

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



Warsaw, February 2015

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

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1 Highlights of Bank Pekao S.A.

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

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

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

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

Note: Since 2013 in the income statement in a presentation form, to align the presentation to the standards implemented by the major Polish and European banks, gains on disposal of available for sale financial assets and held to maturity investments are reported under trading result (and thus in operating income, operating profit and respective ratios). In order to ensure comparability, data for the years 2009 – 2012 have been restated in comparison to those previously published.

In relation to changes in accounting policy in 2013 (for description refer to the Note 4 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2014) data for 2013 and 2012 have been presented in accordance with the new rules. Data for earlier periods remain unchanged.

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

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2 Summary of Performance

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

The Bank's net profit reported for 2014 was lower by PLN 137.7 million, i.e. 4.9% in comparison to 2013 mainly due to lower trading result and the impact of regulatory constraints.

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

In the area of mortgage lending, the Bank continued its policy of offering only PLN mortgage loans. The residual stock of mortgage loans denominated in foreign currencies, almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA in 2007, represents only 4.3% of total loans of the Bank.

- In 2014, the Bank's operating income amounted to PLN 7,034.7 million, a decrease of PLN 152.6 million, i.e. 2.1% in comparison with 2013 mainly due to decrease in net non-interest income partially compensated by higher net interest income achieved despite significant pressure of lower interest rates.
- Total net interest income and dividend income in 2014 amounted to PLN 4,488.1 million and was higher by PLN 33.8 million, i.e. 0.8% compared to the previous year thanks to higher volumes fully compensating negative impact of lower interest rates including reduction of the NBP Lombard rate determining the maximum interest rate applicable to loans. In 2014, average WIBOR 3M rate stood at the level of 2.51%, and was lower by 52 b.p. than in 2013, while the NBP Lombard rate went from 4.0% at the end of 2013 to 3.0% at the end of 2014.
- The Bank's net non-interest income in 2014 amounted to PLN 2,546.6 million, a decrease of PLN 186.4 million, i.e. 6.8% in comparison with 2013 mainly due to lower net fee and commission income (affected by lower interchange rates decreasing card related fees, unfavorable market conditions influencing mutual funds and brokerage fees as well as OFE reform and migration to the Internet channels) and lower trading result, in particular lower gains on disposal of available for sale financial assets.
- In 2014, the operating costs were kept under control and amounted to PLN 3,223.3 million. They were lower by PLN 7.1 million, i.e. 0.2% than the operating costs in 2013 despite new prudential charge of Banking Guarantee Fund introduced in the fourth quarter of 2013.
- The Bank's net impairment losses on loans and off-balance sheet commitments amounted to PLN 541.4 million in 2014, a decrease of PLN 81.6 million, i.e. 13.1% as compared with 2013.

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

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- As at the end of December 2014, the total amounts due to the Bank's customers and debt securities issued amounted to PLN 129,201.0 million, an increase of PLN 7,091.8 million, i.e. 5.8% in comparison to the end of 2013, despite a decrease by PLN 6,122.5 million of liabilities to Open Pensions Funds (OFE) due to pension funds reform introduced in the first quarter of 2014. Excluding OFE, total amounts due to the Bank's customers and debt securities issued increased by PLN 13,214.3, i.e. 11.8% million in comparison to the end of 2013.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 55,279.9 million at the end of December 2014, an increase of PLN 4,490.5 million, i.e. 8.8% in comparison to the end of 2013. The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 17,115.1 million at the end of December 2014, an increase of PLN 703.6 million, i.e. 4.3% in comparison to the end of 2013.

The total volume of corporate customers deposits, repo and sell-buy-back transactions, Certificates of Deposit, interest and other amounted to PLN 73,921.1 million at the end of December 2014, an increase of PLN 2,601.3 million, i.e. 3.6% as compared to the end of 2013, excluding OFE an increase of PLN 8,723.8 million in comparison to the end of 2013.

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

As at the end of December 2014, the volume of retail loans amounted to PLN 48,377.8 million, an increase of PLN 4,740.2 million, i.e. 10.9% in comparison to the end of 2013.

The volume of corporate loans, non-quoted securities, reverse repo transactions and securities issued by non-monetary entities increased by PLN 6,664.8 million, i.e. 10.7% as compared to the end of 2013 and amounted to PLN 69,037.3 million at the end of December 2014.

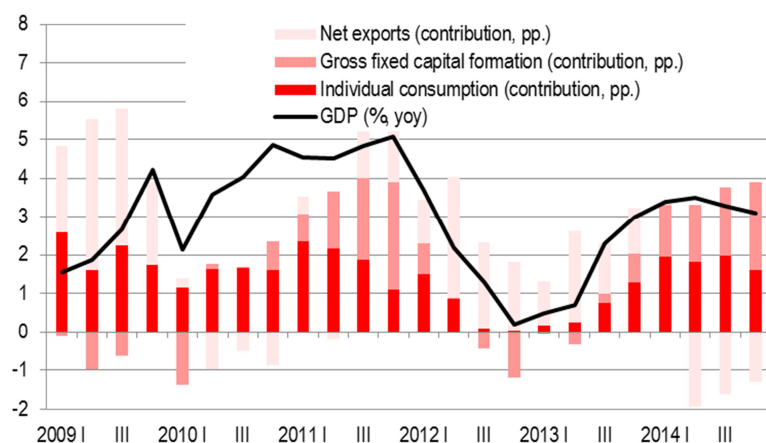
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3 External Activity Conditions

Economic growth

In 2014, the estimated GDP growth in Poland amounted to 3.3% as compared with economic growth of 1.7% achieved in 2013. The signs of economic recovery that appeared in the second half of 2013 were reinforced in the following year. Domestic demand was the main source of economic growth in 2014, it increased by ca. 4.6% after an increase of merely 0.2% in the previous year and was supported by both, consumption and investments. Households consumption increased by 3.0% in 2014 vs. an increase of 1.1% in 2013 thanks to systematic improvement on the labour market and price stability, what translated into higher purchasing power of households. In 2014, a significant intensification of investment activity was observed. Gross fixed capital formation increased by 9.4%, after an increase of merely 0.9% in 2013. Foreign trade decreased the GDP growth in 2014 by 1.2 p.p., while the positive contribution of net exports to the GDP in 2013 amounted to 1.5 p.p.

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

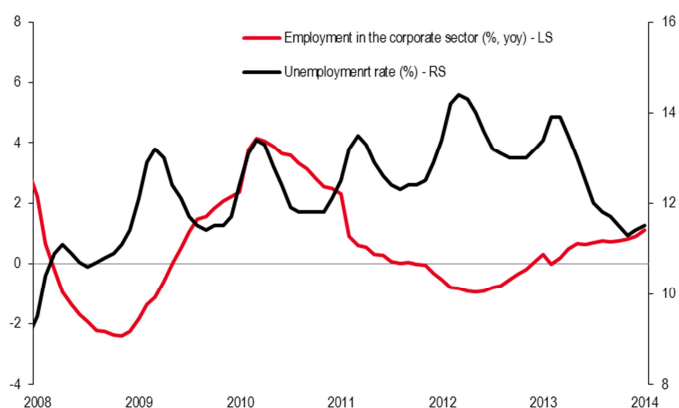


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Labour market

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

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



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Inflation and monetary policy

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

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

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

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

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

Fiscal policy

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

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

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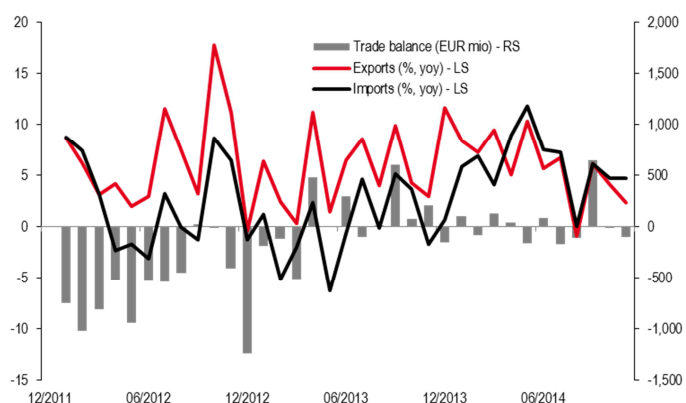
Foreign sector

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

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

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

In 2014, a moderate increase of the Treasury's foreign debt was recorded. According to the data of the Ministry of Finance, at the end of November 2014, the Treasury's foreign debt amounted to PLN 268.8 billion, which means an increase of ca. PLN 15.1 billion in comparison to December 2013 (by 5.9%). The growth of the Treasury's foreign debt was partly caused by a slight weakening of the zloty against foreign currencies, in which it is denominated.



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Capital market

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

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

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

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

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

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



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Banking sector

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

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

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

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

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

In terms of main loan categories, in 2014 the following developments were noted:

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

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

In terms of loan portfolio quality, in 2014 the following developments were noted:

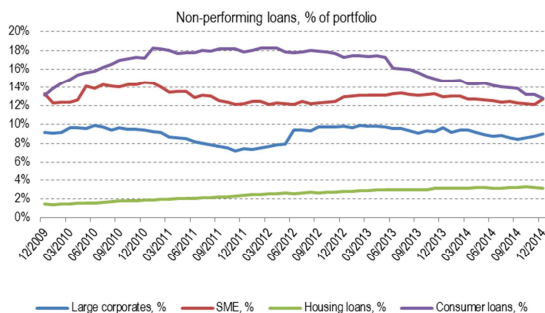
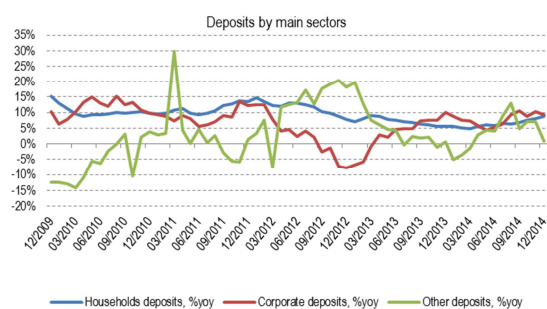
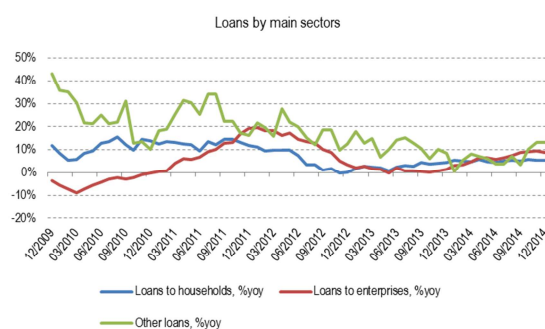
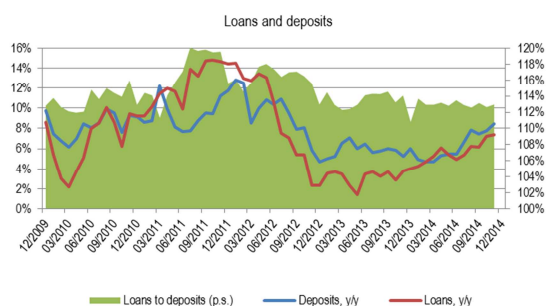
- gradual decline in the share of NPLs in the portfolio of loans to corporates. As at the end of 2014, non-performing loans accounted for 11.2% of the portfolio, while as at the end of 2013 they stood at the level of 11.6%. Decrease in share of non-performing loans was seen both in loans to large corporates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

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

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

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



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4 Important Events and Achievements

4.1 Changes within the Group

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

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

Acquisition of shares

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

Merger of the companies

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

4.2 Changes in the Statutory Bodies of the Bank

Supervisory Board

Composition of the Supervisory Board:

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

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

Management Board of the Bank

Composition of the Management Board:

DECEMBER 31, 2014	DECEMBER 31, 2013
Luigi Lovaglio President of the Management Board, CEO	Luigi Lovaglio President of the Management Board, CEO
Diego Biondo Vice President of the Management Board	Diego Biondo Vice President of the Management Board
Andrzej Kopyrski Vice President of the Management Board	Andrzej Kopyrski Vice President of the Management Board
Grzegorz Piwowar Vice President of the Management Board	Grzegorz Piwowar Vice President of the Management Board
Stefano Santini Vice President of the Management Board	Stefano Santini Vice President of the Management Board
Marian Ważyński Vice President of the Management Board	Marian Ważyński Vice President of the Management Board

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

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

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

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

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

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

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

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

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

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

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

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

4.3 Organizational changes

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

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

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

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

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

4.4 Awards and distinctions

BANK magazine – Two awards for Bank Pekao S.A. during “Horyzonty Bankowości 2014” edition

Bank Pekao S.A. took the second place in the ranking “50 largest banks in Poland” organized by BANK magazine and received special award of “Innovator of the banking market 2013” for innovative and groundbreaking solutions in the field of electronic banking: internet and mobile.

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

Forbes magazine – Bank Pekao S.A. in the ranking „Najlepsze Banki dla Biznesu” (The Best Banks for business)

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

IR Magazine: nagroda dla Relacji Inwestorskich Banku Pekao S.A.

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

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

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

Money.pl – Mobile banking and mobile payments system PeoPay of Bank Pekao S.A. won the ranking for the best mobile solution in the Polish banking



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

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

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

Bank Pekao S.A. won the ranking organized by financial service Money.pl for the best mobile solution for SME customers.

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

QI Emblem for the Pekao Visa Infinite credit card

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

Bank Gospodarstwa Krajowego – Bank Pekao S.A. Leader of de minimis guarantees



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

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

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

Forum Biznesu – The Innovation of the Year 2013 title for the PekaoBiznes24 system and Accounts OnLine

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

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

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

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

WSE – Bank Pekao S.A. awarded for the highest value of debt issues in 2013 on the Catalyst market

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

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

Global Finance: Pekao S.A. Best Subcustodian Bank in Poland



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

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

Executive Club: Pekao S.A. Bank of the Year in Private Equity



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

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

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

Eurobuild Awards 2014: Bank Pekao S.A. for the fourth consecutive time The Bank of the Year in commercial real estate



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

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

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

EuropaProperty: Bank Pekao S.A. the Bank of the Year 2013 in competition the CEE Retail Real Estate Awards



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

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

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

EuropaProperty 2014: The Bank of the Year title for Bank Pekao S.A. in competition CEE Investment & Green Building Award



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

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

Card of Bank Pekao S.A. "The best Polish prepaid card in 2014"



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

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

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

5 Information for the Investors

5.1 The Bank's share capital and share ownership structure

As at December 31, 2014, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034 and remained unchanged until the date of submitting the report. The share capital of the Bank consisted of 262,470,034 shares of the following series:

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

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

The shareholders of Bank Pekao S.A. owning directly or indirectly through their subsidiaries at least 5% of the total number of voting rights at the General Meeting of Bank Pekao S.A. are as follows:

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	AS AT THE DATE OF SUBMITTING THE REPORT		AS AT DECEMBER 31, 2014		AS AT DECEMBER 31, 2013	
UniCredit S.p.A.	131,497,488	50.10%	131,497,488	50.10%	131,497,488	50.10%
Aberdeen Asset Management PLC	n/a	n/a	n/a	n/a	13,194,683	5.03%
Other shareholders	130,972,546	49.90%	130,972,546	49.90%	117,777,863	44.87%
Total	262,470,034	100.00%	262,470,034	100.00%	262,470,034	100.00%

UniCredit S.p.A. has been the Bank's major shareholder since August 1999. As at December 31, 2014, UniCredit S.p.A. held 50.10% share in the Bank's share capital and the same percentage of the total votes at the Bank's General Meeting of Shareholders and the remaining shareholders' 49.90% share. Since none of the remaining shareholders holds more than 5% of the total vote at the Bank's General Meeting of Shareholders, they are not required to disclose information on their holdings in Bank Pekao S.A.'s shares.

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

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

Polish open-end pension funds (OFE) constitute to the group of financial investors holding significant equity interests in the Bank. Based on their publicly available financial reports, as at December 31, 2014 OFE held in aggregate 15.0% of the Bank's shares.

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

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

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

(*) On September 12, 2014 OFE Amplico changed its name to MetLife OFE

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

(***) Assets presented as a total of Allianz Polska OFE and OFE Warta. On September 19, 2014 OFE Warta assets were transferred to Allianz Polska OFE

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

5.2 Performance of market valuation of Bank Pekao S.A.'s stock

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

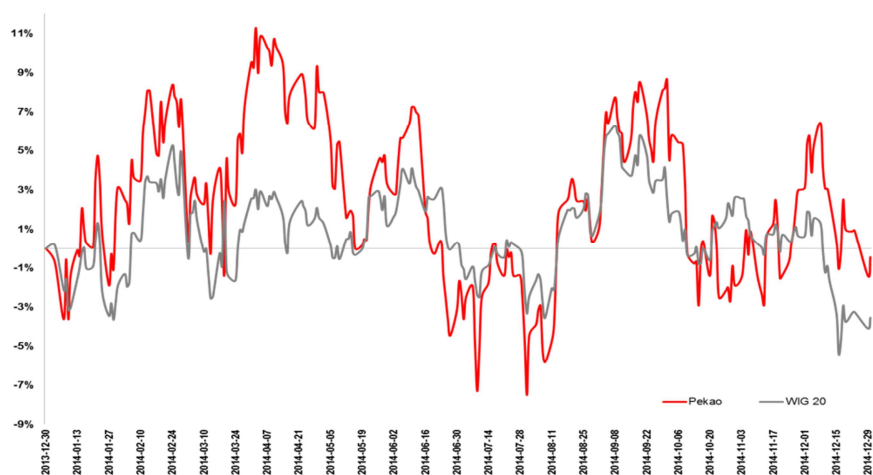
The Bank's market capitalization as at December 31, 2014 amounted to PLN 46.9 billion and making the Bank a company with the highest market capitalization on the Warsaw Stock Exchange. Given the high capitalization and liquidity the Bank's shares are a part of many important stock indices maintained by domestic and foreign institutions including Polish blue chips index – WIG20. Since December 19, 2011, the shares of Bank Pekao S.A. are included in the CEERIUS Sustainability Index at Vienna Stock Exchange.

With the average daily turnover volume at the level of 383 thousand and the worth of trading at PLN 17.5 billion in 2014, the share of the Bank's stock in trading on the WSE amounted to 8.52%.

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

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

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



Source: the WSE

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

5.3 Dividend payment history

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

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

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

5.4 Investor Relations

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

The Bank's representatives regularly hold a lot of meetings with investors in Poland and abroad, and take part in most of the regional and sector dedicated investors conferences. Financial results of Bank Pekao S.A. Group are presented quarterly at conferences that are simultaneously transmitted via Internet. In 2014, there were four conferences held to present the Bank's financial performance and ca. 500 meetings with investors and analysts.

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

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

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

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

5.5 Bank Pekao S.A. financial credibility ratings

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

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

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

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

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

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

6 Activity of Bank Pekao S.A.

6.1 Important factors influencing the Bank's activities and results

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

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

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

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

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

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

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

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

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

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

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

6.2 Major sources of risk and threats

Risk management

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

The key risks material for the Bank include credit risk, liquidity and market risks and operational risk. Moreover, business, real estate, financial investment, model, macroeconomic, reputation, compliance and bancassurance risks are also recognized.

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

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

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

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

The rules and instruments of managing each of the risks are described below. Information on the risk exposure is included in the Note 5 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on December 31, 2014.

Credit risk

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

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

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

Under the guidelines of UniCredit Group, the Bank has continued to work on further rationalization of the credit process with an aim to obtaining better efficiency and security, including in particular enhancement of the procedures and tools for risk measurement and monitoring.

Credit risk concentration limits

According to the Banking Law the total exposure of a bank to the risks associated with the single borrower or a group of borrowers in which entities are related by capital or management may not exceed 25% of a bank's equity. In 2014, the maximum exposure limits set forth in the Banking Law were not exceeded.

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Sector exposure concentration

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

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

Liquidity and market risks

The management of liquidity and market risks is a vital element of the Bank's risk management policy, which aims at optimizing the structure of assets and liabilities and off-balance sheet items, taking into account the assumed relation of risk to income and a comprehensive approach to all types of risk taken by the Bank in its business activities.

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

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

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Liquidity risk

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

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

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

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

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

Scenario-based stress analyses, covering the Bank, constitute an integral part of the Bank's liquidity monitoring process, launched under the conditions of crisis affected by financial markets or caused by internal factors, specific to the Bank.

Pursuant to the PFSA's Resolution No. 386/2008 on fixing liquidity norms for banks, since January 2008 the Bank has calculated regulatory liquidity measures on a daily basis. In 2014, the Bank's regulatory liquidity measures were above the required levels.

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Market risk

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

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

In connection with its exposure to market risk, the Bank operates a market risk management system, which provides an organizational and methodological procedural framework designed to shape the statement of financial position structure and off-balance-sheet items in agreement with the strategic objectives. The main objective of market risk management is to optimize financial results assuring the implementation of financial goals of the Bank, while keeping the exposure to market risk within the risk appetite defined by risk limits approved by the Management Board and the Supervisory Board of the Bank.

Trading book market risk

In the process of trading book market risk management the Bank seeks to optimize its financial results as well as quality of services within the limits approved by the Management Board and the Supervisory Board of the Bank.

The key tool for assessing the market risk of the trading book is the Value at Risk (VaR) model. VaR represents the value of a one-day loss that might be realized with a probability not exceeding 1%. VaR is determined using historical simulation method based on two years observation of dynamics of market risk factors. The model is subject to statistical verification on an ongoing basis, which involves comparing the VaR value with the actual and revaluation results. The analyses for 2014 have confirmed the model's adequacy.

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

Banking book interest rate risk

In managing the banking book interest rate risk, the Bank aims to maximize the economic value of capital employed and achieve the planned interest result within the accepted limits. The financial position of the Bank in relation to changing interest rates is monitored through the interest rate gap (revaluation gap), VaR analysis, simulation analyses and stress testing.

Foreign Exchange risk

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

Operational risk

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

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

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Business risk

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

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

Real Estate risk

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

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

Financial investment risk

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

Financial investment risk is assessed based on Value-at-Risk method in one-year time horizon and at the assumed confidence level of 99.93%.

Model risk

Model risk is defined as the risk of implementing improperly constructed (defined) models, improper use of models or lack of their necessary updates. It is also the risk of inadequate control and monitoring during the model operation in the Bank. Model risk covers the risks of data, assumptions, methodology and model administration.

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

Macroeconomic risk

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

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

Reputation risk

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

Bancassurance risk

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

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Compliance risk

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

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

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

Compliance risk management takes place at three separate levels:

- management staff, responsible for ensuring compliance,
- risk management function, carried out by dedicated Bank's entities not engaged in the business activity,
- internal audit, responsible for carrying out an independent assessment of internal control system functioning and for monitoring post-control activities.

The responsibility for co-ordination of the Bank's activities in the scope of compliance risk management lies with the Compliance Department. The tasks of the Department include in particular updating the Policy and monitoring its observance; identification, assessing, monitoring and controlling of compliance risk in regulatory areas, in line with the scope of its competence; guidance provided to the organizational units on laws, regulations, rules, codes, standards, businesses and products in the area of compliance and reputation risk; strengthening dialogue and relationship with the supervisory and control authority and carrying out tasks related to the counteracting of the use of the Bank's activity for purposes of money laundering and terrorism financing.

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

6.3 New Capital Accord – Basel

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

In 2013, the European Parliament adopted a package of regulations known as Basel III, consisting of the following documents:

- regulation No. 575/2013 of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending regulation No. 648/2012,
- Directive 2013/36/UE on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending directive 2002/87/UE and repealing directives 2006/48/EC and 2006/49/EC.

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

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6.4 Capital adequacy

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

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

The minimum Total Capital Ratio required by law cannot be lower than 8% while according to recommendation of European Banking Authority and Polish Financial Supervision Authority (KNF) total capital ratio must be not lower than 12% and Tier 1 Capital ratio not lower than 9%. At the end of December 2014 the total capital ratio of Bank Pekao S.A. amounted to 17.1% and was more than twice the minimum value required by the law and significantly higher than the level recommended by the EBA and the KNF.

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

(in PLN thousand)

CAPITAL REQUIREMENT	31.12.2014	31.12.2013
Credit risk	7,894,071	7,158,192
Exceeding large exposure limits	-	-
Market risk	195,446	127,803
Delivery and contractor risk	443,663	195,919
Exceeding exposure concentration limit	-	-
Operational risk	611,214	949,487
Total capital requirement	9,144,394	8,431,401
OWN FUNDS		
Common Equity Tier 1 Capital	19,520,024	19,275,766
Own funds for total capital ratio	19,520,024	19,275,766
Common Equity Tier 1 Capital ratio (%)	17.1%	18.3%
Total capital ratio (%)	17.1%	18.3%

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

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

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

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6.5 Bank Pekao S.A. on the Polish banking market

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

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

Distribution channels

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

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

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

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

(in thousand)

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

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

(**) Retail customers accounts.

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

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6.5.1 Individual clients

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

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

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

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

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

Savings and investment products

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

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

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

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Lending products

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

Consumer lending

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

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

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

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

Mortgage loans

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

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

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

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

Payment cards

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

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

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

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

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

Brokerage activity

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

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

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

In 2014, Dom Maklerski participated in consortiums serving 5 public offers. The vast majority of registrations were received through remote channels, in particular through the Internet. Moreover, Dom Maklerski conducted registration service of three series of Structured Certificates of Deposit in the framework of the Second Issuance Program, operates as the bidder in Covered Bonds Program of Pekao Bank Hipoteczny S.A. for two series of covered bonds as well as conducted registration service for the shares of UniCredit S.p.A under the Employee Share Ownership Plan dedicated to employees of UniCredit Group.

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

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

The product offer of Dom Maklerski was enhanced by a new product – advanced orders, which on the basis of defined parameters automatically adjust the client's orders to the changing market conditions, allowing thereby for more efficient portfolio management.

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

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Pekao24 – electronic banking for individual clients

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

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

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

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

(in thousand)

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

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

(**) A customer actively using mobile banking is a customer who logged in to the mobile service m.pekao24.pl or the Pekao24 mobile application at least once during the last quarter.

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

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

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Private Banking

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

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

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

The Bank's offer was enhanced by currency exchange service available in the PekaolInternet service for customers using the Pekaol24 system and holding accounts in at least two currencies. The service provides customers with favourable exchange conditions and convenient way of transactions processing through the Internet.

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

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

In the investment area, the Private Banking activities were focused on diversification of portfolios towards increasing exposure on global investment strategies using the opportunities offered by foreign investment funds included in offer dedicated exclusively to Private Banking customers. The investment's offer within the scope of foreign investment funds was enhanced by solutions provided by Schroders Investment Management. The customers were also provided with opportunity to participate in the corporate bonds subscription denominated in EUR issued by a construction company operating in commercial real estate market. In addition, four subscriptions of structured products "Lokata Indeks na Zysk" were conducted and the customers were offered, among others, deposit with interest coupon depending on index fund Lyxor UCITS ETF Stoxx Europe 600 Healthcare.

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

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

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

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6.5.2 Small and micro enterprises (SME)

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

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

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

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

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

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

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

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Electronic banking for SME clients

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

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

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

(in thousand)

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

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

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

(in thousand)

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

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

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6.5.3 Corporate customers

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

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

Transactional services

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

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

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

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

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

Custodial services

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

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

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

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Trade finance

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

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

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

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

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

PekaoBiznes24

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

The PekaoBiznes24 offers its corporate customers:

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

Within the framework of continuous development of internet banking system PekaoBiznes24, in 2014, the customers were offered, among others:

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

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

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In 2014, the number of incoming payments and the number and volume of SEPA transfers increased by 30%, 57% and 42% respectively as compared to 2013 which confirms the popularity of this form of settlements and the attractiveness of the Bank's offer in respect of efficient settlements, convenient cut-off times and the functionality of electronic banking system.

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

Investment banking, structured financing and commercial real estate

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

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

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

In 2014, the Bank participated in financing, among others, the following projects:

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

Financial markets and commercial debt instruments of the capital market

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

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

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

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

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

- 2nd place on corporate bonds market and corporate revenue bonds market (with maturities over 365 days) with a share of over 25%,
- 2nd place in the segment of short-term debt securities with over 18% market share,
- 2nd place on municipal bonds market (with maturities over 365 days) with a share of over 27%.

In the area of commercial debt, the Bank placed middle-term bonds for the total amount of ca. PLN 2.2 billion, of which a particular attention deserve the following transactions:

- the issue of 5-year bonds for the total amount of PLN 1.75 billion for a company in energy sector. The Bank acted as agent and dealer. It was the largest debt securities issue conducted in 2014 on the Polish market,
- the issue of 2 series of retail bonds for the total amount of PLN 300 million conducted in a public offer for a fuel sector company and offered to the Polish individual investors. The Bank acted as a global coordinator. Entities from Bank Pekao S.A. Group and UniCredit CAIB Poland S.A. participated in the issuance.

Comprehensive services for the public finance sector

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

In 2014, the Bank completed transactions of financing projects associated with public utility for the amount of nearly PLN 1.1 billion and financed investments for the total amount of PLN 1.5 billion for budgets of the Polish largest cities, voivodeships and their subordinated units. The Bank financed the following projects:

- purchase, repair and modernization of tram fleet of local railway in Mazowsze,
- construction of psychiatric hospital in Drewnica,
- construction of modern stadium in Zabrze,
- modernization of university hostels of in Kraków in the form of public-private partnership,
- expansion and modernization of the Regional Airport in warmińsko-mazurskie voivodeship,
- broadband Internet development in kujawsko-pomorskie voivodeship,
- revitalization of Olympic Stadium in Wrocław.

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Co-operation with international and domestic financial institutions

The Bank maintains correspondent relations with 2.3 thousand foreign and domestic banks (by number of swift keys).

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

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

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

Co-operation with international clients

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

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

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6.6 Investing in human capital

Human Capital as a key asset

The principles of the Bank's policy in the area of Human Resources (HR) development are set by its mission and values considered as a key for the Bank sustainable growth.

The Bank invests in training, professional development of employees (in line with their preferences and abilities), creation of a friendly work environment and conducts questionnaire surveys on employees opinion and satisfaction. Significant area of the Bank's personnel policy is outstanding talents spotting within the organization and investing in development of their skills.

In 2014, these priorities were accompanied by a particular emphasis on promoting preferential values of corporate culture shared across UniCredit Group as defined in the Integrity Charter which was accepted in 2006. The ethical fundamentals promoted by the UniCredit Integrity Charter and the rules of conduct recommended by that document have come to be considered as universal standards of behavior required of all employees of Bank Pekao S.A. regardless of their position.

Training and professional development

The Bank creates learning opportunities and provides access to various forms of education for its employees. Key educational activities focus on training and implementing people management systems based on a culture of feedback. The Bank supported its employees in building and managing long-term career within the organization providing them except with various forms of training and competencies development also with promotions opportunities.

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

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

- professional skills development of the Bank's employees,
- efficiency increase in the area of direct and phone customer service,
- development of middle managers,
- realization of mandatory training required under internal and external regulations.

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

Professional skills development of the Bank's employees

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

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

Efficiency increase in the area of direct and phone customer service

Within the scope of employees efficiency increase, the Bank realized training projects mainly aimed at sales skills and customer service development. It is worth to mention training cycle „Best Seller” dedicated to reinforce of sales skills of employees and managers of Retail Banking Division. In 2014, particular attention was given to introduction trainings for new employees and programs improving phone skills of the customer service. For employees dealing with large companies a training program Corporate Banking Academy has been realized which engaged higher managerial staff.

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Development of middle managers

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

Realization of e-learning and other mandatory training required under internal and external regulations

Within the scope of mandatory training related to the introduction of new market regulations as well as the strategy of the Bank and UniCredit Group, the Bank has launched a number of consecutive training projects aimed at providing the Bank's employees with specialized knowledge. There were realized, among others, Financial sanctions, Protection of electronic information, FATCA training, Introductory course in scope of Insurance products.

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

Development programs and initiatives

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

In 2014, a number of initiatives for the Bank's employees was realized and the employees had the opportunity to benefit from development advisers support in terms of carrier planning, professional aspiration and conditions of individual development.

Development processes

One of the key priorities of the Bank's development process is identification, review, verification and development of current and future leaders of the Bank.

In order to achieve this goal, the Bank currently operates four main processes:

- Executive Development Plan (EDP) - annual appraisal process for managers which consists of the following stages: effectiveness, competencies and potential appraisal step, development activities planning and realization step. In 2014, 721 persons took part in the EDP,
- Talent Management Review (TMR) - annual appraisal process of potential and professional achievements aimed at managing and development of talents in the Bank and UniCredit Group. The process is based on the Leadership Competency Model composes of four key stages: identification, review, development and verification. In 2014, 253 persons took part in the process,

Key outcomes of the EDP and the TMR processes are succession plans which are crucial for ensuring continuous employment on strategic positions, continuity of long-term projects and minimizing operational risk. The Bank designed succession plans for all key positions,

- Annual Employee Appraisal System – process of evaluation of the Bank's employees which comprises appraisal of competencies, potential, personal development planning and business goals appraisal. In 2014, 14,994 employees took part in the process.

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

- Assessment Centre/Development Centre session, survey of individual performance style and communication and 180/360 Feedback - diagnostic tools for identification of strengths and development areas of the employees. In 2014, 1,129 employees participated in the survey as examined and 8,792 employees as respondent,
- Job Rotation, Mentoring and Coaching – dedicated to selected employees to give them broader business perspectives and an opportunity to gain new experience,
- UniQuest, UniFuture and MBA in banking area – initiatives held at UniCredit Group level enabling employees to get an international experience,
- Career Navigator tool supporting career development planning of the Bank's employees.

Internship and trainee programs

The Bank offers students and graduates the following development programs:

- UniChallenge – a two year-long internship program, addressed to talented last-year MA students and graduates. It provides opportunities for its participants to gain work experience and professional knowledge in a certain field. The UniChallenge Program is used to spot high-potential candidates for employees,
- UniStart, UniSummerStart - an apprenticeship programs addressed to students who are offered placements for the period ranging from 2 weeks to 3 months. These programs are an opportunity to gain experience in different areas of banking, in all of the Bank's divisions.

Increasing commitment of employees

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

Remuneration policy

On July 31, 2014, the Supervisory Board of Bank Pekao S.A. approved the Remuneration Policy of the Bank, which reflects the mission and values of the Bank's approach to remuneration systems. The policy defines basics of remuneration, management of structure, corporate and organizational processes and confirms compliance requirements of the adopted remuneration system with generally binding law, defines the rules for monitoring of market practices and the approach to remuneration systems, which ensure sustainability of the Bank. Furthermore, the Policy defines principles of the variable components of remuneration of Bank's managers. These principles support accurate and efficient risk management and discourage excessive risk-taking. Also, they reinforce the implementation of the business strategy.

Effective management of the employees' remuneration maintains a high level of competitiveness of the benefits offered by the Bank.

The main remuneration policy tools include:

- retention plans,
- incentive systems: Management by Objectives (MBO), system based on provisions of Corporate Collective Labour Agreement, Executive Variable Compensation System,
- additional benefits for employees.

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Retention Plans

In 2014, there were realized the following retention plans:

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

Incentive systems

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

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

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

Executive Variable Compensation System is dedicated to people holding managerial positions, who have significant influence on the risk profile of the Bank. The aim of the System is to support the execution of the Bank's operational strategy and to mitigate excessive risk conflicts of interest. Participant covered by the System may receive a bonus, amount of which depends on the assessment of the effects of the person's work, organizational unit and the Bank's bottom line as well as on the assessment of participant's compliance with generally applicable laws and adopted by the Bank standards. In accordance with the assumptions, at least 50% of variable remuneration constitutes a special incentive for employees to care about the long-term welfare of the Bank and at least 40% of the premium is deferrable and paid after the end of the evaluation period. This solution has been adopted as a result of the implementation of the Resolution No. 258/2011 issued by the Financial Supervision Authority on October 4, 2011.

Additional benefits for employees

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

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

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

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.

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Corporate values

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

Relations with Trade Unions

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

Relations with Works Council

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

Workforce in number

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

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

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7 Statement of Financial Position and Financial Results

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

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

The Report on activities of Bank Pekao S.A. for the year 2014 includes statement of financial position in a short form and income statement in a presentation form as well as the key, selected items from these statements were discussed.

Since 2013, to align the presentation to the standards implemented by the major Polish and European banks, in the income statement gains on disposal of available for sale financial assets and held to maturity investments are reported under trading result and thus in operating income, operating profit and respective ratios.

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

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

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

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

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

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

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

7.1.1 Assets

Changes in the structure of assets

Loans and advances to customers and securities represent items of the largest value under assets. As at the end of 2014, they accounted for 67.8% and 15.3% of the total assets, respectively, while as at the end of 2013, the respective figures were 64.8% and 22.6%.

Cash and due from Central Bank

(in PLN million)

	31.12.2014	31.12.2013	CHANGE
Cash and due from Central Bank, including:	9,226.2	4,191.2	120.1%
Cash	3,399.3	2,104.6	61.5%
Current account at Central Bank	5,826.7	2,086.3	179.3%
Other	0.2	0.3	(33.3%)

Customers' Financing

Customer structure of loans and advances

(in PLN million)

	31.12.2014	31.12.2013	CHANGE
Loans and advances at nominal value	116,515.9	105,194.4	10.8%
Loans ^(*)	100,330.6	93,186.8	7.7%
Retail	48,377.8	43,637.6	10.9%
Corporate	51,952.8	49,549.2	4.9%
Non-quoted securities	10,399.6	9,428.2	10.3%
Reverse repo transactions	5,785.7	2,579.4	124.3%
Other ^(**)	324.4	321.8	0.8%
Nominal value adjustment	80.2	28.2	184.4%
Impairment losses	(5,531.3)	(4,975.2)	11.2%
Total net receivables	111,389.2	100,569.2	10.8%
Securities issued by non-monetary entities ^(***)	899.2	815.7	10.2%
Total customers' financing^(****)	117,415.1	106,010.1	10.8%

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

(**) Including interest and receivables in transit.

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

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

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

As at the end of December 2014, the volume of retail loans amounted to PLN 48,377.8 million, an increase of PLN 4,740.2 million, i.e. 10.9% in comparison to the end of 2013.

In the area of mortgage lending, the Bank continued its policy of offering only PLN mortgage loans. The residual stock of mortgage loans denominated in foreign currencies, almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA in 2007, represents only 4.3% of total loans of the Bank.

The volume of corporate loans, non-quoted securities, reverse repo transactions and securities issued by non-monetary entities increased by PLN 6,664.8 million, i.e. 10.7% as compared to the end of 2013 and amounted to PLN 69,037.3 million at the end of December 2014.

Receivables and impairment losses

(in PLN million)

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

(*) Including debt securities eligible for rediscounting at Central Bank, non-quoted securities, reverse repo and buy-sell-back transactions.

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

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

Loans and advances to customers by currency^(*)

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

(*) Including interest and receivables in transit.

(**) Including indexed loans.

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

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Loans and advances to customers by contractual maturities^(*)

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

(*) Including interest and receivables in transit.

Loans and advances with maturity over 5 years represents 40.3% of total loans and advances (mainly attributed to mortgage loans and receivables for which the maturity date already passed).

Information on loan concentration is included in the Note 26 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2014.

7.1.2 Liabilities

Changes in the structure of liabilities

Amounts due to customers were the main item under the Bank's liabilities and equity. As at the end of 2014, amounts due to customers and debt securities issued totaled PLN 129,201.0 million, and their share in the total assets was 78.6% and was not changed in comparison to the end of 2013. The share of total shareholder's equity in the total assets was 14.2% as at the end of 2014, compared with 14.7% as at the end of 2013.

External sources of financing

(in PLN million)

	31.12.2014	31.12.2013	CHANGE
Amounts due to Central Bank	1.0	1.0	0.0%
Amounts due to other banks	3,129.9	4,754.7	(34.2%)
Amounts due to customers	126,381.3	119,868.7	5.4%
Debt securities issued	2,819.7	2,240.5	25.9%
Total external sources of financing	132,331.9	126,864.9	4.3%

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

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

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

Total customer savings

(in PLN million)

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

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

As at the end of December 2014, the total amounts due to the Bank's customers and debt securities issued amounted to PLN 129,201.0 million, an increase of PLN 7,091.8 million, i.e. 5.8% in comparison to the end of 2013, despite a decrease by PLN 6,122.5 million of liabilities to Open Pensions Funds (OFE) due to pension funds reform introduced in the first quarter of 2014. Excluding OFE, total amounts due to the Bank's customers and debt securities issued increased by PLN 13,214.3, i.e. 11.8% million in comparison to the end of 2013.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 55,279.9 million at the end of December 2014, an increase of PLN 4,490.5 million, i.e. 8.8% in comparison to the end of 2013. The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 17,115.1 million at the end of December 2014, an increase of PLN 703.6 million, i.e. 4.3% in comparison to the end of 2013.

The total volume of corporate customers deposits, repo and sell-buy-back transactions, Certificates of Deposit, interest and other amounted to PLN 73,921.1 million at the end of December 2014, an increase of PLN 2,601.3 million, i.e. 3.6% as compared to the end of 2013, excluding OFE an increase of PLN 8,723.8 million in comparison to the end of 2013.

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Amounts due to customers by currency^(*)

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

(*) Including interest and amounts due in transit.

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of December 2014 amounted to 84.7%. The majority of amounts due to customers denominated in foreign currencies were in EUR (61.2%) and USD (34.2%).

Amounts due to customers by contractual maturities

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

7.1.3 Off-balance sheet items Statement of Off-balance sheet items

(in PLN million)

	31.12.2014	31.12.2013	CHANGE
Contingent liabilities granted and received	55,256.1	48,703.9	13.5%
Liabilities granted:	42,626.5	39,475.0	8.0%
financial	27,028.1	27,287.9	(1.0%)
guarantees	15,598.4	12,187.1	28.0%
Liabilities received:	12,629.6	9,228.9	36.8%
financial	457.3	111.8	309.0%
guarantees	12,172.3	9,117.1	33.5%
Derivative financial instruments	252,552.9	188,091.3	34.3%
interest rate transactions	147,084.8	116,780.5	25.9%
transactions in foreign currency and in gold	103,782.2	70,247.6	47.7%
transactions based on commodities and equity securities	1,685.9	1,063.2	58.6%
Other	28,679.6	29,808.5	(3.8%)
Total off-balance sheet items	336,488.6	266,603.7	26.2%

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

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

7.2 The unconsolidated income statement – presentation form

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

The Bank's net profit reported for 2014 was lower by PLN 137.7 million, i.e. 4.9% in comparison to 2013 mainly due to lower trading result and the impact of regulatory constraints.

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

The unconsolidated income statement – presentation form

(in PLN million)

	2014	2013	CHANGE
Net interest income	4,334.5	4,310.5	0.6%
Dividend income	153.6	143.8	6.8%
Total net interest income and dividend income	4,488.1	4,454.3	0.8%
Net fee and commission income	1,832.5	1,911.3	(4.1%)
Trading result	667.1	744.2	(10.4%)
Net other operating income and expenses	47.0	77.5	(39.4%)
Net non-interest income	2,546.6	2,733.0	(6.8%)
Operating income	7,034.7	7,187.3	(2.1%)
Operating costs	(3,223.3)	(3,230.4)	(0.2%)
Operating profit	3,811.4	3,956.9	(3.7%)
Net result on other provisions	(1.4)	13.8	x
Net impairment losses on loans and off-balance sheet commitments	(541.4)	(623.0)	(13.1%)
Net result on investment activities	1.5	88.7	(98.3%)
Profit before tax	3,270.1	3,436.4	(4.8%)
Income tax expense	(607.8)	(636.4)	(4.5%)
Net profit for the period	2,662.3	2,800.0	(4.9%)

Operating income

In 2014, the Bank's operating income amounted to PLN 7,034.7 million, a decrease of PLN 152.6 million, i.e. 2.1% in comparison with 2013 mainly due to decrease in net non-interest income partially compensated by higher net interest income achieved despite significant pressure of lower interest rates.

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

Total net interest income and dividend income

(in PLN million)

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

Total net interest income and dividend income in 2014 amounted to PLN 4,488.1 million and was higher by PLN 33.8 million, i.e. 0.8% compared to the previous year thanks to higher volumes fully compensating negative impact of lower interest rates including reduction of the NBP Lombard rate determining the maximum interest rate applicable to loans. In 2014, average WIBOR 3M rate stood at the level of 2.51%, and was lower by 52 b.p. than in 2013, while the NBP Lombard rate went from 4.0% at the end of 2013 to 3.0% at the end of 2014.

Net non-interest income

(in PLN million)

	2014	2013	CHANGE
Fee and commission income	2,329.3	2,415.5	(3.6%)
Fee and commission expense	(496.8)	(504.2)	(1.5%)
Net fee and commission income	1,832.5	1,911.3	(4.1%)
Trading result	667.1	744.2	(10.4%)
of which gains on disposal of AFS assets	252.9	308.4	(18.0%)
Net other operating income and expense	47.0	77.5	(39.4%)
Net non-interest income	2,546.6	2,733.0	(6.8%)

The Bank's net non-interest income in 2014 amounted to PLN 2,546.6 million, a decrease of PLN 186.4 million, i.e. 6.8% in comparison with 2013 mainly due to lower net fee and commission income (affected by lower interchange rates decreasing card related fees, unfavorable market conditions influencing mutual funds and brokerage fees as well as OFE reform and migration to the Internet channels) and lower trading result, in particular lower gains on disposal of available for sale financial assets.

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

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

(in PLN million)

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

The Bank's net fee and commission income in 2014 amounted to PLN 1,832.5 million and was lower by PLN 78.8 million, i.e. 4.1% in comparison with 2013, mainly due to lower cards related fee affected by interchange fee rate reduction in July 2014 and lower capital market related fee.

Operating costs

In 2014, the operating costs were kept under control and amounted to PLN 3,223.3 million. They were lower by PLN 7.1 million, i.e. 0.2% than the operating costs in 2013 despite new prudential charge of Banking Guarantee Fund introduced in the fourth quarter of 2013.

Excluding Banking Guarantee Fund charge and supervisory fees (Polish Financial Supervision Authority - KNF), the operating costs were lower by PLN 38.9 million, i.e. 1.3% in comparison with 2013.

(in PLN million)

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

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

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

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

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

Net impairment losses

(in PLN million)

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

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

Provisions, deferred tax assets and liabilities

(in PLN million)

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

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

7.3 Quarterly Income Statement

7.3.1 Unconsolidated income statement – long form

Unconsolidated income statement for 2014 - Provided for comparability purposes.

(in PLN thousand)

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

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

Unconsolidated income statement for 2013 - Provided for comparability purposes.

(in PLN thousand)

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

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

7.3.2 Unconsolidated statement of comprehensive income

Unconsolidated statement of comprehensive income for 2014

(in PLN thousand)

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

Unconsolidated statement of comprehensive income for 2013

(in PLN thousand)

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

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

7.3.3 Unconsolidated income statement – presentation form

Unconsolidated income statement for 2014

(in PLN thousand)

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

Unconsolidated income statement for 2013

(in PLN thousand)

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

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

7.3.4 Reconciliation of income statement – presentation form and long form

Unconsolidated income statement for 2014

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	2014	COMMENTS
Net interest income		<u>4,334,504</u>	
Dividend income	Dividend income	<u>153,548</u>	
Total net interest income and dividend income		4,488,052	
Net fee and commission income	Net fee and commission income	<u>1,832,488</u>	
Trading result		<u>667,055</u>	
	Result on financial assets and liabilities held for trading	431,468	
	Result on fair value hedge accounting	(17,247)	
	Net result on other financial instruments at fair value through profit and loss	-	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	252,858	
	(Gains) losses on disposal of financial liabilities	(24)	
Net other operating income and expenses		<u>47,100</u>	
	Net other operating income and expenses	34,179	
	/ess - Refunding of administrative expenses	(5,658)	1/
	Gains (losses) on disposal of loans and other financial receivables	18,579	
Net non-interest income		2,546,643	
Operating income		7,034,695	
Operating costs		<u>(3,223,331)</u>	
	Personnel expenses	(1,730,154)	
	Other administrative expenses	(1,190,451)	
	Refunding of administrative expenses	5,658	1/
	Depreciation and amortization	(308,384)	
Operating profit		3,811,364	
Net result on other provisions	Net result on other provisions	<u>(1,381)</u>	
Net impairment losses on loans and off-balance sheet commitments		<u>(541,369)</u>	
	Net impairment losses on loans	(553,805)	
	Net impairment provision for off-balance sheet commitments	12,436	
Net result on investment activities		<u>1,491</u>	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	1,491	
	Gains (losses) on disposal of subsidiaries and associates	-	
Profit before income tax		3,270,105	
Income tax expense	Income tax expense	<u>(607,839)</u>	
Net profit for the period	Net profit for the period	2,662,266	

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

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

Unconsolidated income statement for 2013

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	2013	COMMENTS
Net interest income		<u>4,310,524</u>	
Dividend income	Dividend income	<u>143,779</u>	
Total net interest income and dividend income		4,454,303	
Net fee and commission income	Net fee and commission income	<u>1,911,297</u>	
Trading result		<u>744,161</u>	
	Result on financial assets and liabilities held for trading	456,378	
	Result on fair value hedge accounting	(17,423)	
	Net result on other financial instruments at fair value through profit and loss	-	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	308,355	
	(Gains) losses on disposal of financial liabilities	(3,149)	
Net other operating income and expenses		<u>77,510</u>	
	Net other operating income and expenses	85,493	
	less - Refunding of administrative expenses	(7,916)	1/
	(Gains) losses on disposal of loans and other financial receivables	(67)	
Net non-interest income		2,732,968	
Operating income		7,187,271	
Operating costs		<u>(3,230,392)</u>	
	Personnel expenses	(1,678,609)	
	Other administrative expenses	(1,233,036)	
	Refunding of administrative expenses	7,916	1/
	Depreciation and amortization	(326,663)	
Operating profit		3,956,879	
Net result on other provisions	Net result on other provisions	<u>13,831</u>	
Net impairment losses on loans and off-balance sheet commitments		<u>(622,971)</u>	
	Net impairment losses on loans	(631,837)	
	Net impairment provision for off-balance sheet commitments	8,866	
Net result on investment activities		<u>88,661</u>	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	18,689	
	Gains (losses) on disposal of subsidiaries and associates	69,972	
Profit before income tax		3,436,400	
Income tax expense	Income tax expense	<u>(636,400)</u>	
Net profit for the period	Net profit for the period	2,800,000	

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

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

8 Other Information

Management Board position regarding the possibility of achieving previously published forecasts

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

Management Board and Supervisory Board remuneration

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

(in PLN thousand)

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

(in PLN thousand)

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

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

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

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

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

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

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

(in PLN thousand)

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

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

The Incentive Programs

As at December 31, 2014, the following long-term incentive programs are realized in Bank Pekao S.A. Group:

- the Long-term UniCredit Group Incentive Program 2007 – in terms of the options 34 employees of Bank Pekao S.A. Group have been covered by the program, including 3 members of the Management Board. The options expire in 2017,
- the Long-term UniCredit Group Incentive Program 2008 - in terms of the options 52 employees of Bank Pekao S.A. Group have been covered by the program, including 3 members of the Management Board. The options expire in 2018.

Shares in the Bank and related entities held by the Bank's Directors

According to information available to the Bank as at December 31, 2014, the members of the Bank's management and supervisory bodies held 73,535 shares of Bank Pekao S.A. with face value of PLN 73,535. The number of the Bank's shares held by the members of the Bank's management and supervisory bodies and its face value remained unchanged as the date of submitting of this report.

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

	AS AT THE DATE OF SUBMITTING THE REPORT		
	FOR THE YEAR 2014	FOR THE THIRD QUARTER OF 2014	FOR THE YEAR 2013
Luigi Lovaglio	64,035	64,035	64,035
Diego Biondo	9,500	9,500	9,500
Total	73,535	73,535	73,535

Moreover, as at December 31, 2014 UniCredit S.p.A. shares were held by: Mr. Luigi Lovaglio – 64,290 shares without nominal value, Mr. Diego Biondo – 4,730 shares without nominal value, Mr. Andrzej Kopyrski – 1,152 shares without nominal value, Mr. Roberto Nicastro – 245,364 shares without nominal value, Ms. Laura Penna – 33,053 shares without nominal value, Mr. Grzegorz Piwowar – 1,666 shares without nominal value, Mr. Stefano Santini – 18,655 shares without nominal value and Mr. Marian Ważyński – 827 shares without nominal value.

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

Information regarding contracts for post termination benefits

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

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

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

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

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

Agreements with companies entitled to auditing of financial reports

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

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

(in PLN thousand)

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

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

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

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

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

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

Total retail loans	5.06% p.a.
Mortgage	3.68% p.a.
Consumption	10.75% p.a.
Other	6.50% p.a.
Corporate loans	3.89% p.a.

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

Number and value of titles of execution and value of collaterals

Bank Pekao S.A. has established specific policy with regard to collateral accepted to secure loans and guarantees. This policy is reflected under internal rules and regulations in the Bank. The type of collateral and its value are carefully analyzed and chosen regarding the particular risk of the secured transaction.

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

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

For corporate clients, the total value of the collateral for impaired transactions as at December 31, 2014 amounted to PLN 2,442.6 million. In 2014, 449 titles of execution were issued on behalf of the Bank in the total amount of PLN 648.5 million.

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

Pending litigations

In 2014, the number of the legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of the Group's liabilities was 657 with the total value amounting to PLN 1,201.0 million. The number of legal proceedings in respect of receivables was 13,708 with the total value of PLN 1,177.0 million.

In 2014, there were no legal proceedings relating to the liabilities and/or receivables of the Group in which asserted claims accounted for at least 10% of the Bank's own funds.

In the opinion of the Bank none of the individual pending proceedings before any courts, arbitration bodies or public administration authorities during 2014, nor the proceedings in aggregate pose any threat to the Bank's financial liquidity.

Related party transactions

In 2014, the Bank and its subsidiaries have not concluded any significant transactions (single or aggregate) with related entities other than those executed on arm's length.

In 2014, the Bank and its subsidiaries did not provide any sureties or guarantees in respect of loans or advances to an entity or a subsidiary of such entity, as a result of which the total value of existing sureties and guarantees would have equaled or exceeded 10% of the Bank's equity.

Information on significant agreements

In 2014, there have been no significant agreements concluded by the Bank.

Information on derivative financial instruments and hedge accounting

Information on derivative financial instruments and hedge accounting is included in the Note 25 and 27 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2014.

Accounting principles adopted in the preparation of the report

Accounting principles adopted in the preparation of the report are described in the Note 4 to the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2014.

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

Issuance, redemption and repayment of debt securities

Structured Certificates of Deposit

Structured Certificates of Deposit are investment products for the Bank's clients that form an alternative to traditional banks' deposits. The total value of the Bank's liabilities relating to these products amounted to PLN 203.7 million (principal value) as at the end of December 2014. There are 3 issues of Structured Certificates of Deposit open in PLN with the maximum maturity date set at March 24, 2016. Those liabilities that mature in 2015 and 2016 account for 34.3%, and 65.7% of its total value, respectively.

Certificates of Deposit

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

Subsequent events

On January 1, 2015, the Bank acquired 100% of the share capital of UniCredit CAIB Poland S.A. and obtained control over the entity. UniCredit CAIB Poland S.A. specializes in corporate finance, in particular referring to mergers and acquisitions, public and private offering, as well as securities trading on secondary market.

The detailed information concerning acquisition of 100% of the share capital of UniCredit CAIB Poland S.A. is presented in the Note 53 of the Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2014.

In the current report No. 1/2015 dated January 23, 2015, the Management Board of Bank Pekao S.A. informs that it received a ruling of the Local Court for the Capital City of Warsaw in Warsaw concerning the deletion as at January 8, 2015 from the National Court Register of the Bank's subsidiary, Pekao Telecentrum Sp. z o.o. in liquidation. The Bank informed of the winding-up of Pekao Telecentrum Sp. z o.o. in the current report No. 34/2013 dated December 2, 2013.

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

9 Prospects for Development

9.1 Factors which will affect the results of the Bank

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

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

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

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

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

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

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

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

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

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

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

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9.2 Directions of the activities and business priorities

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

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

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

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

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

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

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Directions of the activities and business priorities for the year 2015

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

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

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

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

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

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

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

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

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

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

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10 Representations of the Bank's Management Board

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

- Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2014 and comparative figures have been prepared in accordance with the binding accounting policies and that they reflect in a true, fair and clear manner Bank Pekao S.A. financial position and their results,
- Report on the activities of Bank Pekao S.A. for the year 2014 provides the true picture of Bank Pekao S.A. development, achievements and situation, including the main threats and risks.

The Management Board of Bank Pekao S.A. declares that the registered audit company performing the review of Unconsolidated Financial Statements of Bank Pekao S.A. for the period ended on 31 December 2014 has been selected in line with the binding legal regulations. The company and the registered auditors performing the review meet the requirements indispensable for issuing an objective and independent report on the annual unconsolidated financial statement, in line with the binding provisions of the law and professional standards.

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

According to the ordinance of Minister of Finance dated February 19, 2009 on current and periodic information published by issuers of securities and the conditions for recognition as equivalent the information required by the laws of a non-member state¹, as well as pursuant to Par. 29.5 of the Rules of the Warsaw Stock Exchange (WSE), in conjunction with the WSE Management Board's Resolution No. 1013/2007 on the scope and structure of statements of compliance with corporate governance rules by listed companies, dated December 11, 2007, Bank Polska Kasa Opieki Spółka Akcyjna (the "Bank") states that it falls within the following set of corporate governance rules, including standards that issuer applies voluntarily and corporate governance practices used by issuer beyond the requirements of national law.²

General corporate governance rules i.e. a system of regulations and procedures defining guidelines for the activities of the Bank's governing bodies, including their relations with entities interested in the Bank's activities (stakeholders) result from laws regulations, especially from the Commercial Companies Code and the Banking Law, capital market regulations, as well as the rules laid down in: Code of Best Practice for WSE Listed Companies and Code of Banking Ethics of Polish Bank Association.

In 2014 the Bank applied corporate governance rules laid down in the Code of Best Practice for WSE Listed Companies³ set by WSE Board's Resolution No. 19/1307/2012 of November 21, 2012 excluding Rules I.12 and IV.10 point 2 regarding enabling the shareholders to participate in a General Meeting using electronic communication.

In the announcement on convening the Ordinary General Meeting of Bank Polska Kasa Opieki Spółka Akcyjna published in the current report 9/2014 on May 16, 2014 the Bank informed that: "Considering the fact that the Shareholding of the Bank is characterized by a large number of shareholders, geographical and linguistic diversity, which means that for the Bank to meet the requirements necessary to identify the shareholders correctly and to ensure the appropriate level of security of electronic communication it would be necessary to provide on the Bank's side highly advanced technical solutions which currently the Bank is not in possession of, in accordance with Art. 406⁵ § 2 of the Commercial Companies Code and § 8a sec. 2 of the Statute of the Bank, the Management Board of the Bank resolved not to allow participation with the use of electronic communication means in the Ordinary General Meeting of the Bank for the year 2013."

In each case of convening the General Meeting, the Management Board of the Bank defines whether the participation in the General Meeting with the use of electronic communication means is possible and what are the requirements and limitations necessary to identify of shareholders and to ensure the safety of electronic communication.

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

On October 14, 2014 by Resolution No. 256/X/14 the Management Board of the Bank adopted to follow the Principles of Corporate Governance for Supervised Institutions issued by the Financial Supervision Authority on July 22, 2014⁵. The Supervisory Board of the Bank on November 5, 2014 by Resolution No. 33/14 expressed the positive opinion on the adoption by the Bank of the above mentioned Principles. The Bank will apply the Principles of Corporate Governance for Supervised Institutions starting from January 1, 2015.

¹ Journal of Laws 2014.133 unified text

² Par. 91.5.4.a of the ordinance of the Minister of Finance of February 19, 2009

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

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

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

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Furthermore, the Bank applies corporate governance rules resulting from UniCredit Group Integrity Charter⁶ as requirements beyond requirements under national law.

The activities undertaken by the Bank comply with the laws regulations, Bank's Statute, internal Bank's regulations, supervisory and control bodies recommendations, good practices standards and ethic norms.

Acting in compliance with par. 91.5.4.c-k of above mentioned ordinance of Minister of Finance dated February 19, 2009, the Bank presents following information:

1) The description of key features of the Bank's internal control and risk management systems related to the preparation of financial statements and consolidated financial statements⁷

The Management Board of the Bank is responsible for developing and implementing of an adequate, effective and efficient internal control system and risk management system with respect to the preparation of financial statements.

The Supervisory Board oversees the functioning of the internal control system by assessing its adequacy, effectiveness and efficiency through the Audit Committee and the Internal Audit Department.

The internal control system is aimed at ensuring reliable, complete and correct disclosure of all commercial transactions executed over a given period.

The accounting policies adopted by the Bank, which are compliant with the International Financial Reporting Standards (IFRS), the chart of accounts and reporting databases take into account the format and the extent of detail of the financial data disclosed in the financial statements, in accordance with the requirements and rules applied by the dominant entity. The Bank maintains its accounting books in the form of separate IT resources in its IT systems, in line with the adopted business structure. The IT systems ensure access to intelligible and centralized data, separately for each system, which confirm the accounting records and make it possible to control records continuity and transfer account activity and balances, as well as draw up financial statements.

The accounting books are reconciled against reporting databases.

The responsibility for preparation of financial statements and periodic financial reports and for information management rests with the Financial Division supervised by the Vice President of the Bank's Management Board.

UniCredit S.p.A. as the parent company of the Bank is subject to the provisions of the Italian "Saving Act 262" (law 262/2005 and Legislative Decree 303/2006), modeled on the US provisions of the "Sarbanes-Oxley Act." Therefore in the Bank there has been implemented a verification process of its operational and audit procedures applied in the drawing up of the financial statements, in accordance with UniCredit S.p.A. guidelines arising from the above provisions.

2) Identification of shareholders owning directly or indirectly a significant block of shares together with identification of number of shares owned by those shareholders, percentage of shareholders share in share capital, number and percentage of votes at the Bank's General Meeting resulting from owned shares⁸

UniCredit S.p.A. has been the Bank's major shareholder since August 1999. As at December 31, 2014, UniCredit S.p.A. held 50.10% share in the Bank's share capital and the same percentage of the total votes at the Bank's General Meeting of Shareholders. The remaining shareholders held 49.90% share in the Bank's share capital and the same percentage of the total votes at the Bank's General Meeting of Shareholders.

⁶ The document is publicly available on Bank Pekao S.A. webpage: http://www.pekao.com.pl/o_banku/misja/#tab2

⁷ Par. 91.5.4.c of the ordinance of the Minister of Finance of February 19, 2009

⁸ Par. 91.5.4.d of the ordinance of the Minister of Finance of February 19, 2009

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Since none of the remaining shareholders holds more than 5% of the total vote at the Bank's General Shareholders Meeting, they are not required to disclose acquisitions of the Bank's shares.

The shareholders of the Bank owning directly or indirectly through their subsidiaries at least 5% of the total number of voting rights at the Bank's General Shareholders Meeting are as follows:

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	DECEMBER 31, 2014		DECEMBER 31, 2013	
UniCredit S.p.A.	131,497,488	50.10%	131,497,488	50.10%
Aberdeen Asset Management PLC	n/a	n/a	13,194,683	5.03%
Other shareholders	130,972,546	49.90%	117,777,863	44.87%
Total	262,470,034	100.00%	262,470,034	100.00%

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

3) Identification of holders of any securities with special control rights with description of those rights⁹

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

Securities issued by the Bank do not give their holders any special control rights.

4) Identification of any restrictions of voting rights, such as restriction of voting rights of holders of given number or percentage of votes, temporary restrictions of voting or provisions according to which, with co-operation of a company, rights resulting from securities are separated from the fact of holding those securities¹⁰

According to the Bank's Statute there are no restrictions of voting rights.

5) Identification of any restrictions of ownership transfer of securities issued by the Bank¹¹

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

9 Par. 91.5.4.e of the ordinance of the Minister of Finance of February 19, 2009

10 Par. 91.5.4.f of the ordinance of the Minister of Finance of February 19, 2009

11 Par. 91.5.4.g of the ordinance of the Minister of Finance of February 19, 2009

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6) Description of rules governing appointment and dismissal of members of managerial bodies and their rights, in particular right to decide whether to issue or repurchase shares¹²

Management Board

As stated in the Bank's Statute the Management Board is composed of 5 to 9 members. Members of the Management Board are appointed by the Supervisory Board for the common term, which shall last three years. The Management Board comprises the President of the Management Board of the Bank, Vice Presidents of the Management Board of the Bank and Members of the Management Board of the Bank. Deputy Presidents and Members of the Management Board are appointed and removed on the motion of the President. Appointment of two Members of the Management Board, including its President of the Management Board, is subject to approval by the Financial Supervision Authority. The body which applies to the Financial Supervision Authority for the approval is the Supervisory Board.

At least half of the Members of the Management Board, including its President, should possess a thorough knowledge of the Polish banking market, i.e. they should meet all of the following criteria:

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

The Management Board runs the business and represents the Bank. Each Member of the Bank's Management Board is obliged to act in such a way as to further the Bank's interests. Members of the Management Board are prohibited from taking any decisions or actions that would lead to conflicts of interests or that would be incompatible with the Bank's interests or their official duties. A Management Board Member is obliged to notify the Management Board of the Bank and the Supervisory Board of any situation in which a conflict of interests might occur or has occurred as well as refrain from participating in discussion and voting on resolution in case of which a conflict of interest has occurred. A Management Board Member who becomes aware of any situation where an employee or a representative of a business partner of the Bank demanded any benefits, regardless of their scope and nature, should promptly notify the Supervisory Board of such demand.

Members of the Management Board shall have rights under the generally applicable law. According to the Bank's Statute they have no right to decide whether to issue or purchase shares.

¹² Par. 91.5.4.h of the ordinance of the Minister of Finance of February 19, 2009

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7) Description of rules governing amendment of the Statute of the Bank¹³

Amendment of the Bank's Statute and drafting its consolidated text requires adoption by way of resolution of the Bank's General Shareholders Meeting as well as registering the amendment in the National Court Register. Procedure of the General Shareholders Meeting of the Bank¹⁴ defines detailed rules of conducting the Bank's General Shareholders Meetings and adopting resolutions. The Bank's General Shareholders Meetings resolutions concerning the amendments of the Bank's Statute are being adopted by the three-quarter majority, whereas according to the Bank's Status the Bank's General Shareholders Meeting is entitled to adopting resolutions only if at least 50% of shares plus one share is represented. Moreover, as stated in Par. 34.2 of the Banking Act, any amendment of the Statute of the Bank shall require the authorization of the Polish Financial Supervision Authority where such amendment relates to:

- the company name,
- the bank's registered office, objects and scope of activity taking into consideration activities defined in par. 69.2.1-7 of the Act on Trading in Financial Instruments of July 29, 2005 that the bank intends to perform according to Par. 70.2 of this Act,
- the management bodies and their competences, including particularly the competences of the members of the management board appointed with acceptance by the Polish Financial Supervision Authority and in compliance with the decision making standards, the basic organizational structure of the bank, the procedures applicable to making legally binding statements regarding property rights and obligations, the procedures for issuing internal regulations and the procedure for making decisions concerning the undertaking of commitments or disposal of assets whose total value with regard to a single entity exceeds 5% of the bank's own funds,
- the principles of functioning of the internal control system,
- the own funds and financial management principles,
- voting preference or limitation attached to shares at a bank.

8) Functioning of the General Shareholders Meeting and its key powers, as well as description of the rights of shareholders and the manner of exercising these rights, in particular rules resulting from Rules of Procedure for the General Shareholders Meeting, unless these rules result directly from generally applicable law¹⁵

The operation of the Bank's General Shareholders Meeting is governed by the Rules of Procedure for the Bank's General Shareholders Meeting, adopted by way of Resolution No. 19 of April 8, 2003, amended by way of Resolution No. 41 of May 5, 2009 and Resolution No. 41 of June 1, 2012 which defines detailed rules of conducting General Shareholders Meetings and adopting resolutions. The Rules of Procedure are available to the public on the Bank's website¹⁶.

¹³ Par. 91.5.4.i of the ordinance of the Minister of Finance of February 19, 2009

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

¹⁵ Par. 91.5.4.j of the ordinance of the Minister of Finance of February 19, 2009

¹⁶ http://www.pekao.com.pl/informacje_dla_inwestorow/walne-zgromadzenia-banku/

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Apart from powers and authorities mentioned in the Code of Commercial Companies and the Bank's Statute, the Bank's General Shareholders Meeting has the following powers and authority:

- to review and approve the report on the Bank's operations and the Bank's financial statements for the previous financial year,
- to adopt a resolution on profit distribution or coverage of loss,
- to review and approve the report on the activities of the Supervisory Board,
- to grant discharge to members of the Supervisory Board and Management Board in respect of their duties,
- to review and approve the report on the Group's operations and the Group's financial statements,
- to set the dividend record date and dividend payment date,
- to dispose of or lease a business or its organized part, and to encumber it with limited property rights,
- to amend the Bank's Statute and to draft its consolidated text,
- to increase or decrease the Bank's share capital,
- to issue convertible bonds, bonds with pre-emptive rights to acquire shares, and subscription warrants,
- to retire shares and to define the terms of retirement,
- to decide on the Bank's merger, demerger or liquidation,
- to create and release special accounts,
- to appoint and remove from office members of the Supervisory Board,
- to define the remuneration rules for members of the Supervisory Board,
- to conclude an agreement with a subsidiary which provides for the management of the subsidiary or for the transfer of profit by the subsidiary,
- to appoint the entity authorized to examine financial statements and review the financial statements,
- to deal with other matters falling within the scope of the Bank's activities which are submitted to the Bank's General Shareholders Meeting.

The Bank's General Shareholders Meeting is convened via the Bank's website and in a way determined for passing current information according to rules regarding public offer and conditions, under which the financial instruments are introduced to organized turnover system and to rules regarding public companies. The convocation have to take place at last twenty-six days before the Bank's General Shareholders Meeting.

The Ordinary General Shareholders Meeting should take place once a year, not later than in June. When determining the date of the Bank's General Shareholders Meeting, the Management Board seeks to enable as many shareholders as possible to participate in the Meeting.

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The Statute allows the participation in the General Meeting with the use of electronic communication means if the Management Board adopts such decision. Management Board adopts decision mentioned in the previous sentence in the case of fulfilling by the Bank technical conditions necessary for participation in the General Meeting with the use of electronic communication means what covers in particular:

- 1) real-life broadcast of General Meeting,
- 2) real-time bilateral communication where shareholders may take the floor during a General Meeting from location other than the General Meeting,
- 3) exercising the rights to vote during a General Meeting either in person or through a plenipotentiary.

According to the Statute, in each case of convening the General Meeting, the Management Board of the Bank defines whether the participation in the General Meeting with the use of electronic communication means is possible and what are the requirements and limitations necessary to identify of shareholders and to ensure the safety of electronic communication. Detailed conditions of participation in the General Meeting with the use of electronic communication means are specified in regulation adopted by the General Meeting and notice of calling the General Meeting.

The Bank's Supervisory Board can convene Annual General Shareholders Meeting, if the Management Board does not convene it in due time stated in the Statute and the Extraordinary Shareholders Meeting, if necessary.

The full documentation which is to be presented to the Bank's General Meeting, together with the drafts of resolutions and information concerning the Bank's General Meeting are made available to persons entitled to participate in the Bank's General Meeting on the Bank's website and in paper form which is available in the Bank's Headquarters, Warsaw, Żwirki i Wigury Street 31. Information in this respect is covered by announcement about convening the General Meeting, in accordance with Art. 402² of Code of Commercial Companies.

Official copies of the Bank's Management Board on the Bank's operations and financial statements as well as copies of the Supervisory Board's report and external auditor's opinion are issued to shareholders upon request no later than 15 days prior to the Bank's General Meeting date.

The rights of the Bank's shareholders include in particular:

- the right of shareholders holding at least a half of the share capital or at least a half of the votes to convene Extraordinary Meeting of Shareholders. In this case, the shareholders elect the chairman of the Bank's General Meeting,
- the right of shareholders holding at least the twentieth of share capital to demand that specific issues be placed on the agenda of the next Bank's General Shareholders Meeting. The demand should include the justification and the project of resolution's project concerning proposed issue and should be submitted to the Management Board no later than 21 days prior to the Meeting date. The Management Board is obliged to announce changes in the Meeting agenda introduced because of shareholder's demand as fast as possible and no later than 18 days prior to the Meeting date. The Announcement takes place according to the way proper for General Meeting convocation,
- the right of shareholders holding at least the twentieth of share capital to submit via electronic communication media projects of resolutions concerning issues introduced to the Bank's General Meeting agenda or issues, which are supposed to be introduced to the Meeting agenda before the date of holding the Bank's General Meeting. The Bank instantly announces projects of resolutions on the Bank's website,
- the right of every shareholder to submit projects of resolutions concerning issues introduced to the Meeting's agenda,
- the right of shareholders to participate in the Bank's General Shareholders Meeting personally or by proxy,
- the right of shareholders holding a tenth of the share capital represented at the Bank's General Shareholders Meeting to demand that the attendance list of the Bank's General Shareholders Meeting be checked by a committee appointed for that purpose and composed of at least three persons, including one person appointed by the parties making the demand,

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- the right according to which the Bank's General Shareholders Meeting is not allowed to adopt a resolution to remove an item from the agenda or not to consider an issue which was placed on the agenda upon request of shareholders unless the shareholders express their consent to the same,
- the right according to which the Bank's General Shareholders Meeting may not be adjourned deliberately to obstruct the exercise of the shareholders rights,
- the right of each individual participant of the Bank's General Shareholders Meeting to nominate one or more candidates for membership on the Bank's Supervisory Board,
- the right of shareholders holding at least a fifth of the share capital to demand block voting on the appointment of the Supervisory Board; a relevant request should be submitted to the Management Board in writing at such time as to enable its placement on the agenda of the Bank's General Shareholders Meeting,
- the right to inspect the book of minutes and to receive copies of resolutions authenticated by the Management Board,
- the right according to which the Chairperson of the Bank's General Shareholders Meeting is obliged to ensure that the rights of minority shareholders are respected,
- the right of shareholders who raise an objection against a resolution to justify the objection in a concise manner.

All issues submitted to the Bank's General Shareholders Meeting have the recommendation of the Supervisory Board. According to Par. 9 of the Bank's Statute, the Management Board is obliged to present the issues submitted to the Bank's General Shareholders Meeting for consideration by the Supervisory Board.

The Bank's General Shareholders Meetings are attended by members of the Supervisory Board and Management Board in makeup that enables providing content-related answers to question in discussion. An auditor is present at the Annual General Shareholders Meeting or the Extraordinary General Shareholders Meeting if financial matters of the Bank are to be discussed at the Meeting.

The Bank's Management Board, as a body responsible for providing legal service to the Bank's General Shareholders Meeting, exerts every effort to ensure that resolutions are formulated in a clear and unambiguous manner.

The Rules of Procedure for the Bank's General Shareholders Meeting contain provisions (Par. 13.10–17) regarding block voting on the appointment of the Supervisory Board.

Any amendments to the Rules of Procedure for the Bank's General Shareholders Meeting take effect as of the date of the next General Shareholders Meeting.

In the course of performing their responsibilities, the Bank's governing bodies ensure that the interests of majority shareholders are served in such a way as not to prejudice the interests of the minority shareholders. The above principle finds its practical implementation in the proper composition of the Supervisory Board, which comprises representatives of both majority and minority shareholders. Thus, the interests of all shareholder groups are accounted for in carrying out the supervisory function. The principle of the majority rule is reflected in Par. 10.2 of the Bank's Statute, whereby the Bank's General Shareholders Meeting may adopt resolutions if at least 50% of the share capital plus one share is represented at the Meeting. The purpose of this provision is to guarantee that resolutions on matters most important to the Bank and its shareholders are adopted by the Bank's General Shareholders Meeting in the presence of shareholders representing jointly an absolute majority of the share capital. However, if a resolution is not adopted for lack of quorum, as defined above, the resolution may be adopted at the next Meeting with the same agenda, in the presence of shareholders representing at least 20% of the share capital.

The Chairperson of the Bank's General Shareholders Meeting is responsible for the orderly conduct of the meeting and ensures that the rights and interests of all shareholders are respected, that any abuse of rights by the participants is prevented, and that the rights of minority shareholders are observed.

Within the scope of their competence and to the extent necessary to resolve issues placed under discussion of the Bank's General Shareholders Meeting, members of the Supervisory Board, members of the Management Board and the auditor provide the participants with the required explanations and information concerning the Bank.

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Voting on procedural matters may be carried out only on issues related to the conduct of the Meeting. This voting procedure cannot be applied to resolutions which may have impact on the exercise of the shareholders rights.

Removing an item from the agenda or a decision not to consider an issue placed on the agenda at the request of shareholders requires a resolution of the Bank's General Shareholders Meeting, adopted with a three-quarter majority of the votes, following approval by all the present shareholders who submitted such a request.

9) Composition of the Bank's managerial, supervisory or administrative bodies and its committees, and its changes that occurred during last financial year as well as rules of procedure¹⁷

Management Board

As at January 1, 2014 the Management Board of the Bank was composed of the following persons:

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

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

The Management Board of the Bank acts according to the Bank's Statute and the Rules of procedure adopted by virtue of its Resolution No. 480/XII/2014 of December 22, 2014. The previously binding Resolution of the Management Board No. 101/VI/03 of June 3, 2003 expired. The Rules of procedure shall in particular define the matters which require joint consideration by the Management Board, as well as the procedure for adopting a resolution in writing. The Rules of Procedure of the Management Board are available on the Bank's website¹⁸. The members of the Management Board shall coordinate and supervise the activity of the Bank pursuant to the binding division of competence adopted by the Management Board and approved by the Supervisory Board.

According to the Bank's Statute, the Management Board shall conduct the matters of the Bank and represent the Bank. Issues not reserved by virtue of the provisions of the law or of the Statute to fall within the scope of competence of other Bank's statutory bodies, shall fall within the scope of competence of the Bank's Management Board. The Management Board of the Bank in the framework limited by the rules of the binding Polish law submits all required information and data to UniCredit S.p.A. as the parent company. The Management Board of the Bank, operating through the statutory bodies of the subsidiaries of the Bank, coordinates and affects their activities aimed at ensuring the stability of the Group.

Pursuant to the provisions of the Rules of procedure, the Bank's Management Board prepares the development strategy for the Bank and is responsible for the implementation and execution of that strategy. The Supervisory Board issues its opinions on the Bank's long-term development plans and annual financial plans, prepared by the Management Board. The Management Board ensures that the management system at the Bank is transparent and effective, and runs the Bank's affairs in compliance with applicable laws and Best Practices. The core values underlying the management of the Bank are professionalism, credibility and confidentiality, while customer relations are underpinned by reliability and integrity, as well as compliance with applicable laws, including the provisions on anti-money laundering and financing of terrorism.

Pursuing the principle of efficient and prudent management, the Management Board is responsible for initiation and implementation of programs aimed at increasing the Bank's value and rate of return for the shareholders, as well as protection of the employees' long-term interests. In its decisions, the Bank's Management Board makes every effort to ensure, to the maximum extent possible, the promotion of the interests of the shareholders, creditors, employees, as well as other entities and persons co-operating with the Bank in its business activity.

¹⁷ Par. 91.5.4.k of the ordinance of the Minister of Finance of February 19, 2009

¹⁸ http://www.pekao.com.pl/o_banku/wladze_Banku/

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Supervisory Board

As at January 1, 2014 the Supervisory Board of the Bank was composed of the following persons:

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

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

The Supervisory Board acts on the basis of the Rules of procedure adopted by virtue of its Resolution No. 17/03 of May 22, 2003 (amended by way of Resolution No. 20/05 of June 27, 2005). The Rules of procedure of the Supervisory Board are available on the Bank's website¹⁹.

The role of the Supervisory Board is to exercise a general and permanent supervision over the Bank's activities, taking into consideration the Bank's function of a parent company regarding subsidiaries of the Bank. Apart from the competence defined in law, the Supervisory Board possesses competence stated in the Bank's Statute, the Supervisory Board in particular examines every matter submitted to the Bank's General Shareholders Meeting.

The Supervisory Board members always act with due regard to the Bank's interests and take all actions necessary to ensure efficient functioning of the Supervisory Board. Moreover, Members of the Supervisory Board of the Bank are prohibited from taking any decisions or actions that would lead to conflicts of interests or that would be not in line with the Bank's best interest. About existing or potential conflict of interests the Member of the Supervisory Board informs the Supervisory Board and restrains from participating in a discussion and voting on resolution regarding issue in the case of which a conflict of interest occurred.

Each year, according to regulations in force, the Supervisory Board prepares and submits to the Bank's General Shareholders Meeting an assessment of the report on the activities of the Bank and the Group prepared by the Bank's Management Board, assessment of the Bank's financial statements and consolidated financial statements of the Group, assessment of motion concerning profit's division or losses coverage, as well as the Supervisory Board activities statements. The assessments prepared by the Supervisory Board are made available to the shareholders before the Bank's General Shareholders Meeting.

The Supervisory Board set up dedicated committees which deal with specific areas of the Bank's operations, including the Audit Committee, the Remuneration Committee and the Financial Committee. Reports of the committees set up by the Supervisory Board are stored at the Bank's Head Office and made available by the President's Office to the shareholders at the request. Annual reports of committees are annexed to and published with the Supervisory Board statement.

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

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Audit Committee

As at January 1, 2014 the Audit Committee was composed of the following persons:

Paweł Dangel	President of the Committee,
Alessandro Decio	Member of the Committee,
Leszek Pawłowicz	Member of the Committee,
Laura Stefania Penna	Member of the Committee,
Jerzy Woźnicki	Member of the Committee.

The composition of the Audit Committee did not change till December 31, 2014.

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

The Audit Committee supports the Supervisory Board in the performance of its duties, therein related to the adequacy and effectiveness of the Bank's internal control mechanisms, including identification, measurement and management of risk, compliance with applicable laws and procedures governing the Bank's operations, correct application of accounting rules in the process of drawing up financial statements, and ensuring independence of external auditors and the resources of the Internal Audit Department.

The Audit Committee is composed of five persons selected from among the members of the Supervisory Board, and includes at least three independent members. The Chairman of the Audit Committee is an independent member of the Supervisory Board.

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

Remuneration Committee

As at January 1, 2014, the Remuneration Committee was composed of the following persons:

Roberto Nicastro,
Wioletta Rosołowska,
Doris Tomanek,
Jerzy Woźnicki.

The composition of the Remuneration Committee did not change till December 31, 2014.

The Remuneration Committee operates on the basis of the Supervisory Board's resolution. The goal of the Committee is supporting the Supervisory Board in performing its statutory duties, by submission of recommendations regarding conditions of agreements that regulate employment relationship or other legal relationship between members of the Management Board and the Bank, including the amount of remuneration to be paid to members of the Management Board, and regarding approval of the policy on variable components of the remuneration for persons holding managerial positions in the Bank in the meaning of resolution No. 258/2011 of Polish Financial Supervision Authority of October 4, 2011, and in order to submission of recommendations to the General Shareholders Meeting regarding the amount of remuneration to be paid to members of the Supervisory Board.

Financial Committee

As at January 1, 2014, the Financial Committee was composed of the following persons:

Alessandro Decio,
Roberto Nicastro,
Laura Stefania Penna.

The composition of the Financial Committee did not change till December 31, 2014. The Financial Committee operates on the basis of the Supervisory Board's resolution. Its role is to exercise supervision over the implementation of the Bank's financial objectives. Members of the Committee have the right to use services of advisers.

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Signatures of all Members of the Bank's Management Board

10.02.2015	Luigi Lovaglio	President of the Management Board, CEO	
Date	Name/Surname	Position/Function	Signature
10.02.2015	Diego Biondo	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
10.02.2015	Andrzej Kopyrski	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
10.02.2015	Grzegorz Piwowar	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
10.02.2015	Stefano Santini	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
10.02.2015	Marian Ważyński	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature