

Report on the activities of Bank Pekao S.A. Group for the first half of 2014



Warsaw, August 2014

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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1 Highlights of Bank Pekao S.A. Group

	1 HALF 2014	1 HALF 2013	2013	2012
INCOME STATEMENT CONTINUED OPERATIONS – SELECTED ITEMS*				
	<i>(in PLN million)</i>			
Operating income	3,645.1	3,762.8	7,493.6	7,789.9
Operating costs	(1,721.9)	(1,736.4)	(3,438.2)	(3,541.5)
Operating profit	1,923.2	2,026.4	4,055.4	4,248.4
Profit before income tax	1,629.3	1,721.7	3,432.9	3,619.4
Net profit for the period attributable to equity holders of the Bank	1,319.3	1,384.2	2,767.3	2,906.2
INCOME STATEMENT – SELECTED ITEMS				
	<i>(in PLN million)</i>			
Operating income	3,645.1	3,830.5	7,565.3	7,952.8
Operating costs	(1,721.9)	(1,778.4)	(3,483.4)	(3,625.6)
Operating profit	1,923.2	2,052.1	4,081.9	4,327.2
Profit before income tax	1,629.3	1,741.7	3,454.2	3,664.3
Net profit for the period attributable to equity holders of the Bank	1,319.3	1,400.3	2,784.8	2,942.8
PROFITABILITY RATIOS				
Return on average equity (ROE)	11.1%	11.9%	12.0%	13.3%
Net interest margin	3.3%	3.4%	3.4%	3.7%
Non-interest income / operating income	36.5%	39.7%	39.6%	37.3%
Cost / income	47.2%	46.4%	46.0%	45.6%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS				
	<i>(in PLN million)</i>			
Total assets	156,872.6	150,582.5	158,521.7	150,754.7
Net loans and advances to customers**	109,674.4	99,490.7	103,937.3	97,558.5
Amounts due to customers	114,710.0	108,964.4	119,796.7	107,992.6
Debt securities issued	3,579.5	4,304.7	3,063.7	4,758.7
Equity	22,597.7	22,080.4	23,514.2	23,263.7
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Net loans / total assets	69.9%	66.1%	65.6%	64.7%
Securities / total assets	17.1%	20.5%	22.2%	19.5%
Deposits*** / total assets	75.4%	75.2%	77.5%	74.8%
Net loans / deposits***	92.7%	87.8%	84.6%	86.5%
Equity / total assets	14.4%	14.7%	14.8%	15.4%
Capital Adequacy Ratio (Basel III)	18.1%	18.5%	18.3%	18.1%
EMPLOYEES AND NETWORK				
Total number of employees	18,684	19,515	18,916	19,816
Number of outlets (Bank Pekao S.A. and PJSC UniCredit Bank)	998	1,040	1,001	1,040
Number of ATMs (Bank Pekao S.A. and PJSC UniCredit Bank)	1,837	1,907	1,847	1,919

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

** Including debt securities eligible for rediscounting at Central Bank and net investments in financial leases to customers.

*** Deposits include amounts due to customers and debt securities issued.

Note: Since the first quarter of 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. In order to ensure comparability, data for 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 Consolidated Financial Statement of Bank Pekao S.A. Group for the period ended on December 31, 2013) data for 2012 and for the first half of 2013 have been presented after appropriate restatements.

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2 Highlights of Bank Pekao S.A.

	1 HALF 2014	1 HALF 2013	2013	2012
INCOME STATEMENT – SELECTED ITEMS <i>(in PLN million)</i>				
Operating income	3,541.3	3,687.0	7,187.3	7,510.2
Operating costs	(1,617.9)	(1,629.5)	(3,230.4)	(3,326.1)
Operating profit	1,923.4	2,057.5	3,956.9	4,184.1
Profit before income tax	1,642.9	1,781.7	3,436.4	3,592.9
Net profit for the period	1,354.1	1,463.8	2,800.0	2,925.3
PROFITABILITY RATIOS				
Return on average equity (ROE)	11.7%	12.7%	12.3%	13.6%
Net interest margin	3.3%	3.4%	3.3%	3.6%
Non-interest income / operating income	33.3%	37.8%	38.0%	35.8%
Cost / income	45.7%	44.2%	44.9%	44.3%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS <i>(in PLN million)</i>				
Total assets	153,384.8	146,466.7	155,286.6	147,066.9
Net loans and advances to customers*	106,161.1	96,312.0	100,569.2	94,607.0
Amounts due to customers	114,757.3	108,806.2	119,868.7	108,104.5
Debt securities issued	2,556.5	3,477.8	2,240.5	3,966.1
Equity	21,962.2	21,579.2	22,848.7	22,716.6
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Net loans / total assets	69.2%	65.8%	64.8%	64.3%
Securities / total assets	17.3%	21.0%	22.6%	19.9%
Deposits** / total assets	76.5%	76.7%	78.6%	76.2%
Net loans / deposits**	90.5%	85.8%	82.4%	84.4%
Equity / total assets	14.3%	14.7%	14.7%	15.4%
Capital Adequacy Ratio (Basel III)	18.0%	18.5%	18.3%	18.0%
EMPLOYEES AND NETWORK				
Total number of employees	16,888	17,191	17,092	17,433
Number of outlets	998	1,001	1,001	1,001
Number of ATMs	1,837	1,833	1,847	1,845

* Including debt securities eligible for rediscounting at Central Bank.

** Deposits include amounts due to customers and debt securities issued.

Note: Since the first quarter of 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. In order to ensure comparability, data for 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 3 to the Unconsolidated Financial Statement of Bank Pekao S.A. for the period ended on December 31, 2013) comparable data for 2012 and for the first half of 2013 have been presented after appropriate restatements.

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3 Summary of Performance

Net profit of Bank Pekao S.A. Group attributable to equity holders for the first half of 2014 amounted to PLN 1,319.3 million allowing return on average capital (ROE) at the level of 11.1% achieved with a strong capital base reflected by CAR at 18.1% (Basel III). Normalized ROE (return on minimum equity equivalent to CAR at 10%) amounted to 16.5%.

As financial data of the first half 2014 don't include results of PJSC UniCredit Bank – sold on July 16, 2013 – in the subsequent part of this chapter, financial information dynamics is discussed in comparable terms i.e. excluding PJSC UniCredit Bank from the first half of 2013.

The Group's net profit attributable to equity holders reported for the first half of 2014 in comparison to the first half of 2013 was lower by PLN 64.9 million, i.e. 4.7% mainly due to lower gains on disposal of available for sale financial assets with total net interest income, dividend income and income from equity investments higher by PLN 62.0 million i.e. 2.8% in this period thanks to higher volumes.

The strength of the liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 92.7% at the end of June 2014. This together with strong equity level enables for further sound and stable development of the Group's activities.

In the area of mortgage lending, the Bank continued its policy of offering only PLN mortgage loans. The residual stock of mortgage loans denominated in foreign currencies, almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA in 2007, represents only 4.5% of total loans of the Bank.

- In the first half of 2014, the Group's operating income amounted to PLN 3,645.1 million, a decrease of PLN 117.7 million, i.e. 3.1% in comparison with the first half of 2013 mainly due to lower gains on disposal of available for sale financial assets as compared with the same period of the previous year.
- Total net interest income, dividend income and income from equity investments in the first half of 2014 amounted to PLN 2,312.9 million and was higher by PLN 62.0 million, i.e. 2.8% compared to the previous year thanks to higher volumes fully compensating negative impact of lower interest rates. In the first half of 2014, average WIBOR 3M rate stood at the level of 2.71%, and was lower by 67 b.p. than in the first half of 2013.
- The Group's net non-interest income in the first half of 2014 amounted to PLN 1,332.2 million, a decrease of PLN 179.7 million, i.e. 11.9% in comparison with the first half of 2013 mainly due to lower trading result, in particular lower gains on disposal of available for sale financial assets.
- In the first half of 2014, the operating costs were kept under control and amounted to PLN 1,721.9 million. They were lower than the operating costs in the first half of 2013 by PLN 14.5 million, i.e. 0.8% despite new prudential charge of Banking Guarantee Fund introduced in the fourth quarter of 2013.
- The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 290.2 million in the first half of 2014, a decrease of PLN 29.2 million, i.e. 9.1% as compared with the first half of 2013.

As at June 30, 2014, the ratio of impaired receivables to total receivables amounted to 7.0% and was better 0.3 p.p. in comparison to the end of 2013.

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- As at the end of June 2014, the total amounts due to the Group's customers and debt securities issued amounted to PLN 118,289.5 million, a decrease of PLN 4,570.9 million, i.e. 3.7% in comparison to the end of 2013 of which liabilities to Open Pensions Funds (OFE) decreased by PLN 7,295.8 million due to pension funds reform introduced in the first quarter of 2014. Excluding OFE, total amounts due to the Group's customers and debt securities issued increased by PLN 2,724.9 million, i.e. 2.2% in comparison to the end of 2013.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 54,242.9 million at the end of June 2014, an increase of PLN 2,826.6 million, i.e. 5.5% 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 16,371.0 million at the end of June 2014, a decrease of PLN 40.5 million, i.e. 0.2% in comparison to the end of 2013.

The total volume of corporate customers deposits, repo and sell-buy-back transactions, Certificates of Deposit, Pekao Bank Hipoteczny S.A. covered bonds, interest and other amounted to PLN 64,046.6 million at the end of June 2014, a decrease of PLN 7,397.5 million, i.e. 10.4% as compared to the end of 2013, excluding OFE a decrease of PLN 101.7 million in comparison to the end of 2013.

- As at the end of June 2014, the volume of total customers' financing amounted to PLN 115,429.5 million, an increase of PLN 5,878.9 million, i.e. 5.4% in comparison to the end of 2013.

As at the end of June 2014, the volume of retail loans amounted to PLN 46,586.2 million, an increase of PLN 2,110.8 million, i.e. 4.7% 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 3,768.1 million, i.e. 5.8% as compared to the end of 2013 and amounted to PLN 68,843.3 million at the end of June 2014.

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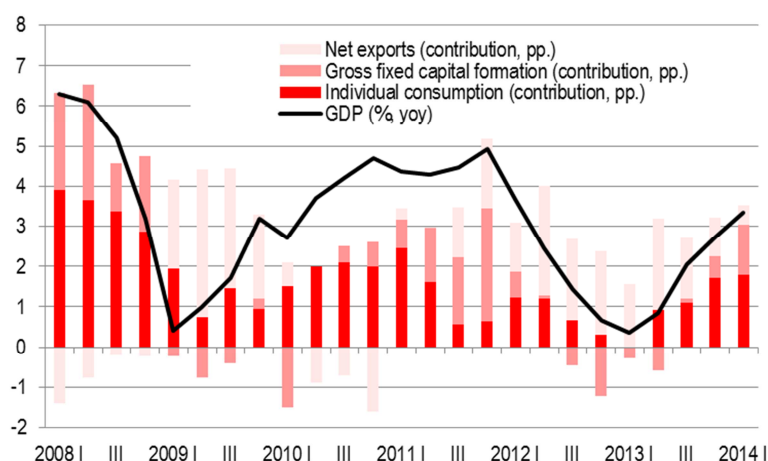
4 External Environment

Economic growth

In the first quarter of 2014, further dynamic improvement in economic conditions was observed. Seasonally adjusted Gross Domestic Product (GDP) accelerated to 1.1% quarter on quarter from 0.7% quarter on quarter in the fourth quarter of 2013. As a consequence yearly growth rate amounted to 3.4% vs. 2.7% in the last quarter of the previous year. In the first quarter of 2014, the domestic demand recovered further with growth at the level of 3.0% year on year after 1.8% year on year increase in the previous quarter and it was the main driver of economic growth for the second consecutive quarter. At the same time foreign trade was still supporting economic growth, albeit at a smaller scale than in the previous quarters. The positive contribution of net exports to the GDP stood at 0.5 p.p. as compared with 1.0 p.p. in the fourth quarter of 2013. Exports of goods and services increased by 7.6% year on year, while imports increased by 6.9% year on year.

Positive impact on domestic demand revival was supported by further acceleration of private consumption growth (individual consumption increased by 2.6% year on year after increase by 2.1% year on year in the previous quarter) and a significant increase in investments (gross fixed capital formation increased by 10.7% year on year vs. 2.0% year on year growth in the last quarter of 2013). Private consumption recovery was supported by a gradual improvement in the labour market conditions. In the first quarter of 2014, the real wage bill in the enterprise sector expanded at the fastest pace since the third quarter of 2011. In addition, improving outlook for demand for goods, rising capacity utilization, high value deposits of enterprises and low cost of bank financing translated into higher investment activity in the corporate sector.

Fast pace of economic recovery in the first quarter of 2014 was partially linked to favourable weather conditions, which among others supported gross value added in construction sector. Available high-frequency data suggests that in the second quarter of 2014 the economic revival was curbed. A decrease in both, industrial output and retail sales were noted. At the same time PMI indices point to declines in exports orders. Lower dynamics of economic conditions improvement were partially associated with the negative impact of Ukrainian conflict on foreign trade with the East and economic confidence of some enterprises, however the impact of those events remains rather moderate. Despite signs of slower improvement in economic conditions in 2014 as a whole the economic growth will visibly exceed the level of 3%.



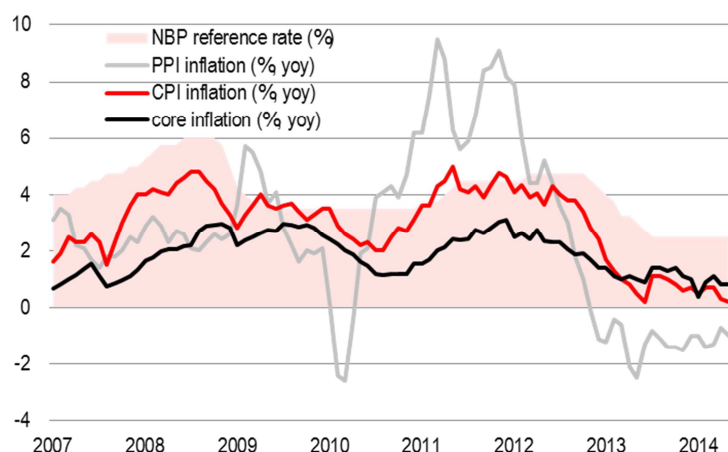
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Inflation and monetary policy

The CPI inflation in May 2014 amounted to 0.2% year on year. In the first two months of the second quarter inflation decreased vs. the first quarter at the level of 0.6% year on year on average. Inflation remains below the lower limit of the range of acceptable deviations from the inflation target of the National Bank of Poland (NBP) at the level of 1.5%.

Low level of inflation in May was the result of decrease in food prices by 0.8% year on year (largely due to low prices of vegetables and sugar). In addition, a significant decrease in prices was also observed in case of services in education (by 6.3% year on year), clothing and footwear (by 4.6% year on year), and communications (1.1% year on year). The strongest price increases were recorded in case of alcoholic beverages and tobacco (by 3.9% year on year), in the categories of "housing, water, electricity, gas and other fuels" (by 2.0% year on year) and "restaurants and hotels" (1.5% year on year).

In the second quarter of 2014, the Monetary Policy Council (MPC) kept interest rates unchanged. The NBP reference rate is still at 2.50%. Until the end of the second quarter 2014, the MPC maintained its assessment that interest rates should remain unchanged at least until the end of the third quarter of 2014. However, in July 2014 the MPC withdrew its forward guidance, allowing the possibility of interest rate cuts. Changing the position of the MPC was caused by continuing low level of inflation and central bank's forecast of low inflation.

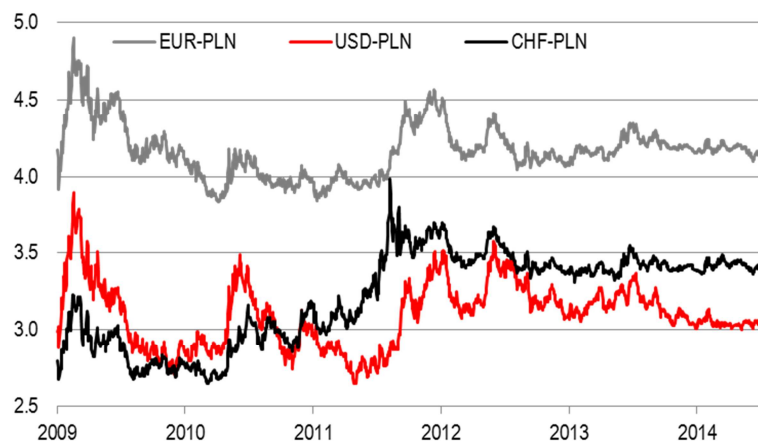


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Currency exchange rate

Taking into account the long-term perspective, the first half of 2014 on local F/X market was a fairly stable period. Medium-term upward trend of the zloty, started in June 2013, was continued with a temporary corrections and consolidation tendency. During this period, however, the zloty slightly declined against USD and CHF by 1.2% and 1.3% respectively. A decrease against the euro was much lower and amounted to 0.3%.

In the first quarter of 2014, the zloty was volatile against the single currency and the EUR-PLN rate was within 4.14 – 4.26 range. From March 2014, the exchange rate remained in a relatively narrow range of 4.16 – 4.21, in June short-term strengthening of the zloty to the strongest level in more than a year (4.09) was noted and then after correction the zloty against EUR amounted to 4.16 at the end of the first half of 2014. The depreciation of the zloty at the beginning of the year was a result of significant decrease in foreign investors engagement on the domestic debt market, associated with capital outflows from emerging markets. Improving sentiment in the coming weeks influenced positively on foreign demand for the zloty which was supported by a favorable economic outlook and expected monetary policy tightening in Poland at the end of current year. In the coming months, market expectations regarding the Monetary Policy Council's activities were visibly changed by lower inflation path and the risk of deflation. FRAs priced-in a one cut by 25bp at least till the end of the year. A dovish ECB monetary policy and the prospects of assets purchase in the euro zone were a key determinant for F/X and will remain key factor supporting the zloty. In such scenario foreign investors may intensify demand for the Polish assets also. The exchange rate of the zloty against EUR at the level of 4.1260 is a key level for the EUR-PLN in a few months. The quotations above this limit should support movement towards 4.20.



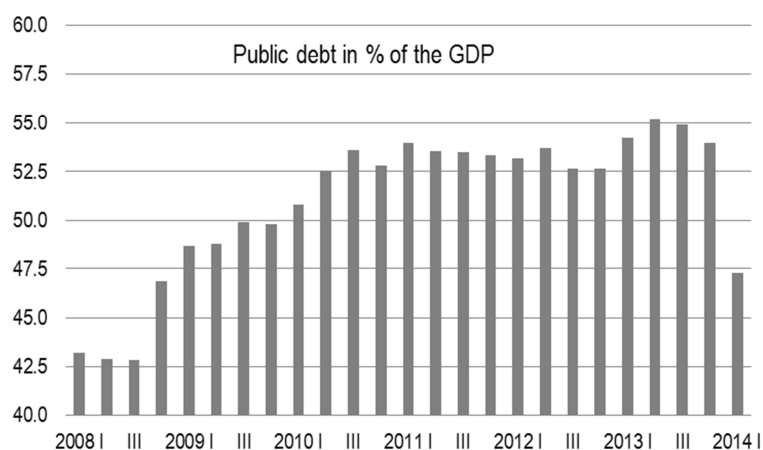
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Fiscal policy

According to the preliminary estimates of the Ministry of Finance, in the first half of 2014, the state deficit amounted to PLN 25.3 billion i.e. 53.3% of the PLN 47.5 billion limit envisaged in the budget act. The official budget execution plan assumed the deficit execution at the level of 71.0% of the annual target. The revenues were collected at the level of 49.1% of planned for 2014, while expenditures amounted to 49.7% of the plan. The tax revenues were well above the level assumed in the execution plan, exceeding the target by PLN 5.2 billion. At the same time expenditures were lower by PLN 3.2 billion than planned. Higher than planned tax revenues were stemming from increasing VAT collections, which in the first half of 2014 were by PLN 8.4 billion (15.4%) higher than in the corresponding period of 2013. Such developments were a consequence of improving economic activity and more fiscally favourable composition of economic growth (stronger domestic demand and imports). In the case of direct taxes the scale of improvement was less impressive as collections in the first half of the year were by PLN 1.1 billion (3.6%) higher than in the first half of 2013. Expected temporary deflation is among risk factors for tax revenues in the second half of the year, especially if the period of deflation turns out longer than 3-4 months expected currently or the price declines proves deeper than foreseen. Taking into account rather conservative forecast of VAT revenues in the 2014 budget act and generally favourable macroeconomic conditions it is expected that annual collections from this tax to be at least PLN 10 billion higher than planned. At the same time, low percentage of employees, who decided to continue saving for future pensions in the Open Pension Funds (OFE) will be a factor reducing the value of fiscal support for the Social Security Fund (FUS) due to higher collection of social contributions. As a consequence, the state budget deficit in 2014 may amount to about PLN 35 billion vs. the annual limit of PLN 47.5 billion set in the budget act.

The general government deficit amounted to 4.3% of the GDP in 2013 vs. 3.9% of the GDP recorded in the 2012. In the first quarter of 2014, the general government sector posted a surplus of PLN 149.8 billion (9.1% of the GDP) due to a transfer of PLN 153.2 billion in assets from Open Pension Funds (OFE) to the Social Security Enterprise (ZUS). Changes to the pension system functioning will translate into a temporary surplus in the general government balance in 2014, but the sector will have a deficit in 2015 again. Poland is recommended to put an end to the existence of the excessive deficit until the end of 2015 at the latest.

At the end of the first quarter of 2014, the general government debt amounted to PLN 782.1 billion (47.3% of the GDP) vs. PLN 882.3 billion (53.9% of the GDP) at the end of 2013. The decline in public debt was a consequence of the transfer of Open Pension Funds (OFE) to the Social Security Enterprise (ZUS) as a part of pension system reform. In February 2014, OFEs transferred securities worth PLN 146.1 billion to the ZUS, of which PLN 130.2 billion were treasury bonds and PLN 15.6 billion bonds issued by the Bank Gospodarstwa Krajowego (BGK) for the National Road Fund (KFD) purposes. The act implementing changes in the pension system stated that the securities were acquired state treasury to be canceled out.



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Banking sector

According to the Polish Financial Supervision Authority (KNF) in January-May 2014 financial results of the banking sector were similar to that in January-May 2013. Net profit increased by 1.3% year on year and amounted to PLN 6.98 billion. Result on main banking activity increased by 3.6% year on year, operating cost increased by 0.8% year on year, provisions and impairment losses increased by 3.8% year on year and result on other operating activity decreased by 49.7% year on year.

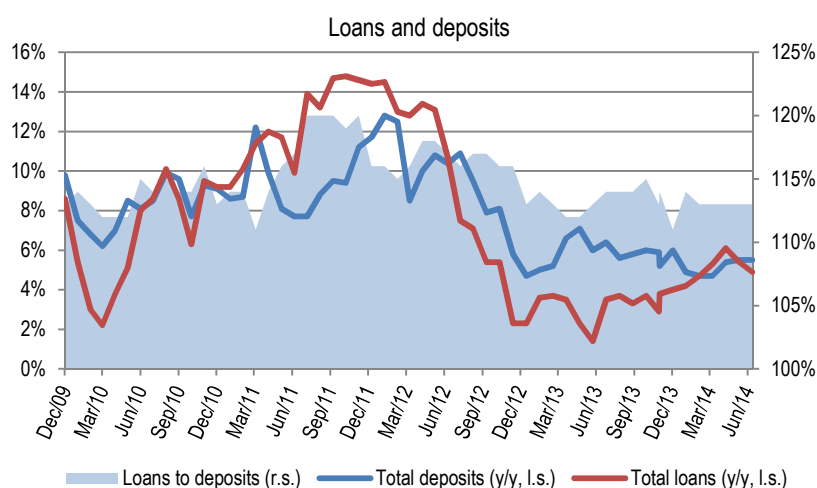
At the end of May 2014, banking sector assets amounted to PLN 1,479.1 billion, an increase of 5.7% year on year. Deposits of non-financial sector increased in that period by 6.2% year on year and loans to that sector by 4.8% year on year.

According to the NBP data, at the end of June 2014 the volume of household deposits increased by 5.8% year on year. Relatively stable rate of growth in household deposits reflects the pace of growth in households income as well as changes in the structure of their assets. In the case of corporate deposits, in June 2014 they were by 5.5% higher compared to June 2013. Slowing rate of growth in corporate deposits results from high reference base of 2013 as well as increasing investment propensity.

In June 2014, the nominal growth of loans to households was equal to 4.6% year on year. The growth rate in loans to enterprises increased to 5.9% year on year.

Taking into consideration relatively stable macro environment e.g. stabilization of house prices, improving conditions on the labor market, record low interest rates, growth in retail loans can be considered as low. In the coming months it will probably remain moderate.

In the case of loans to enterprises a further growth in demand is expected what should be associated with favorable macroeconomic environment (resulting in higher demand for working capital and investment funds). Given that the recovery in the economy may impact individual sectors in a different way and the situation in Ukraine might adversely affect financial results of some companies, it is expected that improvement in the quality of banks' loan portfolio will be limited.



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5 Internal Factors

5.1 Description of the Group

The Group's structure is presented in the Notes to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2014 to 30 June 2014.

5.2 Changes in the Group's structure

As at June 30, 2014 the composition of Bank Pekao S.A. Group has not changed compared to the information disclosed as at December 31, 2013.

5.3 Changes in the Statutory Bodies of the Bank

Supervisory Board

Composition of the Supervisory Board:

JUNE 30, 2014	DECEMBER 31, 2013
Jerzy Woźnicki Chairman of the Supervisory Board	Jerzy Woźnicki Chairman of the Supervisory Board
Roberto Nicastrò Deputy Chairman of the Supervisory Board	Roberto Nicastrò Deputy Chairman of the Supervisory Board
Leszek Pawłowicz Deputy Chairman of the Supervisory Board	Leszek Pawłowicz Deputy Chairman of the Supervisory Board
Alessandro Decio Secretary of the Supervisory Board	Alessandro Decio Secretary of the Supervisory Board
Małgorzata Adamkiewicz Member of the Supervisory Board	Małgorzata Adamkiewicz Member of the Supervisory Board
Paweł Dangel Member of the Supervisory Board	Paweł Dangel Member of the Supervisory Board
Laura Penna Member of the Supervisory Board	Laura Penna Member of the Supervisory Board
Wioletta Rosołowska Member of the Supervisory Board	Wioletta Rosołowska Member of the Supervisory Board
Doris Tomanek Member of the Supervisory Board	Doris Tomanek Member of the Supervisory Board

Management Board of the Bank

Composition of the Management Board:

JUNE 30, 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

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5.4 The Bank's shareholding structure

As at June 30, 2014, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034 and it was divided into 262,470,034 shares.

On the date of submitting the report, the share capital of the Bank remained unchanged. The share of UniCredit S.p.A. and other shareholders in the share capital and the total number of votes at the General Meeting amounts for 50.10% and 49.90% respectively.

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.

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
	JUNE 30, 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 (below 5%)	130,972,546	49.90%	117,777,863	44.87%
Total	262,470,034	100.00%	262,470,034	100.00%

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

The Bank has not received any other notifications regarding changes in the ownership structure in accordance with par. 69 of the Act of July 29, 2005 on Public Offerings and Conditions Governing the Introduction of Financial Instruments to an Organized System of Trading, and on Public Companies.

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5.5 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 June 30, 2014, Bank Pekao S.A.'s creditworthiness was rated as follows:

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

* On May 29, 2014, agency Moody's changed ratings outlook to negative for 82 banks from European Union, Norway, and Liechtenstein, which ratings used to receive so called systemic support uplift. Revision of these banks ratings outlook was conducted as a consequence of adoption by the European Parliament on April 15, 2014 the Bank Recovery and Resolution Directive (BRRD) as well as the Single Resolution Mechanism (SRM) regulation. Establishing these new principles for recovery and liquidation of banks in the Eurozone had been made in order to shift the burden of banks recovery from taxpayers to banking sector participants. Such change, in the opinion of Moody's, may bring negative consequences first of all to banks creditors unsecured from the risk of bank's bankruptcy. Ratings outlook for Bank Pekao S.A. has been changed despite the fact that Poland does not belong to Eurozone and has not taken activity aimed at implementing the above mentioned regulations.

** Stable for Poland's economy and Negative for the Polish banking sector.

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

Fitch Ratings agency assigned the "A" rating to the covered bonds issued by Pekao Bank Hipoteczny S.A., a 100% subsidiary of Bank Pekao S.A. It is the highest rating ever awarded to the Polish debt securities issued by a private company. The reasons underlying the Agency's decision included the high rating assigned to Pekao Bank Hipoteczny S.A. (A-), legal regulations pertaining to the covered bonds collateral register, and the excess of collateral over the volume of bonds in issue, as declared by the bank. The high rating assigned to the covered bonds confirms Pekao Bank Hipoteczny's ability to issue securities offering a high level of security and raise long-term capital to fund its lending activity. In April 2014, during the last revision of rating the outlook for covered bonds was changed from Stable to Positive.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

6 Activity of Bank Pekao S.A. Group

6.1 Achievements of Bank Pekao S.A.

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.

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

	30.06.2014	31.12.2013
Total number of outlets	998	1,001
Total number of own ATMs	1,837	1,847

The Bank's clients can also make commission-free cash withdrawals from over 4.5 thousand of domestic network of Euronet ATMs as well as European network of the UniCredit Group ATMs.

As at the end of June 2014, the Bank maintained 5,128.3 thousand PLN-denominated current accounts, 278.6 thousand mortgage loan accounts and 612.4 thousand consumer loan accounts.

	30.06.2014	31.12.2013
Total number of PLN current accounts*	5,128.3	5,107.5
of which packages	3,824.9	3,781.5
Number of mortgage loans accounts**	278.6	267.5
of which PLN mortgage loans accounts	239.0	226.6
Number of consumer loan accounts ***	612.4	634.9

* Number of accounts including accounts of pre-paid cards.

** Retail customers accounts.

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

Individual clients

In the first half of 2014, the Bank focused on consequent strengthening of its position on the consumer goods financing market and mortgage loans. Positive dynamics of retail loans amounted to 11.2% year on year, of which mortgage loans and cash loans amounted to 17.0% year on year.

The Bank was also focused on the consistent acquiring of new customers, in the first half of 2014, over 190 thousand of new retail customers were acquired.

In addition, the Bank conducted an educational campaign Academy of Finance Pekao, consisting of series of lessons in schools conducted by the Bank's employees. The Academy aims to provide students with the most important rules of everyday using of the bank' services, secure management of savings and knowledge of the innovative banking products.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

Loans

In the area of mortgage loans, the Bank maintained strong position on the market. In the first half of 2014, sale of PLN mortgage loans stood at over PLN 3.5 billion and was by 32% higher as compared to the same period in the previous year. The Bank's share in volume of PLN mortgage loans at the end of June 2014 amounted to 17.8%, i.e. 0.4 p.p. increase in comparison to the end of June 2013.

In the first half of 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's market share in the sale of "Apartment for the Young" mortgage loans amounted to over 38% in the first six months of program functioning.

The Bank has taken a number of local and country-wide actions supporting sale of mortgage loans, including promotional campaigns in the Internet and internal communication channels, regular participation in real estate fairs organized all over the country and adaptation of regulations to the binding law and S recommendation of the Polish Financial Supervision Authority (KNF). Thank to these activities the Bank remains among leading banks granting mortgage loans.

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 first of all about the program "Apartment for the Young".

In the area of cash loans, the Bank was following the consequent strengthening of its position on the consumer goods financing market while maintaining a prudent credit risk policy and providing customers with the highest level of satisfaction. Sale of cash loans in the first half of 2014 amounted to nearly PLN 2.6 billion and was by 28% higher in comparison to the same period of the previous year.

Efficiency, transparent rules and individual approach in loans granting process guaranteed the competitiveness of Pożyczka Ekspresowa (the Express Loan) among the offers of other banks. The clients taking loan have possibility to use insurance coverage within the available insurance packages allowing to adjust the offer to the individual needs.

In the first half of 2014, the Bank continued local marketing activities conducted in outlets throughout the country and actively used internal channels of marketing communication, including website dedicated to consumer loan, the Pekao24 system and mobile application.

Saving and investment products

Increase in savings volume 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 in the field of individual finance management. In total the Bank's retail deposits increased by over PLN 3 billion in comparison to the end of 2013, which was supported by significant increase in deposits placed through the Pekao24 system thanks to attractive e-deposits offer and dedicated communication to clients.

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 the first half of 2014, the Bank implemented for distribution a new mixed fund Pioneer Wzrostu i Dochodu Rynku Europejskiego which invests on shares and bonds market in euro zone and started a new subscription of structure product Strukturyzowany Certyfikat Depozytowy Rynku Brytyjskiego with 100% capital protection at the end of investment and allows diversification of investment portfolio by assets associated with the British equity market and offered subscription of Certyfikat Depozytowy Spółek Europejskich which is based on a basket of shares of seven large and well-known European companies.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

Brokerage activity

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

As at the end of June 2014, the brokerage entities maintained over 359 thousand investment accounts, which was nearly 24% share in total of investment accounts according to data of The National Depository for Securities (KDPW). The main group of individual investors were customers using the Group's brokerage services through remote channels, in particular through the Internet.

As at the end of June 2014, the total value of assets deposited on investment accounts run by the Group's brokerage entities amounted to PLN 23.3 billion.

In the first half of 2014, the Group's brokerage entities conducted projects related to adaptation to the European Parliament internal regulations within the scope of CRR, CRD IV and EMIR. Moreover, the activities related to development of products offer and tools improving the quality of customer service were continued.

The product offer of Dom Maklerski and CDM 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.

Payment cards

The Bank continued the development of credit card offers and promoted cashless payments executed with the use of cards issued in MasterCard and Maestro system organizing competition „1,300 powodów by płacić kartą”(1,300 reasons to pay by card).

Bank Pekao S.A. is the only bank in Poland offering credit cards with the image of the UEFA Champions League. 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.

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 13 thousand of POS terminals has been installed in more than 2 thousand locations, which will significantly enhance the promotion of non-cash payments in Poland.

Cooperation with the retail chain will enable the Bank to service about 23% of the market of payment cards (according to the number of points of acceptance). Number of retail points, where POS terminals are serviced by Bank Pekao S.A. will rise to nearly 51.5 thousand and the number of terminals will exceed 65 thousand.

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. In addition, in the first half of 2014, the Bank introduced to its offer currency exchange service in the Pekao24 system.

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As at the end of June 2014, the number of Pekao24 clients amounted to 2,549.8 thousand. In the second quarter of 2014, 1,396.1 thousand clients logged into the electronic banking services.

As at the end of June 2014, the number of clients with an access to mobile banking amounted to 474.3 thousand. In the second quarter of 2014, 178.1 thousand of clients logged into the mobile service m.pekao24.pl and the Pekao24 mobile banking application.

(in thousand)

	30.06.2014	31.12.2013
Number of individuals with an access to electronic banking Pekao24 as at the end of period	2,549.8	2,446.8
Number of individuals actively using electronic banking Pekao24*	1,396.1	1,352.0
Number of individuals with an access to mobile banking as at the end of period	474.3	373.1
Number of individuals actively using mobile banking**	178.1	149.1

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

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

Private Banking

In the first half of 2014, the activities in the area of Private Banking were focused on development of the Bank's offer dedicated to the existing 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 Pekaolnternet service for customers using the Pekao24 system and holding accounts in at least two currencies. The service enables customers favourable exchange conditions and convenient way of transactions processing through the Internet.

The Bank's investment offer within the scope of foreign investment funds was enhanced by solutions provided by Schroders Investment Management. This is another option for the Private Banking clients seeking investment opportunities on the global markets. In addition, clients were offered three subscriptions of structured products "Lokata Indeks na Zysk", including, among others, deposit with interest coupon depending on index fund Lyxor UCITS ETF Stoxx Europe 600 Healthcare.

In the first half of 2014, the Bank organized a series of meetings with customers during which the experts of co-operating investment funds were discussing current situation on financial markets and appropriate investment solutions.

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Small and micro enterprises (SME)

Service of SME customers is provided by 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 the first half of 2014, in the segment of small and micro enterprises the Bank continued its policy to offer modern mobile solutions, i.e. mobile banking Pekao24 and PekaoFirma24, mobile applications PeoPay and PeoPay mPOS and PekaoToken as well business clients advisers were equipped with modern tools to present the benefit of mobile banking for both new and existing customers.

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

In January 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 March 2014, outcomes of the Report were presented at the 16 conferences organized in each voivodeship.

In the second quarter of 2014, a new strategy and package of measures have been prepared aimed at increasing the attractiveness of the Bank as an institution supporting the development of 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 agro-food industries and prepared a special products offer for the farmers which includes both working capital loans and investment loans. In addition, the loan granting process for these clients has been improved.

In pursuing the highest standard of security of cards transactions, in April 2014, Bank Pekao S.A. implemented security – 3D Secure for on-line transactions realized with payment cards.

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. It is a comprehensive platform containing the Internet, mobile banking application with unlimited transaction capabilities and telephone channel. The PekaoFirma24 system allows customers to use the banking products and services and manage their funds conveniently and intuitively.

As at the end of June 2014, 235.9 thousand clients had an access to the electronic banking systems, of which 155.6 thousand are active clients. The number of business clients with an access to electronic banking systems increased by 12.4 thousand compared to the end of 2013.

(in thousand)

	30.06.2014	31.12.2013
Number of business clients (SME) with an access to electronic banking systems as at the end of period	235.9	223.5
Number of business clients (SME) actively using electronic banking systems*	155.6	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 June 2014, 9.8 thousand clients had an access to mobile banking application, of which 7.0 thousand are active clients. The number of business clients with an access to mobile banking application increased by 2.8 thousand compared to the end of 2013.

(in thousand)

	30.06.2014	31.12.2013
Number of business clients (SME) with an access to mobile banking as at the end of period	9.8	7.0
Number of business clients (SME) actively using mobile banking*	7.0	5.3

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

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Corporate clients

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

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

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

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

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

The corporate clients of the Bank benefit from a full range of standard credit and deposit products as well as from transactional services. Bank Pekao S.A. is a leading organizer of investment project financing, mergers and acquisitions and debt securities issues. The Bank offers a wide range of products of money markets and currency exchange, both within the scope of current operations and long-term hedging structures of client's exposures such as currency risk and interest rate risk. The Bank's product offer also includes financial services such as granting guarantees for national and foreign transactions as well as financial services provided through leasing and factoring subsidiaries.

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 and acts also as a depository for investment funds and pension funds.

Transactional 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 individualizing contract, i.e. adjusting the conditions to the type of contract and client expectations.

In addition, the Bank's offer was extended with a new product Closed Escrow Account for Housing Developers (Zamknięty Mieszkaniowy Rachunek Powierniczy). The product was created in response to the introduction of the Act on the protection of the rights of the purchasers of a housing unit or a detached house (Ustawa o ochronie praw nabywcy lokalu mieszkalnego lub domu jednorodzinnego) which impose an obligation on developers to sell apartments with the use of trust accounts. Thanks to this product customers benefit from the protection of the funds collected for housing purposes while developers have an opportunity to increase transparency of their business gaining access to the funds collected in the course of the investment after its completion. Introduction of the new product strengthens also the Bank's position on the real estate market by providing a comprehensive service of real estate projects and increasing opportunity of the Bank's participation in financing investments.

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PekaoBIZNES²⁴

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

PekaoBIZNES²⁴ offers its corporate customers:

- convenient online access to a 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 security, including biometric security measures,
- a user-friendly and intuitive system navigation,
- open architecture allowing for integration with ERP, financial and accounting systems.

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

In the first quarter of 2014, within the framework of continued development of the PekaoBIZNES²⁴ electronic banking system and adjusting the Bank's offer to changing needs of corporate banking users, the Accounts OnLine service was provided to all customers. Manual and paper form of application for opening other accounts and submission of documentation via mail or in person have been replaced by online contact with the Bank through the save and user-friendly PekaoBIZNES²⁴ system, in which a company performs the majority of its financial operations. The new solution allows for efficient and convenient management of bank accounts. The Accounts OnLine service was implemented in 2013 and available to selected group of client.

In the first half of 2014, the third edition of the Akademia PekaoBIZNES²⁴ (PekaoBIZNES²⁴ Academy) – workshops for users of transactional platform for corporate clients was launched. The two previous editions were attracting wide interest of clients. The aim of meetings with customers is to promote unique functionalities of the PekaoBIZNES²⁴ system and to help client acquire advanced skills in using the system, which increases the effectiveness of financial management processes in companies.

In the second quarter of 2014, in the PekaoBIZNES²⁴ system a new program „Customer Feedback Monitoring” for detailed analyzing of current interactions with the users of the system and Info-line was implemented. It allows to identify potential areas for service development and improvement. The program includes current analysis of queries and issues raised at the PekaoBIZNES²⁴ Info-line and to business units, questioner for new clients using the system, collecting suggestions and proposals from participants of the PekaoBIZNES²⁴ Academy workshops and analysis of the availability and proper transactions processing on the PekaoBIZNES²⁴ platform. Realization of „Customer Feedback Monitoring” program is an important element in the process of enhancing the attractiveness of the Bank's offer and quality management of available products and services.

In the first half of 2014, in the PekaoBIZNES²⁴ system, an increase both in domestic and foreign transaction payments at the level of 12% in comparison to the first half of 2013 was noted and nearly 14 thousand corporate customers were using actively internet banking systems. In terms of wage transfer volume, an increase at the level of 20% in comparison to the first half of 2013 was noted which confirms a growing popularity of product Pekao Płace among the corporate customers.

The Bank strengthening its transactional banking position on the market, expanded cooperation with clients operating in insurance sector by implementing other cash management products for collecting insurance premium. Large retail customer base and advanced tools for product service are the Bank's competitive advantages in choosing the Bank for direct debit settlements. The number of direct debits transactions processed by the Bank in the first half of 2014 accounted to 3.43 million, which marks an increase by ca. 90% in comparison to the first half of 2013.

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In the first half of 2014, the range of EuropeanGate Master service was expanded by nine countries in which UniCredit Group operates. The service is dedicated to the Polish companies which have its subsidiaries abroad. Currently, the PekaoBIZNES²⁴ system allows to manage the accounts in twelve countries of UniCredit Group. The accounts management involves possibility to make domestic and foreign transfers by charging accounts held by the Bank's client, also with the banks of UniCredit Group located abroad and to receive accounts statements. The accounts management through the PekaoBIZNES²⁴ system simplifies the process because it does not require logging to the electronic banking systems in each country, remembering passwords and local formats of payments and statements. All operations are performed in one place, during a single logon with the use of one format. Before, the full range of EuropeanGate Master service was offered only by the UniCredit Group entities located in Germany, Austria and Italy. Bank Pekao S.A. has now joined this group and it is the first bank in the CEE region that offers the full range of functionalities in EuropeanGate Master service.

In pursuing the highest standard of security of cards transactions, in April 2014, Bank Pekao S.A. implemented security – 3D Secure for on-line transactions realized with payment cards. The 3D Secure is free of charge and it is used for authorization of card transaction by confirmation with a one-off SMS code submitted by the Bank to mobile phone number specified by the customer.

Investment banking, structured finance and commercial real estate

In the first half of 2014, Bank Pekao S.A. strengthened its position as a significant provider of structured financing in Poland. Volume of new transactions exceeded PLN 6 billion, which is a significant increase in comparison to the level achieved in the first half of 2013. The Bank provided financing for companies from, among others, energy, food and commercial real estate sectors.

In the area of syndicated financing, the Bank was engaged, among others, in the following transactions:

- participation in consortium for financing modernization of one of the largest power plants in Poland with the total amount of financing of ca. PLN 1.2 billion,
- organization of consortium for financing one of the largest companies in fuel sector with the total amount of financing of EUR 2 billion,
- participation in syndicated loan granted to one of the leaders on media market with the total amount of financing of PLN 3 billion.

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Financial markets and commercial debt instruments of the capital market

In the area of organization and servicing of commercial debt securities issuance, as at June 30, 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).

For the first half of 2014, the market position of the Bank in each category was as follows:

- 1st place on corporate bonds market and corporate revenue bonds market (with maturities over 365 days) with a share of over 26%,
- 2nd place in the segment of short-term debt securities with nearly 19% market share,
- 2nd place in the area of mortgage bonds with nearly 29% market share,
- 2nd place on municipal bonds market (with maturities over 365 days) with a share of over 27%.

The Bank conducted, among others, the following commercial debt securities issues:

- 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. The issues were conducted together with, among others, UniCredit CAIB Poland S.A. and entities of Bank Pekao S.A. Group,
- the issue of 2 series of 4-year bonds for the total amount of nearly PLN 235 million conducted for a company in real estate development sector,
- the issue of 6-year bonds for the amount of PLN 160 million conducted for a company in rail transport segment,
- the issue of 5-year bonds for the amount of PLN 50 million conducted for a company operating in real estate development sector.

In addition, in the first half of 2014, the Bank signed, among others, new agreements for servicing of debt securities issues for a company operating in energy sector for the amount of PLN 5 billion, for a company operating in real estate development sector for the amount of PLN 250 million, for a company operating in wholesale trade industry for the amount of PLN 100 million, for a company in furniture industry for the amount of PLN 100 million, for budget entity for the amount of PLN 250 million and for two municipal companies from the public utilities area for the amount of PLN 72 million and PLN 22 million.

In the area of co-operation with public sector, in the first half of 2014, the Bank granted financing in a form of bonds issue program for construction and equipment of new psychiatric hospital.

Moreover, the Bank won a tender for current financing, including overdraft granting, over five years for municipal company operating in transportation sector in one of the largest Polish cities.

In the first half of 2014, the Bank maintained its leadership position servicing more than 50% programs related to depository receipts.

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6.2 Achievements of subsidiaries

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

Retail brokerage entities: Dom Maklerski, CDM and Xelion render brokerage services within Bank Pekao S.A. Group, providing retail customers with a wide range of products and services on the capital markets. For detailed description of the brokerage activity refer to the point 6.1.

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

Pioneer Pekao Investment Management S.A. – PPIM

As at June 30, 2014, the net asset value of investment funds under the management of Pioneer Pekao TFI S.A. (a company managed by Pioneer Pekao Investment Management S.A. in which the Bank holds a 49% share), amounted to PLN 16,371.0 million, a decrease of PLN 40.5 million (0.2%) as compared to the end of 2013 due to worst sentiment on capital markets affected by the situation in Ukraine.

As at the end of June 2014, PPIM maintained 913.8 thousand open customer accounts (decrease by 2% in comparison to the end of 2013), managing portfolios of 39 investment funds and sub-funds.

Pekao Leasing Sp. z o.o. – Pekao Leasing

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

In the first half of 2014, Pekao Leasing concluded 4,716 new agreements. The value of leased assets was higher by 7.2% in comparison to the same period of the previous year and amounted to PLN 778.2 million, 68.4% of the leased assets were vehicles, 27.2% - plant and equipment and 4.4% - other.

Thanks to the co-operation program between Pekao Leasing and Bank Pekao S.A. in terms of sale, the value of assets leased to the customers who are also the Bank's customers amounted to PLN 530.3 million, i.e. 68.1% sales of the company.

Pekao Faktoring Sp. z o.o. – Pekao Faktoring

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

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6.3 Awards

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”.

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

In addition, the Bank received the special award of “Innovator of the banking market 2013” for innovative and groundbreaking solutions in the field of electronic banking: internet and mobile.

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 and payment execution with the use of QR codes scanning, mobile payment in POS terminal, cash withdrawals from ATM and deposit placement. Most important for ranking was the number of available functionality and their usability.

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 and 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.

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 2013 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.

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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”. The Bank maintained 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.

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 prestigious forum of executive staff, which 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.

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.

Złote Godło for Pioneer Pekao TFI

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

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6.4 Factors which will affect the results of the Group

After a significant acceleration of economic growth in the first quarter of 2014 to the level of 3.4% year on year, in the following quarters stabilization in the GDP growth is anticipated within the range of 3.0 – 3.4%. It is also expected some slowdown in the second and the third quarter, while an increase in the GDP growth rate to the level of 3.4% year on year should be expected in the fourth quarter. The factors supporting growth of the GDP is ongoing recovery of private consumption and investments, with exports still growing significantly.

In the current phase of economic cycle, moods and expectations are playing an increasingly significant role. Consumers, thanks to improving real wage bill, have more money to spend. At the same time, general socio-political uncertainty, which results also from economic situation in Europe may limit propensity to consumption thus stopping private consumption growth. Similar situation is observed in case of the entrepreneurs. Generally the financial results of the companies are good and some of the entrepreneurs already started investments. However, any signals of weakening of the growth in Western Europe may delay investment decisions in those companies who have not yet started to invest.

In economy there are factors that allow to expect further recovery (in 2015 this recovery will be supported by funds from new EU perspective). At the same time, the economy remains vulnerable to possible negative signals from external environment, i.e. uncertain economic situation in Western Europe as well as uncertainty related with unstable situation in Ukraine.

Negative factors for the banking sector may be possible interest rate cuts conducted by the Monetary Policy Council (MPC). The majority of the MPC members point to stabilization of interest rates as the most likely scenario in 2014. However, any more pronounced signals of weakening of economic growth combined with significant strengthening of the zloty or sustained low inflation could prompt the MPC to cut the rates.

The stabilization of macroeconomic conditions and an increase in the scale of foreign trade should have positive impact on banking sector in the coming months. At the same time, 2014 banks' results may be negatively affected by persisting, low level of interest rates, further reduction of interchange fees, introduction of new charges aimed at improving the safety of the entire banking sector (the so-called prudential fee) and the supervisory recommendations related to offering bancassurance products. The possibility of introducing unfavorable, for the banking sector, solutions related to the existing portfolio of mortgage loans denominated in foreign currencies should be also considered as a risk factor.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

6.5 Description of major sources of risk and threats relating to the remaining months of 2014

Economic factors

Bank Pekao S.A. and its subsidiaries operate on the territory of Poland. Therefore, the Group's performance will be influenced by the economic events in Poland and international events that have an impact on Poland's economy.

Risk management

Effective risk management is a prerequisite for maintaining a high level of security of the funds entrusted to the Bank, and for achieving a sustainable and balanced profit growth. The key risks material for the Group include credit risk, liquidity and market risks and operational risk. Moreover, business, real estate, financial investment, model, macroeconomic, reputation and compliance 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 risk management process has not changed significantly in relation to this described in the Report on the activities of Bank Pekao S.A. Group for the year 2013.

Risks related to the remaining months of 2014

In the second half of 2014, the Bank will continue its efforts and focus on keeping credit risk at adequate and safe level through prudent policy of credit portfolio development. Prudent standards in credit risk management stay unchanged with particular attention to potential threats coming from macroeconomic pillars and their effects on portfolio performance with timely actions undertaken along a strict monitoring of borrowers' risk profile. The same approach and focus is applied to the performance of the Bank's subsidiaries.

In the case of liquidity and market risks Bank Pekao S.A. does not expect substantial threats in the second half of 2014. Taking into account the continuing market uncertainty as well as possible increase of the market parameters volatility, the policy of the Bank is to keep the level of its exposure to market risk strictly under control.

The Bank is assessing the structural interest rate risk as moderate, which is reflected by the re-pricing mismatch embedded in the Bank's balance sheet as well as moderate utilization of conservative limits. Taking into account the limited exposure to interest rate risk and mitigating actions undertaken by the Bank, the impact of interest rate fluctuations on net interest income of the Bank should remain under control.

As regards liquidity risk, it should be underlined that the Bank is a net lender on the interbank market and is characterized by a well-diversified, stable and low concentration deposits base, manages a substantial liquidity reserve buffer of eligible and marketable government securities. The cautious liquidity risk management policy of the Bank enables to expect that in the second half of 2014 it should not recognize significant threats to that risk.

The Bank does not identify any significant, new threats from operational risk, which could occur in the second half of 2014.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

7 Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from January 1 to June 30, 2014 and 2013 respectively was presented in the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2014 to 30 June 2014.

In relation to changes in accounting policy in 2013 (for description refer to the Note 4 to the Consolidated Financial Statement of Bank Pekao S.A. Group for the period ended on December 31, 2013) data for the first half of 2013 in the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2014 to 30 June 2014 as well as in the Report on activities of Bank Pekao S.A. Group for the first half of 2014 have been presented after appropriate restatements.

The Report on activities of Bank Pekao S.A. Group for the first half of 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 the first quarter of 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.

7.1 Structure of the consolidated statement of financial position – short form

The balance sheet of Bank Pekao S.A. determines the amount of total assets in balance sheet and the structure of the assets and liabilities of the Group. As at the end of June 2014, the total assets of Bank Pekao S.A. constitutes 97.8% of the total assets of the whole Group.

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

ASSETS	30.06.2014		31.12.2013		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	5,055.9	3.2%	4,191.2	2.6%	20.6%
Loans and advances to banks*	6,842.0	4.4%	7,554.5	4.8%	(9.4%)
Loans and advances to customers**	109,674.4	69.9%	103,937.3	65.6%	5.5%
Securities***	26,801.8	17.1%	35,184.1	22.2%	(23.8%)
Investments in associates	155.7	0.1%	176.0	0.1%	(11.5%)
Property, plant and equipment and intangible assets	2,138.8	1.3%	2,216.2	1.4%	(3.5%)
Other assets	6,204.0	4.0%	5,262.4	3.3%	17.9%
Total assets	156,872.6	100.0%	158,521.7	100.0%	(1.0%)

* Including net investments in financial leases to banks.

** Including debt securities eligible for rediscounting at Central Bank and net investments in financial leases to customers.

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

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EQUITY AND LIABILITIES	30.06.2014		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	6,661.6	4.2%	6,417.7	4.0%	3.8%
Amounts due to customers	114,710.0	73.1%	119,796.7	75.6%	(4.2%)
Debt securities issued	3,579.5	2.3%	3,063.7	1.9%	16.8%
Other liabilities	9,322.8	5.9%	5,728.4	3.7%	62.7%
Total equity, including	22,597.7	14.5%	23,514.2	14.8%	(3.9%)
non-controlling interests	98.6	0.1%	94.3	0.1%	4.6%
Total equity and liabilities	156,872.6	100.0%	158,521.7	100.0%	(1.0%)

Customers' Financing

Customer structure of loans and advances

(in PLN million)

	30.06.2014	31.12.2013	CHANGE
Loans and advances at nominal value	114,593.2	108,734.9	5.4%
Loans*	101,304.3	96,727.3	4.7%
Retail	46,586.2	44,475.4	4.7%
Corporate	54,718.1	52,251.9	4.7%
Non-quoted securities	9,454.3	9,428.2	0.3%
Reverse repo transactions	3,834.6	2,579.4	48.7%
Other**	394.6	357.6	10.3%
Nominal value adjustment	96.3	48.1	100.2%
Impairment losses	(5,409.7)	(5,203.3)	4.0%
Total net receivables	109,674.4	103,937.3	5.5%
Securities issued by non-monetary entities***	836.3	815.7	2.5%
Total customers' financing****	115,429.5	109,550.6	5.4%

* Including debt securities eligible for rediscounting at Central Bank and net investments in financial leases to customers.

** Including interest and receivables in transit.

*** Securities issued by non-monetary entities being loans equivalents.

**** Total customers' financing includes loans and advances at nominal value and securities issued by non-monetary entities.

As at the end of June 2014, the volume of total customers' financing amounted to PLN 115,429.5 million, an increase of PLN 5,878.9 million, i.e. 5.4% in comparison to the end of 2013.

As at the end of June 2014, the volume of retail loans amounted to PLN 46,586.2 million, an increase of PLN 2,110.8 million, i.e. 4.7% 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 4.5% 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 3,768.1 million, i.e. 5.8% as compared to the end of 2013 and amounted to PLN 68,843.3 million at the end of June 2014.

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Receivables and impairment losses

(in PLN million)

	30.06.2014	31.12.2013	CHANGE
Gross receivables*	114,774.7	108,853.6	5.4%
Not impaired	106,709.5	100,940.4	5.7%
Impaired	8,065.2	7,913.2	1.9%
Impairment losses	(5,409.7)	(5,203.3)	4.0%
Interest	309.4	287.0	7.8%
Total net receivables	109,674.4	103,937.3	5.5%

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

As at June 30, 2014, the ratio of impaired receivables to total receivables amounted to 7.0% and was better 0.3 p.p. in comparison to the end of 2013.

Impairment losses as at the end of June 2014 amounted to PLN 5,409.7 million.

Loans and advances to customers by currency*

	30.06.2014		31.12.2013		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	94,537.6	82.1%	89,461.3	82.0%	5.7%
Denominated in foreign currencies**	20,546.5	17.9%	19,679.3	18.0%	4.4%
Total	115,084.1	100.0%	109,140.6	100.0%	5.4%
Impairment losses	(5,409.7)	x	(5,203.3)	x	4.0%
Total net	109,674.4	x	103,937.3	x	5.5%

* Including interest and receivables in transit.

** Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish zloty; as at the end of June 2014, their share was 82.1%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (61.0%), CHF (25.4%) and USD (13.2%).

Loans and advances to customers by contractual maturities*

	30.06.2014		31.12.2013		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	17,871.3	15.5%	14,441.7	13.2%	23.7%
1 to 3 months	2,631.3	2.3%	3,076.5	2.8%	(14.5%)
3 months to 1 year	10,874.1	9.4%	11,092.7	10.2%	(2.0%)
1 to 5 years	35,802.0	31.1%	35,103.8	32.2%	2.0%
Over 5 years	47,510.8	41.3%	45,068.3	41.3%	5.4%
Other	394.6	0.4%	357.6	0.3%	10.3%
Total	115,084.1	100.0%	109,140.6	100.0%	5.4%
Impairment losses	(5,409.7)	x	(5,203.3)	x	4.0%
Total net	109,674.4	x	103,937.3	x	5.5%

* Including interest and receivables in transit.

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

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External sources of financing

(in PLN million)

	30.06.2014	31.12.2013	CHANGE
Amounts due to Central Bank	1.0	1.0	0.0%
Amounts due to other banks	6,661.6	6,417.7	3.8%
Amounts due to customers	114,710.0	119,796.7	(4.2%)
Debt securities issued	3,579.5	3,063.7	16.8%
Total external sources of financing	124,952.1	129,279.1	(3.3%)

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

Total customer savings

(in PLN million)

	30.06.2014	31.12.2013	CHANGE
Amounts due to corporate	57,622.8	64,965.6	(11.3%)
Non-financial entities	41,722.1	45,411.0	(8.1%)
Non-banking financial entities	7,836.4	13,734.0	(42.9%)
Budget entities	8,064.3	5,820.6	38.5%
Retail deposits	53,695.0	50,777.2	5.7%
Repo and sell-buy-back transactions	2,891.6	3,665.7	(21.1%)
Other*	500.6	388.2	29.0%
Amounts due to customers	114,710.0	119,796.7	(4.2%)
Debt securities issued, of which	3,579.5	3,063.7	16.8%
Structured Certificates of Deposit (SCD)	118.8	334.0	(64.4%)
Certificates of Deposit	2,423.8	1,901.9	27.4%
Pekao Bank Hipoteczny S.A. covered bonds	1,014.6	816.2	24.3%
Interest	22.3	11.6	92.2%
Amounts due to customers and debt securities issued, total	118,289.5	122,860.4	(3.7%)
Investment funds of Pioneer Pekao TFI	16,371.0	16,411.5	(0.2%)
Bond and money market funds	9,786.8	9,416.8	3.9%
Balanced funds	3,458.3	3,688.0	(6.2%)
Equity funds	3,125.9	3,306.7	(5.5%)
including distributed through the Group's network	15,747.8	15,609.6	0.9%

* Other item includes interest and funds in transit.

As at the end of June 2014, the total amounts due to the Group's customers and debt securities issued amounted to PLN 118,289.5 million, a decrease of PLN 4,570.9 million, i.e. 3.7% in comparison to the end of 2013 of which liabilities to Open Pensions Funds (OFE) decreased by PLN 7,295.8 million due to pension funds reform introduced in the first quarter of 2014. Excluding OFE, total amounts due to the Group's customers and debt securities issued increased by PLN 2,724.9, i.e. 2.2% million in comparison to the end of 2013.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 54,242.9 million at the end of June 2014, an increase of PLN 2,826.6 million, i.e. 5.5% 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 16,371.0 million at the end of June 2014, a decrease of PLN 40.5 million, i.e. 0.2% in comparison to the end of 2013 due to worst sentiment on capital markets affected by the situation in Ukraine.

The total volume of corporate customers deposits, repo and sell-buy-back transactions, Certificates of Deposit, Pekao Bank Hipoteczny S.A. covered bonds, interest and other amounted to PLN 64,046.6 million at the end of June 2014, a decrease of PLN 7,397.5 million, i.e. 10.4% as compared to the end of 2013, excluding OFE a decrease of PLN 101.7 million in comparison to the end of 2013.

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Amounts due to customers by currency*

	30.06.2014		31.12.2013		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	95,840.6	83.6%	101,473.0	84.7%	(5.6%)
Denominated in foreign currencies	18,869.4	16.4%	18,323.7	15.3%	3.0%
Total	114,710.0	100.0%	119,796.7	100.0%	(4.2%)

* 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 June 2014 amounted to 83.6%. The majority of amounts due to customers denominated in foreign currencies were in EUR (60.0%) and USD (35.6%).

Amounts due to customers by contractual maturities

	30.06.2014		31.12.2013		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	59,391.2	52.0%	55,417.3	46.4%	7.2%
Term deposits	54,818.2	48.0%	63,991.2	53.6%	(14.3%)
Total deposits	114,209.4	100.0%	119,408.5	100.0%	(4.4%)
Interest accrued	185.1	x	209.1	x	(11.5%)
Funds in transit	315.5	x	179.1	x	76.2%
Total	114,710.0	x	119,796.7	x	(4.2%)

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7.2 The consolidated income statement – presentation form

Net profit of Bank Pekao S.A. Group attributable to equity holders for the first half of 2014 amounted to PLN 1,319.3 million allowing return on average capital (ROE) at the level of 11.1% achieved with a strong capital base reflected by CAR at 18.1% (Basel III). Normalized ROE (return on minimum equity equivalent to CAR at 10%) amounted to 16.5%.

As financial data of the first half of 2014 don't include results of PJSC UniCredit Bank – sold on July 16, 2013 – in the subsequent part of this chapter results of the first half of 2013 are additionally presented excluding PJSC UniCredit Bank and financial information dynamics is discussed in comparable terms.

The Group's net profit attributable to equity holders reported for the first half of 2014 in comparison to the first half of 2013 was lower by PLN 64.9 million, i.e. 4.7% mainly due to lower gains on disposal of available for sale financial assets with total net interest income, dividend income and income from equity investments higher by PLN 62.0 million i.e. 2.8% in this period thanks to higher volumes.

The strength of the liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 92.7% at the end of June 2014. This together with strong equity level enables for further sound and stable development of the Group's activities.

The consolidated income statement – presentation form

(in PLN million)

	1 HALF 2014	1 HALF 2013 (excluding PJSC UniCredit Bank)	1 HALF 2013	CHANGE (excluding PJSC UniCredit Bank)
Net interest income	2,270.0	2,216.5	2,274.5	2.4%
Dividend income and income from equity investments	42.9	34.4	34.4	24.7%
Total net interest income, dividend income and other income from equity investments	2,312.9	2,250.9	2,308.9	2.8%
Net fee and commission income	1,039.1	1,047.8	1,058.8	(0.8%)
Trading result	237.3	429.9	427.3	(44.8%)
Net other operating income and expenses	55.8	34.2	35.5	63.2%
Net non-interest income	1,332.2	1,511.9	1,521.6	(11.9%)
Operating income	3,645.1	3,762.8	3,830.5	(3.1%)
Operating costs	(1,721.9)	(1,736.4)	(1,778.4)	(0.8%)
Operating profit	1,923.2	2,026.4	2,052.1	(5.1%)
Net result on other provisions	(3.2)	(2.3)	(2.3)	39.1%
Net impairment losses on loans and off-balance sheet commitments	(290.2)	(319.4)	(325.1)	(9.1%)
Net result on investment activities	(0.5)	17.0	17.0	x
Profit before tax	1,629.3	1,721.7	1,741.7	(5.4%)
Income tax expense	(300.8)	(333.2)	(337.1)	(9.7%)
Net profit for the period	1,328.5	1,388.5	1,404.6	(4.3%)
Attributable to equity holders of the Bank	1,319.3	1,384.2	1,400.3	(4.7%)
Attributable to non-controlling interest	9.2	4.3	4.3	114.0%

Operating income

In the first half of 2014, the Group's operating income amounted to PLN 3,645.1 million, a decrease of PLN 117.7 million, i.e. 3.1% in comparison with the first half of 2013 mainly due to lower gains on disposal of available for sale financial assets as compared with the same period of the previous year.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

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

(in PLN million)

	1 HALF 2014	1 HALF 2013 (excluding PJSC UniCredit Bank)	1 HALF 2013	CHANGE (excluding PJSC UniCredit Bank)
Interest income	3,155.8	3,524.6	3,612.1	(10.5%)
Interest expense	(885.8)	(1,308.1)	(1,337.6)	(32.3%)
Net interest income	2,270.0	2,216.5	2,274.5	2.4%
Dividend income	8.2	6.7	6.7	22.4%
Income from equity investments	34.7	27.7	27.7	25.3%
Total net interest income, dividend income and income from equity investments	2,312.9	2,250.9	2,308.9	2.8%

Total net interest income, dividend income and income from equity investments in the first half of 2014 amounted to PLN 2,312.9 million and was higher by PLN 62.0 million, i.e. 2.8% compared to the previous year thanks to higher volumes fully compensating negative impact of lower interest rates. In the first half of 2014, average WIBOR 3M rate stood at the level of 2.71%, and was lower by 67 b.p. than in the first half of 2013.

Net non-interest income

(in PLN million)

	1 HALF 2014	1 HALF 2013 (excluding PJSC UniCredit Bank)	1 HALF 2013	CHANGE (excluding PJSC UniCredit Bank)
Fee and commission income	1,296.6	1,292.3	1,309.9	0.3%
Fee and commission expense	(257.5)	(244.5)	(251.1)	5.3%
Net fee and commission income	1,039.1	1,047.8	1,058.8	(0.8%)
Trading result	237.3	429.9	427.3	(44.8%)
of which gains on disposal of AFS assets	34.8	210.5	210.5	(83.5%)
Net other operating income and expense	55.8	34.2	35.5	63.2%
Net non-interest income	1,332.2	1,511.9	1,521.6	(11.9%)

The Group's net non-interest income in the first half of 2014 amounted to PLN 1,332.2 million, a decrease of PLN 179.7 million, i.e. 11.9% in comparison with the first half of 2013 mainly due to lower trading result, in particular lower gains on disposal of available for sale financial assets.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

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

(in PLN million)

	1 HALF 2014	1 HALF 2013 (excluding PJSC UniCredit Bank)	1 HALF 2013	CHANGE (excluding PJSC UniCredit Bank)
Net fee and commission income	1,039.1	1,047.8	1,058.8	(0.8%)
on loans	216.9	212.2	212.2	2.2%
on cards	217.4	219.1	218.4	(0.8%)
capital market related	178.2	190.3	190.3	(6.4%)
other	426.6	426.2	437.9	0.1%

The Group's net fee and commission income in the first half of 2014 amounted to PLN 1,039.1 million and was lower by only PLN 8.7 million, i.e. 0.8% in comparison with the first half of 2013.

Capital market related net fee and commission income which includes investment fund, pension fund and brokerage commission remains under pressure of unfavourable market conditions associated with the situation in Ukraine as well as a result of the pension funds reform introduced in the first quarter of 2014.

Operating costs

In the first half of 2014, the operating costs were kept under control and amounted to PLN 1,721.9 million. They were lower than the operating costs in the first half of 2013 by PLN 14.5 million, i.e. 0.8% despite new prudential charge of Banking Guarantee Fund introduced in the fourth quarter of 2013.

(in PLN million)

	1 HALF 2014	1 HALF 2013 (excluding PJSC UniCredit Bank)	1 HALF 2013	CHANGE (excluding PJSC UniCredit Bank)
Personnel expenses	(955.4)	(940.9)	(960.8)	1.5%
Other administrative expenses	(603.5)	(622.7)	(642.2)	(3.1%)
Depreciation and amortization	(163.0)	(172.8)	(175.4)	(5.7%)
Operating costs	(1,721.9)	(1,736.4)	(1,778.4)	(0.8%)

In the first half of 2014, cost / income ratio amounted to 47.2% in comparison with 46.1% in the first half of 2013 (excluding PJSC UniCredit Bank).

As at the end of June 2014, the Group employed 18,684 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,916 employees as at the end of 2013.

As at the end of June 2014, the Bank employed 16,888 employees as compared to 17,092 employees as at the end of 2013.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

7.3 The structure of the net profit

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

(in PLN million)

	1 HALF 2014	1 HALF 2013	CHANGE
Net profit of Bank Pekao S.A.	1,354.1	1,463.8	(7.5%)
Entities consolidated under full method			
Pekao Leasing Sp. z o.o.	35.5	16.3	117.8%
Centralny Dom Maklerski Pekao S.A.	20.2	16.5	22.4%
Pekao Pioneer PTE S.A.	13.1	6.0	118.3%
Pekao Bank Hipoteczny S.A.	5.4	4.6	17.4%
Pekao Faktoring Sp. z o.o.	4.0	4.6	(13.0%)
Pekao Financial Services Sp. z o.o.	3.6	3.1	16.1%
Centrum Bankowości Bezpośredniej Sp. z o.o.	1.3	1.2	8.3%
Centrum Kart S.A.	0.9	0.7	28.6%
Pekao Leasing Holding S.A. ¹	0.5	27.4	(98.2%)
FPB "Media" Sp. z o.o.	0.2	0.3	(33.3%)
Property Sp. z o.o. w likwidacji	0.2	0.0	100.0%
Pekao Fundusz Kapitałowy Sp. z o.o.	0.1	0.4	(75.0%)
Pekao Telecentrum Sp. z o.o. w likwidacji	0.1	0.1	0.0%
Pekao Property S.A.	(0.4)	0.7	x
PJSC UniCredit Bank ²	-	16.2	x
Entities valued under the equity method			
Pioneer Pekao Investment Management S.A.	28.9	23.2	24.6%
Krajowa Izba Rozliczeniowa S.A.	5.3	4.3	23.3%
Dom Inwestycyjny Xelion sp. z o.o.	0.5	0.2	150.0%
Exclusions and consolidation adjustments³	(154.2)	(189.3)	(18.5%)
Net profit of the Group attributable to equity holders of the Bank	1,319.3	1,400.3	(5.8%)
Net profit of the Group attributable to equity holders of the Bank – continued operations	1,319.3	1,384.2	(4.7%)

1 The result of Pekao Leasing Holding S.A. for 2013 mainly include the dividend received from Pekao Leasing Sp. z o.o.

2 On July 16, 2013, the Bank sold 100% shares of PJSC UniCredit Bank based in Kiev to UniCredit S.p.A. based in Rome.

3 Includes, among others, transactions within the Group (including dividends from subsidiaries for the previous year) and net profit attributable to non-controlling interest.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

The results of Bank Pekao S.A.

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

(in PLN million)

	1 HALF 2014	1 HALF 2013	CHANGE
Net interest income	2,207.1	2,149.6	2.7%
Dividend income	153.4	143.8	6.7%
Total net interest income and dividend income	2,360.5	2,293.4	2.9%
Net non-interest income	1,180.8	1,393.6	(15.3%)
Operating income	3,541.3	3,687.0	(4.0%)
Operating costs	(1,617.9)	(1,629.5)	(0.7%)
Operating profit	1,923.4	2,057.5	(6.5%)
Net result on other provisions	(1.8)	(2.1)	(14.3%)
Net impairment losses on loans and off-balance sheet commitments	(278.0)	(291.4)	(4.6%)
Net result on investment activities	(0.7)	17.7	x
Profit before tax	1,642.9	1,781.7	(7.8%)
Net profit for the period	1,354.1	1,463.8	(7.5%)

In the first half of 2014, the Bank's net profit amounted to PLN 1,354.1 million, decrease of PLN 109.7 million, i.e. 7.5% in comparison to the first half of 2013.

The Bank's operating profit reported for the first half of 2014 was lower by 6.5% in comparison with the first half of 2013 due to lower operating income affected mainly by lower gains on disposal of available for sale financial assets with operating costs lower by 0.7%.

The main Bank's financial information are as follows:

	30.06.2014	31.12.2013	CHANGE
Total gross loans in PLN million*	97,626.9	93,186.8	4.8%
Impaired receivables to total receivables in %	6.8%	7.1%	(0.3) p.p.
Total deposits in PLN million*	111,398.2	115,843.7	(3.8%)
Repo and sell-buy-back transactions in PLN million	2,891.6	3,665.7	(21.1%)
Structured Certificates of Deposit in PLN million	118.8	334.0	(64.4%)
Certificates of Deposit in PLN million	2,423.8	1,901.9	27.4%
Total assets in PLN million	153,384.8	155,286.6	(1.2%)
Investment funds distributed through the Bank's network in PLN million	14,752.6	14,628.6	0.8%
Capital adequacy ratio (Basel III) in %	18.0%	18.3%	(0.3) p.p.

* The nominal value.

The volume of gross loans of the Bank's clients as at the end of June 2014 amounted to PLN 97,626.9 million, increasing by PLN 4,440.1 million, i.e. 4.8% as compared to the end of 2013. At the end of June 2014, the total volume of retail loans amounted to PLN 45,728.6 million and volume of corporate loans amounted to PLN 51,898.3 million.

The total amounts due to the Bank's customers (including customer deposits, repo and sell-buy-back transactions, Structured Certificates of Deposit, Certificates of Deposit) amounted to PLN 116,832.4 million and decreased by PLN 4,912.9 million, i.e. 4.0% compared to the end of 2013, of which liabilities to Open Pensions Funds decreased by PLN 7,295.8 million due to pension funds reform introduced in the first quarter of 2014.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. and distributed by the Bank's network increased by PLN 124.0 million, i.e. 0.8% as compared to the end of 2013.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

Results of the Bank's major related entities

Pioneer Pekao Investment Management S.A. – PPIM

In the first half of 2014, consolidated net profit of PPIM amounted to PLN 59.0 million compared with PLN 47.4 million in comparable period of 2013. The Bank's share in the company's profit was **PLN 28.9 million**.

Pekao Leasing Sp. z o.o. – Pekao Leasing

In the first half of 2014, Pekao Leasing reported a net profit of PLN 35.5 million (the Bank's share equaled to **PLN 31.0 million**) compared with PLN 16.3 million in the first half of 2013. Pekao Leasing result for 2014 on top of positive commercial income includes positive impact of VAT settlements.

Centralny Dom Maklerski Pekao S.A. – CDM

In the first half of 2014, net profit of CDM amounted to **PLN 20.2 million** compared with PLN 16.5 million profit earned in the same period of 2013.

Pekao Pioneer PTE S.A. – PTE

In the first half of 2014, PTE reported net profit of PLN 13.1 million (the Bank's share equaled to **PLN 8.5 million**) compared with net profit of PLN 6.0 million in the same period of 2013. The higher profit was achieved as a result of the Guarantee Fund settlement in the first half of 2014, conducted after transfer of assets from Open Pensions Funds (OFE) to Social Security Enterprise (ZUS) as a consequence of pension funds reform.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In the first half of 2014, Pekao Bank Hipoteczny reported a net profit of **PLN 5.4 million** compared with PLN 4.6 million in the first half of 2013.

Pekao Faktoring Sp. z o.o. – Pekao Faktoring

In the first half of 2014, Pekao Faktoring reported a net profit of **PLN 4.0 million** compared with PLN 4.6 million in the same period of 2013.

Dom Inwestycyjny Xelion Sp. z o.o. – Xelion

In the first half of 2014, Xelion reported a net profit of PLN 0.92 million (the Bank's share equaled to **PLN 0.46 million**) and it was higher than the profit earned in the first half of 2013 in the amount of PLN 0.31 million.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

7.4 Provisions, deferred tax assets and liabilities

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013
Total provisions	410.1	393.5	406.7	391.4
of which:				
provisions for off-balance sheet commitments	123.9	113.9	127.0	116.9
provisions for liabilities to employees	245.8	241.5	243.3	239.2
other provisions	40.4	38.1	36.4	35.3
Deferred tax liabilities	3.6	3.3	-	-
Deferred tax assets	853.8	895.3	642.7	680.2

7.5 Net impairment losses

(in PLN million)

	GROUP			BANK PEKAO S.A.	
	1 HALF 2014	1 HALF 2013 (excluding PJSC UniCredit Bank)	1 HALF 2013	1 HALF 2014	1 HALF 2013
Impairment losses on loans	(280.3)	(311.6)	(317.3)	(267.9)	(299.4)
Impairment losses on off-balance sheet commitments	(9.9)	(7.8)	(7.8)	(10.1)	8.0
Total	(290.2)	(319.4)	(325.1)	(278.0)	(291.4)

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 290.2 million in the first half of 2014, a decrease of PLN 29.2 million, i.e. 9.1% as compared with the first half of 2013 (excluding PJSC UniCredit Bank in the first half of 2013).

The Bank's net impairment losses on loans and off-balance sheet commitments amounted to PLN 278.0 million in the first half of 2014, a decrease of PLN 13.4 million i.e. 4.6% as compared with the first half of 2013.

7.6 Off-balance sheet items

(in PLN million)

	30.06.2014	31.12.2013	CHANGE
Contingent liabilities granted and received	51,432.5	47,411.7	8.5%
Liabilities granted:	38,727.3	38,175.0	1.4%
financial	27,041.2	27,097.7	(0.2%)
guarantees	11,686.1	11,077.3	5.5%
Liabilities received:	12,705.2	9,236.7	37.6%
financial	541.9	111.8	384.7%
guarantees	12,163.3	9,124.9	33.3%
Derivative financial instruments	206,785.3	187,401.9	10.3%
interest rate transactions	132,173.6	116,772.1	13.2%
transactions in foreign currency and in gold	73,156.4	69,566.6	5.2%
transactions based on commodities and equity securities	1,455.3	1,063.2	36.9%
Other	30,046.6	33,185.3	(9.5%)
Total off-balance sheet items	288,264.4	267,998.9	7.6%

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

7.7 Capital adequacy

A basic measure of capital adequacy is total capital ratio. 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 consistent with guidelines used by the Polish Financial Supervision Authority (KNF) for interim 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 value of the total capital ratio required by law cannot be lower than 8%, while according to the recommendation of EBA (European Banking Authority) and PFSA capital adequacy ratio should remain at level not lower than 12% and the Tier 1 ratio not lower than 9%. At the end of June 2014 the total capital ratio of Bank Pekao S.A. Group amounted to 18.1% and was more than twice the minimum value required by the law and significantly higher than the level recommended by the EBA and the PFSA.

The table below presents the basic data concerning the Group capital adequacy as at June 30, 2014 and December 31, 2013 according to the new rules of Basel III.

(in PLN thousand)

CAPITAL REQUIREMENT	30.06.2014	31.12.2013
Credit risk	7,404,465	7,277,933
Exceeding large exposure limits	0	0
Market risk	181,013	127,683
Delivery and contractor risk	302,616	195,919
Exceeding exposure concentration limit	0	0
Operational risk	1,036,536	1,054,131
Total capital requirement	8,924,630	8,655,666
Capital for capital adequacy ratio calculation		
Tier 1 capital	20,163,905	19,836,692
Tier 2 capital	0	0
Capital for capital adequacy ratio calculation	20,163,905	19,836,692
Total capital adequacy ratio (%)	18.1%	18.3%
Ratio CT 1 / CET1	18.1%	18.3%

A decrease of total capital adequacy ratio in June 2014 against December 2013 (by -0.2 p.p.) in comparable terms was due to an increase of total capital requirements by 3.1% with an increase of own funds by 1.6% in this period.

The increase of total capital requirement as at the end of June 2014 was mainly due to an increase of capital requirement for credit risk (driven by higher loans portfolio of the Bank), counterparty risk (mainly due to credit valuation adjustment risk – CVA) and market risk (including requirement on FX option risk).

The strengthening of the Group's own funds base in 2014 is mainly a consequence of a decision of the Ordinary General Meeting of Bank Pekao S.A. to allocate the net profit of Bank Pekao S.A. for 2013 in the amount of PLN 185.8 million for the own funds of the Bank and lower unrealized loss on available for sale portfolio.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

7.8 Reconciliation of income statement – presentation form and long form

Consolidated income statement for the first half of 2014

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	1 HALF 2014	COMMENTS
Net interest income		<u>2,269,979</u>	
Dividend income and income from equity investments		<u>42,882</u>	
	Dividend income	8,189	
	Gains (losses) on subsidiaries and associates	34,693	
Total net interest income, dividend income and other income from equity investments		2,312,861	
Net fee and commission income	Net fee and commission income	<u>1,039,063</u>	
Trading result		<u>237,323</u>	
	Result on financial assets and liabilities held for trading	216,620	
	Result on fair value hedge accounting	(14,117)	
	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	34,837	
	(Gains) losses on disposal of financial liabilities	(17)	
Net other operating income and expenses		<u>55,851</u>	
	Net other operating income and expenses	56,574	
	less - Refunding of administrative expenses	(1,807) /1	
	Gains (losses) on disposal of loans and other financial receivables	1,084	
Net non-interest income		1,332,237	
Operating income		3,645,098	
Operating costs		<u>(1,721,935)</u>	
	Personnel expenses	(955,390)	
	Other administrative expenses	(605,358)	
	Refunding of administrative expenses	1,807 /1	
	Depreciation and amortization	(162,994)	
Operating profit		1,923,163	
Net result on other provisions	Net result on other provisions	<u>(3,150)</u>	
Net impairment losses on loans and off-balance sheet commitments		<u>(290,168)</u>	
	Net impairment losses on loans	(280,275)	
	Net impairment provision for off-balance sheet commitments	(9,893)	
Net result on investment activities		<u>(543)</u>	
	(Gains) losses on disposal of property, plant and equipment and intangible assets.	(543)	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	-	
Profit before income tax		1,629,302	
Income tax expense	Income tax expense	<u>(300,803)</u>	
Net profit for the period	Net profit for the period	1,328,499	
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	1,319,321	
Attributable to non-controlling interest	Attributable to non-controlling interest	9,178	

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. Group for the first half of 2014

Consolidated income statement for the first half of 2013 (continued and discontinued operations)

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	1 HALF 2013	COMMENTS
Net interest income		<u>2,274,465</u>	
Dividend income and income from equity investments		<u>34,440</u>	
	Dividend income	6,751	
	Gains (losses) on subsidiaries and associates	27,689	
Total net interest income, dividend income and other income from equity investments		2,308,905	
Net fee and commission income	Net fee and commission income	<u>1,058,833</u>	
Trading result		<u>427,261</u>	
	Result on financial assets and liabilities held for trading	227,259	
	Result on fair value hedge accounting	(7,035)	
	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	210,487	
	(Gains) losses on disposal of financial liabilities	(3,450)	
Net other operating income and expenses		<u>35,526</u>	
	Net other operating income and expenses	37,732	
	less - Refunding of administrative expenses	(2,125) /1	
	(Gains) losses on disposal of loans and other financial receivables	(81)	
Net non-interest income		1,521,620	
Operating income		3,830,525	
Operating costs		<u>(1,778,415)</u>	
	Personnel expenses	(960,808)	
	Other administrative expenses	(644,358)	
	Refunding of administrative expenses	2,125 /1	
	Depreciation and amortization	(175,374)	
Operating profit		2,052,110	
Net result on other provisions	Net result on other provisions	<u>(2,315)</u>	
Net impairment losses on loans and off-balance sheet commitments		<u>(325,065)</u>	
	Net impairment losses on loans	(317,271)	
	Net impairment provision for off-balance sheet commitments	(7,794)	
Net result on investment activities		<u>17,017</u>	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	17,017	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	-	
Profit before income tax		1,741,747	
Income tax expense	Income tax expense	<u>(337,117)</u>	
Net profit for the period	Net profit for the period	1,404,630	
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	1,400,330	
Attributable to non-controlling interest	Attributable to non-controlling interest	4,300	

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. Group for the first half of 2014

8 Quarterly Income Statement

8.1 Consolidated income statement – long form

Consolidated income statement for 2014 - Provided for comparability purposes.

	Q1 2014			Q2 2014		
	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUED OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Interest income	1,571,029	-	1,571,029	1,584,757	-	1,584,757
Interest expense	(440,956)	-	(440,956)	(444,851)	-	(444,851)
Net interest income	1,130,073	-	1,130,073	1,139,906	-	1,139,906
Fee and commission income	631,965	-	631,965	664,663	-	664,663
Fee and commission expense	(119,066)	-	(119,066)	(138,499)	-	(138,499)
Net fee and commission income	512,899	-	512,899	526,164	-	526,164
Dividend income	-	-	-	8,189	-	8,189
Result on financial assets and liabilities held for trading	105,443	-	105,443	111,177	-	111,177
Result on fair value hedge accounting	(10,725)	-	(10,725)	(3,392)	-	(3,392)
Net result on other financial instruments at fair value through profit and loss	-	-	-	-	-	-
Gains (losses) on disposal of:	414	-	414	35,490	-	35,490
loans and other financial receivables	414	-	414	670	-	670
available for sale financial assets and held to maturity investments	17	-	17	34,820	-	34,820
financial liabilities	(17)	-	(17)	-	-	-
Operating income	1,738,104	-	1,738,104	1,817,534	-	1,817,534
Net impairment losses on financial assets and off-balance sheet commitments:	(147,502)	-	(147,502)	(142,666)	-	(142,666)
loans and other financial receivables	(149,004)	-	(149,004)	(131,271)	-	(131,271)
off-balance sheet commitments	1,502	-	1,502	(11,395)	-	(11,395)
Net result on financial activity	1,590,602	-	1,590,602	1,674,868	-	1,674,868
Administrative expenses	(776,702)	-	(776,702)	(784,046)	-	(784,046)
personnel expenses	(471,380)	-	(471,380)	(484,010)	-	(484,010)
other administrative expenses	(305,322)	-	(305,322)	(300,036)	-	(300,036)
Depreciation and amortization	(81,945)	-	(81,945)	(81,049)	-	(81,049)
Net result on other provisions	(1,188)	-	(1,188)	(1,962)	-	(1,962)
Net other operating income and expenses	34,237	-	34,237	22,337	-	22,337
Operating costs	(825,598)	-	(825,598)	(844,720)	-	(844,720)
Gains (losses) on subsidiaries and associates	19,282	-	19,282	15,411	-	15,411
Gains (losses) on disposal of property, plant and equipment, and intangible assets	(333)	-	(333)	(210)	-	(210)
Profit before income tax	783,953	-	783,953	845,349	-	845,349
Income tax expense	(146,017)	-	(146,017)	(154,786)	-	(154,786)
Net profit for the period	637,936	-	637,936	690,563	-	690,563
Attributable to equity holders of the Bank	634,244	-	634,244	685,077	-	685,077
Attributable to non-controlling interest	3,692	-	3,692	5,486	-	5,486

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

Consolidated income statement for 2013 - Provided for comparability purposes.

(in PLN thousand)

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

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

Consolidated income statement for 2013 - cont.

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

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

8.2 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for 2014 and 2013 (continued and discontinued operations)

(in PLN thousand)

	Q1 2014	Q2 2014	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Net profit	637,936	690,563	672,059	732,571	651,357	739,003
Attributable to equity holders of the Bank	634,244	685,077	669,857	730,473	648,866	735,583
Attributable to non-controlling interest	3,692	5,486	2,202	2,098	2,491	3,420
Other comprehensive income						
<i>Items that are or may be reclassified subsequently to profit or loss:</i>						
Foreign currency translation differences	5	6	22,194	5,014	(1,511)	(132)
Change in fair value of available-for-sale financial assets	36,868	322,991	(152,160)	(314,574)	(118,201)	26,313
Change in fair value of cash flow hedges	(11,416)	113,138	17,221	(48,395)	69,742	(3,736)
Income tax expense on other comprehensive income	(4,836)	(82,865)	21,422	68,074	9,428	(4,290)
<i>Items that will never be reclassified to profit or loss:</i>						
Re-measurements of the defined benefit liabilities	-	-	-	-	-	(41,524)
Tax on items that will never be reclassified to profit or loss	-	-	-	-	-	7,890
Other comprehensive income (net)	20,621	353,270	(91,323)	(289,881)	(40,542)	(15,479)
Total comprehensive income	658,557	1,043,833	580,736	442,690	610,815	723,524
Attributable to equity holders of the Bank	654,865	1,038,347	578,534	440,592	608,324	720,104
Attributable to non-controlling interest	3,692	5,486	2,202	2,098	2,491	3,420

8.3 Consolidated income statement – presentation form

Consolidated income statement for 2014 and 2013 (continued and discontinued operations)

(in PLN thousand)

	Q1 2014	Q2 2014	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Net interest income	1,130,073	1,139,906	1,167,749	1,106,716	1,095,430	1,135,667
Dividend income and income from equity investments	19,282	23,600	14,854	19,586	13,813	17,928
Total net interest income, dividend income and other income from equity investments	1,149,355	1,163,506	1,182,603	1,126,302	1,109,243	1,153,595
Net fee and commission income	512,899	526,164	524,408	534,425	536,420	547,591
Trading result	94,718	142,605	153,518	273,743	159,447	166,132
Net other operating income and expenses	32,856	22,995	22,177	13,349	35,498	26,890
Net non-interest income	640,473	691,764	700,103	821,517	731,365	740,613
Operating income	1,789,828	1,855,270	1,882,706	1,947,819	1,840,608	1,894,208
Operating costs	(856,852)	(865,083)	(875,640)	(902,775)	(866,447)	(838,536)
Operating profit	932,976	990,187	1,007,066	1,045,044	974,161	1,055,672
Net result on other provisions	(1,188)	(1,962)	(643)	(1,672)	(1,065)	17,041
Net impairment losses on loans and off-balance sheet commitments	(147,502)	(142,666)	(165,006)	(160,059)	(169,337)	(169,248)
Net result on investment activities	(333)	(210)	41	16,976	1,905	3,354
Profit before income tax	783,953	845,349	841,458	900,289	805,664	906,819
Income tax expense	(146,017)	(154,786)	(169,399)	(167,718)	(154,307)	(167,816)
Net profit for the period	637,936	690,563	672,059	732,571	651,357	739,003
Attributable to equity holders of the Bank	634,244	685,077	669,857	730,473	648,866	735,583
Attributable to non-controlling interest	3,692	5,486	2,202	2,098	2,491	3,420

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

9 Human Resources Management

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.

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.

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 not only its internal training programs tailored to the needs of the employees and ensuring professional services to customers but also methods and ways to deliver training. Training programs include class-room training, on-the-job training, electronic training, coaching and system of Virtual Class which provides training at a distance in a form of remote seminars. In 2014, the Bank initiated also structured rotation program allowing for direct exchange of professional knowledge between experts.

In 2014, the main training priorities of the Bank are as follows:

- continuous 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.

Continuous professional skills development of the Bank's employees

In the first half of 2014, the Bank continued the process of developing professional knowledge of its employees. The Bank realized over 85 thousand training hours in which attended over 8 thousand employees.

The Bank continues 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 trainings regarding introduction of new credit and mobile products.

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. In the first half of 2014, particular attention was given to new employees introduction training and programs developing phone conversation skills. For personnel dealing with large companies a training program Corporate Banking Academy has been developed engaging higher managerial staff.

Report on the activities of Bank Pekao S.A. Group for the first half of 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 by programs reinforcing skills of managerial supervision.

Realization of 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 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.

In the first half of 2014, the Bank delivered 139 thousand training hours, in which attended over 98% employees confirming efficient implementation of required regulations and customer care.

Development programs and initiatives

Priority 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 operates four main processes:

- Executive Development Plan (EDP) – annual appraisal process for managers, which involved 612 persons.
- 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, which involved 170 persons.
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.
- Annual Employee Appraisal System – process of evaluation of the Bank's employees, which involved 14,994 employees in the first half of 2014.

Furthermore, the Bank offers the development initiatives focused on supporting the employees in their professional career development and improvement of their skills, knowledge and competencies

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,
- the 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.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

Remuneration policy

On July 31, 2013, the Supervisory Board of Bank Pekao S.A. approved the Remuneration Policy of the Bank, which reflects the mission and values of the Bank's approach to remuneration systems. The policy defines basics of remuneration, management of 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.

Retention Plans

In the first half of 2014, there were realized the following retention plans:

- Retention Program 2010-2013 of Bank Pekao S.A. – a local retention program dedicated to the key employees,
- Long-Term Incentive Plans of UniCredit Group (edition 2007 and 2008 within the scope of stock options) addressed to the top management,
- Long-Term Incentive Plans of UniCredit Group (edition 2011-2013) addressed to the top management. As the conditions of the plan were not meet, the rights to shares and stock options were not granted.

Incentive systems

In the Bank, there are three main incentives systems: a system based on Management by Objectives (MBO), a system based on quarterly bonuses, which rules are defined in Corporate Collective Labour Agreement and System of Variable Remuneration for Management.

MBO system covers employees employed under the management contract and refers in particular to the positions which play a significant role in achieving the Bank's commercial goals. The employees covered by the MBO system receive individual goals, which successful completion determines the amount of annual bonus.

A system based on the provisions of the Corporate Collective Labour Agreement (CCLA) applies to those who are not employed under management contract and thus are not covered by MBO system. 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 executed by superior), incentive bonus (which is granted for outstanding work achievements) and the Bank's results in a given year.

System of Variable Remuneration for Management is dedicated to people holding managerial positions, who have significant influence on the risk management 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 as well as the Bank's bottom line.

Additional benefits for employees

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

Employee Share Ownership Plan is the Bank's offer for all employees to invest in shares of UniCredit S.p.A. on preferential terms.

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. Group for the first half of 2014

Corporate values

The basis of the Bank's corporate culture and identity is the Integrity Charter constitutes a code of corporate values including respect, reciprocity, transparency, fairness, trust and freedom (freedom to act). Since 2012, in the Bank operates "The Values System" which ensure practical application of corporate values into everyday professional relationships and in the work environment. Code of corporate values is intended to serve as reference in difficult situations, which are not covered by the external and internal regulations and allows to express own personality in business and respect freedom to act.

The base for functioning of the system is activity of the Integrity Charter Ombudsmen – independent and experienced managers of the Bank who went retirement. The employees can report to them any misconduct behavior inconsistent with the Bank's corporate values. The Ombudsmen use the available tools such as meeting and noticing and take actions to restore the corporate values in the relationships between employees. These actions directly support the Bank's internal communication and define certain standards of conduct and communication patterns for the employees to follow.

Relations with Trade Unions

The co-operation with Trade Unions of the Bank in the scope of consultation, negotiations and agreements was conducted under Labour law with respect to interests of both sides and principle of social dialog. In the first half of 2014, there were 6 meetings organized with trade unions.

Relations with Works Council

Relationships with the Works Council of the Bank are based on the Act on information and consultation dated on April 7, 2006. The Bank pays strong attention to the role of the Works Council in social dialog. In the first half of 2014, several meetings with the Works Council were organized. Reports from the meetings with the employer are available to all employees of the Bank on the intranet.

Workforce in number

As at the end of June 2014, the Group employed 18,684 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,916 employees as at the end of 2013.

As at the end of June 2014, the Bank employed 16,888 employees as compared to 17,092 employees as at the end of 2013. The average age of the employees was 45 years, 63% of the employees are university graduates, women represent 80% of the total workforce.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

10 Other Information

10.1 Management Board position regarding the possibility of achieving previously published forecasts

The Bank has not published the forecast of the financial results for 2014.

10.2 The issuer's shares held by the Management and Supervisory Board Members

According to information available to the Bank as at the date of submitting of this report, the members of the Bank's management and supervisory bodies held 73,535 shares of Bank Pekao S.A.

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

	AS AT THE DATE OF SUBMITTING THE REPORT		CHANGE
	FOR THE FIRST HALF OF 2014	FOR THE FIRST QUARTER OF 2014	
Luigi Lovaglio	64,035	64,035	0
Diego Biondo	9,500	9,500	0
Total	73,535	73,535	0

10.3 Related party transactions

In the first half of 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 the first half of 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.

10.4 Accounting principles adopted in the preparation of the report

Accounting principles adopted in the preparation of the report are described in the Notes to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2014 to 30 June 2014.

10.5 Seasonality or cyclical nature of the Bank's activity

The demand for the financial services offered by the Bank is stable with no material impact of seasonal changes. Due to the nature of the Bank's activity, it is not subject to seasonal or cyclical changes.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

10.6 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 118.8 million (principal value) as at the end of June 2014. There are 2 issues of Structured Certificates of Deposit open in PLN with the maximum maturity date set at October 23, 2015. Those liabilities that mature in 2014 and 2015 account for 40.9%, and 59.1% 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 2,423.8 million (principal value) as at the end of June 2014. There are 10 issues of Certificates of Deposit, and the maturity date up to 3 months accounts for 68.2%, up to 6 months accounts for 13.5% and up to 1 year accounts for 18.3% of its total value.

Pekao Leasing Sp. z o.o. bonds

The total value of the company's liabilities under bonds amounted to PLN 47.7 million as at June 30, 2014 with the maturity date up to 1 month.

Pekao Bank Hipoteczny S.A. covered bonds

The total value of liabilities due to covered bonds amounted to PLN 1,023.1 million as at June 30, 2014. The liabilities under covered bonds with maturity date up to 1 year account for 0.8%, with maturity date from 3 up to 5 years account for 29.8% and with maturity date from 5 up to 10 years account for 69.4% of the total nominal value.

10.7 Appropriation of profit achieved in 2013

On June 12, 2014, the Ordinary General Meeting of Bank Pekao S.A. took a resolution regarding the distribution of the net profit of the Bank for 2013 in the amount of PLN 2,799,999,690.81 in the following manner:

- PLN 2,614,201,538.64 for dividend,
- PLN 1,838,890.17 for the reserve equities,
- PLN 183,959,262.00 to cover in total the losses from previous years, arising from retrospective change of accounting principles relating to bancassurance.

10.8 Information on dividend

Pursuant to Resolution of the Ordinary General Meeting of Bank Pekao S.A. dated June 12, 2014, PLN 2,614,201,538.64 (93% of the net profit of the Bank for 2013) was allocated as dividend, i.e. PLN 9.96 per one share. The dividend's date was established on June 18, 2014 and the dividend's pay-out day was established on July 4, 2014. All the Bank's shares are ordinary shares.

10.9 Pending litigations

In the first half of 2014, the number of the legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of the Group's liabilities was 570 with the total value amounting to PLN 1,146.6 million. The number of legal proceedings in respect of receivables was 11,678 with the total value of PLN 1,113.5 million.

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

10.10 Subsequent events

No significant events occurred after the balance sheet date which were not reflected in the financial statements.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

11 Representations of the Bank's Management Board on reliability of the presented financial statements

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

- the Condensed Unconsolidated Interim Financial Statements of Bank Pekao S.A. for the period from 1 January 2014 to 30 June 2014 and Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2014 to 30 June 2014 and comparative figures have been prepared in accordance with applicable accounting policies and that they reflect in a true, fair and clear manner the Bank's and the Group's financial position and their results,
- the Report on the activities of Bank Pekao S.A. Group for the first half of 2014 provides a true picture of Bank Pekao S.A. Group's 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 the Condensed Unconsolidated Interim Financial Statements of Bank Pekao S.A. for the period from 1 January 2014 to 30 June 2014 and Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2014 to 30 June 2014 has been selected in pursuance of applicable provisions of law. The company and the registered auditors performing the review meet the requirements indispensable for issuing an objective and independent report on the review concerning condensed interim unconsolidated financial statements and condensed interim consolidated financial statements, in accordance with applicable provisions of law and professional standards.

Report on the activities of Bank Pekao S.A. Group for the first half of 2014

Signatures of all Members of the Bank's Management Board

04.08.2014	Luigi Lovaglio	President of the Management Board, CEO	
Date	Name/Surname	Position/Function	Signature
04.08.2014	Diego Biondo	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
04.08.2014	Andrzej Kopyrski	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
04.08.2014	Grzegorz Piwowar	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
04.08.2014	Stefano Santini	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
04.08.2014	Marian Ważyński	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature