

**BANK POLSKA KASA OPIEKI S.A. CAPITAL  
GROUP  
WARSAW, GRZYBOWSKA 53/57**

**AUDITOR'S OPINION  
AND  
AUDIT REPORT  
ON CONSOLIDATED FINANCIAL  
STATEMENTS  
FOR THE 2014 FINANCIAL YEAR**

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## 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.***

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK POLSKA KASA OPIEKI S.A. CAPITAL GROUP FOR THE 2014 FINANCIAL YEAR

### I. GENERAL INFORMATION

#### 1. Details of the audited Parent Company

The Parent Company of the Bank Polska Kasa Opieki S.A. Capital Group („Capital Group”) operates under the business name Bank Polska Kasa Opieki S.A. („Bank”). The Bank’s registered office is located in Warsaw at Grzybowska 53/57.

The Bank operates as a joint stock company. The Bank is in the Commercial Register kept by the District Court in Capital City Warsaw, XII Business-Registry Division of the National Court Register, under KRS number 0000014843.

The Bank operates based on the provisions of the Code of Commercial Companies and Banking Law.

As of 31 December 2014, the Bank’s share capital amounted to PLN 262,470 thousand and was divided into 262,470,034 ordinary shares with a face value of PLN 1 each.

Composition of the Management Board of the Bank as at the date of the opinion:

- |                    |                                |
|--------------------|--------------------------------|
| – Luigi Lovaglio   | – President of the Board,      |
| – Diego Biondo     | – Vice-President of the Board, |
| – Andrzej Kopyrski | – Vice-President of the Board, |
| – Grzegorz Piwowar | – Vice-President of the Board, |
| – Stefano Santini  | – Vice-President of the Board, |
| – Marian Ważyński  | – Vice-President of the Board. |

During the audited period and until the date of the opinion there were no changes in the composition of the Management Board.

#### 2. Structure of the Capital Group

The consolidated financial statements as of 31 December 2014 included the following entities:

- a) Parent Company – Bank Polska Kasa Opieki S.A.

We have audited the financial statements of Bank Polska Kasa Opieki S.A. for the period from 1 January to 31 December 2014. As a result of our audit, on 10 February 2015 we issued an unqualified opinion.

- b) Companies subject to full consolidation:

Name and address of the Company	Interest in the share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity
Pekao Bank Hipoteczny S.A., Warsaw	100.00	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. Unqualified	31 December 2014
Centralny Dom Maklerski S.A., Warsaw	100.00	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. Unqualified	31 December 2014

Pekao Leasing Sp. z o.o. (*), Warsaw	36.49	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. Unqualified	31 December 2014
Pekao Leasing Holding S.A., Warsaw	100.00	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. Unqualified	31 December 2014
Pekao Faktoring Sp. z o.o., Lublin	100.00	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. Unqualified	31 December 2014
Pekao Pioneer Powszechne Towarzystwo Emerytalne, Warsaw	65.00	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. Unqualified	31 December 2014
Centrum Kart S.A., Warsaw	100.00	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. Unqualified	31 December 2014
Pekao Financial Services Sp. z o.o., Warsaw	100.00	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. Unqualified	31 December 2014
Centrum Bankowości Bezpośredniej Sp. z o.o., Kraków	100.00	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. Unqualified	31 December 2014
Pekao Property S.A., Warsaw	100.00	I.J. Konieczny biegli rewidenci s.c, Unqualified	31 December 2014
Pekao Fundusz Kapitałowy Sp. z o.o., Warsaw	100.00	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. In progress	31 December 2014
Pekao Telecentrum, Sp. z o.o. w likwidacji, Warsaw	100.00	Financial statements are not audited	31 December 2014

(\*) 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.).

c) Companies subject to equity method of consolidation:

Name and address of the Company	Interest in the share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity
Dom Inwestycyjny Xelion Sp. z o.o., Warsaw	50.00	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. Unqualified	31 December 2014
Pioneer Pekao Investment Management S.A., Warsaw	49.00	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. In progress	31 December 2014
Krajowa Izba Rozliczeniowa S.A., Warsaw	34.44	BDO Sp. z o.o. In progress	31 December 2014
CPF Management - Tortola, British Virgin Islands	40.00	The company does not prepare financial statements	Not applicable
Polish Banking System S.A. w likwidacji, Warsaw	48.90	The company does not prepare financial statements	Not applicable
PPU Budpress Sp. z o.o. w likwidacji, Żyrardów	36.20	The company does not prepare financial statements	Not applicable

On 26 September 2014 Pekao Property S.A. (the acquiring entity) merged with Property Sp. z o.o. w likwidacji (the acquired entity).

For the merger purposes, Pekao Property S.A. issued shares that was taken up by the Bank, the owner 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. The merger transaction was classified as business combination under common control and recognized at book value.

On 7 August 2014, the Bank acquired the remaining 19.90% of the issued shares of Pekao Leasing Holding S.A. 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.).

### **3. Information about the consolidated financial statements for the prior financial year**

The activities of the Capital Group in 2013 resulted in a net profit of PLN 2,794,990. The consolidated financial statements of the Capital Group for 2013 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. The certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the consolidated financial statements for the 2013 financial year was held on 12 June 2014.

In accordance with applicable laws, the consolidated financial statements for the 2013 financial year were submitted to the National Court Register (KRS) on 10 July 2014.

### **4. Details of the authorized entity and the key certified auditor acting on its behalf**

The entity authorized to audit the financial statements was appointed by the Shareholders' Meeting of the Bank. The audit of the consolidated financial statements was performed based on the agreement of 17 June 2013 concluded between Bank Polska Kasa Opieki S.A. and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the consolidated financial statements was conducted under the supervision of Dorota Snarska-Kuman, key certified auditor (No. 9667) in the registered office of the Bank, in its branches, as well as outside the Bank's premises from 13 October 2014 until the date of this opinion.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting audit confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws of 2009 No. 77, item 649, as amended) to express an unbiased and independent opinion on the consolidated financial statements of the Capital Group.

### **5. Availability of data and management's representations**

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations, were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of the Bank of 10 February 2015.

## **II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP**

Presented below are the main items from the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, as well

as financial ratios describing the financial performance of the Bank and its economic and financial position compared to the prior year, calculated based on the financial data included in the consolidated financial statements for the 2014 financial year.

<u>Main items from consolidated statement of financial position (PLN thousand)</u>	<u>31.12.2014</u>	<u>31.12.2013</u>
Total assets	167,625,028	158,521,712
Cash and due from Central Bank	9,226,254	4,191,229
Loans and advances to banks	7,169,872	7,547,785
Financial assets held for trading	448,453	188,377
Derivative financial instruments (held for trading)	4,447,975	1,996,934
Loans and advances to customers	111,871,948	101,012,515
Receivables from finance leases	3,112,048	2,931,248
Hedging instruments	470,822	250,186
Investment (placement) securities	24,712,776	34,995,737
Assets held for sale	37,102	45,864
Investments in associates	184,228	176,002
Intangible assets	627,032	626,571
Property, plant and equipment	1,544,139	1,589,636
Income tax assets	879,991	995,766
Other assets	2,856,928	1,942,501
Amounts due to other banks	5,344,702	6,417,657
Financial liabilities held for trading	591,311	309,742
Derivative financial instruments (held for trading)	4,417,706	2,051,501
Amounts due to customers	125,609,000	119,796,706
Hedging instruments	1,484,428	1,007,884
Debt securities issued	3,857,043	3,063,737
Provisions	442,456	393,537
Other liabilities	1,761,422	1,958,692
Total equity, including:	24,045,732	23,514,171
– Share capital	262,470	262,470
<u>Main items from consolidated income statements and consolidated comprehensive income statements (PLN thousand))</u>	<u>2014</u>	<u>2013</u>
Net interest income	4,461,294	4,505,562
Net fee and commission income	2,043,735	2,142,844
Result on financial assets and liabilities held for trading	443,301	465,057
Gains (losses) on disposal	272,055	305,139
Net impairment losses on financial assets and off-balance sheet commitments	(559,575)	(663,650)
Operating costs	(3,357,179)	(3,371,756)
Income tax expense	(634,573)	(659,240)
Net profit for the period	2,725,116	2,794,990
Total comprehensive income	3,215,736	2,357,765
<u>Ratio analysis</u>	<u>31.12.2014</u>	<u>31.12.2013</u>
Return on equity ratio (ROE)	11.46%	11.97%
Return on assets ratio (ROA)	1.66%	1.80%



Cost to income ratio	46.61%	46.04%
Capital adequacy ratio	17.30%	18.33%
Equity ratio	14.34%	14.83%

An analysis of the above figures and ratios indicated the following trends in 2014:

- return on equity ratio (ROE) calculated as a relation of net profit for the period to equity estimated as an average of the balance as at 31 December 2013 and balances as at the end of each month in 2014 decreased as at the end of 2014 and amounted to 11.46% in comparison to 11.97% as at the end of 2013,
- return on assets ratio (ROA) calculated as a relation of net profit for the period to total assets estimated as an average of the balances as at 31 December 2013 and 31 December 2014 decreased as at the end of 2014 and amounted to 1.66% in comparison to 1.80% as at the end of 2013,
- cost to income ratio calculated as a relation of total costs estimated as a sum of administrative expenses, depreciation and amortization, impairment allowances of property plant and equipment and intangible assets less refundation of administrative expenses to total income estimated as sum of net interest income, net fee and commission income, dividend income, result on financial assets and liabilities held for trading, result on fair value hedge accounting, gains (losses) on disposal and other operating income (less refundation of administrative expenses) increased from 46.04% for 2013 to 46.61% for 2014,
- capital adequacy ratio 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 investments firms as at the end of 2014 amounted to 17.30% in comparison to 18.33% as at the end of 2013,
- equity ratio calculated as a relation of total equity to the sum of total equity and total liabilities decreased as at the end of 2014 and amounted to 14.34% in comparison to 14.83% at the end of 2013.

### **Application of prudence principles**

During our audit we have not identified significant discrepancies indicating lack of application of prudence principles determined by Polish Law, resolutions of Management of National Bank of Poland and resolutions of Polish Financial Supervision Authority.

### **Capital ratio**

During our audit we have not identified significant discrepancies in the area of calculation of capital ratio as at 31 December 2014 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 investments firms.

## **III. DETAILED INFORMATION**

### **1. Information about the audited consolidated financial statements**

The audited consolidated financial statements were prepared as at 31 December 2014 and include:

- consolidated income statement for the period from 1 January 2014 to 31 December 2014, with a net profit in the amounts PLN 2,725,116 thousand,

- consolidated statement of comprehensive income for the period from 1 January 2014 to 31 December 2014 with a total comprehensive income of PLN 3,215,736 thousand,
- consolidated statement of financial position prepared as of 31 December 2014, with total assets and liabilities plus equity of PLN 167,625,028 thousand,
- consolidated statement of changes in equity for the period from 1 January 2014 to 31 December 2014, disclosing an increase in equity of PLN 531,561 thousand,
- consolidated cash flow statement for the period from 1 January 2014 to 31 December 2014, showing a cash inflow of PLN 4,940,322 thousand,
- explanatory notes, comprising a summary of significant accounting policies and other explanatory information.

The audit covered the period from 1 January 2014 to 31 December 2014 and focused mainly on:

- verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Bank;
- verification of the consolidation documentation;
- evaluation of the correctness of the consolidation methods and procedures applied during consolidation;
- review of opinions and reports on audits of financial statements of subsidiaries and associated companies included in consolidation, prepared by other certified auditors.

## **2. Consolidation documentation**

The Bank presented the consolidation documentation including:

- financial statements of entities included in the consolidated financial statements;
- financial statements of controlled entities, adjusted to International Financial Reporting Standards as adopted by the European Union (“IFRS”) and the accounting principles (policy) applied during consolidation;
- all consolidation adjustments and eliminations necessary for preparation of the consolidated financial statements;
- calculation of the fair value of the net assets of controlled entities;
- calculation of goodwill and gain from a bargain purchase as well as impairment losses for goodwill;
- calculation of non-controlling interests;
- calculation of exchange differences arising from translation of the financial statements of controlled entities denominated in foreign currencies.

The financial statements of the subsidiaries were consolidated using the full method, i.e. full amounts of all relevant items of the financial statements of the Bank and the subsidiaries included in consolidation were summed up.

The equity method was applied with respect to associated entities. The value of the Bank’s interest in the associated company was adjusted by increases or decreases in the equity of the associated company attributable to the Bank, which occurred in the period covered by consolidation, and decreased by dividends due from such companies.

The Bank preparing the consolidated financial statements has not applied any material simplifications and exceptions to the consolidation principles with respect to the controlled entities.

### **3. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Capital Group**

The Bank confirmed the validity of the going concern basis in preparation of the consolidated financial statements. The notes and explanations to the consolidated financial statements gives a description of measurement principles regarding assets and liabilities plus equity, financial performance and principles of preparation of the consolidated financial statements.

The Bank prepared notes in the form of tables to individual items of the consolidated statement of financial position and consolidated income statement and consolidated statement of comprehensive income as well as narrative descriptions in line with the requirement of IFRS.

The Management Board of Bank prepared and supplemented the consolidated financial statements with a report on the activities of the Capital Group in the 2014 financial year. The report contains information determined by Article 49 of the Accounting Act and the Ordinance of the Minister of Finance Ordinance 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). We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

## **IV. CLOSING COMMENTS**

### Management Board's Representations

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Bank's Management Board, in which the Board stated that the Capital Group complied with the laws in force.

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

*"Delivering good results in sustainable way requires a lot of hard work, fair approach to customers and employees and consistency in improving the way we operate."*



Dear Shareholders,

Group Pekao reports strong results with net profit for year 2014 reaching 2 715 mln PLN. 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, following again disappointingly 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.

We perform in this environment 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 17,3%.

We continued improving our market shares in lending, increasing our financing to Polish enterprises and families by more than 11 bln PLN. 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 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 3 bln PLN 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 thorough 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.

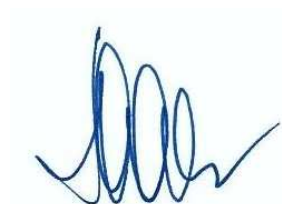
Recently Polish banking sector faced challenge of mortgage in CHF because of significant appreciating of this currency. Pekao was not involved in this popular few years ago competition of offering such mortgages. Ethical concerns were the main reason, why since 2003 we decided not to participate in CHF 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.

Delivering good results in sustainable way requires a lot of hard work, fair approach to customers and employees and consistency in improving the way we operate.

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.

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

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

# **Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2014**



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# Consolidated income statement

(In PLN thousand)

	NOTE	2014			2013		
		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)
<b>Net interest income</b>		<b>4 461 294</b>	<b>-</b>	<b>4 461 294</b>	<b>4 443 888</b>	<b>61 674</b>	<b>4 505 562</b>
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)
<b>Net fee and commission income</b>		<b>2 043 735</b>	<b>-</b>	<b>2 043 735</b>	<b>2 131 672</b>	<b>11 172</b>	<b>2 142 844</b>
Dividend income	12	8 298	-	8 298	6 756	-	6 756
<b>Result on financial assets and liabilities held for trading</b>	13	<b>443 301</b>	<b>-</b>	<b>443 301</b>	<b>467 407</b>	<b>(2 350)</b>	<b>465 057</b>
<b>Result on fair value hedge accounting</b>	30	<b>(17 247)</b>	<b>-</b>	<b>(17 247)</b>	<b>(17 423)</b>	<b>-</b>	<b>(17 423)</b>
<b>Gains (losses) on disposal of:</b>	14	<b>272 055</b>	<b>-</b>	<b>272 055</b>	<b>305 139</b>	<b>-</b>	<b>305 139</b>
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)
<b>Operating income</b>		<b>7 211 436</b>	<b>-</b>	<b>7 211 436</b>	<b>7 337 439</b>	<b>70 496</b>	<b>7 407 935</b>
<b>Net impairment losses on financial assets and off-balance sheet commitments:</b>	18	<b>(559 575)</b>	<b>-</b>	<b>(559 575)</b>	<b>(658 435)</b>	<b>(5 215)</b>	<b>(663 650)</b>
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)
<b>Net result on financial activity</b>		<b>6 651 861</b>	<b>-</b>	<b>6 651 861</b>	<b>6 679 004</b>	<b>65 281</b>	<b>6 744 285</b>
<b>Administrative expenses</b>	15	<b>(3 102 134)</b>	<b>-</b>	<b>(3 102 134)</b>	<b>(3 100 022)</b>	<b>(42 459)</b>	<b>(3 142 481)</b>
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)
<b>Depreciation and amortization</b>	16	<b>(326 679)</b>	<b>-</b>	<b>(326 679)</b>	<b>(343 662)</b>	<b>(2 696)</b>	<b>(346 358)</b>
<b>Net result on other provisions</b>		<b>(2 702)</b>	<b>-</b>	<b>(2 702)</b>	<b>13 661</b>	<b>-</b>	<b>13 661</b>
<b>Net other operating income and expenses</b>	17	<b>74 336</b>	<b>-</b>	<b>74 336</b>	<b>102 212</b>	<b>1 210</b>	<b>103 422</b>
<b>Operating costs</b>		<b>(3 357 179)</b>	<b>-</b>	<b>(3 357 179)</b>	<b>(3 327 811)</b>	<b>(43 945)</b>	<b>(3 371 756)</b>
<b>Gains (losses) on subsidiaries and associates</b>	19	<b>63 210</b>	<b>-</b>	<b>63 210</b>	<b>59 425</b>	<b>-</b>	<b>59 425</b>
<b>Gains (losses) on disposal of property, plant and equipment, and intangible assets</b>	20	<b>1 797</b>	<b>-</b>	<b>1 797</b>	<b>22 276</b>	<b>-</b>	<b>22 276</b>
<b>Profit before income tax</b>		<b>3 359 689</b>	<b>-</b>	<b>3 359 689</b>	<b>3 432 894</b>	<b>21 336</b>	<b>3 454 230</b>
<b>Income tax expense</b>	21	<b>(634 573)</b>	<b>-</b>	<b>(634 573)</b>	<b>(655 386)</b>	<b>(3 854)</b>	<b>(659 240)</b>
<b>Net profit for the period</b>		<b>2 725 116</b>	<b>-</b>	<b>2 725 116</b>	<b>2 777 508</b>	<b>17 482</b>	<b>2 794 990</b>
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
<b>Earnings per share (in PLN per share)</b>							
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 10 - 147 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

# Consolidated statement of comprehensive income

(In PLN thousand)

	NOTE	2014	2013
<b>Net profit</b>		<b>2 725 116</b>	<b>2 794 990</b>
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
<b>Other comprehensive income</b>			
<b>Item that are or may be reclassified subsequently to profit or loss:</b>			
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
<b>Items that will never be reclassified to profit or loss:</b>			
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
<b>Other comprehensive income (net of tax)</b>		<b>490 620</b>	<b>(437 225)</b>
<b>Total comprehensive income</b>		<b>3 215 736</b>	<b>2 357 765</b>
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 10 - 147 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

# Consolidated statement of financial position

(In PLN thousand)

	NOTE	31.12.2014	31.12.2013
<b>ASSETS</b>			
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
<b>TOTAL ASSETS</b>		<b>167 625 028</b>	<b>158 521 712</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Liabilities</b>			
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
<b>TOTAL LIABILITIES</b>		<b>143 579 296</b>	<b>135 007 541</b>
<b>Equity</b>			
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
<b>Total equity attributable to equity holders of the Bank</b>		<b>24 017 689</b>	<b>23 419 883</b>
Non - controlling interests	51	28 043	94 288
<b>TOTAL EQUITY</b>		<b>24 045 732</b>	<b>23 514 171</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>167 625 028</b>	<b>158 521 712</b>

Notes to the financial statements presented on pages 10 - 147 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

# Consolidated statement of changes in equity

(In PLN thousand)

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										NON - CONTROLLING INTERESTS	TOTAL EQUITY
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES							RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		
Note	49	50	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER			51	
<b>Equity as at 1.01.2014</b>	<b>262 470</b>	<b>20 564 611</b>	<b>9 137 221</b>	<b>1 937 850</b>	<b>9 070 200</b>	<b>50 117</b>	<b>1 238</b>	<b>367 985</b>	<b>2 592 802</b>	<b>23 419 883</b>	<b>94 288</b>	<b>23 514 171</b>
<b>Management options</b>	-	(697)	-	-	-	-	-	(697)	-	(697)	-	(697)
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation of management share options	-	(697)	-	-	-	-	-	(697)	-	(697)	-	(697)
<b>Comprehensive income</b>	-	<b>490 620</b>	-	-	-	<b>490 689</b>	<b>(69)</b>	-	<b>2 714 714</b>	<b>3 205 334</b>	<b>10 402</b>	<b>3 215 736</b>
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
<b>Appropriation of retained earnings</b>	-	<b>(71 614)</b>	-	-	<b>(74 995)</b>	-	-	<b>3 381</b>	<b>(2 542 641)</b>	<b>(2 614 255)</b>	<b>(4 823)</b>	<b>(2 619 078)</b>
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)
<b>Other</b>	-	<b>7 424</b>	-	-	<b>7 424</b>	-	-	-	-	<b>7 424</b>	<b>(71 824)</b>	<b>(64 400)</b>
Acquisition of non-controlling interests	-	7 424	-	-	7 424	-	-	-	-	7 424	(71 824)	(64 400)
<b>Equity as at 31.12.2014</b>	<b>262 470</b>	<b>20 990 344</b>	<b>9 137 221</b>	<b>1 937 850</b>	<b>9 002 629</b>	<b>540 806</b>	<b>1 169</b>	<b>370 669</b>	<b>2 764 875</b>	<b>24 017 689</b>	<b>28 043</b>	<b>24 045 732</b>

Notes to the financial statements presented on pages 10 - 147 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

## Consolidated statement of changes in equity (cont.)

(In PLN thousand)

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK								RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER				
Note	49	50							50		51	
<b>Equity as at 1.01.2013</b>	<b>262 470</b>	<b>20 011 970</b>	<b>9 137 221</b>	<b>1 737 850</b>	<b>8 364 152</b>	<b>508 021</b>	<b>(128 768)</b>	<b>393 494</b>	<b>2 896 975</b>	<b>23 171 415</b>	<b>92 237</b>	<b>23 263 652</b>
<b>Management options</b>	-	<b>(9 860)</b>	-	-	-	-	-	<b>(9 860)</b>	-	<b>(9 860)</b>	<b>(33)</b>	<b>(9 893)</b>
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation of management share options	-	(9 860)	-	-	-	-	-	(9 860)	-	(9 860)	(33)	(9 893)
<b>Comprehensive income</b>	-	<b>(445 164)</b>	-	-	-	<b>(457 904)</b>	<b>12 740</b>	-	<b>2 792 718</b>	<b>2 347 554</b>	<b>10 211</b>	<b>2 357 765</b>
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
<b>Appropriation of retained earnings</b>	-	<b>707 080</b>	-	<b>200 000</b>	<b>489 405</b>	-	-	<b>17 675</b>	<b>(2 909 204)</b>	<b>(2 202 124)</b>	<b>(8 127)</b>	<b>(2 210 251)</b>
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)	-	-	-
<b>Other</b>	-	<b>300 585</b>	-	-	<b>216 643</b>	-	<b>117 266</b>	<b>(33 324)</b>	<b>(187 687)</b>	<b>112 898</b>	-	<b>112 898</b>
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)
<b>Equity as at 31.12.2013</b>	<b>262 470</b>	<b>20 564 611</b>	<b>9 137 221</b>	<b>1 937 850</b>	<b>9 070 200</b>	<b>50 117</b>	<b>1 238</b>	<b>367 985</b>	<b>2 592 802</b>	<b>23 419 883</b>	<b>94 288</b>	<b>23 514 171</b>

Notes to the financial statements presented on pages 10 - 147 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

# Consolidated cash flow statement

(In PLN thousand)

	NOTE	2014	2013
<b>Cash flow from operating activities – indirect method</b>			
<b>Net profit for the period</b>		<b>2 714 714</b>	<b>2 784 779</b>
<b>Adjustments for:</b>		<b>(7 953 110)</b>	<b>4 114 320</b>
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)
<b>Net cash flows from operating activities</b>		<b>(5 238 396)</b>	<b>6 899 099</b>
<b>Cash flow from investing activities</b>			
<b>Investing activity inflows</b>		<b>407 980 528</b>	<b>434 021 780</b>
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
<b>Investing activity outflows</b>		<b>(395 889 319)</b>	<b>(439 262 333)</b>
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)
<b>Net cash flows from investing activities</b>		<b>12 091 209</b>	<b>(5 240 553)</b>

Notes to the financial statements presented on pages 10 - 147 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

## Consolidated cash flow statement (cont.)

(In PLN thousand)

	NOTE	2014	2013
<b>Cash flows from financing activities</b>			
<b>Financing activity inflows</b>		<b>6 015 875</b>	<b>3 667 197</b>
Issue of debt securities	42	6 015 875	3 667 197
<b>Financing activity outflows</b>		<b>(7 928 366)</b>	<b>(7 524 671)</b>
Redemption of debt securities	42	(5 314 164)	(5 322 547)
Dividends and other payments to shareholders		(2 614 202)	(2 202 124)
<b>Net cash flows from financing activities</b>		<b>(1 912 491)</b>	<b>(3 857 474)</b>
<b>Total net cash flows</b>		<b>4 940 322</b>	<b>(2 198 928)</b>
including: effect of exchange rate fluctuations on cash and cash equivalents held		183 208	4 924
<b>Net change in cash and cash equivalents</b>		<b>4 940 322</b>	<b>(2 198 928)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>10 615 862</b>	<b>12 814 790</b>
<b>Cash and cash equivalents at the end of the period</b>	52	<b>15 556 184</b>	<b>10 615 862</b>

Notes to the financial statements presented on pages 10 - 147 and annexes to the financial statements presented on pages I - VII constitute an integral part of the consolidated financial statements.

# Notes to the financial statements (cont.)

(In PLN thousand)

**The accompanying notes to the financial 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 established 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.



# Notes to the financial statements (cont.)

(In PLN thousand)

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.

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
<b>TOTAL ASSETS</b>	<b>313 191</b>
Amounts due to customers	405 179
Deferred tax liabilities	2 425
Provisions	1 963
Other liabilities	6 510
<b>TOTAL LIABILITIES</b>	<b>416 077</b>
<b>TOTAL NET ASSETS</b>	<b>(102 886)</b>

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.

## Notes to the financial statements (cont.)

(In PLN thousand)

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.

### 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
<i>Pekao Leasing Sp. z o.o.</i>	<i>Warsaw</i>	<i>Leasing services</i>	<i>63.51</i>	<i>50.87</i>
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
<i>FPB - Media Sp. z o.o.</i>	<i>Warsaw</i>	<i>Real estate development</i>	<i>100.00</i>	-
Property Sp. z o.o. (in liquidation), including:	Warsaw	Real estate management	-	100.00
<i>FPB - Media Sp. z o.o.</i>	<i>Warsaw</i>	<i>Real estate development</i>	-	<i>100.00</i>
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.

# Notes to financial statements (cont.)

(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
<b>TOTAL ASSETS</b>	<b>16 713</b>
Other liabilities	1
<b>TOTAL LIABILITIES</b>	<b>1</b>
<b>TOTAL NET ASSETS</b>	<b>16 712</b>

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)	-
<b>Increase in equity attributable to equity holders of the Bank</b>	<b>7 424</b>	<b>-</b>

# Notes to the financial statements (cont.)

(In PLN thousand)

## 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.

# Notes to the financial statements (cont.)

(In PLN thousand)

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.

## Notes to the financial statements (cont.)

(In PLN thousand)

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.

## Notes to the financial statements (cont.)

(In PLN thousand)

### 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 recognised prospectively starting from the period in which the estimates are revised.

Information on the applied estimates and the underlying uncertainty 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').

# Notes to the financial statements (cont.)

(In PLN thousand)

## **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.

## **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.



# Notes to the financial statements (cont.)

(In PLN thousand)

- Companies of the Group**

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

Financial statements of the Bank's Branch in Paris 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.

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.

# Notes to the financial statements (cont.)

(In PLN thousand)

## 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 is 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 performed 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.

# Notes to the financial statements (cont.)

(In PLN thousand)

## **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.

# Notes to the financial statements (cont.)

(In PLN thousand)

- **Available for sale**

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

## Notes to the financial statements (cont.)

(In PLN thousand)

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

## Notes to the financial statements (cont.)

(In PLN thousand)

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 carried 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 carried 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.

# Notes to the financial statements (cont.)

(In PLN thousand)

## Off-balance sheet commitments

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

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

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

## Repo and reverse-repo agreements

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

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

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

## Derivative financial instruments and hedge accounting

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

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

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

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

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

## Notes to the financial statements (cont.)

(In PLN thousand)

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.



# Notes to the financial statements (cont.)

(In PLN thousand)

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

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the 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.

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.

# Notes to the financial statements (cont.)

(In PLN thousand)

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

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

## Investment properties

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

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

# Notes to the financial statements (cont.)

(In PLN thousand)

## **Non-current assets held for sale and discontinued operations**

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

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

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

## **Leases**

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

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

### **Operating leases**

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

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

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

### **Finance leases**

#### **The Group as lessor**

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

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

#### **The Group as lessee**

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

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

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.

# Notes to the financial statements (cont.)

(In PLN thousand)

## 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 than 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,

# Notes to the financial statements (cont.)

(In PLN thousand)

- 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.

# Notes to the financial statements (cont.)

(In PLN thousand)

## 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.

# Notes to the financial statements (cont.)

(In PLN thousand)

## 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.

## Notes to the financial statements (cont.)

(In PLN thousand)

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.



# Notes to the financial statements (cont.)

(In PLN thousand)

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

- For the retail clients, the Bank has developed three separate models applicable for:
  - mortgage loans,
  - consumer loans,
  - non-installment loans (limits).
- 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.
- The Bank divides clients belonging to corporate segment (except for financial institutions, municipalities and clients requiring specialist financing) into the following groups:
  - clients with income not exceeding PLN 30 million,
  - clients with income exceeding PLN 30 million.

## Rating scale

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

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

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

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

RATING ASS	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%

# Notes to the financial statements (cont.)

(In PLN thousand)

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

RATING CLASS	RANGE OF PD	NOMINAL VALUE	
		31.12.2014	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%
<b>Total</b>		<b>100.0%</b>	<b>100.0%</b>

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%
<b>Total</b>		<b>100.0%</b>	<b>100.0%</b>

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

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

SUPERVISORY CATEGORY	NOMINAL VALUE	
	31.12.2014	31.12.2013
High	33.3%	16.2%
Good	46.0%	76.4%
Satisfactory	20.5%	4.2%
Low	0.2%	3.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

# Notes to the financial statements (cont.)

(In PLN thousand)

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

Decision-making level connected with transaction approval is directly dependent upon client's rating.

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

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

## **Validation of rating models**

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

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

## **Group's exposure to credit risk**

### **The maximum credit risk exposure**

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

	31.12.2014	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
<b>Balance sheet exposure (***)</b>	<b>160 978 628</b>	<b>153 010 806</b>
Obligations to grant loans	27 281 560	26 718 217
Other contingent liabilities	14 338 636	11 725 220
<b>Off-balance sheet exposure</b>	<b>41 620 196</b>	<b>38 443 437</b>
<b>Total</b>	<b>202 598 824</b>	<b>191 454 243</b>

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

(\*\*) Includes the following items of the statement of financial position: 'Investments in associates' and part of 'Other assets' (Accrued income, Interbank and interbranch settlements, Other debtors and Card settlements).

(\*\*\*) Balance sheet exposure is equal to the carrying amount presented in the statement of financial position.

# Notes to the financial statements (cont.)

(In PLN thousand)

## Credit risk mitigation methods

Bank Pekao S.A. Group has established specific policies with regard to collateral accepted to secure loans and guarantees. This policy is reflected under internal rules and regulations, which are based on supervision rules, specified in 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.

# Notes to the financial statements (cont.)

(In PLN thousand)

## Offsetting financial assets and financial liabilities

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

The netting agreements concluded by the Group are:

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

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

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

- derivatives,
- repo and reverse-repo transactions.

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

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

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

31.12.2014	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

# Notes to the financial statements (cont.)

(In PLN thousand)

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

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
<b>FINANCIAL ASSETS</b>					
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
<b>FINANCIAL LIABILITIES</b>					
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

# Notes to the financial statements (cont.)

(In PLN thousand)

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
<b>FINANCIAL ASSETS</b>					
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
<b>FINANCIAL LIABILITIES</b>					
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.

# Notes to the financial statements (cont.)

(In PLN thousand)

## The quality analysis of the Group's financial assets

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED</b>				
- 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
<b>Total gross carrying amount</b>	<b>9 160</b>	<b>18 089</b>	<b>5 382 399</b>	<b>5 327 253</b>
<b>ALLOWANCE FOR IMPAIRMENT</b>				
- 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)
<b>Total allowance for impairment</b>	<b>(9 160)</b>	<b>(9 788)</b>	<b>(2 972 295)</b>	<b>(2 706 151)</b>
<b>Net carrying amount of exposure individually impaired</b>	<b>-</b>	<b>8 301</b>	<b>2 410 104</b>	<b>2 621 102</b>
<b>GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED</b>				
- 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
<b>Total gross carrying amount</b>	<b>9 800</b>	<b>15 662</b>	<b>2 854 663</b>	<b>2 619 499</b>
<b>ALLOWANCE FOR IMPAIRMENT</b>				
- 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)
<b>Total allowance for impairment</b>	<b>(9 800)</b>	<b>(15 662)</b>	<b>(2 295 809)</b>	<b>(2 023 479)</b>
<b>Net carrying amount of exposure collectively impaired</b>	<b>-</b>	<b>-</b>	<b>558 854</b>	<b>596 020</b>

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



# Notes to the financial statements (cont.)

(In PLN thousand)

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)			
	31.12.2014	31.12.2013	CORPORATE		RETAIL	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT</b>						
- 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
<b>Total gross carrying amount</b>	<b>7 176 334</b>	<b>7 546 525</b>	<b>65 667 433</b>	<b>58 803 361</b>	<b>46 843 983</b>	<b>42 390 398</b>
<b>IBNR PROVISION</b>						
- 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)
<b>Total IBNR provision</b>	<b>(442)</b>	<b>(300)</b>	<b>(261 154)</b>	<b>(224 380)</b>	<b>(241 079)</b>	<b>(249 249)</b>
<b>Net carrying amount of exposure with no impairment</b>	<b>7 175 892</b>	<b>7 546 225</b>	<b>65 406 279</b>	<b>58 578 981</b>	<b>46 602 904</b>	<b>42 141 149</b>

(\*) 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
<b>IMPAIRED EXPOSURE</b>				
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)
<b>Total net carrying amount</b>	<b>-</b>	<b>8 301</b>	<b>2 968 958</b>	<b>3 217 122</b>
<b>EXPOSURES WITH IMPAIRMENT TRIGGERS FOR WHICH NO IMPAIRMENT HAS BEEN IDENTIFIED</b>				
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)
<b>Total net carrying amount</b>	<b>-</b>	<b>-</b>	<b>62 935</b>	<b>150 476</b>
<b>EXPOSURES WITH NO IMPAIRMENT TRIGGERS</b>				
Gross carrying amount	7 176 334	7 546 525	112 446 661	101 039 695
IBNR provision	(442)	(300)	(500 413)	(470 041)
<b>Total net carrying amount</b>	<b>7 175 892</b>	<b>7 546 225</b>	<b>111 946 248</b>	<b>100 569 654</b>

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

# Notes to the financial statements (cont.)

(In PLN thousand)

Classification of exposures to debt securities according to Standard & Poor's ratings as at 31 December 2014

RATING	DEBT SECURITIES				TOTAL
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS	
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
<b>Total</b>	<b>448 453</b>	<b>23 039 453</b>	<b>1 601 568</b>	<b>7 716 100</b>	<b>32 805 574</b>

(\*) 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				TOTAL
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS	
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
<b>Total</b>	<b>188 377</b>	<b>33 015 387</b>	<b>1 961 770</b>	<b>5 694 771</b>	<b>40 860 305</b>

(\*) 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						TOTAL
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
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

# Notes to the financial statements (cont.)

(In PLN thousand)

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

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

## 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 forbore 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 forbore 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 forbore 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 forbore 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.

# Notes to the financial statements (cont.)

(In PLN thousand)

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
<b>LOANS AND ADVANCES TO CUSTOMERS</b>		
<b>Exposures with no impairment, of which:</b>	<b>112 009 181</b>	<b>100 720 130</b>
forborne exposures	450 050	377 681
<b>Impaired exposures, of which:</b>	<b>2 968 958</b>	<b>3 217 122</b>
forborne exposures	1 718 075	1 554 655
<b>Total net carrying amount, of which:</b>	<b>114 978 139</b>	<b>103 937 252</b>
forborne exposures	2 168 125	1 932 336

## The quality analysis of forborne exposures

	31.12.2014	31.12.2013
<b>Exposures with no impairment</b>		
Gross carrying amount	490 667	408 582
IBNR provisions	(40 617)	(30 901)
<b>Net carrying amount</b>	<b>450 050</b>	<b>377 681</b>
<b>Impaired exposures</b>		
Gross carrying amount, of which:		
exposures individually impaired	2 866 373	2 440 750
exposures collectively impaired	2 725 502	2 439 955
exposures collectively impaired	140 871	795
Allowances for impairment, of which:		
exposures individually impaired	(1 148 298)	(886 095)
exposures collectively impaired	(1 066 135)	(885 672)
exposures collectively impaired	(82 163)	(423)
<b>Net carrying amount</b>	<b>1 718 075</b>	<b>1 554 655</b>
<b>Total net carrying amount</b>	<b>2 168 125</b>	<b>1 932 336</b>

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).

# Notes to the financial statements (cont.)

(In PLN thousand)

The quality analysis of forborne exposures broken down by delays in repayment

	31.12.2014	31.12.2013
<b>Gross carrying amount of exposures with no impairment, of which:</b>	<b>490 667</b>	<b>408 582</b>
- 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
<b>IBNR provisions for exposures with no impairment, of which:</b>	<b>(40 617)</b>	<b>(30 901)</b>
- 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)
<b>Gross carrying amount of impaired exposures, of which:</b>	<b>2 866 373</b>	<b>2 440 750</b>
- 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
<b>Allowances for impairment, of which:</b>	<b>(1 148 298)</b>	<b>(886 095)</b>
- 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)
<b>Total net carrying amount</b>	<b>2 168 125</b>	<b>1 932 336</b>

Changes in net carrying amount of forborne exposures

	2014	2013
<b>Net carrying amount at the beginning of period</b>	<b>1 932 336</b>	<b>1 718 376</b>
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)
<b>Net carrying amount at the end of period</b>	<b>2 168 125</b>	<b>1 932 336</b>
Interest income	198 910	190 916

# Notes to the financial statements (cont.)

(In PLN thousand)

## 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
<b>Total gross carrying amount</b>	<b>3 357 040</b>	<b>2 849 332</b>
Impairment allowances	(1 188 915)	(916 996)
<b>Total net carrying amount</b>	<b>2 168 125</b>	<b>1 932 336</b>

## 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
<b>Total gross carrying amount</b>	<b>3 357 040</b>	<b>2 849 332</b>
Impairment allowances	(1 188 915)	(916 996)
<b>Total net carrying amount</b>	<b>2 168 125</b>	<b>1 932 336</b>

## 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
<b>Total gross carrying amount</b>	<b>3 357 040</b>	<b>2 849 332</b>
Impairment allowances	(1 188 915)	(916 996)
<b>Total net carrying amount</b>	<b>2 168 125</b>	<b>1 932 336</b>

# Notes to the financial statements (cont.)

(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
<b>Total gross carrying amount</b>	<b>3 357 040</b>	<b>2 849 332</b>
Impairment allowances	(1 188 915)	(916 996)
<b>Total net carrying amount</b>	<b>2 168 125</b>	<b>1 932 336</b>

## 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%
<b>Total</b>	<b>9.4%</b>

### 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%
<b>Total</b>	<b>8.7%</b>

# Notes to the financial statements (cont.)

(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%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## 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.



# Notes to the financial statements (cont.)

(In PLN thousand)

The below table presents the Group's exposure towards the Ukrainian entities:

	31.12.2014	31.12.2013
<b>Balance sheet exposure</b>		
Loans and advances to banks	713 178	611 436
Loans and advances to customers	269 487	244 195
<b>Total gross carrying amount</b>	<b>982 665</b>	<b>855 631</b>
IBNR / Impairment allowances	(20 505)	(15 825)
<b>Total net carrying amount</b>	<b>962 160</b>	<b>839 806</b>
<b>Off-balance sheet exposure</b>		
Credit lines granted	4 028	3 895
<b>Total gross carrying amount</b>	<b>4 028</b>	<b>3 895</b>
IBNR	(14)	(11)
<b>Total net carrying amount</b>	<b>4 014</b>	<b>3 884</b>

## 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.

### 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 accessibility (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.

## Notes to the financial statements (cont.)

(In PLN thousand)

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.

## 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 occurrence of crisis situations, and
- provide solutions necessary to survive a crisis situation when such circumstances occur.

# Notes to the financial statements (cont.)

(In PLN thousand)

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.

## 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)	

# Notes to the financial statements (cont.)

(In PLN thousand)

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

## 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
<b>BALANCE SHEET LIABILITIES</b>						
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
<b>Total</b>	<b>101 887 596</b>	<b>15 643 120</b>	<b>13 373 152</b>	<b>2 476 752</b>	<b>2 802 700</b>	<b>136 183 320</b>
<b>OFF-BALANCE SHEET COMMITMENTS (**)</b>						
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
<b>Total</b>	<b>41 585 232</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41 585 232</b>

(\*) Including Central Bank.

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

31.12.2013	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
<b>BALANCE SHEET LIABILITIES</b>						
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
<b>Total</b>	<b>99 628 634</b>	<b>15 012 700</b>	<b>11 070 975</b>	<b>1 936 167</b>	<b>2 955 080</b>	<b>130 603 556</b>
<b>OFF-BALANCE SHEET COMMITMENTS (**)</b>						
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
<b>Total</b>	<b>38 175 002</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38 175 002</b>

(\*) 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'.

# Notes to the financial statements (cont.)

(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.

## Notes to the financial statements (cont.)

(In PLN thousand)

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.

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%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

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).

# Notes to the financial statements (cont.)

(In PLN thousand)

## 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 funds), 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.

### 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.

# Notes to the financial statements (cont.)

(In PLN thousand)

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
<b>CAPITAL REQUIREMENTS</b>		
Credit and counterparty risk	8 379 811	7 473 852
Market risk	192 563	127 683
Operational risk	705 781	1 054 131
<b>Total capital requirement</b>	<b>9 278 155</b>	<b>8 655 666</b>
<b>OWN FUNDS</b>		
Common Equity Tier 1 Capital	20 063 716	19 836 692
<b>Own funds for total capital ratio</b>	<b>20 063 716</b>	<b>19 836 692</b>
<b>OWN FUNDS REQUIREMENTS</b>		
Common Equity Tier 1 Capital ratio (%)	17.3%	18.3%
<b>Total capital ratio (%)</b>	<b>17.3%</b>	<b>18.3%</b>

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.



# Notes to the financial statements (cont.)

(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 (*)
<b>OWN FUNDS</b>		
<b>Capital</b>	<b>24 045 732</b>	<b>23 514 171</b>
<b>Different scope of consolidation</b>	<b>14 052</b>	<b>-</b>
<b>Component of the capital not included into own funds, in which:</b>	<b>(2 714 714)</b>	<b>(2 784 779)</b>
Current year net profit	(2 714 714)	(2 784 779)
<b>Regulatory adjustments, in which:</b>	<b>(1 281 354)</b>	<b>(892 700)</b>
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)
<b>Common Equity Tier 1 Capital</b>	<b>20 063 716</b>	<b>19 836 692</b>
<b>Own funds for total capital ratio</b>	<b>20 063 716</b>	<b>19 836 692</b>

(\*) 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.

## Notes to the financial statements (cont.)

(In PLN thousand)

### 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.

# Notes to the financial statements (cont.)

(In PLN thousand)

## 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.

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
<b>Assets:</b>	<b>16 308 012</b>	<b>11 803 880</b>	<b>366 566</b>	<b>28 478 458</b>
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
<b>Liabilities:</b>	<b>591 311</b>	<b>5 902 134</b>	<b>-</b>	<b>6 493 445</b>
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	-	-	-	-

# Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2013	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>Assets:</b>	<b>18 121 702</b>	<b>17 081 469</b>	<b>266 293</b>	<b>35 469 464</b>
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
<b>Liabilities:</b>	<b>309 742</b>	<b>3 059 385</b>	<b>-</b>	<b>3 369 127</b>
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	-	-	-	-

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)
<b>Opening balance</b>	<b>-</b>	<b>2 625</b>	<b>263 668</b>	<b>-</b>
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)	-	-	-
<b>Closing balance</b>	<b>99 784</b>	<b>2 967</b>	<b>263 815</b>	<b>-</b>
<b>Unrealized income from financial instruments held in portfolio until end of period, recognized in:</b>	<b>(343)</b>	<b>1 479</b>	<b>470</b>	<b>-</b>
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	-

# Notes to the financial statements (cont.)

(In PLN thousand)

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)
<b>Opening balance</b>	<b>306 977</b>	<b>24 360</b>	<b>962 867</b>	<b>24 360</b>
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)	-	-
<b>Closing balance</b>	<b>-</b>	<b>2 625</b>	<b>263 668</b>	<b>-</b>
<b>Unrealized income from financial instruments held in portfolio until end of period, recognized in:</b>	<b>-</b>	<b>(528)</b>	<b>351</b>	<b>-</b>
Income statement:	-	(528)	350	-
net interest income	-	-	350	-
result on financial assets and liabilities held for trading	-	(528)	-	-
Other components income	-	-	1	-

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)

# Notes to the financial statements (cont.)

(In PLN thousand)

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 derivatives	rate	3 624	Discounted cash flow	PD	18%-32%	158	(30)
			Discounted cash flow	LGD	39%-49%	36	(36)
Corporate securities	debt	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 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.

## Notes to the financial statements (cont.)

(In PLN thousand)

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	-
<b>Total Assets</b>	<b>132 981 855</b>	<b>131 954 063</b>	<b>4 163 924</b>	<b>19 532 701</b>	<b>108 257 438</b>
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	-
<b>Total Liabilities</b>	<b>134 811 716</b>	<b>134 581 039</b>	<b>-</b>	<b>10 305 719</b>	<b>124 275 320</b>

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

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.

# Notes to the financial statements (cont.)

(In PLN thousand)

## 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 depository 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.

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

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

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

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



# Notes to the financial statements (cont.)

(In PLN thousand)

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
<b>CLIENTS' FINANCIAL INSTRUMENTS</b>				
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
<b>Total</b>	<b>899 290</b>	<b>856 225</b>

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
<b>Total receivables</b>	<b>23 505</b>	<b>22 557</b>
Amounts due to clearing fund	-	4
Amounts due to clearing fund	-	-
Other liabilities	315	506
<b>Total liabilities</b>	<b>315</b>	<b>510</b>

# Notes to the financial statements (cont.)

(In PLN thousand)

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

	31.12.2014	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)
<b>Total net balance sheet items concerning participation in the compensation fund</b>	<b>-</b>	<b>-</b>

Settlement with entities running regulated securities markets and commodity exchanges

	31.12.2014	31.12.2013
Amounts due to Warsaw Stock Exchange	187	620
<b>Total liabilities</b>	<b>187</b>	<b>620</b>

## 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, private, corporate and investment banking departments, and the Assets and Liabilities Committee (ALCO) and other units are based on market process 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 activities 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 activities related to the most affluent individual customers,
- Corporate and Investment banking – all banking activities 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 managed 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 (cont.)

(In PLN thousand)

Operating segments reporting for the period from 1 January to 31 December 2014

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING		ASSETS AND LIABILITIES MANAGEMENT AND OTHER (*)	TOTAL
			CONTINUED OPERATIONS	DISCONTINUED OPERATIONS		
<b>Net interest income</b>	<b>2 581 237</b>	<b>39 084</b>	<b>1 487 563</b>	<b>-</b>	<b>424 918</b>	<b>4 532 802</b>
<b>Net non-interest income</b>	<b>1 642 311</b>	<b>29 712</b>	<b>1 062 910</b>	<b>-</b>	<b>77 995</b>	<b>2 812 928</b>
<b>Operating income</b>	<b>4 223 548</b>	<b>68 796</b>	<b>2 550 473</b>	<b>-</b>	<b>502 913</b>	<b>7 345 730</b>
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)
<b>Operating costs</b>	<b>(2 681 708)</b>	<b>(50 984)</b>	<b>(692 700)</b>	<b>-</b>	<b>(169)</b>	<b>(3 425 561)</b>
<b>Operating profit</b>	<b>1 541 840</b>	<b>17 812</b>	<b>1 857 773</b>	<b>-</b>	<b>502 744</b>	<b>3 920 169</b>
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
<b>Profit before income tax</b>	<b>1 320 459</b>	<b>18 656</b>	<b>1 516 366</b>	<b>-</b>	<b>504 208</b>	<b>3 359 689</b>
Income tax expense (continued operations)						(634 573)
Income tax expense (discontinued operations)				-		-
<b>Net profit for the period (continued operations)</b>						<b>2 725 116</b>
<b>Net profit for the period (discontinued operations)</b>				-		<b>-</b>
<b>Attributable to equity holders of the Bank</b>						<b>2 714 714</b>
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
<b>Total assets</b>						<b>167 625 028</b>
Allocated liabilities	63 726 590	6 760 983	69 271 939	-	(3 856 684)	135 902 828
Unallocated liabilities						31 722 200
<b>Total liabilities</b>						<b>167 625 028</b>

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

# Notes to the financial statements (cont.)

(In PLN thousand)

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

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING		ASSETS AND LIABILITIES MANAGEMENT AND OTHER (*)	TOTAL
			CONTINUED OPERATIONS	DISCONTINUED OPERATIONS		
<b>Net interest income</b>	<b>2 515 129</b>	<b>35 081</b>	<b>1 542 768</b>	<b>61 674</b>	<b>417 091</b>	<b>4 571 743</b>
<b>Net non-interest income</b>	<b>1 779 541</b>	<b>35 800</b>	<b>1 104 477</b>	<b>10 032</b>	<b>63 748</b>	<b>2 993 598</b>
<b>Operating income</b>	<b>4 294 670</b>	<b>70 881</b>	<b>2 647 245</b>	<b>71 706</b>	<b>480 839</b>	<b>7 565 341</b>
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)
<b>Operating costs</b>	<b>(2 695 554)</b>	<b>(44 993)</b>	<b>(694 150)</b>	<b>(45 155)</b>	<b>(3 546)</b>	<b>(3 483 398)</b>
<b>Operating profit</b>	<b>1 599 116</b>	<b>25 888</b>	<b>1 953 095</b>	<b>26 551</b>	<b>477 293</b>	<b>4 081 943</b>
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
<b>Profit before income tax</b>	<b>1 367 131</b>	<b>26 251</b>	<b>1 565 968</b>	<b>21 336</b>	<b>473 544</b>	<b>3 454 230</b>
Income tax expense (continued operations)						(655 386)
Income tax expense (discontinued operations)				(3 854)		(3 854)
<b>Net profit for the period (continued operations)</b>						<b>2 777 508</b>
<b>Net profit for the period (discontinued operations)</b>				<b>17 482</b>		<b>17 482</b>
<b>Attributable to equity holders of the Bank</b>						<b>2 784 779</b>
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
<b>Total assets</b>						<b>158 521 712</b>
Allocated liabilities	58 275 387	6 758 459	69 903 254	-	(4 169 831)	130 767 269
Unallocated liabilities						27 754 443
<b>Total liabilities</b>						<b>158 521 712</b>

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

Reconciliation of operating income for reportable segments

	2014	2013
<b>Total operating income for reportable segments</b>	<b>7 345 730</b>	<b>7 565 341</b>
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
<b>Operating income</b>	<b>7 211 436</b>	<b>7 407 935</b>

# Notes to the financial statements (cont.)

(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
<b>2014</b>			
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
<b>2013</b>			
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
<b>Total</b>	<b>6 225 290</b>	<b>6 774 290</b>

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)
<b>Total</b>	<b>(1 763 996)</b>	<b>(2 268 728)</b>

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).

# Notes to the financial statements (cont.)

(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
<b>Total</b>	<b>2 536 281</b>	<b>2 655 062</b>

### 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)
<b>Total</b>	<b>(492 546)</b>	<b>(512 218)</b>

## 12. Dividend income

	2014	2013
From issuers of securities available for sale	8 298	6 756
<b>Total</b>	<b>8 298</b>	<b>6 756</b>

## 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
<b>Total</b>	<b>443 301</b>	<b>465 057</b>

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).

# Notes to the financial statements (cont.)

(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
<b>Total</b>	<b>272 163</b>	<b>309 425</b>

### 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)
<b>Total</b>	<b>(108)</b>	<b>(4 286)</b>

<b>Net realized profit</b>	<b>272 055</b>	<b>305 139</b>
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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)
<b>Total</b>	<b>(1 905 070)</b>	<b>(1 881 175)</b>

### 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)
<b>Total</b>	<b>(1 197 064)</b>	<b>(1 261 306)</b>

<b>Total administrative expenses</b>	<b>(3 102 134)</b>	<b>(3 142 481)</b>
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# Notes to the financial statements (cont.)

(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)
<b>Total</b>	<b>(326 679)</b>	<b>(346 358)</b>

## 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
<b>Total</b>	<b>166 400</b>	<b>182 627</b>

### 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)
<b>Total</b>	<b>(92 064)</b>	<b>(79 205)</b>

<b>Net other operating income and expenses</b>	<b>74 336</b>	<b>103 422</b>
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## Notes to the financial statements (cont.)

(In PLN thousand)

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

2014	OPENING BALANCE	INCREASES			DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT(**)
		BUSINESS COMBINATIONS	IMPAIRMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPAIRMENT CHARGES	OTHER (*)		
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.

## Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

# Notes to the financial statements (cont.)

(In PLN thousand)

## 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
<b>Total share in gains (losses) from associates</b>	<b>63 210</b>	<b>59 425</b>

<b>Gains (losses) on disposal of subsidiaries and associates</b>	<b>-</b>	<b>-</b>
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<b>Total gains (losses) from subsidiaries and associates</b>	<b>63 210</b>	<b>59 425</b>
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## 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)
<b>Total gains (losses) on disposal of property plant and equipment and intangible assets</b>	<b>1 797</b>	<b>22 276</b>

## 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
<b>Profit before income tax</b>	<b>3 359 689</b>	<b>3 454 230</b>
<b>Tax charge according to applicable tax rate</b>	<b>638 341</b>	<b>656 304</b>
<b>Permanent differences:</b>	<b>(3 768)</b>	<b>2 936</b>
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
<b>Effective income tax charge on gross profit</b>	<b>634 573</b>	<b>659 240</b>

## Notes to the financial statements (cont.)

(In PLN thousand)

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

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

	2014	2013
<b>INCOME STATEMENT</b>		
<b>Current tax</b>	<b>(735 376)</b>	<b>(625 386)</b>
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)
<b>Deferred tax</b>	<b>100 803</b>	<b>(33 854)</b>
Occurrence and reversal of temporary differences	100 803	(33 854)
<b>Tax charge in the consolidated income statement</b>	<b>(634 573)</b>	<b>(659 240)</b>
<b>EQUITY</b>		
<b>Deferred tax</b>	<b>(115 110)</b>	<b>102 524</b>
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)
<b>Tax on items that are or may be reclassified subsequently to profit or loss</b>	<b>(123 534)</b>	<b>94 634</b>
<b>Tax charge on items that will never be reclassified to profit or loss</b>	<b>8 424</b>	<b>7 890</b>
revaluation of the defined benefit liabilities	8 424	7 890
<b>Total charge</b>	<b>(749 683)</b>	<b>(556 716)</b>

# Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2014									
	OPENING BALANCE			CHANGES RECOGNIZED		CHANGES FROM CHANGES IN THE SCOPE OF CONSOLIDATION AND OTHER		RESULTING 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
DEFERRED 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
DEFERRED 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
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

## Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2013									
	OPENING BALANCE			CHANGES RECOGNIZED		CHANGES RESULTING FROM CHANGES IN THE SCOPE OF CONSOLIDATION AND OTHER		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	IN THE INCOME STATEMENT	IN EQUITY	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENTS	IN EQUITY
DEFERRED 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
DEFERRED 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

## Notes to the financial statements (cont.)

(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
<b>Total</b>	<b>29 058</b>	<b>33 186</b>

## 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.

# Notes to the financial statements (cont.)

(In PLN thousand)

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

## 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
<b>Total</b>	<b>9 226 254</b>	<b>4 191 229</b>

AMOUNTS DUE TO CENTRAL BANK	31.12.2014	31.12.2013
Term deposits	971	985
<b>Total</b>	<b>971</b>	<b>985</b>

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	-
<b>Total</b>	<b>9 226 254</b>	<b>971</b>

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



# Notes to the financial statements (cont.)

(In PLN thousand)

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).

## 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
<b>Total gross amount</b>	<b>7 189 232</b>	<b>7 573 506</b>
Impairment allowances	(19 360)	(25 721)
<b>Total net amount</b>	<b>7 169 872</b>	<b>7 547 785</b>

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)
<b>Total</b>	<b>7 169 872</b>	<b>7 547 785</b>

(\*) 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
<b>Total gross amount</b>	<b>7 189 232</b>	<b>7 573 506</b>
Impairment allowances	(19 360)	(25 721)
<b>Total net amount</b>	<b>7 169 872</b>	<b>7 547 785</b>

# Notes to the financial statements (cont.)

(In PLN thousand)

## 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
<b>Total</b>	<b>7 169 872</b>	<b>7 547 785</b>

Changes in the level of impairment allowances in 2014 and 2013 are presented in the Note 18.

## 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	-
<b>Total</b>	<b>448 453</b>	<b>591 311</b>

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	-	-
<b>Total</b>	<b>188 377</b>	<b>309 742</b>

### 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
<b>Total</b>	<b>448 453</b>	<b>591 311</b>

# Notes to the financial statements (cont.)

(In PLN thousand)

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
<b>Total</b>	<b>188 377</b>	<b>309 742</b>

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	-
<b>Total</b>	<b>448 453</b>	<b>591 311</b>

Financial assets and liabilities held for trading by currencies

31.12.2013	ASSETS	LIABILITIES
PLN	141 482	309 742
EUR	8 349	-
USD	38 546	-
<b>Total</b>	<b>188 377</b>	<b>309 742</b>

## 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 and strike price.

## Notes to the financial statements (cont.)

(In PLN thousand)

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 valued separately.

## Notes to the financial statements (cont.)

(In PLN thousand)

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.

### **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.

# Notes to the financial statements (cont.)

(In PLN thousand)

## 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
<b>Total</b>	<b>4 447 975</b>	<b>4 417 706</b>

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
<b>Total</b>	<b>1 996 934</b>	<b>2 051 501</b>

# Notes to the financial statements (cont.)

(In PLN thousand)

## Nominal value of trading derivatives

31.12.2014	CONTRACTUAL MATURITY					TOTAL
	UP TO 1MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	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

31.12.2013	CONTRACTUAL MATURITY					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	2 173 596	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

# Notes to the financial statements (cont.)

(In PLN thousand)

## 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
<b>Total gross amount</b>	<b>117 454 426</b>	<b>106 040 692</b>
Impairment allowances	(5 582 478)	(5 028 177)
<b>Total net amount</b>	<b>111 871 948</b>	<b>101 012 515</b>

### 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
<b>Total gross amount</b>	<b>117 454 426</b>	<b>106 040 692</b>
Impairment allowances	(5 582 478)	(5 028 177)
<b>Total net amount</b>	<b>111 871 948</b>	<b>101 012 515</b>

### 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)
<b>Total</b>	<b>111 871 948</b>	<b>101 012 515</b>

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



# Notes to the financial statements (cont.)

(In PLN thousand)

## Loans and advances to customers by contractual maturities

	31.12.2014	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
<b>Total gross amount</b>	<b>117 454 426</b>	<b>106 040 692</b>
Impairment allowances	(5 582 478)	(5 028 177)
<b>Total net amount</b>	<b>111 871 948</b>	<b>101 012 515</b>

## 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
<b>Total</b>	<b>111 871 948</b>	<b>101 012 515</b>

Changes in impairment allowances in 2014 and 2013 are presented in the Note 18.

## 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
<b>Total</b>	<b>3 616 393</b>	<b>3 299 949</b>
Unrealized financial income	(316 444)	
<b>Net leasing investment</b>	<b>3 299 949</b>	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	3 299 949	
Impairment allowances	(187 901)	
<b>Balance sheet value</b>	<b>3 112 048</b>	

# Notes to the financial statements (cont.)

(In PLN thousand)

The value of gross lease investments and minimum lease payments are follows as:

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

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)
<b>Total</b>	<b>6 020</b>	<b>6 741</b>

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

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)
<b>Total</b>	<b>3 106 028</b>	<b>2 924 507</b>

(\*) 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
<b>Total</b>	<b>3 112 048</b>	<b>2 931 248</b>

Changes in impairment allowances in 2014 and 2013 are presented in the Note 18.

# Notes to the financial statements (cont.)

(In PLN thousand)

## 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.

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
<b>Total</b>	<b>470 822</b>	<b>1 484 428</b>

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	-
<b>Total</b>	<b>250 186</b>	<b>1 007 884</b>

# Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents nominal values of hedging derivatives

31.12.2014	CONTRACTS ACCORDING TO MATURITIES					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Fair value hedge accounting						
Interest rate swaps (IRS)	-	-	-	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
<b>Total</b>	<b>5 959 479</b>	<b>5 119 957</b>	<b>3 159 854</b>	<b>15 514 348</b>	<b>7 972 462</b>	<b>37 726 100</b>

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

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
<b>Opening balance</b>	<b>(29 487)</b>	<b>(64 318)</b>
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
<b>Closing balance</b>	<b>138 622</b>	<b>(29 487)</b>

# Notes to financial statements (cont.)

(In PLN thousand)

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)
<b>Result on fair value hedge accounting</b>	<b>(17 247)</b>	<b>(17 423)</b>
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.

## 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.

## Notes to financial statements (cont.)

(In PLN thousand)

### 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.

## Notes to financial statements (cont.)

(In PLN thousand)

### 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.

# Notes to the financial statements (cont.)

(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
<b>Total</b>	<b>24 712 776</b>	<b>34 995 737</b>

### 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
<b>Total</b>	<b>23 039 453</b>	<b>33 015 387</b>
including impairment of assets	-	-

### Equity securities available for sale (AFS)

	31.12.2014	31.12.2013
Shares	71 755	18 580
<b>Total</b>	<b>71 755</b>	<b>18 580</b>
including impairment of assets	(122)	(123)



# Notes to the financial statements (cont.)

(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
<b>Total</b>	<b>1 601 568</b>	<b>1 961 770</b>
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
<b>Total</b>	<b>24 641 021</b>	<b>34 977 157</b>

## 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
<b>Total</b>	<b>24 641 021</b>	<b>34 977 157</b>

## Changes in investment (placement) securities

	2014	2013
<b>SECURITIES AVAILABLE FOR SALE (AFS)</b>		
<b>Opening balance</b>	<b>33 033 967</b>	<b>25 887 288</b>
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
<b>Closing balance</b>	<b>23 111 208</b>	<b>33 033 967</b>
<b>DEBT SECURITIES HELD UNTIL MATURITY (HTM)</b>		
<b>Opening balance</b>	<b>1 961 770</b>	<b>2 847 783</b>
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
<b>Closing balance</b>	<b>1 601 568</b>	<b>1 961 770</b>
<b>Net total investment (placement) securities</b>	<b>24 712 776</b>	<b>34 995 737</b>

# Notes to the financial statements (cont.)

(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

	AMOUNT OF RECLASSIFICATION	31.12.2014		31.12.2013	
		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
<b>Total</b>	<b>1 934 087</b>	<b>746 482</b>	<b>755 910</b>	<b>754 473</b>	<b>769 124</b>

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)	-
<b>Total</b>	<b>(5 641)</b>	<b>154</b>

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)	-
<b>Total</b>	<b>(23 296)</b>	<b>(39)</b>

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
<b>Total</b>	<b>18 433</b>	<b>28 372</b>

## Notes to the financial statements (cont.)

(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
<b>ASSETS HELD FOR SALE</b>		
Property, plant and equipment	14 587	23 349
Other assets	22 515	22 515
<b>Total assets</b>	<b>37 102</b>	<b>45 864</b>

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)
<b>Gross result on sale</b>	<b>-</b>	<b>140 001</b>
Income tax expense	-	(26 600)
<b>Net result on sale</b>	<b>-</b>	<b>113 401</b>

# Notes to the financial statements (cont.)

(In PLN thousand)

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

<b>ASSETS HELD FOR SALE</b>	<b>2014</b>	<b>2013</b>
<b>Opening balance</b>	<b>45 864</b>	<b>2 374 173</b>
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)
<b>Closing balance</b>	<b>37 102</b>	<b>45 864</b>
<b>LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE</b>		
<b>Opening balance</b>	<b>-</b>	<b>891 007</b>
Decreases including:	-	(891 007)
liabilities of PJSC UniCredit Bank	-	(891 007)
<b>Closing balance</b>	<b>-</b>	<b>-</b>

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

	<b>2014</b>	<b>2013</b>
Sales revenues	1 293	90 827
Net carrying amount of disposed assets (including costs to sell)	732	67 932
<b>Profit/loss on sale before income tax</b>	<b>561</b>	<b>22 895</b>

## 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.

## Notes to the financial statements (cont.)

(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 INWESTYCJNY 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
<b>TOTAL ASSETS</b>	<b>46 656</b>	<b>46 914</b>	<b>342 974</b>	<b>329 296</b>	<b>122 162</b>	<b>114 568</b>
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
<b>TOTAL LIABILITIES</b>	<b>29 501</b>	<b>32 664</b>	<b>53 209</b>	<b>52 462</b>	<b>24 408</b>	<b>18 086</b>
<b>NET ASSETS</b>	<b>17 155</b>	<b>14 250</b>	<b>289 765</b>	<b>276 834</b>	<b>97 754</b>	<b>96 482</b>

	DOM INWESTYCJNY 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)	-	-	-
<b>Total comprehensive income</b>	<b>2 905</b>	<b>2 138</b>	<b>105 928</b>	<b>98 781</b>	<b>30 792</b>	<b>29 527</b>

Reconciliation of the summarized financial information to the carrying amount of the interests in associates

	DOM INWESTYCJNY 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
<b>Carrying amount of the interests</b>	<b>8 577</b>	<b>7 125</b>	<b>141 985</b>	<b>135 649</b>	<b>33 666</b>	<b>33 228</b>	<b>184 228</b>	<b>176 002</b>

(\*) 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.

# Notes to the financial statements (cont.)

(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
<b>Total</b>	<b>627 032</b>	<b>626 571</b>

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.

# Notes to the financial statements (cont.)

(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
<b>GROSS VALUE</b>					
<b>Opening balance</b>	<b>90 484</b>	<b>2 034 712</b>	<b>38 668</b>	<b>111 028</b>	<b>2 274 892</b>
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)
<b>Closing balance</b>	<b>89 362</b>	<b>2 132 059</b>	<b>49 663</b>	<b>113 316</b>	<b>2 384 400</b>
<b>ACCUMULATED AMORTIZATION</b>					
<b>Opening balance</b>	<b>78 453</b>	<b>1 586 795</b>	<b>26 672</b>	<b>-</b>	<b>1 691 920</b>
Amortization	3 925	124 169	1 634	-	129 728
Liquidation	(3 489)	(15 844)	(449)	-	(19 782)
Other	61	-	-	-	61
<b>Closing balance</b>	<b>78 950</b>	<b>1 695 120</b>	<b>27 857</b>	<b>-</b>	<b>1 801 927</b>
<b>IMPAIRMENT</b>					
<b>Opening balance</b>	<b>-</b>	<b>-</b>	<b>10 961</b>	<b>-</b>	<b>10 961</b>
<b>Closing balance</b>	<b>-</b>	<b>-</b>	<b>10 961</b>	<b>-</b>	<b>10 961</b>
<b>NET VALUE</b>					
<b>Opening balance</b>	<b>12 031</b>	<b>447 917</b>	<b>1 035</b>	<b>111 028</b>	<b>572 011</b>
<b>Closing balance</b>	<b>10 412</b>	<b>436 939</b>	<b>10 845</b>	<b>113 316</b>	<b>571 512</b>

## Notes to the financial statements (cont.)

(In PLN thousand)

2013	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
<b>GROSS VALUE</b>					
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
<b>ACCUMULATED AMORTIZATION</b>					
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
<b>IMPAIRMENT</b>					
Opening balance	-	-	10 961	438	11 399
Closing balance	-	-	10 961	-	10 961
<b>NET VALUE</b>					
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 101 969 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.

## 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
<b>Total</b>	<b>1 544 139</b>	<b>1 589 636</b>



# Notes to the financial statements (cont.)

(In PLN thousand)

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
<b>GROSS VALUE</b>						
<b>Opening balance</b>	<b>2 277 707</b>	<b>1 500 970</b>	<b>86 167</b>	<b>343 302</b>	<b>93 006</b>	<b>4 301 152</b>
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 under construction	-	-	-	-	(129 021)	(129 021)
<b>Closing balance</b>	<b>2 303 114</b>	<b>1 495 518</b>	<b>94 510</b>	<b>344 297</b>	<b>86 054</b>	<b>4 323 493</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>Opening balance</b>	<b>1 143 486</b>	<b>1 205 363</b>	<b>50 168</b>	<b>305 669</b>	<b>-</b>	<b>2 704 686</b>
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)
<b>Closing balance</b>	<b>1 196 576</b>	<b>1 230 481</b>	<b>47 209</b>	<b>298 421</b>	<b>-</b>	<b>2 772 687</b>
<b>IMPAIRMENT</b>						
<b>Opening balance</b>	<b>2 565</b>	<b>4 088</b>	<b>-</b>	<b>177</b>	<b>-</b>	<b>6 830</b>
Increases	-	-	-	-	-	-
Decreases	-	(127)	-	(36)	-	(163)
<b>Closing balance</b>	<b>2 565</b>	<b>3 961</b>	<b>-</b>	<b>141</b>	<b>-</b>	<b>6 667</b>
<b>NET VALUE</b>						
<b>Opening balance</b>	<b>1 131 656</b>	<b>291 519</b>	<b>35 999</b>	<b>37 456</b>	<b>93 006</b>	<b>1 589 636</b>
<b>Closing balance</b>	<b>1 103 973</b>	<b>261 076</b>	<b>47 301</b>	<b>45 735</b>	<b>86 054</b>	<b>1 544 139</b>

# Notes to the financial statements (cont.)

(In PLN thousand)

2013	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
<b>GROSS VALUE</b>						
<b>Opening balance</b>	<b>2 265 408</b>	<b>1 557 279</b>	<b>91 977</b>	<b>355 089</b>	<b>90 658</b>	<b>4 360 411</b>
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)
<b>Closing balance</b>	<b>2 277 707</b>	<b>1 500 970</b>	<b>86 167</b>	<b>343 302</b>	<b>93 006</b>	<b>4 301 152</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>Opening balance</b>	<b>1 104 277</b>	<b>1 216 454</b>	<b>42 483</b>	<b>319 016</b>	<b>-</b>	<b>2 682 230</b>
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)
<b>Closing balance</b>	<b>1 143 486</b>	<b>1 205 363</b>	<b>50 168</b>	<b>305 669</b>	<b>-</b>	<b>2 704 686</b>
<b>IMPAIRMENT S</b>						
<b>Opening balance</b>	<b>1 202</b>	<b>5 988</b>	<b>19</b>	<b>428</b>	<b>-</b>	<b>7 637</b>
Increases	1 527	55	1	-	-	1 583
Decreases	(164)	(1 955)	(20)	(251)	-	(2 390)
<b>Closing balance</b>	<b>2 565</b>	<b>4 088</b>	<b>-</b>	<b>177</b>	<b>-</b>	<b>6 830</b>
<b>NET VALUE</b>						
<b>Opening balance</b>	<b>1 159 929</b>	<b>334 837</b>	<b>49 475</b>	<b>35 645</b>	<b>90 658</b>	<b>1 670 544</b>
<b>Closing balance</b>	<b>1 131 656</b>	<b>291 519</b>	<b>35 999</b>	<b>37 456</b>	<b>93 006</b>	<b>1 589 636</b>

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.

# Notes to the financial statements (cont.)

(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
<b>GROSS VALUE</b>		
<b>Opening balance</b>	<b>56 054</b>	<b>56 290</b>
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)
<b>Closing balance</b>	<b>71 461</b>	<b>56 054</b>
<b>ACCUMULATED DEPRECIATION</b>		
<b>Opening balance</b>	<b>21 843</b>	<b>20 915</b>
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)
<b>Closing balance</b>	<b>27 484</b>	<b>21 843</b>
<b>IMPAIRMENT</b>		
<b>Opening balance</b>	<b>3 080</b>	<b>2 154</b>
Increases, including:	6 152	926
impairment charges	6 152	926
Decreases, including:	(550)	-
sale of real estate	(550)	-
<b>Closing balance</b>	<b>8 682</b>	<b>3 080</b>
<b>NET VALUE</b>		
<b>Opening balance</b>	<b>31 131</b>	<b>33 221</b>
<b>Closing balance</b>	<b>35 295</b>	<b>31 131</b>

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.

## Notes to the financial statements (cont.)

(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
<b>Total</b>	<b>2 856 928</b>	<b>1 942 501</b>

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.

## Notes to the financial statements (cont.)

(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
Deposits	bonds	-	-	-
Issue of mortgage bonds	receivables backed by mortgage, bonds	1 335 272	1 339 615	1 037 330
Coverage of the Guarantee 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 Guarantee 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.

## Notes to the financial statements (cont.)

(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
<b>Total</b>	<b>5 344 702</b>	<b>6 417 657</b>

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
<b>Total</b>	<b>5 344 702</b>	<b>6 417 657</b>

### 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
<b>Total</b>	<b>125 609 000</b>	<b>119 796 706</b>

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
<b>Total</b>	<b>125 609 000</b>	<b>119 796 706</b>

## Notes to the financial statements (cont.)

(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
<b>Total</b>	<b>3 857 043</b>	<b>3 063 737</b>

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	-	-
<b>Total</b>	<b>3 857 043</b>	<b>3 063 737</b>

Changes in debt securities issued

	2014	2013
<b>Opening balance</b>	<b>3 063 737</b>	<b>4 758 736</b>
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)
<b>Closing balance</b>	<b>3 857 043</b>	<b>3 063 737</b>

### 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
<b>Opening balance</b>	<b>34 986</b>	<b>207 297</b>	<b>113 932</b>	<b>37 322</b>	<b>393 537</b>
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
<b>Closing balance</b>	<b>37 873</b>	<b>267 991</b>	<b>102 386</b>	<b>34 206</b>	<b>442 456</b>
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 (cont.)

(In PLN thousand)

## Change in provisions in the reporting period

2013	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
<b>Opening balance</b>	<b>56 795</b>	<b>154 281</b>	<b>106 406</b>	<b>42 024</b>	<b>359 506</b>
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
<b>Closing balance</b>	<b>34 986</b>	<b>207 297</b>	<b>113 932</b>	<b>37 322</b>	<b>393 537</b>
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 economic 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
<b>Total</b>	<b>1 761 422</b>	<b>1 958 692</b>



# Notes to the financial statements (cont.)

(In PLN thousand)

## 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.

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
<b>Opening balance</b>	<b>207 297</b>	<b>154 281</b>
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)
<b>Closing balance</b>	<b>267 991</b>	<b>207 297</b>

## Notes to the financial statements (cont.)

(In PLN thousand)

### 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.

31.12.2014	DEFINED BENEFIT PLANS OBLIGATIONS	
	1 PERCENT INCREASE	1 PERCENT DECREASE
Discount rate	(29 330)	35 584
Future salary growth rate	34 256	(28 732)

31.12.2013	DEFINED BENEFIT PLANS OBLIGATIONS	
	1 PERCENT INCREASE	1 PERCENT DECREASE
Discount rate	(20 255)	24 267
Future salary growth rate	25 594	(21 652)

### Maturity of defined benefit plans obligations

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

	31.12.2014	31.12.2013
The weighted average duration of the defined benefit plans obligations (in years)	12.2	13.5

## 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.

# Notes to the financial statements (cont.)

(In PLN thousand)

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

2014	STOCK OPTIONS		PERFORMANCE SHARES	
	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.

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

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

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 employees of the Bank by UniCredit Group amounted to PLN 322 thousand (in 2013 - PLN 379 thousand).

# Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

During the reporting period ending on 31 December 2014 the Bank had the following share-based payments transactions:

System 2011, System 2012, System 2013 and 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: <ul style="list-style-type: none"> <li>40% after 2 years from program granting date</li> <li>40% after 3 years from program granting date</li> <li>20% after 4 years from program granting date</li> </ul> For remaining participants: <ul style="list-style-type: none"> <li>50% after 2 years from program granting date</li> <li>50% after 3 years from program granting date</li> </ul>
Vesting date for System 2012	For Management Board Members and Executive Vice President: <ul style="list-style-type: none"> <li>40% after 2 years from program granting date</li> <li>40% after 3 years from program granting date</li> <li>20% after 4 years from program granting date</li> </ul> For remaining participants: <ul style="list-style-type: none"> <li>20% after years from program granting date</li> <li>40% after 2 years from program granting date</li> <li>40% after 3 years from program granting date</li> </ul>
Vesting date for System 2013	For Management Board Members and Executive Vice President: <ul style="list-style-type: none"> <li>40% after years from program granting date (settlement after 2 year retention period)</li> <li>40% after 2 years from program granting date (settlement after 1 year retention period)</li> <li>20% after 3 years from program granting date (settlement after 1 year retention period)</li> </ul> For remaining participants: <ul style="list-style-type: none"> <li>20% after years from program granting date</li> <li>40% after 2 years from program granting date</li> <li>40% after 3 years from program granting date</li> </ul>

# Notes to the financial statements (cont.)

(In PLN thousand)

System 2011, System 2012, System 2013 and System 2014	
Vesting date for System 2014	For Management Board Members and Executive Vice President:
	<ul style="list-style-type: none"> <li>• 40% after years from program granting date (settlement after 3 year retention period)</li> <li>• 30% after 3 years from program granting date (settlement after 1 year retention period)</li> <li>• 30% after 4 years from program granting date (settlement after 1 year retention period)</li> </ul>
Vesting conditions	For remaining participants:
	<ul style="list-style-type: none"> <li>• 60% after years from program granting date (settlement after 3 year retention period)</li> <li>• 20% after 3 years from program granting date (settlement after 1 year retention period)</li> <li>• 20% after 4 years from program granting date (settlement after 1 year retention period)</li> </ul>
Program settlement	Compliance assessment
	Continuous employment
	Reaching the aim based on financial results of the Bank for a given period
	On the vesting date, the participant will receive a cash payment amounting to the number the possessed phantom shares times the arithmetic mean of the Bank's share prices at the Warsaw Stock Exchange in the calendar month preceding the month of cash-settlement.

For the System 2011, 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	76 103	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.

# Notes to the financial statements (cont.)

(In PLN thousand)

## System of Variable Remuneration for the Management Team of the subsidiaries

In order to meet requirements concerning rules of establishing policy of variable remuneration's component for individuals in managerial positions (Resolution No. 258/2011 of the Polish Financial Supervision Authority issued on 4 October 2011 and the Minister of Finance Regulation dated 2 December 2011, Official Journal from 2011, No. 263, item 1569), Centralny Dom Maklerski Pekao S.A. and Pekao Bank Hipoteczny S.A. have implemented System of Variable Remuneration for the Management Team.

Under the System, the participants may receive bonus dependent on results and effects of their work. Received component of variable remuneration is paid in cash and in phantom shares in proportion described in legal regulations mentioned above and in internal regulations of the entities.

At least 40 % components of variable remunerations 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 measurement 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 amounted to PLN 3 909 thousand as at 31 December 2014 (31 December 2013 – PLN 3 078 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
<b>Total</b>	<b>36 262</b>	<b>50 919</b>

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).

# Notes to the financial statements (cont.)

(In PLN thousand)

## 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
<b>Total</b>	<b>541 638</b>	<b>582 665</b>

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.

## 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.

## Notes to the financial statements (cont.)

(In PLN thousand)

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
<b>Total</b>	<b>27 376 548</b>	<b>27 097 699</b>

### 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
<b>Total</b>	<b>14 208 684</b>	<b>11 077 303</b>



# Notes to the financial statements (cont.)

(In PLN thousand)

## Securities underwriting

As at 31 December 2014, the following securities programs have been in place, covered by underwriting:

NAME OF ISSUER	TYPE OF SECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT ITSELF	CONTRACT LIFE
Client 1	bonds	1 385 000	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
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

## Notes to the financial statements (cont.)

(In PLN thousand)

NAME OF ISSUER	TYPE OF SECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT ITSELF	CONTRACT LIFE
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 (cont.)

(In PLN thousand)

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

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

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

# Notes to the financial statements (cont.)

(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
<b>Total</b>	<b>12 671 955</b>	<b>9 236 742</b>

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
<b>Total number of Shares (pcs)</b>		<b>262 470 034</b>				
<b>Total share capital in PLN thousand</b>			<b>262 470</b>			
<b>Nominal value per share = PLN 1.00</b>						

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

2013	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262 470 034	262 470 034
Closing balance	262 470 034	262 470 034

## Notes to the financial statements (cont.)

(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
<b>Total other capital</b>	<b>20 990 344</b>	<b>20 564 611</b>
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
<b>Total retained earnings and profit for the period</b>	<b>2 764 875</b>	<b>2 592 802</b>
<b>Total</b>	<b>23 755 219</b>	<b>23 157 413</b>

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.

# Notes to the financial statements (cont.)

(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
<b>TOTAL</b>				<b>10 402</b>	<b>10 211</b>	<b>28 043</b>	<b>94 288</b>

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
<b>TOTAL ASSETS</b>	<b>3 586 334</b>	<b>3 259 272</b>	<b>242 406</b>	<b>241 396</b>	<b>68 264</b>	<b>67 100</b>
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
<b>TOTAL LIABILITIES</b>	<b>3 038 173</b>	<b>2 765 278</b>	<b>82</b>	<b>66</b>	<b>2 458</b>	<b>2 918</b>

	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
<b>Total comprehensive income</b>	<b>54 585</b>	<b>40 628</b>	<b>995</b>	<b>27 862</b>	<b>15 405</b>	<b>13 781</b>
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

## Notes to the financial statements (cont.)

(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
<b>Cash and Cash equivalents presented in the cash flow statement</b>	<b>15 556 184</b>	<b>10 615 862</b>

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.

## Notes to the financial statements (cont.)

(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
<b>Associates of Bank Pekao S.A. Group</b>						
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	-	-
<b>Total Associates of Bank Pekao S.A. Group</b>	<b>-</b>	<b>-</b>	<b>23 070</b>	<b>329 700</b>	<b>-</b>	<b>48</b>
Key management personnel of the Bank and UniCredit S.p.A.	6 385	-	-	33 291	-	-
<b>Total</b>	<b>1 686 716</b>	<b>456 005</b>	<b>27 576</b>	<b>1 427 192</b>	<b>1 002 599</b>	<b>1 568</b>



## Notes to the financial statements (cont.)

(In PLN thousand)

### 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
<b>Total</b>	<b>626 572</b>	<b>302 749</b>	<b>43 218</b>	<b>351 637</b>	<b>362 203</b>	<b>337</b>	<b>1 686 716</b>

(\*)Current receivables include 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
<b>Total</b>	<b>185 500</b>	<b>650 401</b>	<b>207 502</b>	<b>15 004</b>	<b>7 696</b>	<b>361 089</b>	<b>1 427 192</b>

(\*)Current liabilities include Loro accounts and cash collaterals.

## Notes to the financial statements (cont.)

(In PLN thousand)

### Receivables from loans and deposits by currency

31.12.2014	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
<b>Total</b>	<b>609 960</b>	<b>894 120</b>	<b>6</b>	<b>149 017</b>	<b>33 613</b>	<b>1 686 716</b>

### 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
<b>Total</b>	<b>350 491</b>	<b>985</b>	<b>336 914</b>	<b>732 093</b>	<b>6 709</b>	<b>1 427 192</b>

## Notes to the financial statements (cont.)

(In PLN thousand)

### 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
<b>Associates of Bank Pekao S.A. Group</b>						
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	-	-
<b>Total Associates of Bank Pekao S.A. Group</b>	<b>-</b>	<b>-</b>	<b>16 151</b>	<b>318 311</b>	<b>-</b>	<b>33</b>
Key management personnel of the Bank and UniCredit S.p.A.	6 924	-	-	22 990	-	-
<b>Total</b>	<b>1 163 152</b>	<b>303 574</b>	<b>20 357</b>	<b>2 014 244</b>	<b>772 939</b>	<b>2 817</b>

## Notes to the financial statements (cont.)

(In PLN thousand)

### Receivables from loans and deposits by contractual maturity

31.12.2013	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	4 812	-	-	-	-	-	4 812
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	481 281	14 171	953	302 393	352 618	-	1 151 416
Associates of Bank Pekao S.A Group	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	2	6 514	-	-	54	354	6 924
<b>Total</b>	<b>486 095</b>	<b>20 685</b>	<b>953</b>	<b>302 393</b>	<b>352 672</b>	<b>354</b>	<b>1 163 152</b>

(\*)Current receivables include Nostro accounts and cash collaterals.

### Liabilities due to loans and deposits by contractual maturity

31.12.2013	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	52 758	-	-	-	-	-	52 758
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	281 448	357 478	469 833	21 502	75 687	414 237	1 620 185
Associates of Bank Pekao S.A Group	20 132	36 011	126 286	135 882	-	-	318 311
Key management personnel of the Bank and UniCredit S.p.A.	1 409	18 316	2 565	600	100	-	22 990
<b>Total</b>	<b>355 747</b>	<b>411 805</b>	<b>598 684</b>	<b>157 984</b>	<b>75 787</b>	<b>414 237</b>	<b>2 014 244</b>

(\*)Current liabilities include Loro accounts and cash collaterals.

## Notes to the financial statements (cont.)

(In PLN thousand)

### Receivables from loans and deposits by currency

31.12.2013	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	3 521	1 291	-	-	-	4 812
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	517 811	614 246	6	-	19 353	1 151 416
Associates of Bank Pekao S.A Group	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	6 924	-	6 924
<b>Total</b>	<b>521 332</b>	<b>615 537</b>	<b>6</b>	<b>6 924</b>	<b>19 353</b>	<b>1 163 152</b>

### 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
<b>Total</b>	<b>585 777</b>	<b>5 740</b>	<b>422 910</b>	<b>985 040</b>	<b>14 777</b>	<b>2 014 244</b>

## Notes to the financial statements (cont.)

(In PLN thousand)

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)
<b>Associates of Bank Pekao S.A Group</b>						
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)
<b>Total Associates of Bank Pekao S.A. Group</b>	<b>-</b>	<b>(7 775)</b>	<b>230 615</b>	<b>(24)</b>	<b>340</b>	<b>(9 388)</b>
Key management personnel of the Bank and UniCredit S.p.A.	261	(633)	15	-	-	-
<b>Total</b>	<b>49 044</b>	<b>(23 912)</b>	<b>238 638</b>	<b>(3 002)</b>	<b>9 322</b>	<b>(49 749)</b>

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)
<b>Associates of Bank Pekao S.A Group</b>						
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)
<b>Total Associates of Bank Pekao S.A. Group</b>	<b>-</b>	<b>(9 239)</b>	<b>243 956</b>	<b>(26)</b>	<b>338</b>	<b>(9 369)</b>
Key management personnel of the Bank and UniCredit S.p.A.	297	(573)	8	-	-	-
<b>Total</b>	<b>92 243</b>	<b>(48 603)</b>	<b>254 453</b>	<b>(3 996)</b>	<b>42 675</b>	<b>(29 549)</b>

# Notes to the financial statements (cont.)

(In PLN thousand)

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
<b>Associates of Bank Pekao S.A. Group</b>				
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	-	-
<b>Total Associates of Bank Pekao S.A. Group</b>	<b>10 099</b>	<b>500</b>	<b>-</b>	<b>-</b>
Key management personnel of the Bank and UniCredit S.p.A.	874	-	-	-
<b>Total</b>	<b>146 637</b>	<b>829 012</b>	<b>9 885</b>	<b>76 717</b>

## Notes to the financial statements (cont.)

(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
<b>FINANCIAL COMMITMENTS GRANTED</b>							
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
<b>Total</b>	<b>20</b>	<b>516</b>	<b>5</b>	<b>145 538</b>	<b>548</b>	<b>10</b>	<b>146 637</b>
<b>GUARANTEES ISSUED</b>							
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
<b>Total</b>	<b>-</b>	<b>1 214</b>	<b>1 928</b>	<b>130 185</b>	<b>350 734</b>	<b>344 951</b>	<b>829 012</b>
<b>FINANCIAL RECEIVED</b>							
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	9 885	-	-	-	-	-	9 885
<b>Total</b>	<b>9 885</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9 885</b>
<b>GUARANTEES RECEIVED</b>							
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
<b>Total</b>	<b>-</b>	<b>1 211</b>	<b>1 275</b>	<b>47 980</b>	<b>22 611</b>	<b>3 640</b>	<b>76 717</b>



## Notes to the financial statements (cont.)

(In PLN thousand)

### Off- balance sheet financial commitments and guarantees by currency

31.12.2014	EUR	USD	CHF	PLN	OTHER	TOTAL
<b>FINANCIAL COMMITMENTS GRANTED</b>						
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
<b>Total</b>	<b>74 173</b>	<b>-</b>	<b>-</b>	<b>72 464</b>	<b>-</b>	<b>146 637</b>
<b>GUARANTEES ISSUED</b>						
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
<b>Total</b>	<b>56 341</b>	<b>-</b>	<b>-</b>	<b>772 671</b>	<b>-</b>	<b>829 012</b>
<b>FINANCIAL RECEIVED</b>						
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	-	-	-	9 885	-	9 885
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9 885</b>	<b>-</b>	<b>9 885</b>
<b>GUARANTEES RECEIVED</b>						
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
<b>Total</b>	<b>36 466</b>	<b>-</b>	<b>-</b>	<b>40 251</b>	<b>-</b>	<b>76 717</b>

## Notes to the financial statements (cont.)

(In PLN thousand)

Off- balance sheet financial commitments and guarantees as at 31 December 2013

NAME OF ENTITY	GRANTED		RECEIVED
	FINANCIAL	GUARANTEES	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	62 569	353 654	48 345
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	732 287	273 410	113 807
<b>Associates of Bank Pekao S.A. Group</b>			
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	-
<b>Total Associates of Bank Pekao S.A. Group</b>	<b>106</b>	<b>500</b>	<b>-</b>
Key management personnel of the Bank and UniCredit S.p.A.	261	-	-
<b>Total</b>	<b>795 223</b>	<b>627 564</b>	<b>162 152</b>

As of 31 December 2013, the Bank did not have off-balance sheet financial commitments received from related parties.

## Notes to the financial statements (cont.)

(In PLN thousand)

### Off- balance sheet financial commitments and guarantees by contractual maturity

31.12.2013	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
<b>FINANCIAL COMMITMENTS GRANTED</b>							
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
<b>Total</b>	<b>386 140</b>	<b>180 829</b>	<b>5</b>	<b>227 692</b>	<b>547</b>	<b>10</b>	<b>795 223</b>
<b>GUARANTEES ISSUED</b>							
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
<b>Total</b>	<b>67 076</b>	<b>77 384</b>	<b>-</b>	<b>44 897</b>	<b>137 090</b>	<b>301 117</b>	<b>627 564</b>
<b>GUARANTEES RECEIVED</b>							
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
<b>Total</b>	<b>32 967</b>	<b>463</b>	<b>980</b>	<b>79 086</b>	<b>26 510</b>	<b>22 146</b>	<b>162 152</b>

## Notes to the financial statements (cont.)

(In PLN thousand)

### Off-balance sheet financial commitments and guarantees by currency

31.12.2013	EUR	USD	CHF	PLN	OTHER	TOTAL
<b>FINANCIAL COMMITMENTS GRANTED</b>						
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
<b>Total</b>	<b>68 221</b>	<b>-</b>	<b>-</b>	<b>727 002</b>	<b>-</b>	<b>795 223</b>
<b>GUARANTEES ISSUED</b>						
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
<b>Total</b>	<b>27 214</b>	<b>-</b>	<b>-</b>	<b>600 350</b>	<b>-</b>	<b>627 564</b>
<b>GUARANTEES RECEIVED</b>						
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	-	-	-	6 569	113 807
<b>Total</b>	<b>65 623</b>	<b>-</b>	<b>-</b>	<b>89 960</b>	<b>6 569</b>	<b>162 152</b>

# Notes to the financial statements (cont.)

(In PLN thousand)

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

	VALUE OF BENEFITS	
	2014	2013
<b>Management Board of the Bank</b>		
Short-term employee benefits (*)	15 652	14 359
Long-term benefits (**)	2 171	2 245
Share-based payments (***)	7 294	7 011
<b>Total</b>	<b>25 117</b>	<b>23 615</b>
<b>Supervisory Board of the Bank</b>		
Short-term employee benefits (*)	925	835
<b>Total</b>	<b>925</b>	<b>835</b>

(\*) 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
<b>Companies' Management Boards</b>		
Short-term employee benefits	13 351	12 205
Other long-term benefits	-	178
<b>Total</b>	<b>13 351</b>	<b>12 383</b>
<b>Companies' Supervisory Boards</b>		
Short-term employee benefits	38	38
<b>Total</b>	<b>38</b>	<b>38</b>

## 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.

# Notes to the financial statements (cont.)

(In PLN thousand)

	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
<b>Total financial assets available for sale</b>	<b>2 727 084</b>	<b>2 727 337</b>	<b>4 553 357</b>	<b>4 563 231</b>
Financial assets purchased under reverse-repo and buy-sell back				
up to 1 month	2 380 498	2 378 310	10 021	10 018
<b>Total financial assets purchased under reverse-repo and buy-sell back</b>	<b>2 380 498</b>	<b>2 378 310</b>	<b>10 021</b>	<b>10 018</b>
<b>Total</b>	<b>5 107 582</b>	<b>5 105 647</b>	<b>4 563 378</b>	<b>4 573 249</b>

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
<b>Total loans and advances from bank</b>	<b>1 930 808</b>	<b>1 930 148</b>	<b>3 119 010</b>	<b>3 115 331</b>
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	-	-
<b>Total loans and advances from customers</b>	<b>5 789 064</b>	<b>5 785 952</b>	<b>2 581 676</b>	<b>2 579 440</b>
<b>Total</b>	<b>7 719 872</b>	<b>7 716 100</b>	<b>5 700 686</b>	<b>5 694 771</b>

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

## Notes to the financial statements (cont.)

(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
<b>ZFŚS assets</b>	<b>51 144</b>	<b>50 852</b>
<b>ZFŚS value</b>	<b>51 144</b>	<b>50 852</b>
	<b>2014</b>	<b>2013</b>
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 (cont.)

(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
<b>TOTAL ASSETS</b>	<b>354 418</b>
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
<b>TOTAL LIABILITIES</b>	<b>103 934</b>
<b>TOTAL NET ASSETS</b>	<b>250 484</b>

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
<b>Gross carrying amount, of which:</b>	<b>3 457</b>	<b>322 698</b>	<b>4 798 719</b>
- denominated in CHF	3 457	322 698	965 182
- indexed to CHF	-	-	3 833 537
<b>Impairment allowances, of which:</b>	<b>-</b>	<b>(12 366)</b>	<b>(171 056)</b>
- denominated in CHF	-	(12 366)	(17 543)
- indexed to CHF	-	-	(153 513)
<b>Net carrying amount, of which:</b>	<b>3 457</b>	<b>310 332</b>	<b>4 627 663</b>
- denominated in CHF	3 457	310 332	947 639
- indexed to CHF	-	-	3 680 024



# Notes to the financial statements (cont.)

(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
<b>Gross carrying amount of exposures with no impairment, of which:</b>	<b>3 457</b>	<b>298 069</b>	<b>4 581 528</b>
- 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
<b>IBNR provisions for exposures with no impairment, of which:</b>	<b>-</b>	<b>(1 336)</b>	<b>(32 394)</b>
- 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)
<b>Gross carrying amount of impaired exposures, of which:</b>	<b>-</b>	<b>24 629</b>	<b>217 191</b>
- 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
<b>Allowances for impairment, of which:</b>	<b>-</b>	<b>(11 030)</b>	<b>(138 662)</b>
- 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)
<b>Total net carrying amount</b>	<b>3 457</b>	<b>310 332</b>	<b>4 627 663</b>

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.

## Annexes to the financial statements (cont.)

- **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.

# Annexes to the financial statements (cont.)

## Annex 2

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

- **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.

# Annexes to the financial statements (cont.)

## Annex 3

### **New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and not yet approved by the European Union.**

- **IFRS 9 'Financial Instruments'**

Date of application: the first financial year beginning after 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.

## Annexes to the financial statements (cont.)

- **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.

## Annexes to the financial statements (cont.)

- **Improvements to IFRS 2010-2012**

Date of application: the first financial year beginning after 1 July 2014.

The annual improvements to IFRS 2010-2012 principally aim to solve inconsistencies and specify vocabulary.

The Group claims that the improvements will not have a material impact on its financial statements in the period of its first application.

- **Improvements to IFRS 2011-2013**

Date of application: the first financial year beginning after 1 July 2014.

The annual improvements to IFRS 2011-2013 principally aim to solve inconsistencies and specify vocabulary.

The Group claims that the improvements will not have a material impact on its financial statements in the period of its first application.

- **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.



# Annexes to the financial statements (cont.)

## Annex 4

### Glossary

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

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

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

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

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

**FRA** – Forward Rate Agreement – the contract under which two counterparties fix the interest rate that will apply in the future for a specified amount expressed in currency of the transaction for a predetermined period.

**CAP** – the financial agreement, which limits the risk borne by lender on a variable interest rate, exposed to the potential loss as a result of increase in interest rates. Cap option is a series of call options on interest rates, in which the issuer guarantees the buyer the compensation of the additional interest costs, that the buyer must pay if the interest rate on loan increases above the fixed interest rate.

**FLOOR** – the financial agreement, which limits the risk of incurring losses resulting from decrease in interest rates by the lender providing the loan at a variable interest rate. Floor option is a series of put options on interest rates, in which the issuer guarantees the interest to be paid on the loan if the interest rate on the loan decreases below the fixed interest rate.

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

**PD** – Probability Default – the parameter used in Internal Ratings-Based Approach which determines the likelihood that the debtor will be unable to meet its obligation. PD is a financial term describing the likelihood of a default over an one year time horizon.

**LGD** – Loss Given Default – the percentage of loss over the total exposure when bank's counterparty goes to default.

**EAD** – Exposure At Default.

**EL** – Expected Loss.

**CCF** – Credit Conversion Factor.

**A-IRB** – Advanced Internal Ratings-Based Approach – advanced method where all parameters of risk (PD, LGD, EAD) are estimated by the bank using its own quantitative model for calculating the risk weighted assets (RWA).

**VaR** – Value at Risk – the risk measure by which the market value of an asset or portfolio may be reduced for a given assumptions, probability and time horizon.

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

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

# **Report on the activities of Bank Pekao S.A. for the year 2014**



**Warsaw, February 2015**

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

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

## 1 Highlights of Bank Pekao S.A.

	2014	2013	2012	2011	2010	2009
<b>INCOME STATEMENT (IN PLN MILLION) – SELECTED ITEMS</b> <span style="float: right;">(in PLN million)</span>						
Operating income	7,035	7,187	7,510	7,318	6,885	6,790
Operating costs	(3,223)	(3,230)	(3,326)	(3,366)	(3,336)	(3,353)
Operating profit	3,811	3,957	4,184	3,952	3,549	3,438
Profit before income tax	3,270	3,436	3,593	3,450	3,078	2,981
Net profit for the period	2,662	2,800	2,925	2,826	2,552	2,462
<b>PROFITABILITY RATIOS</b>						
Return on average equity (ROE)	11.6%	12.3%	13.6%	14.2%	13.5%	14.7%
Net interest margin	3.1%	3.3%	3.6%	3.6%	3.4%	3.0%
Non-interest income / operating income	36.2%	38.0%	35.8%	39.0%	41.4%	43.9%
Cost / income	45.8%	44.9%	44.3%	46.0%	48.5%	49.4%
<b>STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS</b> <span style="float: right;">(in PLN million)</span>						
Total assets	164,323	155,287	147,067	142,390	130,125	126,918
Net loans and advances to customers <sup>(*)</sup>	111,389	100,569	94,607	92,143	77,059	73,043
Amounts due to customers	126,381	119,869	108,105	108,005	99,329	96,701
Debt securities issued	2,820	2,241	3,966	2,403	738	1,298
Equity	23,387	22,849	22,717	20,799	19,834	17,968
<b>STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS</b>						
Net loans / total assets	67.8%	64.8%	64.3%	64.7%	59.2%	57.6%
Securities / total assets	15.3%	22.6%	19.9%	21.0%	24.1%	21.6%
Deposits <sup>(**)</sup> / total assets	78.6%	78.6%	76.2%	77.5%	76.9%	77.2%
Net loans / deposits <sup>(**)</sup>	86.2%	82.4%	84.4%	83.5%	77.0%	74.5%
Equity / total assets	14.2%	14.7%	15.4%	14.6%	15.2%	14.2%
Total capital ratio (Basel III) <sup>(***)</sup>	17.1%	18.3%	18.0%	16.6%	17.2%	15.6%
<b>EMPLOYEES AND NETWORK</b>						
Total number of employees	16,914	17,092	17,433	17,921	18,276	18,912
Number of outlets	1,034	1,001	1,001	1,002	1,014	1,028
Number of ATMs	1,825	1,847	1,845	1,817	1,800	1,854

(\*) Including debt securities eligible for rediscounting at Central Bank.

(\*\*) 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 4 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 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. for 2014 include data of Spółdzielcza Kasa Oszczędnościowo Kredytowa named Mikołaj Kopernik in Ormontowice, took over by Bank Pekao S.A. following decision of The Polish Financial Supervision Authority on December 5, 2014.

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

## 2 Summary of Performance

Net profit of Bank Pekao S.A. for 2014 amounted to PLN 2,662.3 million allowing return on average capital (ROE) at the level of 11.6% achieved with a strong capital base reflected by the total capital ratio at 17.1% (Basel III). Normalized ROE (return on minimum equity equivalent to the total capital ratio at 10%) amounted to 17.4%.

The Bank's net profit reported for 2014 was lower by 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 strength of the liquidity structure of Bank Pekao S.A. is reflected by net loans to deposits ratio at 86.2% at the end of December 2014. This together with strong equity level enables for further sound and stable development of the Bank'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 Bank's operating income amounted to PLN 7,034.7 million, a decrease of PLN 152.6 million, i.e. 2.1% 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 and dividend income in 2014 amounted to PLN 4,488.1 million and was higher by PLN 33.8 million, i.e. 0.8% 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 Bank's net non-interest income in 2014 amounted to PLN 2,546.6 million, a decrease of PLN 186.4 million, i.e. 6.8% 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 3,223.3 million. They were lower by PLN 7.1 million, i.e. 0.2% than the operating costs in 2013 despite new prudential charge of Banking Guarantee Fund introduced in the fourth quarter of 2013.
- The Bank's net impairment losses on loans and off-balance sheet commitments amounted to PLN 541.4 million in 2014, a decrease of PLN 81.6 million, i.e. 13.1% as compared with 2013.

As at December 31, 2014, the ratio of impaired receivables to total receivables amounted to 6.6% and was better by 0.5 p.p. in comparison to the end of 2013.

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

- As at the end of December 2014, the total amounts due to the Bank's customers and debt securities issued amounted to PLN 129,201.0 million, an increase of PLN 7,091.8 million, i.e. 5.8% 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 Bank's customers and debt securities issued increased by PLN 13,214.3, i.e. 11.8% million in comparison to the end of 2013.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 55,279.9 million at the end of December 2014, an increase of PLN 4,490.5 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, interest and other amounted to PLN 73,921.1 million at the end of December 2014, an increase of PLN 2,601.3 million, i.e. 3.6% as compared to the end of 2013, excluding OFE an increase of PLN 8,723.8 million in comparison to the end of 2013.

- As at the end of December 2014, the volume of total customers' financing amounted to PLN 117,415.1 million, an increase of PLN 11,405.0 million, i.e. 10.8% in comparison to the end of 2013.

As at the end of December 2014, the volume of retail loans amounted to PLN 48,377.8 million, an increase of PLN 4,740.2 million, i.e. 10.9% 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 increased by PLN 6,664.8 million, i.e. 10.7% as compared to the end of 2013 and amounted to PLN 69,037.3 million at the end of December 2014.

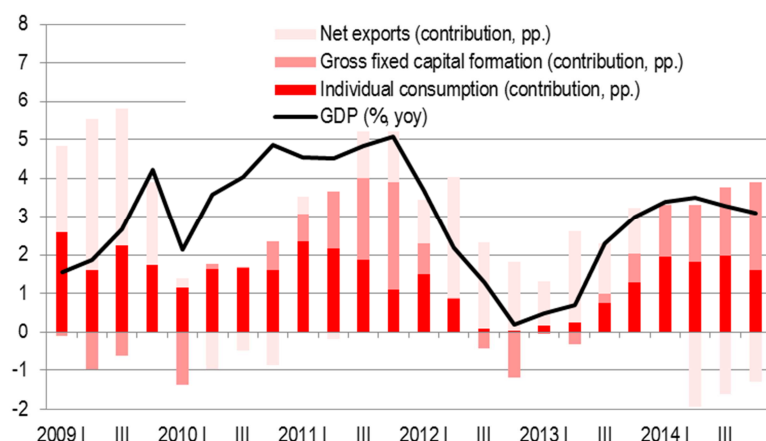
# Report on the activities of Bank Pekao S.A. for the year 2014

## 3 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.



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

## 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.





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

## **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.

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

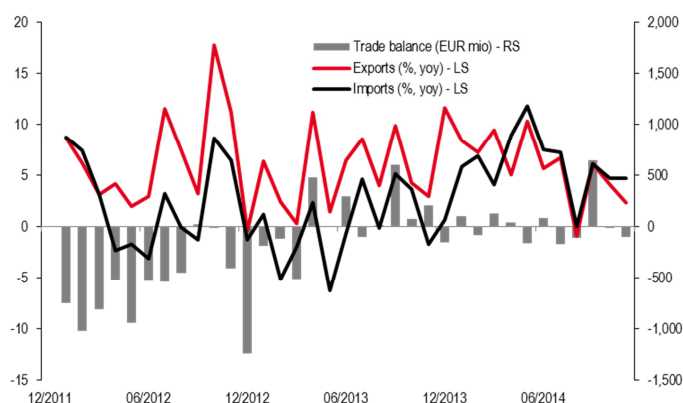
## Foreign sector

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 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 zloty against foreign currencies, in which it is denominated.



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

## 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.



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

## 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.

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.

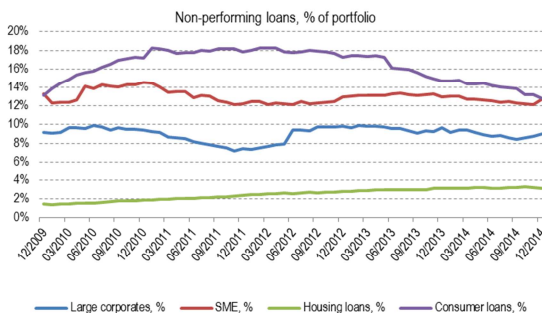
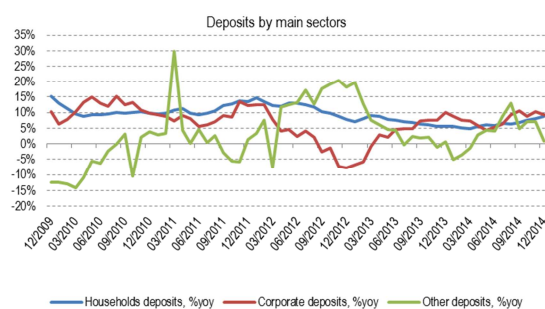
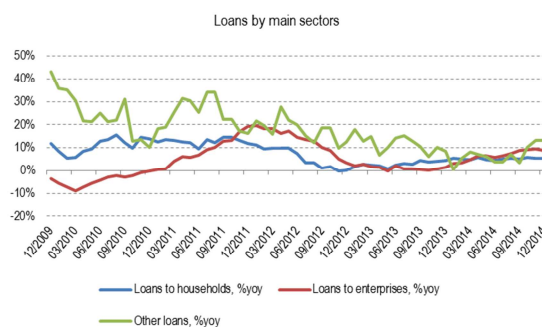
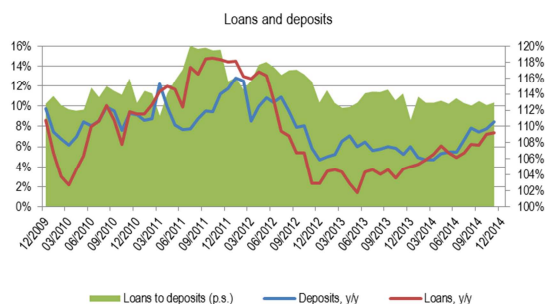
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(\*) Source: NBP – segment data on deposits and loans – monetary statistics.

# Report on the activities of Bank Pekao S.A. for the year 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



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

## 4 Important Events and Achievements

### 4.1 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.

### 4.2 Changes in the Statutory Bodies of the Bank

#### Supervisory Board

Composition of the Supervisory Board:

DECEMBER 31, 2014	DECEMBER 31, 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

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

## Management Board of the Bank

Composition of the Management Board:

DECEMBER 31, 2014	DECEMBER 31, 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.



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

## 4.3 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.

## 4.4 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 19<sup>th</sup> 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: nagroda dla Relacji Inwestorskich Banku Pekao S.A.**

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.



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

## **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.

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 guarantees 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.

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

## **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 prestigious 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.

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

## **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 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.

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

## 5 Information for the Investors

### 5.1 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:

SHAREHOLDER'S NAME	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
	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%
<b>Total</b>	<b>262,470,034</b>	<b>100.00%</b>	<b>262,470,034</b>	<b>100.00%</b>	<b>262,470,034</b>	<b>100.00%</b>

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.

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

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 <sup>(*)</sup>	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 <sup>(**)</sup>	2,199,597	0.84%	2,871,436	1.09%
Allianz Polska OFE <sup>(***)</sup>	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%
<b>Total</b>	<b>39,371,123</b>	<b>15.00%</b>	<b>42,968,533</b>	<b>16.37%</b>

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

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

## 5.2 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.

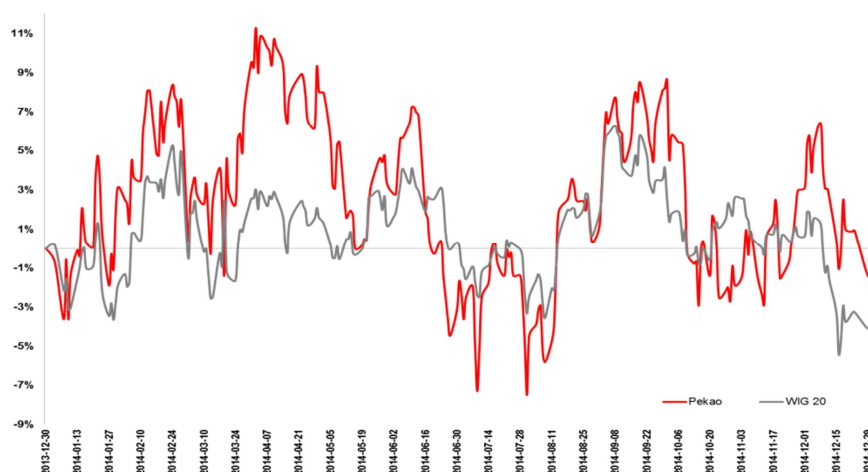
The Bank's market capitalization as at December 31, 2014 amounted to PLN 46.9 billion and making the Bank a company with the highest market capitalization on the Warsaw Stock Exchange. Given the high capitalization and liquidity the Bank's shares are a part of many important stock indices maintained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

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

## 5.3 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

## 5.4 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/](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".

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

## 5.5 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:

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

(\*) 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.



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

## 6 Activity of Bank Pekao S.A.

### 6.1 Important factors influencing the Bank's activities and results

In 2014, the Bank'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.

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

## 6.2 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 Bank 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 5 to the Unconsolidated Financial Statements of Bank Pekao S.A. 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.

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

## **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 Bank'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 Bank 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 Bank'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 Bank.

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.

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

## **Liquidity risk**

The overall objective of liquidity risk management is to ensure and maintain the Bank'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 Bank 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 Bank, which should allow the Bank 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 Bank'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 Bank 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 Bank 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 Bank 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 Bank's liquidity involves daily monitoring of certain early-warning indicators capturing both systemic and Bank-specific risks and four levels of liquidity risk depending on the level of early-warning indicators, the Bank'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, constitute an integral part of the Bank's liquidity monitoring process, launched under the conditions of crisis affected by financial markets or caused by internal factors, specific to the Bank.

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.

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

## **Market risk**

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

Market risk is the risk that the Bank'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 Bank 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 Bank, while keeping the exposure to market risk within the risk appetite defined by risk limits approved by the Management Board and the Supervisory Board of the Bank.

## **Trading book market risk**

In the process of trading book market risk management the Bank 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 Bank aims to maximize the economic value of capital employed and achieve the planned interest result within the accepted limits. The financial position of the Bank in relation to changing interest rates is monitored through the interest rate gap (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 Bank'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.

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

## **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 Bank, 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 Bank'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 Bank 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.

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

## **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.

## **6.3 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.



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

## 6.4 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 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 Bank Pekao S.A. amounted to 17.1% 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.

The table below presents the basic data concerning the Bank 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	7,894,071	7,158,192
Exceeding large exposure limits	-	-
Market risk	195,446	127,803
Delivery and contractor risk	443,663	195,919
Exceeding exposure concentration limit	-	-
Operational risk	611,214	949,487
<b>Total capital requirement</b>	<b>9,144,394</b>	<b>8,431,401</b>
<b>OWN FUNDS</b>		
Common Equity Tier 1 Capital	19,520,024	19,275,766
<b>Own funds for total capital ratio</b>	<b>19,520,024</b>	<b>19,275,766</b>
<b>Common Equity Tier 1 Capital ratio (%)</b>	<b>17.1%</b>	<b>18.3%</b>
<b>Total capital ratio (%)</b>	<b>17.1%</b>	<b>18.3%</b>

Total Capital Ratio at the end of December 2014 compared with December 2013 decreased by 1.2 p.p. Total capital requirement increased during this period by 8.5% and own funds increased by 1.3%.

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 Bank'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.



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

## 6.5 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 the Bank 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 <sup>(*)</sup>	5,214.3	5,107.5
of which packages	3,873.8	3,781.5
Number of mortgage loans accounts <sup>(**)</sup>	287.9	267.5
of which PLN mortgage loans accounts	249.7	226.6
Number of consumer loan accounts <sup>(***)</sup>	593.8	634.9

(\*) Number of accounts including accounts of pre-paid cards.

(\*\*) Retail customers accounts.

(\*\*\*) "Pożyczka Ekspresowa"(Express Loan).

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

## 6.5.1 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 SA” 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.

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

## **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).

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

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**

Dom Maklerski Pekao (Dom Maklerski) is a specialized unit of the Bank, dedicated to the sale of the capital market products. The purpose of the unit is to provide the highest quality of brokerage services. A comprehensive offer guarantees investors, in particular from the group of the Bank's individual clients, opportunity to invest in the stock, derivatives (futures and options), bonds, as well as OTC market. The entity also acts as an intermediary in the sale of Structured Certificates of Deposit issued by the Bank, provides an opportunity to invest in instruments offered in the public offerings as well as provide access to foreign markets.

Customers are being serviced by a network of Brokerage Service Points located in the Bank's branches all over the country, which as at December 31, 2014 includes 43 of full-range order acceptance points, 366 of non-full-range order acceptance points and through remote service channel Pekao24Makler (Internet, mobile service, mobile application and telephone) fully integrated with the Bank's electronic banking system Pekao24.

At the end of 2014, Dom Maklerski maintained 173.3 thousand standard investment accounts, of which over 69 thousand customers has electronic access to the services through electronic channels.

In 2014, Dom Maklerski participated in consortiums serving 5 public offers. The vast majority of registrations were received through remote channels, in particular through the Internet. Moreover, 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.

Dom Maklerski co-operated also with two intermediaries, UniCredit CAIB Poland SA and IPOPEMA Securities SA, as an entity as an entity receiving records in the calls for the sale of shares of four companies.

In 2014, Dom Maklerski conducted projects related to adaptation to the European Parliament internal regulations within the scope of CRR, CRD IV and EMIR.

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.

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.

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

## **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 <sup>(*)</sup>	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 <sup>(**)</sup>	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 Pekao24 mobile 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.

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

## **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.

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

## **6.5.2 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.

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.

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

## 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 <sup>(*)</sup>	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 <sup>(*)</sup>	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.



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

## **6.5.3 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.

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

## **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.

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

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.

## **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).

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

As at the end of 2014, the market position of the Bank in each category was as follows:

- 2<sup>nd</sup> place on corporate bonds market and corporate revenue bonds market (with maturities over 365 days) with a share of over 25%,
- 2<sup>nd</sup> place in the segment of short-term debt securities with over 18% market share,
- 2<sup>nd</sup> 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 Drenica,
- 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.

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

## **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.

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

## 6.6 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.

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

## ***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 four 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.

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

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.



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

## **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 met, 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.

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.

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

## **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 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.

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

## 7 Statement of Financial Position and Financial Results

Unconsolidated income statement containing cumulated items for the period from 1 January to 31 December, 2014 and 2013 respectively was presented in the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2014.

In relation to changes in accounting policy in 2013 (for description refer to the Note 4 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2014) data for 2013 in the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2014 as well as in the Report on activities of Bank Pekao S.A. for the year 2014 have been presented after appropriate restatements.

The Report on activities of Bank Pekao S.A. 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 the Bank 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 Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2014.

### 7.1 Structure of the unconsolidated statement of financial position – short form

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

ASSETS	31.12.2014		31.12.2013		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	9,226.2	5.6%	4,191.2	2.7%	120.1%
Loans and advances to banks	7,215.4	4.4%	7,653.8	4.9%	(5.7%)
Loans and advances to customers <sup>(*)</sup>	111,389.2	67.8%	100,569.2	64.8%	10.8%
Securities <sup>(**)</sup>	25,085.2	15.3%	35,033.9	22.6%	(28.4%)
Investments in associates	886.9	0.5%	822.5	0.5%	7.8%
Property, plant and equipment and intangible assets	2,127.3	1.3%	2,166.3	1.4%	(1.8%)
Other assets	8,392.6	5.1%	4,849.7	3.1%	73.1%
<b>Total assets</b>	<b>164,322.8</b>	<b>100.0%</b>	<b>155,286.6</b>	<b>100.0%</b>	<b>5.8%</b>

(\*) Including debt securities eligible for rediscounting at Central Bank.

(\*\*) Including financial assets held for trading and other financial instruments at fair value through profit and loss.

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

EQUITY AND LIABILITIES	31.12.2014		31.12.2013		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	1.0	0.0%	1.0	0.0%	0.0%
Amounts due to other banks	3,129.9	1.9%	4,754.7	3.1%	(34.2%)
Amounts due to customers	126,381.3	76.9%	119,868.7	77.2%	5.4%
Debt securities issued	2,819.7	1.7%	2,240.5	1.4%	25.9%
Other liabilities	8,603.7	5.3%	5,573.0	3.6%	54.4%
Equity	23,387.2	14.2%	22,848.7	14.7%	2.4%
<b>Total equity and liabilities</b>	<b>164,322.8</b>	<b>100.0%</b>	<b>155,286.6</b>	<b>100.0%</b>	<b>5.8%</b>

## 7.1.1 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 67.8% and 15.3% of the total assets, respectively, while as at the end of 2013, the respective figures were 64.8% and 22.6%.

### Cash and due from Central Bank

(in PLN million)

	31.12.2014	31.12.2012	CHANGE
<b>Cash and due from Central Bank, including:</b>	<b>9,226.2</b>	<b>4,191.2</b>	<b>120.1%</b>
Cash	3,399.3	2,104.6	61.5%
Current account at Central Bank	5,826.7	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
<b>Loans and advances at nominal value</b>	<b>116,515.9</b>	<b>105,194.4</b>	<b>10.8%</b>
Loans <sup>(*)</sup>	100,330.6	93,186.8	7.7%
Retail	48,377.8	43,637.6	10.9%
Corporate	51,952.8	49,549.2	4.9%
Non-quoted securities	10,399.6	9,428.2	10.3%
Reverse repo transactions	5,785.7	2,579.4	124.3%
Other <sup>(**)</sup>	324.4	321.8	0.8%
Nominal value adjustment	80.2	28.2	184.4%
<b>Impairment losses</b>	<b>(5,531.3)</b>	<b>(4,975.2)</b>	<b>11.2%</b>
<b>Total net receivables</b>	<b>111,389.2</b>	<b>100,569.2</b>	<b>10.8%</b>
Securities issued by non-monetary entities <sup>(***)</sup>	899.2	815.7	10.2%
<b>Total customers' financing<sup>(****)</sup></b>	<b>117,415.1</b>	<b>106,010.1</b>	<b>10.8%</b>

(\*) Including debt securities eligible for rediscounting at Central Bank.

(\*\*) 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.

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

As at the end of December 2014, the volume of total customers' financing amounted to PLN 117,415.1 million, an increase of PLN 11,405.0 million, i.e. 10.8% in comparison to the end of 2013.

As at the end of December 2014, the volume of retail loans amounted to PLN 48,377.8 million, an increase of PLN 4,740.2 million, i.e. 10.9% 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 increased by PLN 6,664.8 million, i.e. 10.7% as compared to the end of 2013 and amounted to PLN 69,037.3 million at the end of December 2014.

## Receivables and impairment losses

(in PLN million)

	31.12.2014	31.12.2013	CHANGE
<b>Gross receivables<sup>(*)</sup></b>	<b>116,632.4</b>	<b>105,259.3</b>	<b>10.8%</b>
Not impaired	108,882.9	97,806.5	11.3%
Impaired	7,749.5	7,452.8	4.0%
Impairment losses	(5,531.3)	(4,975.2)	11.2%
Interest	288.1	285.1	1.1%
<b>Total net receivables</b>	<b>111,389.2</b>	<b>100,569.2</b>	<b>10.8%</b>

(\*) Including debt securities eligible for rediscounting at Central Bank, 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 6.6% and was better by 0.5 p.p. in comparison to the end of 2013.

Impairment losses as at the end of December 2014 amounted to PLN 5,531.3 million.

## Loans and advances to customers by currency<sup>(\*)</sup>

	31.12.2014		31.12.2013		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	97,585.7	83.5%	87,254.2	82.7%	11.8%
Denominated in foreign currencies <sup>(**)</sup>	19,334.8	16.5%	18,290.2	17.3%	5.7%
<b>Total</b>	<b>116,920.5</b>	<b>100.0%</b>	<b>105,544.4</b>	<b>100.0%</b>	<b>10.8%</b>
Impairment losses	(5,531.3)	x	(4,975.2)	x	11.2%
<b>Total net</b>	<b>111,389.2</b>	<b>x</b>	<b>100,569.2</b>	<b>x</b>	<b>10.8%</b>

(\*) 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 zloty; as at the end of December 2014, their share was 83.5%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (59.4%), CHF (22.9%) and USD (17.0%).

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

## Loans and advances to customers by contractual maturities<sup>(\*)</sup>

	31.12.2014		31.12.2013		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	20,200.5	17.3%	15,824.0	15.0%	27.7%
1 to 3 months	2,963.7	2.5%	2,689.9	2.5%	10.2%
3 months to 1 year	10,498.2	9.0%	10,239.7	9.7%	2.5%
1 to 5 years	35,809.4	30.6%	32,986.9	31.3%	8.6%
Over 5 years	47,124.3	40.3%	43,482.1	41.2%	8.4%
Other	324.4	0.3%	321.8	0.3%	0.8%
<b>Total</b>	<b>116,920.5</b>	<b>100.0%</b>	<b>105,544.4</b>	<b>100.0%</b>	<b>10.8%</b>
Impairment losses	(5,531.3)	x	(4,975.2)	x	11.2%
<b>Total net</b>	<b>111,389.2</b>	<b>x</b>	<b>100,569.2</b>	<b>x</b>	<b>10.8%</b>

(\*) 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 26 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2014.

## 7.1.2 Liabilities

### Changes in the structure of liabilities

Amounts due to customers were the main item under the Bank's liabilities and equity. As at the end of 2014, amounts due to customers and debt securities issued totaled PLN 129,201.0 million, and their share in the total assets was 78.6% and was not changed in comparison to the end of 2013. The share of total shareholder's equity in the total assets was 14.2% as at the end of 2014, compared with 14.7% 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	3,129.9	4,754.7	(34.2%)
Amounts due to customers	126,381.3	119,868.7	5.4%
Debt securities issued	2,819.7	2,240.5	25.9%
<b>Total external sources of financing</b>	<b>132,331.9</b>	<b>126,864.9</b>	<b>4.3%</b>

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

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

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%
<b>Total</b>	<b>100.0%</b>

## Total customer savings

(in PLN million)

	31.12.2014	31.12.2013	CHANGE
<b>Amounts due to corporate</b>	<b>65,640.4</b>	<b>65,664.2</b>	<b>(0.0%)</b>
Non-financial entities	49,063.5	45,337.2	8.2%
Non-banking financial entities	10,367.9	14,506.5	(28.5%)
Budget entities	6,209.0	5,820.5	6.7%
<b>Retail deposits</b>	<b>54,639.3</b>	<b>50,179.5</b>	<b>8.9%</b>
<b>Repo and sell-buy-back transactions</b>	<b>5,253.4</b>	<b>3,665.7</b>	<b>43.3%</b>
Other(*)	848.2	359.3	136.1%
<b>Amounts due to customers</b>	<b>126,381.3</b>	<b>119,868.7</b>	<b>5.4%</b>
<b>Debt securities issued, of which</b>	<b>2,819.7</b>	<b>2,240.5</b>	<b>25.9%</b>
Structured Certificates of Deposit (SCD)	203.7	334.0	(39.0%)
Certificates of Deposit	2,594.7	1,901.9	36.4%
Interest	21.3	4.6	363.0%
<b>Amounts due to customers and debt securities issued, total</b>	<b>129,201.0</b>	<b>122,109.2</b>	<b>5.8%</b>
<b>Investment funds of Pioneer Pekao TFI</b>	<b>17,115.1</b>	<b>16,411.5</b>	<b>4.3%</b>
including distributed through the Bank's network	15,660.9	14,628.6	7.1%

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

As at the end of December 2014, the total amounts due to the Bank's customers and debt securities issued amounted to PLN 129,201.0 million, an increase of PLN 7,091.8 million, i.e. 5.8% 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 Bank's customers and debt securities issued increased by PLN 13,214.3, i.e. 11.8% million in comparison to the end of 2013.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 55,279.9 million at the end of December 2014, an increase of PLN 4,490.5 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, interest and other amounted to PLN 73,921.1 million at the end of December 2014, an increase of PLN 2,601.3 million, i.e. 3.6% as compared to the end of 2013, excluding OFE an increase of PLN 8,723.8 million in comparison to the end of 2013.

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

## Amounts due to customers by currency<sup>(\*)</sup>

	31.12.2014		31.12.2013		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	107,063.9	84.7%	101,596.6	84.8%	5.4%
Denominated in foreign currencies	19,317.4	15.3%	18,272.1	15.2%	5.7%
<b>Total</b>	<b>126,381.3</b>	<b>100.0%</b>	<b>119,868.7</b>	<b>100.0%</b>	<b>5.4%</b>

(\*) 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 84.7%. The majority of amounts due to customers denominated in foreign currencies were in EUR (61.2%) and USD (34.2%).

## Amounts due to customers by contractual maturities

	31.12.2014		31.12.2013		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	59,675.5	47.5%	55,459.9	46.4%	7.6%
Term deposits	65,857.6	52.5%	64,049.5	53.6%	2.8%
<b>Total deposits</b>	<b>125,533.1</b>	<b>100.0%</b>	<b>119,509.4</b>	<b>100.0%</b>	<b>5.0%</b>
Interest accrued	195.1	x	209.6	x	(6.9%)
Funds in transit	653.1	x	149.7	x	336.3%
<b>Total</b>	<b>126,381.3</b>	<b>x</b>	<b>119,868.7</b>	<b>x</b>	<b>5.4%</b>

## 7.1.3 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	55,256.1	48,703.9	13.5%
Liabilities granted:	42,626.5	39,475.0	8.0%
financial	27,028.1	27,287.9	(1.0%)
guarantees	15,598.4	12,187.1	28.0%
Liabilities received:	12,629.6	9,228.9	36.8%
financial	457.3	111.8	309.0%
guarantees	12,172.3	9,117.1	33.5%
Derivative financial instruments	252,552.9	188,091.3	34.3%
interest rate transactions	147,084.8	116,780.5	25.9%
transactions in foreign currency and in gold	103,782.2	70,247.6	47.7%
transactions based on commodities and equity securities	1,685.9	1,063.2	58.6%
Other	28,679.6	29,808.5	(3.8%)
<b>Total off-balance sheet items</b>	<b>336,488.6</b>	<b>266,603.7</b>	<b>26.2%</b>

More detailed information on off-balance-sheet items is included in the Note 27 and 46 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2014.



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

## 7.2 The unconsolidated income statement – presentation form

Net profit of Bank Pekao S.A. for 2014 amounted to PLN 2,662.3 million allowing return on average capital (ROE) at the level of 11.6% achieved with a strong capital base reflected by the total capital ratio at 17.1% (Basel III). Normalized ROE (return on minimum equity equivalent to the total capital ratio at 10%) amounted to 17.4%.

The Bank's net profit reported for 2014 was lower by 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 strength of the liquidity structure of Bank Pekao S.A. is reflected by net loans to deposits ratio at 86.2% at the end of December 2014. This together with strong equity level enables for further sound and stable development of the Bank's activities.

### The unconsolidated income statement – presentation form

(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%
<b>Total net interest income and dividend income</b>	<b>4,488.1</b>	<b>4,454.3</b>	<b>0.8%</b>
Net fee and commission income	1,832.5	1,911.3	(4.1%)
Trading result	667.1	744.2	(10.4%)
Net other operating income and expenses	47.0	77.5	(39.4%)
<b>Net non-interest income</b>	<b>2,546.6</b>	<b>2,733.0</b>	<b>(6.8%)</b>
<b>Operating income</b>	<b>7,034.7</b>	<b>7,187.3</b>	<b>(2.1%)</b>
<b>Operating costs</b>	<b>(3,223.3)</b>	<b>(3,230.4)</b>	<b>(0.2%)</b>
<b>Operating profit</b>	<b>3,811.4</b>	<b>3,956.9</b>	<b>(3.7%)</b>
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%)
<b>Profit before tax</b>	<b>3,270.1</b>	<b>3,436.4</b>	<b>(4.8%)</b>
Income tax expense	(607.8)	(636.4)	(4.5%)
<b>Net profit for the period</b>	<b>2,662.3</b>	<b>2,800.0</b>	<b>(4.9%)</b>

### Operating income

In 2014, the Bank's operating income amounted to PLN 7,034.7 million, a decrease of PLN 152.6 million, i.e. 2.1% 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.

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

## Total net interest income and dividend income

(in PLN million)

	2014	2013	CHANGE
Interest income	6,038.8	6,496.1	(7.0%)
Interest expense	(1,704.3)	(2,185.6)	(22.0%)
<b>Net interest income</b>	<b>4,334.5</b>	<b>4,310.5</b>	<b>0.6%</b>
Dividend income	153.6	143.8	6.8%
<b>Total net interest income and dividend income</b>	<b>4,488.1</b>	<b>4,454.3</b>	<b>0.8%</b>

Total net interest income and dividend income in 2014 amounted to PLN 4,488.1 million and was higher by PLN 33.8 million, i.e. 0.8% 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	CHANGE
Fee and commission income	2,329.3	2,415.5	(3.6%)
Fee and commission expense	(496.8)	(504.2)	(1.5%)
<b>Net fee and commission income</b>	<b>1,832.5</b>	<b>1,911.3</b>	<b>(4.1%)</b>
Trading result	667.1	744.2	(10.4%)
of which gains on disposal of AFS assets	252.9	308.4	(18.0%)
Net other operating income and expense	47.0	77.5	(39.4%)
<b>Net non-interest income</b>	<b>2,546.6</b>	<b>2,733.0</b>	<b>(6.8%)</b>

The Bank's net non-interest income in 2014 amounted to PLN 2,546.6 million, a decrease of PLN 186.4 million, i.e. 6.8% 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.

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

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

(in PLN million)

	2014	2013	CHANGE
<b>Net fee and commission income</b>	<b>1,832.5</b>	<b>1,911.3</b>	<b>(4.1%)</b>
on loans	415.6	399.9	3.9%
on cards	403.6	455.6	(11.4%)
capital market related	195.9	213.6	(8.3%)
other	817.4	842.2	(2.9%)

The Bank's net fee and commission income in 2014 amounted to PLN 1,832.5 million and was lower by PLN 78.8 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 3,223.3 million. They were lower by PLN 7.1 million, i.e. 0.2% than the operating costs in 2013 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 38.9 million, i.e. 1.3% in comparison with 2013.

(in PLN million)

	2014	2013	CHANGE
Personnel expenses	(1,730.2)	(1,678.6)	3.1%
Other administrative expenses (excl. BGF and KNF)	(1,032.1)	(1,104.2)	(6.5%)
Depreciation and amortization	(308.3)	(326.7)	(5.6%)
<b>Operating costs (excl. BGF and KNF)</b>	<b>(3,070.6)</b>	<b>(3,109.5)</b>	<b>(1.3%)</b>
BGF and KNF	(152.7)	(120.9)	26.3%
<b>Operating costs</b>	<b>(3,223.3)</b>	<b>(3,230.4)</b>	<b>(0.2%)</b>

In 2014, cost / income ratio amounted to 45.8% in comparison with 44.9% in 2013 mainly due to higher charge of Banking Guarantee Fund and supervisory fees (KNF).

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 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.

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

## Net impairment losses

(in PLN million)

	2014	2013	CHANGE
Impairment losses on loans	(553.8)	(631.9)	(12.4%)
Impairment losses on off-balance sheet commitments	12.4	8.9	39.3%
<b>Total</b>	<b>(541.4)</b>	<b>(623.0)</b>	<b>(13.1%)</b>

The Bank's net impairment losses on loans and off-balance sheet commitments amounted to PLN 541.4 million in 2014, a decrease of PLN 81.6 million, i.e. 13.1% as compared with 2013.

## Provisions, deferred tax assets and liabilities

(in PLN million)

	31.12.2014	31.12.2013	CHANGE
<b>Total provisions</b>	<b>437.0</b>	<b>391.4</b>	<b>11.7%</b>
of which:			
provisions for off-balance sheet commitments	105.2	116.9	(10.0%)
provisions for liabilities to employees	298.8	239.2	24.9%
other provisions	33.0	35.3	(6.5%)
<b>Deferred tax liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred tax assets</b>	<b>672.5</b>	<b>680.2</b>	<b>(1.1%)</b>

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

## 7.3 Quarterly Income Statement

### 7.3.1 Unconsolidated income statement – long form

Unconsolidated income statement for 2014 - Provided for comparability purposes.

(in PLN thousand)

	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Interest income	1,524,582	1,536,050	1,547,897	1,430,298
Interest expense	(425,591)	(427,985)	(446,165)	(404,582)
<b>Net interest income</b>	<b>1,098,991</b>	<b>1,108,065</b>	<b>1,101,732</b>	<b>1,025,716</b>
Fee and commission income	579,714	614,044	560,867	574,667
Fee and commission expense	(119,553)	(138,340)	(108,768)	(130,143)
<b>Net fee and commission income</b>	<b>460,161</b>	<b>475,704</b>	<b>452,099</b>	<b>444,524</b>
<b>Dividend income</b>	<b>28,976</b>	<b>124,471</b>	<b>101</b>	<b>-</b>
<b>Result on financial assets and liabilities held for trading</b>	<b>102,559</b>	<b>107,432</b>	<b>101,774</b>	<b>119,703</b>
<b>Result on fair value hedge accounting</b>	<b>(10,725)</b>	<b>(3,392)</b>	<b>(1,598)</b>	<b>(1,532)</b>
<b>Net result on other financial instruments at fair value through profit and loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Gains (losses) on disposal of:</b>	<b>414</b>	<b>35,490</b>	<b>93,978</b>	<b>141,531</b>
loans and other financial receivables	414	670	-	17,495
available for sale financial assets and held to maturity investments	17	34,820	93,976	124,045
financial liabilities	(17)	-	2	(9)
<b>Operating income</b>	<b>1,680,376</b>	<b>1,847,770</b>	<b>1,748,086</b>	<b>1,729,942</b>
<b>Net impairment losses on financial assets and off-balance sheet commitments</b>	<b>(141,479)</b>	<b>(136,514)</b>	<b>(130,158)</b>	<b>(133,218)</b>
loans and other financial receivables	(142,981)	(124,869)	(168,942)	(117,013)
off-balance sheet commitments	1,502	(11,645)	38,784	(16,205)
<b>Net result on financial activity</b>	<b>1,538,897</b>	<b>1,711,256</b>	<b>1,617,928</b>	<b>1,596,724</b>
<b>Administrative expenses</b>	<b>(728,810)</b>	<b>(738,774)</b>	<b>(734,864)</b>	<b>(718,157)</b>
personnel expenses	(426,756)	(440,323)	(437,682)	(425,393)
other administrative expenses	(302,054)	(298,451)	(297,182)	(292,764)
<b>Depreciation and amortization</b>	<b>(76,399)</b>	<b>(76,894)</b>	<b>(77,993)</b>	<b>(77,098)</b>
<b>Net result on other provisions</b>	<b>(415)</b>	<b>(1,393)</b>	<b>146</b>	<b>281</b>
<b>Net other operating income and expenses</b>	<b>8,897</b>	<b>7,217</b>	<b>13,513</b>	<b>4,552</b>
<b>Operating costs</b>	<b>(796,727)</b>	<b>(809,844)</b>	<b>(799,198)</b>	<b>(790,422)</b>
<b>Gains (losses) on subsidiaries and associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Gains (losses) on disposal of property, plant and equipment and intangible assets</b>	<b>(454)</b>	<b>(257)</b>	<b>13</b>	<b>2,189</b>
<b>Profit before income tax</b>	<b>741,716</b>	<b>901,155</b>	<b>818,743</b>	<b>808,491</b>
Income tax expense	(139,895)	(148,926)	(158,085)	(160,933)
<b>Net profit for the period</b>	<b>601,821</b>	<b>752,229</b>	<b>660,658</b>	<b>647,558</b>

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

## Unconsolidated income statement for 2013 - Provided for comparability purposes.

(in PLN thousand)

	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Interest income	1,804,823	1,631,308	1,528,893	1,531,099
Interest expense	(701,976)	(584,597)	(468,295)	(430,731)
<b>Net interest income</b>	<b>1,102,847</b>	<b>1,046,711</b>	<b>1,060,598</b>	<b>1,100,368</b>
Fee and commission income	578,473	607,162	612,869	616,997
Fee and commission expense	(111,859)	(131,343)	(132,885)	(128,117)
<b>Net fee and commission income</b>	<b>466,614</b>	<b>475,819</b>	<b>479,984</b>	<b>488,880</b>
Dividend income	44,286	99,493	-	-
<b>Result on financial assets and liabilities held for trading</b>	<b>107,594</b>	<b>117,442</b>	<b>120,353</b>	<b>110,989</b>
<b>Result on fair value hedge accounting</b>	<b>(4,654)</b>	<b>(2,381)</b>	<b>(4,320)</b>	<b>(6,068)</b>
<b>Net result on other financial instruments at fair value through profit and loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Gains (losses) on disposal of:</b>	<b>54,155</b>	<b>152,801</b>	<b>39,426</b>	<b>58,757</b>
loans and other financial receivables	(81)	-	-	14
available for sale financial assets and held to maturity investments	57,565	152,922	39,191	58,677
financial liabilities	(3,329)	(121)	235	66
<b>Operating income</b>	<b>1,770,842</b>	<b>1,889,885</b>	<b>1,696,041</b>	<b>1,752,926</b>
<b>Net impairment losses on financial assets and off-balance sheet commitments</b>	<b>(139,120)</b>	<b>(152,318)</b>	<b>(165,498)</b>	<b>(166,035)</b>
loans and other financial receivables	(147,673)	(151,757)	(135,468)	(196,939)
off-balance sheet commitments	8,553	(561)	(30,030)	30,904
<b>Net result on financial activity</b>	<b>1,631,722</b>	<b>1,737,567</b>	<b>1,530,543</b>	<b>1,586,891</b>
<b>Administrative expenses</b>	<b>(718,858)</b>	<b>(749,625)</b>	<b>(733,999)</b>	<b>(709,163)</b>
personnel expenses	(415,230)	(433,743)	(427,575)	(402,061)
other administrative expenses	(303,628)	(315,882)	(306,424)	(307,102)
<b>Depreciation and amortization</b>	<b>(81,873)</b>	<b>(82,362)</b>	<b>(80,336)</b>	<b>(82,092)</b>
<b>Net result on other provisions</b>	<b>(643)</b>	<b>(1,444)</b>	<b>(1,015)</b>	<b>16,933</b>
<b>Net other operating income and expenses</b>	<b>18,715</b>	<b>10,765</b>	<b>34,335</b>	<b>21,678</b>
<b>Operating costs</b>	<b>(782,659)</b>	<b>(822,666)</b>	<b>(781,015)</b>	<b>(752,644)</b>
<b>Gains (losses) on subsidiaries and associates</b>	<b>-</b>	<b>-</b>	<b>69,972</b>	<b>-</b>
<b>Gains (losses) on disposal of property, plant and equipment and intangible assets</b>	<b>(41)</b>	<b>17,741</b>	<b>(361)</b>	<b>1,350</b>
<b>Profit before income tax</b>	<b>849,022</b>	<b>932,642</b>	<b>819,139</b>	<b>835,597</b>
Income tax expense	(160,293)	(157,590)	(159,410)	(159,107)
<b>Net profit for the period</b>	<b>688,729</b>	<b>775,052</b>	<b>659,729</b>	<b>676,490</b>

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

## 7.3.2 Unconsolidated statement of comprehensive income

### Unconsolidated statement of comprehensive income for 2014

(in PLN thousand)

	Q1 2014	Q2 2014	Q3 2014	Q4 2014
<b>Net profit for the period</b>	<b>601,821</b>	<b>752,229</b>	<b>660,658</b>	<b>647,558</b>
<b>Other comprehensive income</b>				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Foreign currency translation differences	5	6	(8)	(72)
Change in fair value of available-for-sale financial assets	36,930	322,528	127,457	(4,789)
Change in fair value of cash flow hedges	(11,416)	113,138	74,877	(8,490)
Income tax expense on other comprehensive income	(4,848)	(82,776)	(38,444)	2,523
<i>Items that will never be reclassified to profit or loss:</i>				
Re-measurements of the defined benefit liabilities	-	-	-	(44,212)
Tax on items that will never be reclassified to profit or loss	-	-	-	8,400
<b>Other comprehensive income (net)</b>	<b>20,671</b>	<b>352,896</b>	<b>163,882</b>	<b>(46,640)</b>
<b>Total comprehensive income</b>	<b>622,492</b>	<b>1,105,125</b>	<b>824,540</b>	<b>600,918</b>

### Unconsolidated statement of comprehensive income for 2013

(in PLN thousand)

	Q1 2013	Q2 2013	Q3 2013	Q4 2013
<b>Net profit for the period</b>	<b>688,729</b>	<b>775,052</b>	<b>659,729</b>	<b>676,490</b>
<b>Other comprehensive income</b>				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Foreign currency translation differences	(2)	335	(351)	(132)
Change in fair value of available-for-sale financial assets	(152,344)	(313,441)	(118,434)	26,381
Change in fair value of cash flow hedges	17,221	(48,395)	69,742	(3,736)
Income tax expense on other comprehensive income	25,674	68,748	9,252	(4,303)
<i>Items that will never be reclassified to profit or loss:</i>				
Re-measurements of the defined benefit liabilities	-	-	-	(41,504)
Tax on items that will never be reclassified to profit or loss	-	-	-	7,886
<b>Other comprehensive income (net)</b>	<b>(109,451)</b>	<b>(292,753)</b>	<b>(39,791)</b>	<b>(15,408)</b>
<b>Total comprehensive income</b>	<b>579,278</b>	<b>482,299</b>	<b>619,938</b>	<b>661,082</b>

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

## 7.3.3 Unconsolidated income statement – presentation form

### Unconsolidated income statement for 2014

(in PLN thousand)

	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Net interest income	1,098,991	1,108,065	1,101,732	1,025,716
Dividend income	28,976	124,471	101	-
<b>Total net interest income and dividend income</b>	<b>1,127,967</b>	<b>1,232,536</b>	<b>1,101,833</b>	<b>1,025,716</b>
Net fee and commission income	460,161	475,704	452,099	444,524
Trading result	91,834	138,860	194,154	242,207
Net other operating income and expenses	7,008	7,200	12,440	20,452
<b>Net non-interest income</b>	<b>559,003</b>	<b>621,764</b>	<b>658,693</b>	<b>707,183</b>
<b>Operating income</b>	<b>1,686,970</b>	<b>1,854,300</b>	<b>1,760,526</b>	<b>1,732,899</b>
<b>Operating costs</b>	<b>(802,906)</b>	<b>(814,981)</b>	<b>(811,784)</b>	<b>(793,660)</b>
<b>Operating profit</b>	<b>884,064</b>	<b>1,039,319</b>	<b>948,742</b>	<b>939,239</b>
Net result on other provisions	(415)	(1,393)	146	281
Net impairment losses on loans and off-balance sheet commitments	(141,479)	(136,514)	(130,158)	(133,218)
Net result on investment activities	(454)	(257)	13	2,189
<b>Profit before income tax</b>	<b>741,716</b>	<b>901,155</b>	<b>818,743</b>	<b>808,491</b>
Income tax expense	(139,895)	(148,926)	(158,085)	(160,933)
<b>Net profit for the period</b>	<b>601,821</b>	<b>752,229</b>	<b>660,658</b>	<b>647,558</b>

### Unconsolidated income statement for 2013

(in PLN thousand)

	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Net interest income	1,102,847	1,046,711	1,060,598	1,100,368
Dividend income	44,286	99,493	-	-
<b>Total net interest income and dividend income</b>	<b>1,147,133</b>	<b>1,146,204</b>	<b>1,060,598</b>	<b>1,100,368</b>
Net fee and commission income	466,614	475,819	479,984	488,880
Trading result	157,176	267,862	155,459	163,664
Net other operating income and expenses	17,097	9,086	31,939	19,388
<b>Net non-interest income</b>	<b>640,887</b>	<b>752,767</b>	<b>667,382</b>	<b>671,932</b>
<b>Operating income</b>	<b>1,788,020</b>	<b>1,898,971</b>	<b>1,727,980</b>	<b>1,772,300</b>
<b>Operating costs</b>	<b>(799,194)</b>	<b>(830,308)</b>	<b>(811,939)</b>	<b>(788,951)</b>
<b>Operating profit</b>	<b>988,826</b>	<b>1,068,663</b>	<b>916,041</b>	<b>983,349</b>
Net result on other provisions	(643)	(1,444)	(1,015)	16,933
Net impairment losses on loans and off-balance sheet commitments	(139,120)	(152,318)	(165,498)	(166,035)
Net result on investment activities	(41)	17,741	69,611	1,350
<b>Profit before income tax</b>	<b>849,022</b>	<b>932,642</b>	<b>819,139</b>	<b>835,597</b>
Income tax expense	(160,293)	(157,590)	(159,410)	(159,107)
<b>Net profit for the period</b>	<b>688,729</b>	<b>775,052</b>	<b>659,729</b>	<b>676,490</b>



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

## 7.3.4 Reconciliation of income statement – presentation form and long form

### Unconsolidated income statement for 2014

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	2014	COMMENTS
Net interest income		<u>4,334,504</u>	
Dividend income	Dividend income	<u>153,548</u>	
<b>Total net interest income and dividend income</b>		<b>4,488,052</b>	
Net fee and commission income	Net fee and commission income	<u>1,832,488</u>	
Trading result		<u>667,055</u>	
	Result on financial assets and liabilities held for trading	431,468	
	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	252,858	
	(Gains) losses on disposal of financial liabilities	(24)	
Net other operating income and expenses		<u>47,100</u>	
	Net other operating income and expenses	34,179	
	/less - Refunding of administrative expenses	(5,658)	1/
	Gains (losses) on disposal of loans and other financial receivables	18,579	
<b>Net non-interest income</b>		<b>2,546,643</b>	
<b>Operating income</b>		<b>7,034,695</b>	
Operating costs		<u>(3,223,331)</u>	
	Personnel expenses	(1,730,154)	
	Other administrative expenses	(1,190,451)	
	Refunding of administrative expenses	5,658	1/
	Depreciation and amortization	(308,384)	
<b>Operating profit</b>		<b>3,811,364</b>	
Net result on other provisions	Net result on other provisions	<u>(1,381)</u>	
Net impairment losses on loans and off-balance sheet commitments		<u>(541,369)</u>	
	Net impairment losses on loans	(553,805)	
	Net impairment provision for off-balance sheet commitments	12,436	
Net result on investment activities		<u>1,491</u>	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	1,491	
	Gains (losses) on disposal of subsidiaries and associates	-	
<b>Profit before income tax</b>		<b>3,270,105</b>	
Income tax expense	Income tax expense	<u>(607,839)</u>	
<b>Net profit for the period</b>	<b>Net profit for the period</b>	<b>2,662,266</b>	

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".

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

## Unconsolidated income statement for 2013

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	2013	COMMENTS
Net interest income		<u>4,310,524</u>	
Dividend income	Dividend income	<u>143,779</u>	
<b>Total net interest income and dividend income</b>		<b>4,454,303</b>	
Net fee and commission income	Net fee and commission income	<u>1,911,297</u>	
Trading result		<u>744,161</u>	
	Result on financial assets and liabilities held for trading	456,378	
	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		<u>77,510</u>	
	Net other operating income and expenses	85,493	
	less - Refunding of administrative expenses	(7,916)	1/
	(Gains) losses on disposal of loans and other financial receivables	(67)	
<b>Net non-interest income</b>		<b>2,732,968</b>	
<b>Operating income</b>		<b>7,187,271</b>	
Operating costs		<u>(3,230,392)</u>	
	Personnel expenses	(1,678,609)	
	Other administrative expenses	(1,233,036)	
	Refunding of administrative expenses	7,916	1/
	Depreciation and amortization	(326,663)	
<b>Operating profit</b>		<b>3,956,879</b>	
Net result on other provisions	Net result on other provisions	<u>13,831</u>	
Net impairment losses on loans and off-balance sheet commitments		<u>(622,971)</u>	
	Net impairment losses on loans	(631,837)	
	Net impairment provision for off-balance sheet commitments	8,866	
Net result on investment activities		<u>88,661</u>	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	18,689	
	Gains (losses) on disposal of subsidiaries and associates	69,972	
<b>Profit before income tax</b>		<b>3,436,400</b>	
Income tax expense	Income tax expense	<u>(636,400)</u>	
<b>Net profit for the period</b>	<b>Net profit for the period</b>	<b>2,800,000</b>	

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".

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

## 8 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.

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

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
<b>Total</b>	<b>73,535</b>	<b>73,535</b>	<b>73,535</b>

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.

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

## Information regarding contracts for post termination benefits

The employment contracts concluded by the Bank with the following Board Members provide compensation equal to 18 fold of monthly base salary for the final month of employment in the case of non-renewal of contract or dismissal:

- Mr. Andrzej Kopyrski, Vice President of the Management Board,
- Mr. Grzegorz Piwowar, Vice President of the Management Board,
- Mr. Marian Ważyński, Vice President of the Management Board.

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

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

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

## Agreements with companies entitled to auditing of financial reports

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

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

(in PLN thousand)

	2014	2013
Fee for the audit of annual financial statements	2,477	2,292
Fee for other attestation services, including review of financial statements	1,224	1,372

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

## 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.

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

## **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 657 with the total value amounting to PLN 1,201.0 million. The number of legal proceedings in respect of receivables was 13,708 with the total value of PLN 1,177.0 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 25 and 27 to the Unconsolidated Financial Statements of Bank Pekao S.A. 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 4 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2014.

# Report on the activities of Bank Pekao S.A. for the year 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.

### **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.

The detailed information concerning acquisition of 100% of the share capital of UniCredit CAIB Poland S.A. is presented in the Note 53 of the Unconsolidated Financial Statements of Bank Pekao S.A. 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.

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

## 9 Prospects for Development

### 9.1 Factors which will affect the results of the Bank

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 zloty 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.



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

## 9.2 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.

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

## **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.

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

## 10 Representations of the Bank's Management Board

The Management Board of Bank Pekao S.A. declares to the best of its knowledge that:

- Unconsolidated Financial Statements of Bank Pekao S.A. 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. financial position and their results,
- Report on the activities of Bank Pekao S.A. for the year 2014 provides the true picture of Bank Pekao S.A. 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 Unconsolidated Financial Statements of Bank Pekao S.A. 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 unconsolidated financial statement, in line with the binding provisions of the law and professional standards.

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

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

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*<sup>1</sup>, 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.<sup>2</sup>

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<sup>3</sup> 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<sup>5</sup> § 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.<sup>4</sup>

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<sup>5</sup>. 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.

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<sup>1</sup> Journal of Laws 2014.133 unified text

<sup>2</sup> Par. 91.5.4.a of the ordinance of the Minister of Finance of February 19, 2009

<sup>3</sup> The document is publicly available on the WSE webpage: <http://www.corp-gov.gpw.pl/publications.asp>

<sup>4</sup> The document is publicly accessible on the Polish Bank Association web site: <http://zbp.pl/dla-bankow/zespolu-rady-i-komitey/dzialania-w-obszarze-legislacyjno-prawnym/komisja-etyki-bankowej>

<sup>5</sup> The document is publicly accessible on the Polish Financial Supervision Authority web site: <http://www.knf.gov.pl/regulacje/praktyka/index.html>

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

Furthermore, the Bank applies corporate governance rules resulting from UniCredit Group Integrity Charter<sup>6</sup> 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<sup>7</sup>**

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.

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<sup>8</sup>**

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.

<sup>6</sup> The document is publicly available on Bank Pekao S.A. webpage: [http://www.pekao.com.pl/o\\_banku/misja/#tab2](http://www.pekao.com.pl/o_banku/misja/#tab2)

<sup>7</sup> Par. 91.5.4.c of the ordinance of the Minister of Finance of February 19, 2009

<sup>8</sup> Par. 91.5.4.d of the ordinance of the Minister of Finance of February 19, 2009

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

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:

SHAREHOLDER'S NAME	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
	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%
<b>Total</b>	<b>262,470,034</b>	<b>100.00%</b>	<b>262,470,034</b>	<b>100.00%</b>

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<sup>9</sup>

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.

### 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<sup>10</sup>

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<sup>11</sup>

According to the Bank's Statute there are no limitations of ownership transfer of the Bank's shares.

<sup>9</sup> Par. 91.5.4.e of the ordinance of the Minister of Finance of February 19, 2009

<sup>10</sup> Par. 91.5.4.f of the ordinance of the Minister of Finance of February 19, 2009

<sup>11</sup> Par. 91.5.4.g of the ordinance of the Minister of Finance of February 19, 2009

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

## **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<sup>12</sup>**

### 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.

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<sup>12</sup> Par. 91.5.4.h of the ordinance of the Minister of Finance of February 19, 2009

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

## **7) Description of rules governing amendment of the Statute of the Bank<sup>13</sup>**

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<sup>14</sup> 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.

## **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<sup>15</sup>**

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<sup>16</sup>.

<sup>13</sup> Par. 91.5.4.i of the ordinance of the Minister of Finance of February 19, 2009

<sup>14</sup> Adopted by virtue of the Resolution of the General Shareholders Meeting No. 19 of April 8, 2003

<sup>15</sup> Par. 91.5.4.j of the ordinance of the Minister of Finance of February 19, 2009

<sup>16</sup> [http://www.pekao.com.pl/informacje\\_dla\\_inwestorow/walne-zgromadzenia-banku/](http://www.pekao.com.pl/informacje_dla_inwestorow/walne-zgromadzenia-banku/)



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

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.

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

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<sup>2</sup> of Code of Commercial Companies.

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,

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

- 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.

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

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<sup>17</sup>**

### **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<sup>18</sup>. 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.

<sup>17</sup> Par. 91.5.4.k of the ordinance of the Minister of Finance of February 19, 2009

<sup>18</sup> [http://www.pekao.com.pl/o\\_banku/wladze\\_Banku/](http://www.pekao.com.pl/o_banku/wladze_Banku/)

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

## **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 Stefania Penna	Member of the Supervisory Board,
Wioletta Rosołowska	Member of the Supervisory Board,
Doris Tomanek	Member of the Supervisory Board.

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<sup>19</sup>.

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.

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<sup>19</sup> [http://www.pekao.com.pl/o\\_banku/wladze\\_Banku/#tab2](http://www.pekao.com.pl/o_banku/wladze_Banku/#tab2)

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

## 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 Stefania 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.

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 Stefania 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.

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

## Signatures of all Members of the Bank's Management Board

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