	**6,667**
NET VALUE						
Opening balance	**1,131,656**	**291,519**	**35,999**	**37,456**	**93,006**	**1,589,636**
Closing balance	**1,103,973**	**261,076**	**47,301**	**45,735**	**86,054**	**1,544,139**

Notes to the financial statements

(in PLN thousand)

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 the period from 1 January to 31 December 2014 the Group acquired property, plant and equipment in the amount of PLN 126 020 thousand (in 2013 – PLN 198 208 thousand), while the value of property, plant and equipment sold amounted to PLN 6 394 thousand (in 2013 – PLN 4 861 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 2014 stood at PLN 1 661 thousand (PLN 2 318 thousand in 2013).

In 2014 and 2013 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 2014 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 63 077 thousand, whereas as at 31 December 2013 – PLN 68 267 thousand.

(in PLN thousand)

37. Investment property

The 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:

	2014	2013
GROSS VALUE		
Opening balance	**56,054**	**56,290**
Increases, including:	24,508	1,632
acquisitions	318	24
transfer from property plant and equipment	–	1,608
transfer from non-current assets held for sale	24,190	–
Decreases, including:	(9,101)	(1,868)
sale of real estate	(3,951)	–
transfer to non-current assets held for sale	(5,150)	(1,608)
other	–	(260)
Closing balance	**71,461**	**56,054**
ACCUMULATED DEPRECIATION		
Opening balance	**21,843**	**20,915**
Increases, including:	7,697	2,007
depreciation for the period	2,940	1,215
other	4,757	792
Decreases, including:	(2,056)	(1,079)
transfer to non-current assets held for sale	–	(819)
sale of real estate	(2,056)	–
other	–	(260)
Closing balance	**27,484**	**21,843**
IMPAIRMENT		
Opening balance	**3,080**	**2,154**
Increases, including:	6,152	926
impairment charges	6,152	926
Decreases, including:	(550)	–
sale of real estate	(550)	–
Closing balance	**8,682**	**3,080**
NET VALUE		
Opening balance	**31,131**	**33,221**
Closing balance	**35,295**	**31,131**

The fair value of investment property as at 31 December 2014 stood at PLN 53 435 thousand (PLN 44 877 thousand as at 31 December 2013). The fair value of investment property are categorized in Level 3 of the fair value hierarchy. The fair value was measured based on valuations of the property appraisers, having appropriate professional qualifications and recent experience in the location of the properties being valued. The valuations of investment property are based on investment method or profits method, taking into account such unobservable input data as expected rental growth rate, void periods, occupancy rate, discount rate.

(in PLN thousand)

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

	2014	2013
Rental revenues from investment properties	5,070	2,820
Direct operating expenses associated with investment properties (including repair and maintenance costs) which generated rental revenues during the reporting period	(1,556)	(999)
Direct operating expenses associated with investment properties (including repair and maintenance costs) which did not generate rental revenues during the reporting period	(494)	(223)

38. Other assets

	31.12.2014	31.12.2013
Prepaid expenses	108,060	101,469
Perpetual usufruct rights	15,434	15,706
Accrued income	37,203	38,077
Interbank and interbranch settlements	7,461	2,056
Other debtors	942,477	228,724
Card settlements	1,746,293	1,556,469
Total	**2,856,928**	**1,942,501**

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 7 thousand as at 31 December 2014 (PLN 3 thousand as at 31 December 2013). 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)

39. Assets pledged as collateral

As at 31 December 2014 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	3,003,206	2,774,855	3,004,383
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	679,338	640,200	–
Lombard and technical loan	bonds	5,338,928	5,008,832	–
Other loans	bonds, leases encumbrances	1,124,328	1,115,790	931,077
Issue of mortgage bonds	receivables backed by mortgage, bonds	1,335,272	1,339,615	1,037,330
Coverage of the Gurantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposit	40,698	39,915	–
Derivatives	bonds	47,790	42,160	33,640

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	–

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, Deposits and Derivatives – 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)

40. Amounts due to other banks

Amounts due to other banks by product type

	31.12.2014	31.12.2013
Current accounts and overnight deposits	1,503,821	1,160,683
Interbank deposits and other liabilities	455,673	1,282,795
Loans and advances received	3,243,612	3,048,343
Repo transactions	126,277	905,238
Cash in transit	15,319	20,598
Total	**5,344,702**	**6,417,657**

Amounts due to other banks by currencies

	31.12.2014	31.12.2013
PLN	2,335,096	3,058,551
CHF	713,045	814,849
EUR	2,218,925	2,410,773
USD	42,023	69,488
Other currencies	35,613	63,996
Total	**5,344,702**	**6,417,657**

41. Amounts due to customers

Amounts due to customers by product type

	31.12.2014	31.12.2013
Amounts due to corporate, including:	58,339,752	59,214,508
current accounts and overnight deposits	24,353,752	22,708,969
term deposits and other liabilities	33,986,000	36,505,539
Amounts due to budget entities, including:	6,210,671	5,822,211
current accounts and overnight deposits	5,090,071	4,893,773
term deposits and other liabilities	1,120,600	928,438
Amounts due to individuals, including:	55,407,585	50,912,985
current accounts and overnight deposits	30,404,771	27,993,266
term deposits and other liabilities	25,002,814	22,919,719
Repo transactions	4,979,370	3,668,011
Cash in transit	671,622	178,991
Total	**125,609,000**	**119,796,706**

Amounts due to customers by currencies

	31.12.2014	31.12.2013
PLN	106,221,889	101,473,042
CHF	205,950	173,571
EUR	11,882,782	10,434,337
USD	6,611,746	7,078,537
Other currencies	686,633	637,219
Total	**125,609,000**	**119,796,706**

(in PLN thousand)

42. Debt securities issued

Debt securities issued by type

	31.12.2014	31.12.2013
Certificates of deposit	2,819,713	2,240,452
Mortgage bonds	1,037,330	823,285
Total	**3,857,043**	**3,063,737**

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

Debt securities issued by currencies

	31.12.2014	31.12.2013
PLN	3,679,880	3,003,425
EUR	177,163	60,312
USD	–	–
Total	**3,857,043**	**3,063,737**

Changes in debt securities issued

	2014	2013
Opening balance	**3,063,737**	**4,758,736**
Increase (issuance)	6,015,875	3,667,197
Decrease (redemption)	(5,312,326)	(4,300,519)
Decrease (partial redemption)	(1,838)	(1,022,028)
Foreign currency exchange differences	2,686	2,344
Purchase	(64,625)	–
Sale	136,141	–
Other	17,393	(41,993)
Closing balance	**3,857,043**	**3,063,737**

43. Provisions

Change in provisions in the reporting period

2014	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**34,986**	**207,297**	**113,932**	**37,322**	**393,537**
Provision charges/revaluation	5,129	22,657	67,469	13,245	108,500
Provision utilization	(3,053)	(6,487)	–	(13,878)	(23,418)
Provision releases	(2,998)	–	(79,724)	–	(82,722)
Foreign currency exchange differences	–	–	709	134	843
Other changes	3,809	44,524	–	(2,617)	45,716
Closing balance	**37,873**	**267,991**	**102,386**	**34,206**	**442,456**
Short term	9,308	119	45,842	1,242	56,511
Long term	28,565	267,872	56,544	32,964	385,945

Notes to the financial statements

(in PLN thousand)

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

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 45.

Other provisions

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

44. Other liabilities

	31.12.2014	31.12.2013
Deferred income	122,764	111,631
Provisions for holiday leave	55,894	55,608
Provisions for other employee-related liabilities	189,982	199,266
Provisions for administrative costs	132,718	92,847
Other costs to be paid	54,099	63,889
Other creditors	389,985	284,946
Interbank and interbranch settlements	658,461	983,497
Card settlements	157,519	167,008
Total	**1,761,422**	**1,958,692**

45. 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 2014 are as follows:
- the discount rate at the level of 2.60% (4.48 % as at 31 December 2013),
- the future salary growth rate at the level of 2.50% (2.50 % as at 31 December 2013),
- 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.

	2014	2013
Opening balance	**207,297**	**154,281**
Current service cost	13,409	8,218
Interest expense	9,248	8,509
Remeasurements of the defined benefit obligations:	44,338	41,524
actuarial gains and losses arising from changes in demographic assumptions	152	12,421
actuarial gains and losses arising from changes in financial assumptions	48,648	15,484
actuarial gains and losses arising from experience adjustments	(4,462)	13,619
Contributions paid by the employer	(6,301)	(5,235)
Closing balance	**267,991**	**207,297**

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.

	DEFINED BENEFIT PLANS OBLIGATIONS	
31.12.2014	1 PERCENT INCREASE	1 PERCENT DECREASE
Discount rate	(29,330)	35,584
Future salary growth rate	34,256	(28,732)

	DEFINED BENEFIT PLANS OBLIGATIONS	
31.12.2013	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.

	31.12.2014	31.12.2013
The weighted average duration of the defined benefit plans obligations (in years)	12.2	13.5

(in PLN thousand)

46. Share-based payment

The UniCredit Group incentive program

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

- The long-term UniCredit Group Incentive Program 2007 in respect of share options. The rights to exercise the option were acquired in 2011. Strike price is EUR 7.094. The option expires in 2017.
- The long-term UniCredit Group Incentive Program 2008 in respect of share options. The rights to exercise the option were acquired in 2012. Strike price is EUR 4.185. The option expires in 2018.
- Employee Share Ownership Plan that offers to eligible UniCredit Group employees the possibility to buy UniCredit ordinary shares with the following advantages: granting of free ordinary shares ('Discount shares' and 'Matching Shares' or rights to 'Matching Shares') measures on the basis of the shares purchased by each participant. The granting of free ordinary shares is subordinated to vesting conditions stated in the rules of the Plan. In 2014 the sixth edition of the Plan has been introduced.
- 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 above mentioned share-based payment are recognized as cash-settled transactions.

The fair value of share options and shares of UniCredit S.p.A. was established based on the Hull and White model.

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	
2014	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	2,345,563	17.36/29.42	–	–
Granted during the year	–	–	–	–
Redeemed during the year	–	–	–	–
Exercised during the year	–	–	–	–
Terminated during the year	–	–	–	–
Existing at the period-end	2,345,563	17.84/30.24	–	–
Executable at the period-end	–	–	–	–

(*)The value of PLN 17.84 relates to the stock options program 2008, whereas the value of PLN 30.24 relates to the stock options program 2007.

	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.

(in PLN thousand)

The table below presents the conditions of Employee Share Ownership Plan in 2014.

	FREE SHARES 1ST ELECTION WINDOW	FREE SHARES 2ND ELECTION WINDOW
Date of Free Shares delivery to Group employees	31 January 2014	31 July 2014
Vesting Period Start-Date	31 January 2014	31 July 2014
Vesting Period End-Date	31 January 2015	31 July 2015
'Discount Shares' Fair Value (per unit in EUR)	5.774	5.972

The table below presents the conditions of Employee Share Ownership Plan in 2013.

	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

The fair value of granted rights to shares under Employee Share Ownership Plan until 31 December 2014 amounted to PLN 654 thousand as at 31 December 2014 (PLN 332 as at 31 December 2013).

The remuneration expenses for 2014 relating to the incentive programs granted to the emloyees of the Bank by UniCredit Group amounted to PLN 322 thousand (in 2013 – PLN 379 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.

Notes to the financial statements

(in PLN thousand)

During the reporting period ending on 31 December 2014 the Bank had the following share-based payments transactions:

	SYSTEM 2011, SYSTEM 2012, SYSTEM 2013 ORAZ SYSTEM 2014
Transaction type	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 2012 System 2014: 1 January 2012
Program announcement date	System 2011: April 2011 System 2012: April 2012 System 2013: April 2013 System 2014: June 2014
Program granting date	System 2011: 1 June 2012 System 2012: 12 June 2013 System 2013: 12 June 2014 System 2014: date of the General Shareholders Meeting held to approve the financial statements for 2014
Number of instruments granted	System 2011: 87 901 System 2012: 80 003 System 2013: 76 013 System 2014: to be settled at the program granting date
Maturity date	System 2011: 31 July 2016 System 2012: 31 July 2017 System 2013: 31 July 2018 System 2014: 31 July 2020
Vesting date for System 2011	For Management Board Members and Executive Vice President: • 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date For remaining participants: • 50% after 2 years from program granting date • 50% after 3 years from program granting date
Vesting date for System 2012	For Management Board Members and Executive Vice President: • 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date For remaining participants: • 20% after years from program granting date • 40% after 2 years from program granting date • 40% after 3 years from program granting date
Vesting date for System 2013	For Management Board Members and Executive Vice President: • 40% after years from program granting date (settlement after 2 year retention period) • 40% after 2 years from program granting date (settlement after 1 year retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period) For remaining participants: • 20% after years from program granting date • 40% after 2 years from program granting date • 40% after 3 years from program granting date
Vesting date for System 2014	For Management Board Members and Executive Vice President: • 40% after years from program granting date (settlement after 3 year retention period) • 30% after 3 years from program granting date (settlement after 1 year retention period) • 30% after 4 years from program granting date (settlement after 1 year retention period) For remaining participants: • 60% after years from program granting date (settlement after 3 year retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period) • 20% after 4 years from program granting date (settlement after 1 year retention period)
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, 2012 and 2013 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 2014, as of 31 December 2014 the Bank prepared the program valuation, presuming that the phantom shares were granted on 31 December 2014. This value will be changed at the actual date of granting the program.

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

The carrying amount of liabilities for cash-settled phantom shares amounted to PLN 32 003 thousand as at 31 December 2014 (as at 31 December 2013 – PLN 25 909 thousand).

The total intrinsic value of liabilities for vested rights to phantom shares amounted to PLN 35 642 thousand as at 31 December 2014 (as at 31 December 2013 – PLN 30 139 thousand).

The remuneration expenses for 2014 relating to the system of variable remuneration in the form of phantom shares amounted to PLN 13 796 thousand (in 2013 – PLN 15 111 thousand).

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

	2014	2013
Opening balance	167,904	87,901
Granted during the year	76,013	80,003
Redeemed during the year	–	–
Exercised during the year	44,466	–
Terminated during the year	–	–
Existing at the period-end	199,452	167,904

The table above does not present the number of shares granted in respect of the System 2014. This number will be determined in 2015 after approval of the financial statements for 2014 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 2014 amounts to 74 031.

System of Variable Remuneration for the Management Team of the subsidiaries

In order to meet requirements concerning rules of establishing policy of variable remuneration's component for individuals in managerial positions (Resolution No. 258/2011 of the Polish Financial Supervision Authority issued on 4 October 2011 and the Minister of Finance Regulation dated 2 December 2011, Official Journal from 2011, No. 263, item 1569), Centralny Dom Maklerski Pekao S.A. and Pekao Bank Hipoteczny S.A. have implemented System of Variable Remuneration for the Management Team.

Under the System, the participants may receive bonus dependent on results and effects of their work. Received component of variable remuneration is paid in cash and in phanton shares in proportion described in legal regulations mentioned above and in internal regulations of the entities.

At least 40 % components of variable renumerations is settled and paid in the time-period of 3 to 5 years since the granting date.

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. The carrying amount of the liabilities arising from the variable remuneration system for Management in Companies amouted to PLN 3 909 thousand as at 31 December 2014 (31 December 2013 – PLN 3 078 thousand).

(in PLN thousand)

47. 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:

	31.12.2014	31.12.2013
Up to 1 year	12,129	12,435
Between 1 years and 5 years	15,240	20,962
Over 5 years	8,893	17,522
Total	**36,262**	**50,919**

The amount of the minimum operating lease payments classified as income in 2014 amounted to PLN 20 664 thousand (PLN 25 242 thousand in 2013).

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:

	31.12.2014	31.12.2013
Up to 1 year	119,923	121,577
Between 1 years and 5 years	261,232	266,527
Over 5 years	160,483	194,561
Total	**541,638**	**582,665**

The amount of the minimum operating lease payments recognized as an expense in 2014 amounted to PLN 198 670 thousand (expense in 2013 amounted to PLN 231 200 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)

48. Contingent commitments

Litigation

In the entire year of 2014 the total value of the litigation subject in the ongoing court proceedings against the Group was PLN 1 205 592 thousand (in 2013 it was PLN 19 056 219 thousand).

In 2014 there were no proceedings before the court or state administration bodies 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 2014, is the litigation brought via the plaint of private individuals against the Bank and the Central Brokerage House Pekao S.A. for the payment of 306 622 thousand 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.

Other litigations against the Bank currently ongoing:

- proceedings instigated in the second quarter of 2014 as a result of the plaint brought by a guarantee beneficiary for the payment of PLN 55 996 thousand as the bank guarantee drawing,
- proceedings instigated in 2013 as a result of the plaint brought by a guarantee beneficiary for the payment of PLN 43 760 thousand as the bank guarantee drawing,
- proceedings instigated in the first quarter of 2014 as a result of the plaint brought by guarantee beneficiaries for the payment of PLN 32 750 thousand as the bank guarantee drawing.

Given the analysis of facts and legal aspects, the Bank evaluates the risk of outflow of funds in these three lawsuits as possible.

A still ongoing court dispute is the litigation – already presented in the financial statements of 2013 – 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 2014, but before the approval of the financial statements, the Bank received a lawsuit of the guarantee's beneficiaries for pay the amount of PLN 29 204 thousand from the realization of banking guarantee. Given the analysis of facts and legal aspects, the Bank evaluates the risk of outflow of funds in this lawsuit as possible.

As at 31 December 2014, the Group created 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 2014 is PLN 37 873 thousand (PLN 34 986 thousand as at 31 December 2013).

Financial off – balance commitments granted

Financial commitments granted by entities

	31.12.2014	31.12.2013
Financial commitments to:		
financial entities	626,967	2,497,373
non-financial entities	25,804,627	23,208,164
budget entities	944,954	1,392,162
Total	**27,376,548**	**27,097,699**

(in PLN thousand)

Off – balance guarantees issued

Guarantees issued by entities

	31.12.2014	31.12.2013
Issued to financial entities, including:	1,015,435	832,166
guarantees	971,814	785,796
sureties	42,990	43,754
confirmed export letters of credit	631	2,616
Issued to non-financial entities, including:	13,041,275	10,145,187
guarantees	7,474,912	4,938,747
securities' underwriting guarantees	5,566,363	5,146,660
sureties	–	59,780
Issued to budget entities, including:	151,974	99,950
guarantees	13,007	17,740
securities' underwriting guarantees	138,967	82,210
Total	**14,208,684**	**11,077,303**

Securities underwriting

As at 31 December 2014, the following securities programs have been in place, covered by underwriting:

NAME OF ISSUER	TYPE OFSECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT IT SELF	CONTRACT LIFE
Client 1	bonds	1,385,000	23.07.10 – 30.06.20
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	544,000	21.06.12 – 31.12.17
Client 5	bonds	156,720	06.12.12 – 31.03.16
Client 6	bonds	132,400	28.12.12 – 31.03.15
Client 7	bonds	78,700	28.12.12 – 31.03.15
Client 8	bonds	164,700	01.07.11 – 20.12.17
Client 9	bonds	14,640	19.03.13 – 30.06.15
Client 10	bonds	7,500	06.05.13 – 15.05.15
Client 11	bonds	4,600	06.05.13 – 15.05.15
Client 12	bonds	16,407	24.05.13 – 31.01.15
Client 13	bonds	20,000	29.04.13 – 31.03.15
Client 14	bonds	140,110	20.05.13 – 30.12.15
Client 15	bonds	950	16.08.13 – 31.12.15
Client 16	bonds	80,000	16.09.13 – 10.06.16
Client 17	bonds	11,000	28.10.13 – 30.12.16
Client 18	bonds	73,600	31.10.13 – 30.06.15
Client 19	bonds	25,000	31.10.13 – 30.06.15
Client 20	bonds	565,000	22.10.13 – 30.12.15
Client 21	bonds	50,000	22.10.13 – 30.11.15
Client 22	bonds	10,000	22.11.13 – 31.12.15
Client 23	bonds	3,983	20.12.13 – 31.12.15
Client 24	bonds	25,020	27.01.14 – 31.03.16
Client 25	bonds	84,140	30.04.14 – 30.12.15
Client 26	bonds	13,100	30.04.14 – 30.12.15
Client 27	bonds	31,570	30.04.14 – 30.12.15
Client 28	bonds	15,000	30.04.14 – 30.12.15
Client 29	bonds	14,000	15.05.14 – 31.12.16

(in PLN thousand)

NAME OF ISSUER	TYPE OFSECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT IT SELF	CONTRACT LIFE
Client 30	bonds	5,700	31.05.14 – 31.12.16
Client 31	bonds	1,200	24.06.14 – 31.12.15
Client 32	bonds	183,180	30.06.14 – 31.03.17
Client 33	bonds	61,040	22.07.14 – 31.07.15
Client 34	bonds	4,170	22.07.14 – 31.07.15
Client 35	bonds	100,000	30.07.14 – 30.06.19
Client 36	bonds	26,870	29.07.14 – 30.06.16
Client 37	bonds	9,780	29.07.14 – 30.06.16
Client 38	bonds	800	08.07.14 – 31.12.15
Client 39	bonds	13,000	14.08.14 – 31.12.15
Client 40	bonds	25,000	25.08.14 – 31.08.16
Client 41	bonds	3,580	29.05.14 – 30.04.15
Client 42	bonds	50,000	14.09.14 – 30.06.15
Client 43	bonds	6,500	08.09.14 – 31.12.16
Client 44	bonds	950	09.12.13 – 31.12.15
Client 45	bonds	8,544	03.09.14 – 31.12.15
Client 46	bonds	16,000	09.10.14 – 31.12.15
Client 47	bonds	3,500	09.10.14 – 31.12.15
Client 48	bonds	46,140	31.10.14 – 31.03.16
Client 49	bonds	4,700	28.11.14 – 31.12.15
Client 50	bonds	3,000	15.12.14 – 31.12.15
Client 51	bonds	50,000	22.12.14 – 30.06.17
Client 52	bonds	119,500	30.12.14 – 31.12.15
Client 53	bonds	100,000	30.12.14 – 30.06.16
Client 54	bonds	7,500	30.12.14 – 31.03.16
Client 55	bonds	198,780	30.12.14 – 09.03.16
Client 56	bonds	20,500	30.12.14 – 31.12.16
Client 57	bonds	368,256	25.08.14 – 31.12.16

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.

Notes to the financial statements

(in PLN thousand)

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

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

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)

Off-balance commitments received

Commitments received by entities

	31.12.2014	31.12.2013
Financial commitments from:	496,467	111,792
financial entities	496,467	111,792
non-financial entities	–	–
budget entities	–	–
Guarantees from:	12,175,488	9,124,950
financial entities	1,324,576	1,113,604
non-financial entities	10,102,000	7,302,774
budget entities	748,912	708,572
Total	**12,671,955**	**9,236,742**

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

49. 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):

2014	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):

2013	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262,470,034	262,470,034
Closing balance	262,470,034	262,470,034

(in PLN thousand)

50. 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:

	31.12.2014	31.12.2013
Reserve capital, including:	9,464,071	9,460,689
issue of shares above face value	9,137,221	9,137,221
other	326,850	323,468
Revaluation reserve, including:	540,806	50,117
remeasurements of the defined benefit liabilities	(99,699)	(55,314)
deferred tax	18,943	10,510
revaluation of financial assets portfolio available for sale	628,740	146,674
deferred tax	(119,461)	(27,868)
revaluation of financial hedging instruments portfolio	138,621	(29,487)
deferred tax	(26,338)	5,602
Foreign currency translation differences, including:	1,169	1,238
foreign currency translation differences	1,169	1,238
deferred tax	–	–
General Banking Risk Fund	1,937,850	1,937,850
Other reserve capital	9,002,629	9,070,200
Bonds convertible into shares – equity component	28,819	29,185
Provision for the parent entity's shares repurchase liabilities – equity component	–	332
Funds for brokerage activities	15,000	15,000
Total other capital	**20,990,344**	**20,564,611**
Profit (loss) from previous periods, allocated to Bank's shareholders	50,161	(191,977)
Net profit for the period, allocated to Bank's shareholders	2,714,714	2,784,779
Total retained earnings and profit for the period	**2,764,875**	**2,592,802**
Total	**23,755,219**	**23,157,413**

The net profit of the Bank for 2013 in the amount of PLN 2 800 000 thousand was distributed in the following way: PLN 2 614 202 thousand – to dividend, PLN 1 839 thousand – to the other reserve capital, and PLN 183 959 thousand – to cover in total the losses from previous years.

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.

(in PLN thousand)

51. Non-controlling interests

The below table presents the information for each of the subsidiaries that have non-controlling interests that are material to the Group.

NAME OF THE SUBSIDIARY	COUNTRY OF INCORPORATION AND PLACE OF BUSINESS	PERCENTAGE SHARE OF NON-CONTROLLING INTERESTS IN SHARE CAPITAL / VOTING RIGHTS		NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		ACCUMULATED NON-CONTROLLING INTERESTS	
		31.12.2014	31.12.2013	2014	2013	31.12.2014	31.12.2013
Pekao Leasing Sp. z o.o.	Poland	–	12.64	4,891	5,135	4,891	62,433
Pekao Leasing Holding S.A.	Poland	–	19.90	119	253	119	9,391
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Poland	35.00	35.00	5,392	4,823	23,033	22,464
Total				**10,402**	**10,211**	**28,043**	**94,288**

The summarized financial information of each of the subsidiaries that are material to the Group are presented below.

	PEKAO LEASING SP. Z O.O.		PEKAO LEASING HOLDING S.A.		PEKAO PIONEER POWSZECHNE TOWARZYSTWO EMERYTALNE S.A.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Loans and advances to banks	169,936	22	70	164	65,366	62,861
Receivables from finance leases	3,145,745	2,955,489	–	–	–	–
Investments (placement) securities	–	–	48,190	47,091	–	–
Investments in subsidiaries	–	–	194,140	194,140	–	–
Income tax assets	193,560	202,147	3	–	546	963
Other items of assets	77,093	101,614	3	1	2,352	3,276
TOTAL ASSETS	**3,586,334**	**3,259,272**	**242,406**	**241,396**	**68,264**	**67,100**
Amounts due to other banks	2,818,791	2,576,413	–	–	–	–
Amounts due to customers	50,944	62,696	–	–	–	–
Debt securities issued	48,190	47,091	–	–	–	–
Other items of liabilities	120,248	79,078	82	66	2,458	2,918
TOTAL LIABILITIES	**3,038,173**	**2,765,278**	**82**	**66**	**2,458**	**2,918**

	PEKAO LEASING SP. Z O.O.		PEKAO LEASING HOLDING S.A.		PEKAO PIONEER POWSZECHNE TOWARZYSTWO EMERYTALNE S.A.	
	2014	2013	2014	2013	2014	2013
Revenue	169,394	181,090	1,399	28,362	18,423	31,112
Net profit for the period	54,585	40,628	995	27,862	15,405	13,781
Total comprehensive income	**54,585**	**40,628**	**995**	**27,862**	**15,405**	**13,781**
Dividends paid to non-controlling interests	–	5,291	–	5,146	4,823	2,981
Cash flows from operating activities	13,878	(63,938)	(392)	(492)	16,116	12,293
Cash flows from investing activities	(826)	(1,750)	298	26,415	30,857	15,144
Cash flows from financing activities	156,862	35,603	–	(25,859)	(13,781)	(8,518)
Net change in cash and cash equivalents	169,914	(30,085)	(94)	64	33,192	18,919
Cash and cash equivalents at the beginning of the period	22	30,107	164	100	32,174	13,255
Cash and cash equivalents at the end of the period	169,936	22	70	164	65,366	32,174

(in PLN thousand)

52. Additional information to the consolidated cash flow statement

Cash and cash equivalents

	31.12.2014	31.12.2013
Cash and amounts due from Central Bank	9,226,254	4,191,229
Loans and receivables from banks with maturity up to 3 months	6,329,930	6,424,633
Cash and Cash equivalents presented in the cash flow statement	**15,556,184**	**10,615,862**

Restricted availability cash and cash equivalents as at 31 December 2014 amounted to PLN 4 021 406 thousand (PLN 3 661 336 thousand as at 31 December 2013).

53. 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.

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.

(in PLN thousand)

Related party transactions

Related party transactions as at 31 December 2014

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	183,634	–	13	15,339	–	654
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	1,496,697	456,005	4,493	1,048,862	1,002,599	866
Associates of Bank Pekao S.A Group						
Dom Inwestycyjny Xelion Sp. z o.o.	–	–	3	22,812	–	36
Pioneer Pekao Investment Management S.A.	–	–	–	154,825	–	3
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	–	–	23,067	144,297	–	9
Krajowa Izba Rozliczeniowa S.A.	–	–	–	7,766	–	–
Total Associates of Bank Pekao S.A. Group	**–**	**–**	**23,070**	**329,700**	**–**	**48**
Key management personnel of the Bank and UniCredit S.p.A.	6,385	–	–	33,291	–	–
Total	**1,686,716**	**456,005**	**27,576**	**1,427,192**	**1,002,599**	**1,568**

Receivables from loans and deposits by contractual maturity

31.12.2014	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	4,766	178,868	–	–	–	–	183,634
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	621,804	117,883	43,218	351,637	362,155	–	1,496,697
Associates of Bank Pekao S.A Group	–	–	–	–	–	–	–
Key management personnel of the Bank and UniCredit S.p.A.	2	5,998	–	–	48	337	6,385
Total	**626,572**	**302,749**	**43,218**	**351,637**	**362,203**	**337**	**1,686,716**

(*) Current receivables includude Nostro accounts and cash collaterals.

Liabilities due to loans and deposits by contractual maturity

31.12.2014	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	15,339	–	–	–	–	–	15,339
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	126,309	539,530	277	14,061	7,596	361,089	1,048,862
Associates of Bank Pekao S.A Group	28,208	102,192	198,800	500	–	–	329,700
Key management personnel of the Bank and UniCredit S.p.A.	15,644	8,679	8,425	443	100	–	33,291
Total	**185,500**	**650,401**	**207,502**	**15,004**	**7,696**	**361,089**	**1,427,192**

(*) Current liabilities include Loro accounts and cash collaterals.

(in PLN thousand)

Receivables from loans and deposits by currency

31.12.2014	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	3,581	180,053	–	–	–	183,634
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	606,379	714,067	6	142,632	33,613	1,496,697
Associates of Bank Pekao S.A Group	–	–	–	–	–	–
Key management personnel of the Bank and UniCredit S.p.A.	–	–	–	6,385	–	6,385
Total	**609,960**	**894,120**	**6**	**149,017**	**33,613**	**1,686,716**

Liabilities due to loans and deposits by currency

31.12.2014	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	–	–	–	15,339	–	15,339
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	347,597	140	336,914	364,211	–	1,048,862
Associates of Bank Pekao S.A Group	–	–	–	329,700	–	329,700
Key management personnel of the Bank and UniCredit S.p.A.	2,894	845	–	22,843	6,709	33,291
Total	**350,491**	**985**	**336,914**	**732,093**	**6,709**	**1,427,192**

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**

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 include Nostro accounts and cash collaterals.

(in PLN thousand)

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**

Income and expenses from transactions with related parties for the period from 1 January 2014 to 31 December 2014

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	181	(11)	342	(2,742)	1,108	(13,639)
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	48,602	(15,493)	7,666	(236)	7,874	(26,722)
Associates of Bank Pekao S.A Group						
Pioneer Pekao Investment Management S.A.	–	(3,841)	464	–	27	–
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	–	(3,221)	229,919	–	–	(8)
Dom Inwestycyjny Xelion Sp.z o.o.	–	(565)	70	(24)	313	–
Krajowa Izba Rozliczeniowa S.A.	–	(148)	162	–	–	(9,380)
Total Associates of Bank Pekao S.A. Group	**–**	**(7,775)**	**230,615**	**(24)**	**340**	**(9,388)**
Key management personnel of the Bank and UniCredit S.p.A.	261	(633)	15	–	–	–
Total	**49,044**	**(23,912)**	**238,638**	**(3,002)**	**9,322**	**(49,749)**

(in PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2013 to 31 December 2013

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	84	(151)	1,152	(2,530)	1,975	(11,534)
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	91,862	(38,640)	9,337	(1,440)	40,362	(8,646)
Associates of Bank Pekao S.A Group						
Pioneer Pekao Investment Management S.A.	–	(4,716)	544	–	76	–
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	–	(3,923)	243,262	–	–	–
Dom Inwestycyjny Xelion Sp.z o.o.	–	(393)	43	(26)	262	–
Krajowa Izba Rozliczeniowa S.A.	–	(207)	107	–	–	(9,369)
Total Associates of Bank Pekao S.A. Group	**–**	**(9,239)**	**243,956**	**(26)**	**338**	**(9,369)**
Key management personnel of the Bank and UniCredit S.p.A.	297	(573)	8	–	–	–
Total	**92,243**	**(48,603)**	**254,453**	**(3,996)**	**42,675**	**(29,549)**

Off- balance sheet financial liabilities and guarantees as at 31 December 2014

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	39,009	270,784	–	25,121
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	96,655	557,728	9,885	51,596
Associates of Bank Pekao S.A Group				
Dom Inwestycyjny Xelion Sp. z o.o.	10,030	–	–	–
Pioneer Pekao Investment Management S.A.	15	–	–	–
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	54	–	–	–
Krajowa Izba Rozliczeniowa S.A.	–	500	–	–
Total Associates of Bank Pekao S.A. Group	**10,099**	**500**	**–**	**–**
Key management personnel of the Bank and UniCredit S.p.A.	874	–	–	–
Total	**146,637**	**829,012**	**9,885**	**76,717**

(in PLN thousand)

Off- balance sheet financial commitments and guarantees by contractual maturity

31.12.2014	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	–	–	–	39,009	–	–	39,009
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	–	–	–	96,464	191	–	96,655
Associates of Bank Pekao S.A Group	–	–	–	10,015	84	–	10,099
Key management personnel of the Bank and UniCredit S.p.A.	20	516	5	50	273	10	874
Total	**20**	**516**	**5**	**145,538**	**548**	**10**	**146,637**
GUARANTEES ISSUED							
UniCredit S.p.A. – the Bank's parent entity	–	–	700	84,875	42,909	142,300	270,784
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	–	1,214	1,228	44,810	307,825	202,651	557,728
Associates of Bank Pekao S.A Group	–	–	–	500	–	–	500
Total	**–**	**1,214**	**1,928**	**130,185**	**350,734**	**344,951**	**829,012**
FINANCIAL RECEIVED							
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	9,885	–	–	–	–	–	9,885
Total	**9,885**	**–**	**–**	**–**	**–**	**–**	**9,885**
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	–	1,211	725	14,994	6,699	1,492	25,121
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	–	–	550	32,986	15,912	2,148	51,596
Total	**–**	**1,211**	**1,275**	**47,980**	**22,611**	**3,640**	**76,717**

Off- balance sheet financial commitments and guarantees by currency

31.12.2014	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – the Bank's parent entity	39,009	–	–	–	–	39,009
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	35,164	–	–	61,491	–	96,655
Associates of Bank Pekao S.A Group	–	–	–	10,099	–	10,099
Key management personnel of the Bank and UniCredit S.p.A.	–	–	–	874	–	874
Total	**74,173**	**–**	**–**	**72,464**	**–**	**146,637**
GUARANTEES ISSUED						
UniCredit S.p.A. – the Bank's parent entity	9,607	–	–	261,177	–	270,784
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	46,734	–	–	510,994	–	557,728
Associates of Bank Pekao S.A Group	–	–	–	500	–	500
Total	**56,341**	**–**	**–**	**772,671**	**–**	**829,012**
FINANCIAL RECEIVED						
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	–	–	–	9,885	–	9,885
Total	**–**	**–**	**–**	**9,885**	**–**	**9,885**
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	18,130	–	–	6,991	–	25,121
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	18,336	–	–	33,260	–	51,596
Total	**36,466**	**–**	**–**	**40,251**	**–**	**76,717**

Notes to the financial statements

(in PLN thousand)

Off- balance sheet financial commitments and guarantees as at 31 December 2013

NAME OF ENTITY	GRANTED FINANCIAL	GRANTED GUARANTEES	RECEIVED 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.

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**
GUARANTEES ISSUED							
UniCredit S.p.A. – the Bank's parent entity	67,076	76,743	–	–	99,139	110,696	353,654
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	–	641	–	44,397	37,951	190,421	273,410
Associates of Bank Pekao S.A Group	–	–	–	500	–	–	500
Total	**67,076**	**77,384**	**–**	**44,897**	**137,090**	**301,117**	**627,564**
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	3,000	–	–	13,904	11,742	19,699	48,345
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	29,967	463	980	65,182	14,768	2,447	113,807
Total	**32,967**	**463**	**980**	**79,086**	**26,510**	**22,146**	**162,152**

(in PLN thousand)

Off-balance sheet financial commitments and guarantees by currency

31.12.2013	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – the Bank's parent entity	38,569	–	–	24,000		62,569
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	29,652	–	–	702,635		732,287
Associates of Bank Pekao S.A Group	–	–	–	106		106
Key management personnel of the Bank and UniCredit S.p.A.	–	–	–	261		261
Total	**68,221**	**–**	**–**	**727,002**		**795,223**
GUARANTEES 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 excluding of Bank Pekao S.A. Group entities	20,728	–	–	86,510	6,569	113,807
Total	**65,623**	**–**	**–**	**89,960**	**6,569**	**162,152**

Remuneration of Bank's Management Board and Supervisory Board Members

	VALUE OF BENEFITS	
	2014	2013
Management Board of the Bank		
Short-term employee benefits (*)	15,652	14,359
Long-term benefits (**)	2,171	2,245
Share-based payments (***)	7,294	7,011
Total	**25,117**	**23,615**
Supervisory Board of the Bank		
Short-term employee benefits (*)	925	835
Total	**925**	**835**

(*) 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 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.

The Bank's Management Board and Supervisory Board Members did have not received any remuneration from subsidiaries and associates in 2014 and 2013.

Remuneration of Supervisory Boards and Management Boards of subsidiaries

	VALUE OF BENEFITS	
	2014	2013
Companies' Management Boards		
Short-term employee benefits	13,351	12,205
Other long-term benefits	–	178
Total	**13,351**	**12,383**
Companies' Supervisory Boards		
Short-term employee benefits	38	38
TOTAL	**38**	**38**

(in PLN thousand)

54. 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.

	31.12.2014		31.12.2013	
	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RESPECTIVE LIABILITIES	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RESPECTIVE LIABILITIES
Financial assets available for sale				
up to 1 month	2,585,701	2,585,918	4,025,978	4,038,319
from 1 to 3 months	141,383	141,419	527,379	524,912
Total financial assets available for sale	**2,727,084**	**2,727,337**	**4,553,357**	**4,563,231**
Financial assets purchased under reverse-repo and buy-sell back				
up to 1 month	2,380,498	2,378,310	10,021	10,018
Total financial assets purchased under reverse-repo and buy-sell back	**2,380,498**	**2,378,310**	**10,021**	**10,018**
Total	**5,107,582**	**5,105,647**	**4,563,378**	**4,573,249**

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.

	31.12.2014		31.12.2013	
	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	1,930,808	1,930,148	3,119,010	3,115,331
Total loans and advances from bank	**1,930,808**	**1,930,148**	**3,119,010**	**3,115,331**
Loans and advances from customers				
up to 1 month	5,684,231	5,681,251	2,581,676	2,579,440
from 1 to 3 months	104,833	104,701	–	–
Total loans and advances from customers	**5,789,064**	**5,785,952**	**2,581,676**	**2,579,440**
Total	**7,719,872**	**7,716,100**	**5,700,686**	**5,694,771**

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.

	31.12.2014	31.12.2013
Fair value of assets pledged as collaterals, in this:	7,716,100	5,694,771
Short sale	591,311	309,742
Reverse repo transactions/ buy-sell back	2,380,498	10,021

(in PLN thousand)

55. 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 2014 and 31 December 2013 was zero.

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

	31.12.2014	31.12.2013
Loans granted to employees	47,099	42,183
Cash at ZFŚS account	4,045	8,669
ZFŚS assets	**51,144**	**50,852**
ZFŚS value	**51,144**	**50,852**
	2014	**2013**
Deductions made to ZFŚS during fiscal period	25,910	26,463

56. Subsequent events

Acquisition of shares in UniCredit CAIB Poland S.A (presently Pekao Investment Banking S.A.).

On 1 January 2015, the Bank acquired 100% of the share capital of UniCredit CAIB Poland S.A. and obtained control over the entity. UniCredit CAIB Poland S.A. specializes in corporate finance, in particular referring to mergers and acquisitions, public and private offering, as well as securities trading on secondary market. As a result of the acquisition, the Group extends the portfolio of services provided to the customers from corporate banking segment. The purchase consideration was PLN 274 334 thousand and consisted of cash in total. After the acquisition by the Bank, the entity changed its name on Pekao Investment Banking S.A.

The acquisition transaction was classified as intragroup transaction and recognized at book value. The Bank recognized the assets and liabilities of the acquired entity at their book values, adjusted exclusively for the purpose of aligning the accounting principles. Pursuant to the transaction, neither goodwill nor badwill was recognized. The result on the transaction was recognized in the equity of the Group.

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

Notes to the financial statements

(in PLN thousand)

The recognized amounts of identifiable assets acquired and liabilities assumed are presented in the table below.

ITEM	
Cash	5
Loans and advances to banks	232,469
Financial assets held for trading	12,981
Debt securities available for sale	640
Intangible assets	730
Property, plant and equipment	4,047
Deferred tax assets	42,831
Other assets	60,715
TOTAL ASSETS	**354,418**
Amounts due to other banks	581
Derivative financial instruments (held for trading)	8,906
Amounts due to customers	64,042
Deferred tax liabilities	177
Provisions	442
Other liabilities	29,786
TOTAL LIABILITIES	**103,934**
TOTAL NET ASSETS	**250,484**

The Group incurred acquisition-related costs of PLN 868 thousand. These costs have been included in "Administrative expenses" in the consolidated income statement.

The impact of significant appreciation of the Swiss franc at CHF loan portfolio

In January 2015, a significant appreciation of the Swiss franc against all major currencies, including Polish zloty, was observed. This significant change in exchange rates was caused by the decision of Swiss National Bank to release franc against euro. The Swiss National Bank at the same time decided to cut interest rates. As at 31 December 2014 the average NBP rate for PLN/CHF was 3.5447, and as of 15 January 2015, i.e. the announcement day of the Swiss National Bank decision, the average NBP exchange rate reached 4.1611.

The following table presents CHF loans portfolio as at 31 December 2014:

	LOANS AND ADVANCES TO BANKS	LOANS AND ADVANCES TO CUSTOMERS	
		CORPORATES	INDIVIDUALS
Gross carrying amount, of which:	**3,457**	**322,698**	**4,798,719**
– denominated in CHF	3,457	322,698	965,182
– indexed to CHF	–	–	3,833,537
Impairment allowances, of which:	**–**	**(12,366)**	**(171,056)**
– denominated in CHF	–	(12,366)	(17,543)
– indexed to CHF	–	–	(153,513)
Net carrying amount, of which:	**3,457**	**310,332**	**4,627,663**
– denominated in CHF	3,457	310,332	947,639
– indexed to CHF	–	–	3,680,024

(in PLN thousand)

The following table presents quality of CHF loans portfolio as at 31 December 2014:

	LOANS AND ADVANCES TO BANKS	LOANS AND ADVANCES TO CUSTOMERS	
		CORPORATES	INDIVIDUALS
Gross carrying amount of exposures with no impairment, of which:	**3,457**	**298,069**	**4,581,528**
– not past due	3,457	263,331	4,201,472
– up to 30 days	–	26,127	310,533
– between 30 days and 60 days	–	261	48,231
– above 60 days	–	8,350	21,292
IBNR provisions for exposures with no impairment, of which:	**–**	**(1,336)**	**(32,394)**
– not past due	–	(825)	(12,684)
– up to 30 days	–	(222)	(13,072)
– between 30 days and 60 days	–	(4)	(4,363)
– above 60 days	–	(285)	(2,275)
Gross carrying amount of impaired exposures, of which:	**–**	**24,629**	**217,191**
– not past due	–	3,430	16,838
– up to 1 month	–	2,493	9,260
– between 1 month and 3 months	–	2,949	15,503
– between 3 months and 1 year	–	833	26,829
– between 1 year and 5 years	–	5,143	76,103
– above 5 years	–	9,781	72,658
Allowances for impairment, of which:	**–**	**(11,030)**	**(138,662)**
– not past due	–	(666)	(5,271)
– up to 1 month	–	(400)	(3,447)
– between 1 month and 3 months	–	(99)	(5,445)
– between 3 months and 1 year	–	(729)	(12,232)
– between 1 year and 5 years	–	(1,442)	(50,495)
– above 5 years	–	(7,694)	(61,772)
Total net carrying amount	**3,457**	**310,332**	**4,627,663**

Since 2003 Bank Pekao S.A. has not granted loans in CHF. Almost the entire portfolio of retail loans was granted before August 2006 by Bank BPH S.A. and then taken over by Bank Pekao S.A. as a result of the merger. Total volume of this portfolio represents a marginal share in the total assets of the Group.

The average LTV for CHF loans granted by the Group amounted as of 31 December 2014 to 53.4%, with an average LTV for the whole portfolio of 66.9%. As of the exchange rate of 4.1611 reported on 15 January 2015, the above mentioned values amounted to 62.5% and 67.9% respectively.

Considering the characteristics of this portfolio we do not expect worsening of its performances.

Signatures of all Management Board Members

10.02.2015	**Luigi Lovaglio**	**President of the Management Board, CEO**	
Date	Name/Surname	Position/Function	Signature
10.02.2015	**Diego Biondo**	**Vice-President of the Management Board**	
Date	Name/Surname	Position/Function	Signature
10.02.2015	**Andrzej Kopyrski**	**Vice-President of the Management Board**	
Date	Name/Surname	Position/Function	Signature
10.02.2015	**Grzegorz Piwowar**	**Vice-President of the Management Board**	
Date	Name/Surname	Position/Function	Signature
10.02.2015	**Stefano Santini**	**Vice-President of the Management Board**	
Date	Name/Surname	Position/Function	Signature
10.02.2015	**Marian Ważyński**	**Vice-President of the Management Board**	
Date	Name/Surname	Position/Function	Signature

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 2014

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

  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.

  The Group claims that the new standard had no material impact on its financial statements in the period of its first application, except for the change in accounting policy in respect to consolidation.

- **IFRS 11** 'Joint Arrangements'

  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.

  The Group claims that the new standard had no material impact on its financial statements in the period of its first application.

- **IFRS 12** 'Disclosure of Interests in Other Entities'

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

  The Group claims that the new standard had no 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'

  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'.

  The Group claims that the new standard had no material impact on its financial statements in the period of its first application.

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

  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'.

  The Group claims that the new standard had no material impact on its financial statements in the period of its first application.

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

  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, had no material impact on its financial statements in the period of its first application.

- **IAS 36 (amendment)** 'Impairment of Assets'

  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 claims that the standard's amendment had no material impact on its financial statements in the period of its first application.

- **IAS 39 (amendment)** 'Financial Instruments: Recognition and Measurement'

  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 claims that the standard's amendment 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 effective from the date after the balance sheet date.

- **IFRIC 21** 'Levies'

  Date of application: the first financial year beginning after 17 June 2014.

  IFRIC 21 is an interpretation of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The interpretation clarifies what is an event giving rise to the obligation to pay a levy.

  The impact of the initial application of the Interpretation will depend on the specific levies imposed, applicable at the date of initial application. The Group does not expect the Interpretation to have a material impact on the annual consolidated financial statements. However, it may have a material impact on the interim financial statements. The Group has been analysing the impact the Interpretation will have on the interim financial statements.

- **IFRS 14** 'Regulatory deferral accounts'

  Date of application: the first financial year beginning after 1 January 2016.

  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.

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 1 January 2018.

  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 was 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.

- **IFRS 15** 'Revenue from Contracts with Customers'

  Date of application: the first financial year beginning after 1 January 2017.

  The Standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

  The core principle of the new Standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. In accordance with new IFRS 15, the revenue is recognized when the control over the goods or services is transferred to the customer.

  The Group is currently assessing the impact of the IFRS 15 application on its financial statements.

- **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.

- **IAS 16 (amendment)** 'Property, Plant and Equipment' and **IAS 38 (amendment)** 'Intangible Assets'

  Date of application: the first financial year beginning after 1 January 2016.

  The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

  The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

  The Group claims that the standards amendments will not have a material impact on its financial statements in the period of its first application.

- **IAS 16 (amendment)** 'Property, Plant and Equipment' and **IAS 41 (amendment)** 'Agriculture'

  Date of application: the first financial year beginning after 1 January 2016.

  IAS 41 'Agriculture' currently requires all biological assets related to agricultural activity to be measured at fair value less costs to sell. This is based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement. However, there is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods. At the end of their productive lives they are usually scrapped. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits.

  The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 'Property, Plant and Equipment', because their operation is similar to that of manufacturing.

  The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.

- **IFRS 11 (amendment)** 'Joint Arrangements'

  Date of application: the first financial year beginning after 1 January 2016.

  The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

  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.

- **Improvements to IFRS 2012-2014**

  Date of application: the first financial year beginning after 1 January 2016.

  The annual improvements to IFRS 2012-2014 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.

- **IFRS 10 (amendment)** 'Consolidated Financial Statements' and **IAS 28 (amendment)** 'Investments in Associates and Joint Ventures'

  Date of application: the first financial year beginning after 1 January 2016.

  The amendments concern the sale or contribution of assets between the investor and the associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

  The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.

- **IAS 27 (amendment)** 'Separate Financial Statements'

  Date of application: the first financial year beginning after 1 January 2016.

  The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

  The Group claims that the standard's amendments 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.

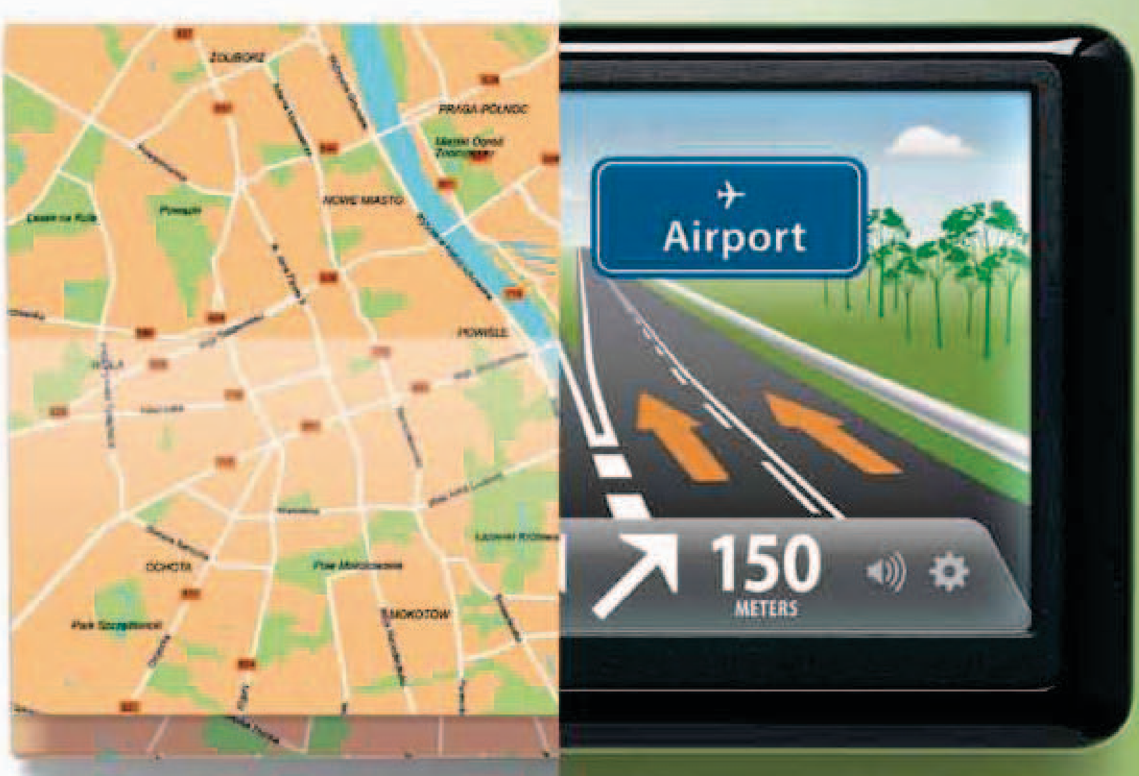
ICAAP – Internal Capital Adequacy Assessment Process – the process of assessing internal capital adequacy.

There's a whole world to discover.

Discover it now.

Highest quality services, wherever you are.

We are the leaders of corporate banking in Poland, and our success goes beyond our borders. Along with the UniCredit Group we create one of the biggest financial institutions in the world. That means that we have the solutions for even the most demanding clients, belonging to international capital groups. Whether it is about local or global services, we are guided by one goal: to maximize our potential and become The Best Corporate Bank in Europe.



UniCredit Group Profile

Highlights

UniCredit is a leading European commercial bank operating in **17** countries with more than **147,000** employees, over **8,500** branches and with an international network spanning in about **50** markets.
UniCredit benefits from a strong European identity, extensive international presence and broad customer base.
Our strategic position in Western and Eastern Europe gives us one of the region's highest market shares.

OVER
147,000
Employees[1]

OVER
8,500
Branches[2]

Financial Highlights (€ mio)

OPERATING INCOME
22,513

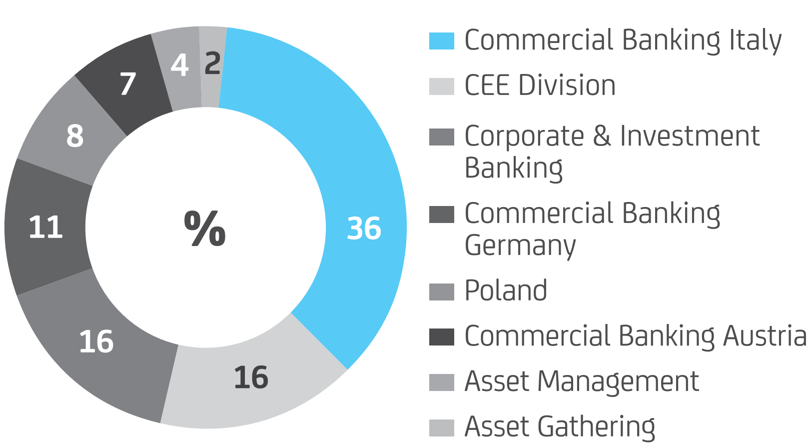
NET PROFIT
2,008

SHAREHOLDER'S EQUITY
49,390

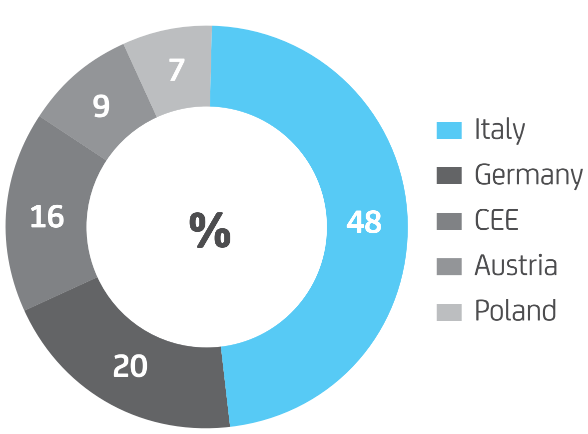
TOTAL ASSETS
844,217

COMMON EQUITY TIER 1 RATIO
10.41%

REVENUES BY BUSINESS LINES*

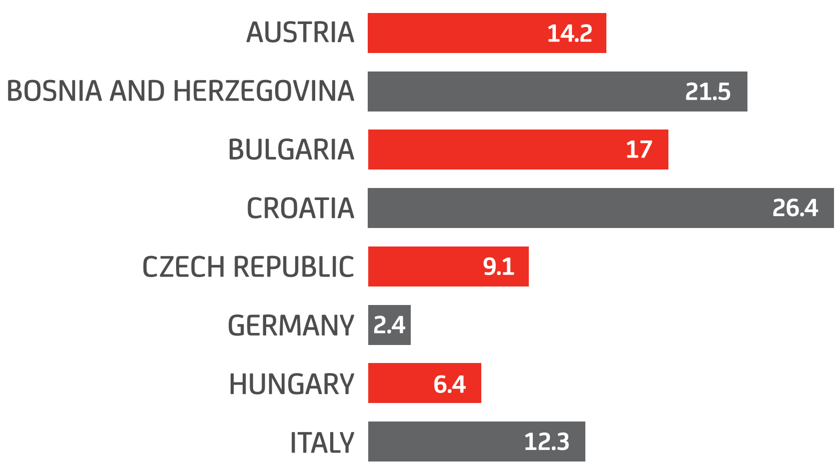


REVENUES BY REGION*

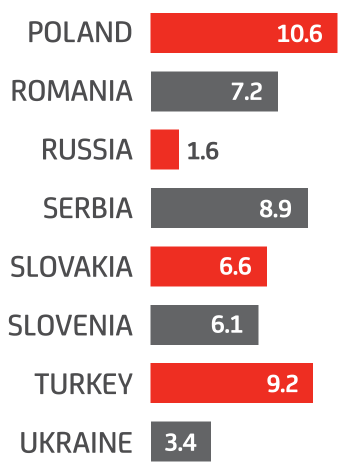


1. Data as at December 31, 2014. FTE = "Full Time Equivalent": number of employees counted for the rate of presence. Figures include all employees of Yapi Kredi Group (Turkey).
2. Data as at December 31, 2014. Figures include all branches of Yapi Kredi Group (Turkey).
* Data as at December 31, 2014.

MARKET SHARE[3] (%)



MARKET SHARE (%)



3. Market Shares in terms of Total Assets as 31 December 2014 for CEE Countries. Market Shares in terms of Total Customer Loans as at December 31, 2014 for Italy, Germany and Austria.
Source: UniCredit National Center Banks, UniCredit Research, UniCredit CEE Strategic Analysis.
Data as of September 30, 2014 , except for Bosnia and Herzegovina, Slovenia (2Q 2014), Romania (1Q 2014), Hungary (FY 2013) and Bulgaria (3Q 2014).

Our Strategy

On March 11, 2014, our Board of Directors approved the five-year Strategic Plan with the object of ensuring sustained profitability over the coming years. The plan is based on solid fundamentals, a strong culture of risk management and an improving macroeconomic climate. Our goals are to consolidate our leading position in corporate financial services across Europe, to institute an innovative mindset throughout our retail network, and to establish a cutting-edge digital footprint.

UniCredit understands its role as part of a far-reaching system that leverages resources, or capital, to generate shared value. Indeed, the solidity of our business depends on the prosperity of our customers and of the communities in which we operate. To create greater value we, as a bank, develop innovative solutions that form attractive investment opportunities and also generate positive outcomes for our Group.

We adopted our five-year strategic plan building on our solid fundamentals, with the purpose of ensuring sustained profitability, and making the best possible use of the resources at our disposal.

This is how we continue to respond effectively to our stakeholders' priorities.

STRATEGIC PLAN 2013-2018

Strategic pillars and capitals aim at reinforcing capitals over time

STRATEGIC PILLARS

1. TRANSFORM COMMERCIAL BANKING IN WESTERN MARKETS

- A new approach to retail banking
- Serve growing non-lending needs of Corporate clients
- Enhance the Private Banking business model

2. INVEST IN BUSINESSES GROWTH

- Rebalance Group capital allocation towards CEE
- Focus on "expansion countries"
- Support capital-light businesses (Asset Gathering, Asset Management)

3. LEVERAGE ON GLOBAL PLATFORMS

- Maintain CIB leadership in its core business and fully exploit synergies
- Enhance cost reduction and simplification initiatives
- Foster operating efficiency

CONSERVATIVE RISK APPETITE FRAMEWORK

CAPITALS*

Financial

- Strong equity
- Balanced funding mix
- Long-term financial stability

Human

- Engaged people
- Diversified workforce
- Competent & skilled professionals

Social & Relationship

- Effective and safe ICT system
- Innovation capability
- Efficient and effective processes

Intellectual

- Long-term stakeholders relationship
- Socio-economic development/well-being

Natural

- High air quality
- Soil, water, flora and fauna preservation

* See 2014 Group Integrated Report for details.

Our Business Model

At UniCredit, we work relentlessly to offer outstanding banking services and to provide real support for economic growth in the communities where we operate. This requires developing new service models that enable connections between businesses in different places while making the bank more accessible and more transparent. It means being a sustainable bank.
The restructuring process that began at the start of 2012 has resulted in major simplification of our operating processes. In order to bring us closer to our customers, for example, our national offices now possess greater decision-making power. The object of this change is to simplify our business by implementing a more streamlined chain of command, a more efficient commercial network, and an expanded ability to create personalized solutions. Additionally, it enables our national offices to be more effective at developing the markets they serve.

OUR MISSION

We UniCredit people are committed to generating value for our customers. As a leading European bank, we are dedicated to the development of the communities in which we live, and to being a great place to work. We aim for excellence and we consistently strive to be easy to deal with. These commitments will allow us to create sustainable value for our shareholders.

Our Business Key Strenghts:
Customer proximity - Risk culture - Global functions specialization

VALUE PROPOSITION

COMMERCIAL BANKING

INDIVIDUALS
Flexible and easy access to banking services through traditional and digital channels.

COMPANIES
Support for entrepreneurs - in their day-to-day business, or in executing new projects or strategies - through tailored, profit-driven solutions.

PRIVATE BANKING
A 360-degree advisory model, customized investment strategies and access to international markets through specialised advisors.

CORPORATE & INVESTMENT BANKING

Traditional corporate and transaction banking services, along with full-fledged structured finance, capital markets and investment products. Strategic long-term partner that meets clients' specific needs and delivers access to Western, Central and Eastern Europe.

ASSET MANAGEMENT

Concrete investment solutions that satisfy real investment needs, providing an innovative and consistent global offering that manages risk and delivers attractive returns to investors.

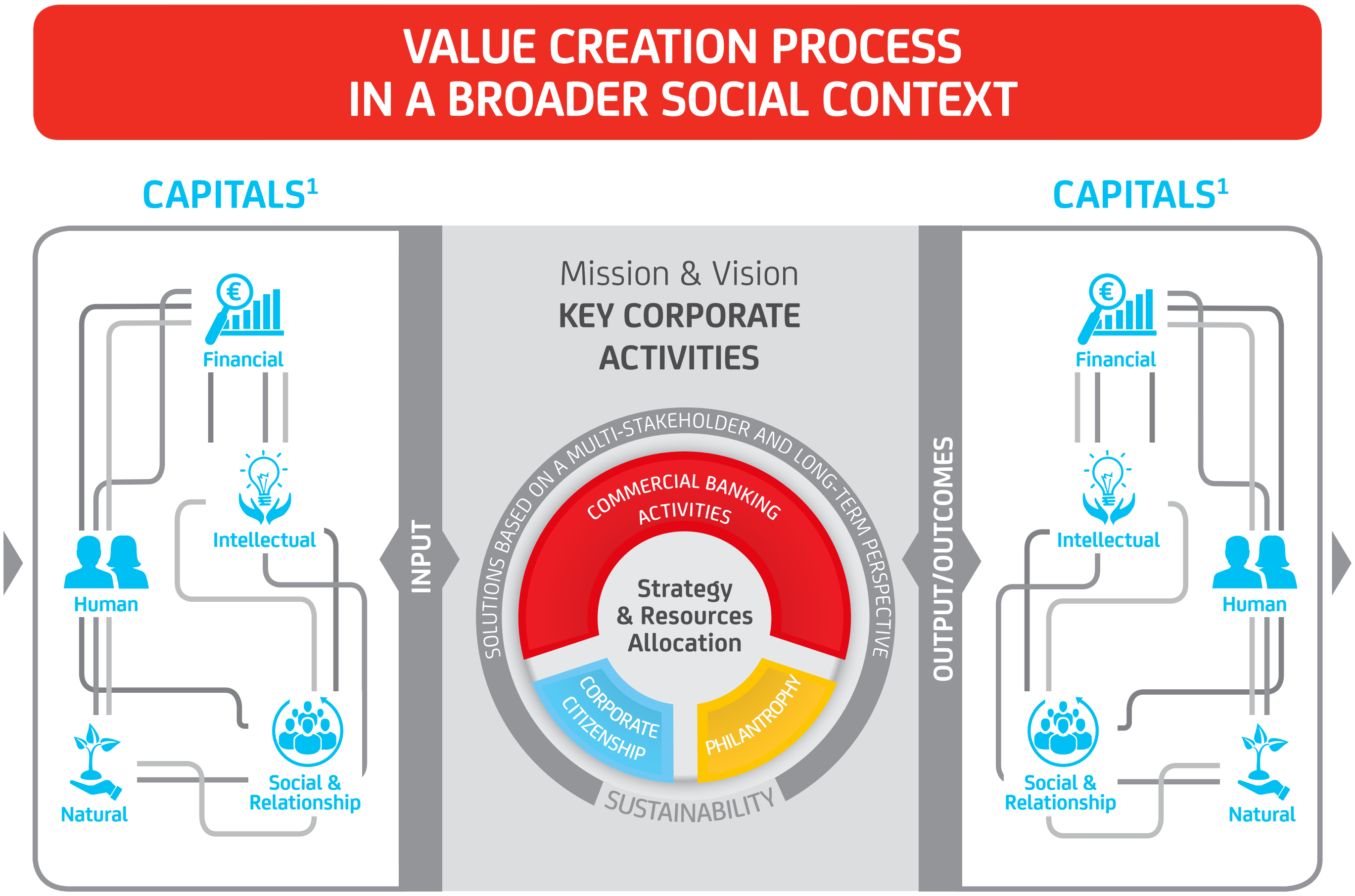
ASSET GATHERING

Innovative financial services that combine the efficiency of digital channels with advisory expertise.

Our Approach

UniCredit holds significant responsibilities within a complex value chain and we use different types of capitals -financial, human, social, intellectual and environmental as inputs to contribute to our economy and society at large. These inputs heavily influence our business model and the quality of the products and services that we provide, i.e., our outputs.

We have studied our impact extensively, and we have become ever more aware of the vital role we play in the real economies of the countries where we operate. A responsible approach guides everything we do, from our core banking activities to our corporate citizenship initiatives. These initiatives emphasize financial inclusion and education, complementing our philanthropy in the field of social inclusion. We strongly believe that communities that provide a genuine diversity of opportunities nurture the innovative environment that enables both people and businesses to thrive.



1. See 2014 Group Integrated Report for details.
Source: adapted from the IIRC framework.

Our Multi-Channel Banking

One of the cornerstones of our business plan effectively represents the transformation of commercial banking in the markets where we operate. The continued expansion of our digital offerings and the rapid improvement of our Group's multichannel platform are at the heart of the profound changes we are making to our bank's distribution model.

Greater integration between our physical and virtual channels will bring us closer to our customers and allow us to provide them superior service. The associated challenges go beyond simply providing virtual banking. We need to maintain close ties to our customers, even as social and market trends generate new complexity and reshape the future of our business environment. These circumstances have resulted in a strategy designed to ensure the compatibility of sales and after-sales processes, high ease of access in connection with both in-branch and remote customer experiences, straightforward communication with relationship managers and specialists through our multimedia channels, and the refinement of the electronic network that underpins our digital content and communication.

A NEW APPROACH TO SERVE OUR CUSTOMERS

WELCOMING

- Proactive welcome in the branch
- New 'warm' and transparent layout, digital signage

ACCESSIBLE

- Off-Site Advisory at customer's house/ office
- Multimedia advice beyond the officehours and support on service and post-sales item outside the bank

SEAMLESS

- Fully integrated Digital-Physical channels
- Key moments managed in real time (recall on card cancellation)

INNOVATIVE

- Simple products, in line with client needs
- New non-banking services (E-Commerce, Real Estate, Market Place)

COMPETENT

- One access point, simple and intuitive
- A new advice service through a structured interview and reporting on investments, protection, welfare

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