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.

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

Warsaw, February 2015

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Unconsolidated income statement

(In PLN thousand)

	NOTE	2014	2013
Interest income	8	6 038 827	6 496 123
Interest expense	8	(1 704 323)	(2 185 599)
Net interest income		**4 334 504**	**4 310 524**
Fee and commission income	9	2 329 292	2 415 501
Fee and commission expense	9	(496 804)	(504 204)
Net fee and commission income		**1 832 488**	**1 911 297**
Dividend income	10	**153 548**	**143 779**
Result on financial assets and liabilities held for trading	11	**431 468**	**456 378**
Result on fair value hedge accounting	27	**(17 247)**	**(17 423)**
Gains (losses) on disposal of:	12	**271 413**	**305 139**
loans and other financial receivables		18 579	(67)
available for sale financial assets and held to maturity investments		252 858	308 355
financial liabilities		(24)	(3 149)
Operating income		**7 006 174**	**7 109 694**
Net impairment losses on financial assets and off-balance sheet commitments:	16	**(541 369)**	**(622 971)**
loans and other financial receivables		(553 805)	(631 837)
off-balance sheet commitments		12 436	8 866
Net result on financial activity		**6 464 805**	**6 486 723**
Administrative expenses	13	**(2 920 605)**	**(2 911 645)**
personnel expenses		(1 730 154)	(1 678 609)
other administrative expenses		(1 190 451)	(1 233 036)
Depreciation and amortization	14	**(308 384)**	**(326 663)**
Net result on other provisions		**(1 381)**	**13 831**
Net other operating income and expenses	15	**34 179**	**85 493**
Operating costs		**(3 196 191)**	**(3 138 984)**
Gains (losses) on subsidiaries and associates	17	**-**	**69 972**
Gains (losses) on disposal of property, plant and equipment, and intangible assets	18	**1 491**	**18 689**
Profit before income tax		**3 270 105**	**3 436 400**
Income tax expense	19	**(607 839)**	**(636 400)**
Net profit for the period		**2 662 266**	**2 800 000**
Earnings per share (in PLN per share)	20		
basic for the period		10.14	10.67
diluted for the period		10.14	10.67

Notes to the financial statements presented on pages 10 – 143 and annexes to the financial statements presented on pages I - VII constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of comprehensive income

(In PLN thousand)

	NOTE	2014	2013
Net profit		**2 662 266**	**2 800 000**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		(69)	(150)
Change in fair value of available-for-sale financial assets		482 126	(557 838)
Change in fair value of cash flow hedges	27	168 109	34 832
Tax on items that are or may be reclassified subsequently to profit or loss	19	(123 545)	99 371
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liabilities	43	(44 212)	(41 504)
Tax on items that will never be reclassified to profit or loss	19	8 400	7 886
Other comprehensive income (net of tax)		**490 809**	**(457 403)**
Total comprehensive income		**3 153 075**	**2 342 597**

Notes to the financial statements presented on pages 10 – 143 and annexes to the financial statements presented on pages I - VII constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of financial position

(In PLN thousand)

	NOTE	31.12.2014	31.12.2013
ASSETS			
Cash and due from Central Bank	22	9 226 249	4 191 223
Bill of exchange eligible for rediscounting at Central Bank		165	230
Loans and advances to banks	23	7 215 362	7 653 801
Financial assets held for trading	24	513 078	188 377
Derivative financial instruments (held for trading)	25	4 464 894	1 999 346
Loans and advances to customers	26	111 389 077	100 569 013
Hedging instruments	27	470 822	250 186
Investment (placement) securities	28	24 572 130	34 845 508
1. Available for sale		23 048 190	32 956 784
2. Held to maturity		1 523 940	1 888 724
Assets held for sale	30	31 952	32 587
Investments in subsidiaries	31	857 513	793 113
Investments in associates	32	29 427	29 427
Intangible assets	33	601 673	601 571
Property, plant and equipment	34	1 525 593	1 564 688
Investment properties	35	23 802	25 981
Income tax assets		674 378	777 715
1. Current tax assets		1 881	97 549
2. Deferred tax assets	19	672 497	680 166
Other assets	36	2 726 716	1 763 864
TOTAL ASSETS		**164 322 831**	**155 286 630**
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	22	971	985
Amounts due to other banks	38	3 129 856	4 754 732
Financial liabilities held for trading	24	591 311	309 742
Derivative financial instruments (held for trading)	25	4 422 292	2 054 385
Amounts due to customers	39	126 381 270	119 868 743
Hedging instruments	27	1 484 428	1 007 884
Fair value hedge adjustments of hedged items due to interest rate risk		-	2 084
Debt securities issued	40	2 819 713	2 240 452
Income tax liabilities		66 412	-
1. Current tax liabilities		66 412	-
2. Deferred tax liabilities		-	-
Provisions	41	436 952	391 396
Other liabilities	42	1 602 382	1 807 524
TOTAL LIABILITIES		**140 935 587**	**132 437 927**
Equity			
Share capital	47	262 470	262 470
Other capital and reserves	48	20 462 508	19 970 192
Retained earnings and profit for the period	48	2 662 266	2 616 041
TOTAL EQUITY		**23 387 244**	**22 848 703**
TOTAL LIABILITIES AND EQUITY		**164 322 831**	**155 286 630**

Notes to the financial statements presented on pages 10 – 143 and annexes to the financial statements presented on pages I - VII constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of changes in equity

(In PLN thousand)

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES							RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER		
Note	47	48							48	
Equity as at 1.01.2014	**262 470**	**19 970 192**	**9 137 221**	**1 937 850**	**8 610 711**	**49 713**	**1 238**	**233 459**	**2 616 041**	**22 848 703**
Management options	**-**	**(332)**	**-**	**-**	**-**	**-**	**-**	**(332)**	**-**	**(332)**
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-
Revaluation of management share options	-	(332)	-	-	-	-	-	(332)	-	(332)
Comprehensive income	**-**	**490 809**	**-**	**-**	**-**	**490 878**	**(69)**	**-**	**2 662 266**	**3 153 075**
Remeasurements of the defined benefit liabilities (net of tax)	-	(35 812)	-	-	-	(35 812)	-	-	-	(35 812)
Revaluation of available-for-sale investments (net of tax)	-	390 522	-	-	-	390 522	-	-	-	390 522
Revaluation of hedging financial instruments (net of tax)	-	136 168	-	-	-	136 168	-	-	-	136 168
Foreign currency translation differences	-	(69)	-	-	-	-	(69)	-	-	(69)
Net profit for the period	-	-	-	-	-	-	-	-	2 662 266	2 662 266
Appropriation of retained earnings	**-**	**1 839**	**-**	**-**	**1 839**	**-**	**-**	**-**	**(2 616 041)**	**(2 614 202)**
Dividend paid	-	-	-	-	-	-	-	-	(2 614 202)	(2 614 202)
Profit appropriation	-	1 839	-	-	1 839	-	-	-	(1 839)	-
Equity as at 31.12.2014	**262 470**	**20 462 508**	**9 137 221**	**1 937 850**	**8 612 550**	**540 591**	**1 169**	**233 127**	**2 662 266**	**23 387 244**

Notes to the financial statements presented on pages 10 – 143 and annexes to the financial statements presented on pages I - VII constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of changes in equity (cont.)

(In PLN thousand)

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES							RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER		
Note	47	48							48	
Equity as at 1.01.2013	**262 470**	**19 699 944**	**9 137 221**	**1 737 850**	**8 073 570**	**506 966**	**1 388**	**242 949**	**2 754 196**	**22 716 610**
Management options	**-**	**(9 490)**	**-**	**-**	**-**	**-**	**-**	**(9 490)**	**-**	**(9 490)**
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-
Revaluation of management share options	-	(9 490)	-	-	-	-	-	(9 490)	-	(9 490)
Comprehensive income	**-**	**(457 403)**	**-**	**-**	**-**	**(457 253)**	**(150)**	**-**	**2 800 000**	**2 342 597**
Remeasurements of the defined benefit liabilities (net of tax)	-	(33 618)	-	-	-	(33 618)	-	-	-	(33 618)
Revaluation of available-for-sale investments (net of tax)	-	(451 849)	-	-	-	(451 849)	-	-	-	(451 849)
Revaluation of hedging financial instruments (net of tax)	-	28 214	-	-	-	28 214	-	-	-	28 214
Foreign currency translation differences	-	(150)	-	-	-	-	(150)	-	-	(150)
Net profit for the period	-	-	-	-	-	-	-	-	2 800 000	2 800 000
Appropriation of retained earnings	**-**	**736 031**	**-**	**200 000**	**536 031**	**-**	**-**	**-**	**(2 938 155)**	**(2 202 124)**
Dividend paid	-	-	-	-	-	-	-	-	(2 202 124)	(2 202 124)
Profit appropriation	-	736 031	-	200 000	536 031	-	-	-	(736 031)	-
Other	**-**	**1 110**	**-**	**-**	**1 110**	**-**	**-**	**-**	**-**	**1 110**
Sale of shares in PJSC UniCredit Bank	-	1 110	-	-	1 110	-	-	-	-	1 110
Equity as at 31.12.2013	**262 470**	**19 970 192**	**9 137 221**	**1 937 850**	**8 610 711**	**49 713**	**1 238**	**233 459**	**2 616 041**	**22 848 703**

Notes to the financial statements presented on pages 10 – 143 and annexes to the financial statements presented on pages I - VII constitute an integral part of the unconsolidated financial statements.

Unconsolidated cash flow statement

(In PLN thousand)

	NOTE	2014	2013
Cash flow from operating activities – indirect method			
Net profit for the period		**2 662 266**	**2 800 000**
Adjustments for:		**(7 850 295)**	**3 907 963**
Depreciation and amortization	14	308 384	326 663
(Gains) losses on investing activities		(254 181)	(309 771)
Net interest income	8	(4 334 504)	(4 310 524)
Dividend income	10	(153 548)	(143 779)
Interests received		5 992 479	6 472 712
Interests paid		(1 702 899)	(2 400 915)
Income tax		500 501	644 593
Income tax paid		(560 903)	(761 742)
Change in loans and advances to banks		369 169	(754 653)
Change in financial assets held for trading		(324 682)	426 409
Change in derivative financial instruments (assets)		(2 465 548)	651 231
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank		(10 816 973)	(5 989 753)
Change in investment (placement) securities		(1 309 492)	(814 455)
Change in other assets		(1 078 837)	807 163
Change in amounts due to banks		(1 624 042)	(1 549 937)
Change in financial liabilities held for trading		281 569	63 164
Change in derivative financial instruments (liabilities)		2 367 907	(575 111)
Change in amounts due to customers		6 527 021	11 925 633
Change in debt securities issued		(282)	15 615
Change in provisions		45 556	17 906
Change in other liabilities		383 010	167 514
Net cash flows from operating activities		**(5 188 029)**	**6 707 963**
Cash flow from investing activities			
Investing activity inflows		**407 982 722**	**434 071 335**
Sale of investments in subsidiaries		-	671 287
Sale of investment securities		407 118 305	432 440 412
Sale of intangible assets and property, plant and equipment		6 503	2 178
Dividend received	10	153 548	143 779
Other investing inflows		704 366	813 679
Investing activity outflows		**(395 804 957)**	**(439 094 200)**
Acquisition of investments in subsidiaries		(64 400)	-
Acquisition of investment securities		(395 488 961)	(438 887 775)
Acquisition of intangible assets and property, plant and equipment	33, 34	(251 596)	(206 425)
Net cash flows from investing activities		**12 177 765**	**(5 022 865)**

Notes to the financial statements presented on pages 10 – 143 and annexes to the financial statements presented on pages I - VII constitute an integral part of the unconsolidated financial statements.

Unconsolidated cash flow statement (cont.)

(In PLN thousand)

	NOTE	2014	2013
Cash flows from financing activities			
Financing activity inflows		**5 876 940**	**3 649 300**
Issue of debt securities	40	5 876 940	3 649 300
Financing activity outflows		**(7 928 366)**	**(7 538 847)**
Redemption of debt securities	40	(5 314 164)	(5 336 723)
Dividends and other payments to shareholders		(2 614 202)	(2 202 124)
Net cash flows from financing activities		**(2 051 426)**	**(3 889 547)**
Total net cash flows		**4 938 310**	**(2 204 449)**
including: effect of exchange rate fluctuations on cash and cash equivalents held		181 857	7 245
Net change in cash and cash equivalents		**4 938 310**	**(2 204 449)**
Cash and cash equivalents at the beginning of the period		**10 615 031**	**12 819 480**
Cash and cash equivalents at the end of the period	49	**15 553 341**	**10 615 031**

Notes to the financial statements presented on pages 10 – 143 and annexes to the financial statements presented on pages I - VII constitute an integral part of the unconsolidated financial statements.

Notes to the financial statements

(In PLN thousand)

The accompanying notes to the financial statements constitute an integral part of the unconsolidated financial statements.

1. General information

Bank Polska Kasa Opieki Spółka Akcyjna (hereafter referred to as 'Bank Pekao S.A.' or 'the Bank'), with Head Office in Warsaw, at 53/57 Grzybowska Street, 00-950 Warsaw, operates as a public listed company in compliance with binding law regulations, especially the Banking Act, Commercial Code and Bank's Articles of Association.

The Bank was incorporated on 29 October 1929 in the Commercial Register of the District Court in Warsaw and has been continuously in operation since its incorporation.

Bank Pekao S.A. is registered in the National Court Registry – Enterprise Registry of the Warsaw District Court XII Commercial Division of the National Court Registry in Warsaw under the reference number KRS 0000014843.

The Bank's statistical REGON number is 000010205.

The entity has been established for an indefinite period of time.

Bank Pekao S.A. is a part of the UniCredit S.p.A. Group with seat in Roma, Italy.

The Bank's shares are quoted on the Warsaw Stock Exchange (WSE). The Bank's securities, traded on regulated markets, are classified in the banking sector.

Bank Pekao S.A. is a universal commercial bank, offering a broad range of banking services on domestic and foreign financial markets, provided to retail and corporate clients, in compliance with the scope of services, set forth in the Bank's Articles of Association. The Bank runs both PLN and forex operations, and it actively participates in both domestic and foreign financial markets.

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

Goodwill is not subject to the tax deductions.

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

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

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

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

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

If the acquisition had occurred on 1 January 2014, it is estimated that interest income and commission income of the Bank would have been PLN 8 447 993 thousand, and the Bank’s profit for the year would have been PLN 2 671 985 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

3. Approval of the Financial Statements

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

4. Significant accounting policies

4.1 Statement of compliance

The annual unconsolidated financial statements ('financial statements') of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with further amendments) and respective operating regulations, and in accordance with the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock exchange listing market.

4.2 Basis of preparation of Unconsolidated Financial Statements

General information

The financial statements of Bank Pekao S.A. have been prepared for the period from 1 January 2014 to 31 December 2014. Comparable data have been presented for the period of 1 January 2013 to 31 December 2013. The financial statements of the Bank have been prepared in Polish zloty, and all amounts are presented in PLN thousand, unless indicated otherwise.

The financial statements have been prepared on a going concern basis on the assumption that the Bank will continue its business operations substantially unchanged in scope for a period of at least one year from the balance sheet date.

The unconsolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations. Changes in published standards and interpretations, which became effective from 1 January 2014, had no material impact on the unconsolidated financial statements, except for extending the scope of disclosures and changes in the disclosures structure (Annex 1 to the financial statements).

The financial statements does not take into consideration interpretations and amendments to Standards, pending approval by the European Union or approved by the European Union but came into force or shall come into force after the balance sheet date (Annex 2 and Annex 3 to the financial statements).

In the opinion of the Bank, amendments to Standards and interpretations will not have a significant influence on the separate financial statement of the Bank, with the exception of IFRS 9 'Financial Instrument'.

New regulations constitute a part of changes designed to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The main changes, introduced by the new standard, are as follows:

- new categorisation of financial assets,
- new criteria of assets classification to the group of financial assets measured at amortized cost,
- new impairment model – expected credit losses model,
- new principles for recognition of changes in fair value measurement of capital investment in financial instruments,
- elimination of the necessity to separate embedded derivatives from financial assets.

The major part of IAS 39 requirements relating to financial liabilities classification and valuation were transferred to IFRS 9 unchanged.

The Bank is currently assessing the impact of the IFRS 9 implementation on its financial statements. Due to the nature of the Bank, it is expected that these changes will have a significant impact on the Bank's financial instruments valuation and presentation.

Unconsolidated financial statements of the Bank have been prepared based on the following valuation methods:

- at fair value for: derivatives, financial assets and liabilities held for trading, financial assets recognized initially at fair value through profit or loss and available-for-sale financial assets, except for those for which the fair value cannot be reliably measured,
- at amortized cost for other financial assets, including loans and advances and other financial liabilities,
- at historical cost for non-financial assets and liabilities or financial assets available for sale whose fair value cannot be reliably measured,
- non-current assets (or disposal groups) classified as held for sale are measured at the lower of the carrying amount or the fair value less costs to sell.

The Bank also prepares the Consolidated Financial Statements of Bank Pekao S.A. Group.

4.3 Accounting estimates

Preparation of financial statements in accordance with IFRS requires the Bank to make certain estimates and to adopt certain assumptions, which affect the amounts of assetss and liabilities presented in the financial statements.

Estimates and assumptions are reviewed on an ongoing basis and rely on historic data and other factors including expectation of the future events which seems justified in given cirrcumstances. Although the estimates are based on the best knowledge of current conditions and activities which the Bank will undertake, the actual results may differ from such estimates.

Estimates and underlying assumptions are subject to regular review. Revisions to accounting estimates are recognized prospectively starting from the period in which the estimates are revised.

Information on the applied estimates and the underlying uncertainity related to significant risk of the material adjustments in the financial statements are presented below.

Impairment of loans and advances to customers

At each balance sheet date the Bank assesses whether there is any objective evidence ('trigger') that loan exposures are impaired. Impairment losses are incurred if, and only if at least one impairment trigger is identified and the event implicating the impairment trigger has a negative impact on the estimated future cash flows of the loan exposure. Whilst the identification of loan exposures impairment the Bank does not consider future events, irrespective of probability of its occurrence.

In the process of impairment assessment the Bank considers all loan exposures, irrespective of the level of risk of particular loan exposures or a group of loan exposures.

The Bank splits the loan exposures into individually significant exposures and individually insignificant exposures. The individually significant exposures are in particular all loan exposures of the borrower, for whom total Bank's exposure exceeds the threshold value as at balance sheet date and the restructuring loan exposures of debtors being the entrepreneurs within the meaning of the Article 43 of the Civil Code. The individually insignificant exposures are all loan exposures, which are not classified as individually significant exposures.

For all loans exposures, which are impaired, the Bank measures the amount of impairment allowance as the difference between the loan exposure's carrying amount and the present value of estimated future cash flows, discounted at the loan exposure's original effective interest rate.

For all individually significant exposures, which are impaired as at balance sheet date, the Bank measures the impairment allowance (impairment loss) as part of individual assessment. The individual assessment is carrying out by the Bank's employees and consists of individual verification of the impairment occurrence and projection of future cash flows from foreclosure less costs for obtaining and selling the collateral or other resources. The Bank compares the estimated future cash flows applied for measurement of individual impairment allowances with the actual cash flows on a regular basis.

For all individually insignificant exposures, which are impaired as at balance sheet date, the Bank measures the impairment allowance (impairment loss) as part of collective assessment. Each exposure assessed collectively is grouped based on similar credit risk characteristics (on the basis of the borrower's type, the product's type, past-due status or other relevant factors impacting on the debtor's ability to pay all amounts due according to the contractual terms). The future cash flows are estimated on the basis of historical data of cash flows and historical loss experience for exposures with credit risk characteristics similar to those in the group. Historical data, when necessary, are adjusted on the basis of current data to remove the effects of conditions in the historical period that do not exist currently. The recovery rates and the methodology and assumptions used for estimating future cash flows for particular groups of loan exposures are reviewed regularly.

For all loan exposures, for which no impairment triggers have been identified, the Bank measures the allowance for losses incurred, but not reported ('IBNR').

Impairment of non-current assets

At each balance sheet date the Bank reviews its assets for indications of impairment. Where such indications exist, the Bank makes a formal estimation of the recoverable value. If the carrying amount of a given asset is in excess of its recoverable value, impairment is defined and a write-down is recorded to adjust the carrying amount to the level of its recoverable value. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value-in-use.

Estimation of the value-in-use of an assets (or cash generating unit) requires assumptions to be made regarding, among other, future cash flows which the Bank may obtain from the given asset (or cash generating unit), any changes in amount or timing of occurrence of these cash flows and other factors such as the lack of liquidity. The adoption of different measurement assumptions may affect the carrying amount of some of the Bank's non-current assets.

Measurement of derivatives and unquoted debt securities available for sale

The fair value of non-option derivatives and debt securities available for sale that do not have a quoted market price on an active market is measured using valuation models based on discounted cash flows. Options are valued using option valuation models. Variables used for valuation purposes include, where possible, the data from observable markets. However, the Bank also adopts assumptions concerning counterparty's credit risks which affect the valuation of instruments. The adoption of other measurement assumptions may affect the valuation of these financial instruments. The assumptions used for fair value measurement are described in detail in Note 5.7 'Fair value of financial assets and liabilities'.

Provisions for defined benefit plans

The principal actuarial assumptions applied to estimation of provisions for defined benefit plans, as well as the sensitivity analysis were presented in Note 43.

Goodwill

The Bank performs an impairment test of goodwill on a yearly basis or more often if impairment triggers occur. The assessment of goodwill impairment requires an estimate of value in use of all cash-generating units to which the goodwill relates. The principal assumptions applied to an impairment test of goodwill were presented in Note 33.

Notes to the financial statements (cont.)

(In PLN thousand)

4.4 Foreign currencies

- Functional and presentation currency
  The financial statements of the Bank, including the Bank's Branch in Paris, are presented in their functional currencies, i.e. in the currency of the primary economic environment in which the entity operates.

  The financial statements are presented in Polish zlotys. Polish zloty is the functional currency and the presentation currency of the Bank.

  The Bank applies as the closing rate the average the National Bank of Poland ('NBP') exchange rate, valid as at the balance sheet date.

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

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

  Foreign currency translation differences arising from non-monetary items such as equity instruments classified as available for sale financial assets are recognized in the revaluation reserves.

- Bank's Branch in Paris
  The assets and liabilities of the entity are translated into the Polish currency i.e. to the presentation currency as per the closing exchange rate for the balance sheet date. Revenues and expenses in the income statement are recalculated as per average exchange rates calculated on the basis of the exchange rates of the reporting period except for situations where exchange rates fluctuate significantly such that the average exchange rate is not an acceptable approximation of the exchange rate from the transaction date. In such situations revenue and expenses are translated on the basis of the exchange rate from the date of transaction.

  Financial statements of the Bank's Branch in Paris are translated into Polish zloty using the following exchange rates:
  - to translate statement of financial position items as at 31 December 2014 and as at 31 December 2013, average exchange rates announced by the NBP on 31 December 2014 and on 31 December 2013, respectively, have been used:

	31.12.2014	31.12.2013
PLN for EUR 1	4.2623	4.1472

  - for translation of income statement items for the period from 1 January 2014 until 31 December 2014 and for the period from 1 January 2013 until 31 December 2013, arithmetic average values of exchange rates have been used, announced by the NBP as at the last date of each month during the period from 1 January 2014 until 31 December 2014 and during the period from 1 January 2013 until 31 December 2013, respectively, as follows:

	2014	2013
PLN for EUR 1	4.1893	4.2110

  The foreign exchange rate differences from the valuation of Bank's branch net profit at the average weighted exchange rate announced by the NBP are presented in the 'Revaluation reserves' position.

4.5 Income statement

Interest income and expense

The Bank recognizes in the income statement all interest income and expense related to financial instruments valued at amortized cost using the effective interest rate method, financial assets available for sale and financial assets at fair value through profit or loss.

The effective interest rate is the discount rate of estimated future cash inflows and payments made during the expected period until the expiry of the financial instruments, and in justified cases in a shorter time, to the net carrying amount of such financial assets or liabilities. The calculation of the effective interest rate includes all commissions paid and received by parties to the agreement, transaction costs and all other premiums and discounts, comprising an integral part of the effective interest rate.

Interest income includes interest and commission fees received or due from credits, interbank deposits and held to maturity securities, recognized in the calculation of effective interest rate, as well as from securities available for sale and measured at fair value through the income statement, and hedging derivatives.

At the recognition of impairment of financial instruments measured at amortized cost and of available for sale financial assets, the interest income is accrued based on the carrying amount of the receivable (this is the new, lower value reduced by the impairment charge) using the interest rate used when discounting the future cash flows for impairment calculation.

Interest expense of the reporting period related to interest liabilities associated with client accounts and liabilities from the issue of treasury stock are recognized in the income statement using the effective interest rate.

Fee and commission income and expense

Fee and commission income is generated from financial services provided by the Bank. Fee and commission income and expense is recognized in the profit or loss using the following methods:

- fees and commissions directly attributable to financial asset or liability origination (both income and expense) are recognized in the income statement using the effective interest rate method and are described above,
- fees and commissions relating to the loans and advances without a defined repayment schedule and without a defined interest rate schedule e.g. overdraft facilities and credit cards are amortized over the life of the product using the straight line method,
- other fees and commissions arising from the Bank's financial services offering (customer account transaction charges, credit card servicing transactions, brokerage activity and canvassing) are recognized in the income statement up-front when the corresponding service is provided.

Income and expense from bancassurance

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Result on financial assets and liabilities held for trading

Result on financial assets and liabilities held for trading include:

- Foreign exchange result
  The foreign exchange gains (losses) are calculated taking into account the positive and negative foreign currency translation differences, whether realized or unrealized from the daily valuation of assets and liabilities denominated in foreign currencies. The revaluation is perform using the average exchange rate announced by the NBP on the balance sheet date.

  The foreign exchange result includes the trade margins on foreign exchange transactions with the Bank's clients, as well as swap points from derivative transactions, entered into by the Bank for the purpose of managing the Bank's liquidity in foreign currencies.

  Income from foreign exchange positions includes also foreign currency translation differences from valuation of investments in foreign operations arising on disposal thereof. Until the disposal, foreign currency translation differences from valuation of assets in foreign operations are recognized in 'Other capital and reserves'.

- Income from derivatives and securities held for trading
  The income referred to above includes gains and losses realized on a sale or a change in the fair value of assets and liabilities held for trading.
  The accrued interest and unwinding of a discount or a premium on securities held for trading is presented in the net interest income.

Gains (losses) on financial assets/liabilities at fair value through profit or loss

This includes gains and losses realized on a sale or a change in the fair value of assets and liabilities, designated at fair value through profit or loss.

The accrued interest and unwinding of a discount or a premium on financial assets/ liabilities designated at fair value through profit or loss are recognized in the net interest income.

Other operating income/expense

Other operating income includes mainly amounts received for compensation, revenues from operating leases, recovery of debt collection costs, excess payments, miscellaneous income and releases of provision for legal cases. Other operating expenses include mainly the costs of client claims, compensation paid, sundry expenses and costs of provision for litigations.

4.6 Valuation of financial assets and liabilities, derivative financial instruments

Financial assets

Financial assets are classified into the following categories:

- Financial assets measured at fair value through profit or loss
  This category comprises two sub-categories: financial assets held for trading and financial assets designated at initial recognition as financial assets measured at fair value through profit or loss.

  Financial assets held for trading include: debt and equity securities, loans and receivables purchased or classified into this category for the purpose of disposal thereof on a short-term basis. The classification also includes derivative instruments (not used as hedging instruments).

  Financial assets classified at the moment of original recognition as financial assets measured at fair value through profit or loss include debt securities acquired by the Bank for the purpose of elimination or considerable reduction of inconsistencies in the valuation between these securities and the derivatives, which are economically hedging the interest rate risk of such securities. Otherwise, such securities would have been classified into the 'available for sale' portfolio, with the effect of valuation recognized in revaluation reserves, and valuation of derivatives economically hedging such securities reported in the income statement.

- Held to maturity
  These are non-derivative financial assets with fixed or determinable payments and fixed maturity, for which the entity has an intent and ability to hold to maturity, other than:
  a) those that the entity upon initial recognition designates as at fair value through profit or loss,
  b) those that the entity designates as available for sale, and
  c) those that meet the definition of loans and receivables.
  Financial assets classified into this category are measured at amortized cost using the effective interest rate method. The recognition of amortized cost with the use of effective interest rate is recognized in interest income.

- Loans and receivables
  Loans and receivables are non-derivative financial assets, with fixed or determinable payments, not quoted on active markets, other than:
  a) those that the entity intends to sell immediately or in the near term which are classified as held for trading and those that the entity designates as at fair value through profit or loss upon initial recognition,
  b) those that the Bank designates upon the initial recognition as available for sale, or
  c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

  This category also contains debt securities, purchased from the issuer, for which there is no active market, as well as credits, loans, receivables from reverse repo transactions and other receivables acquired and granted. Loans and receivables are measured at amortized cost using the effective interest rate method and with consideration of impairment.

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

  Available for sale financial assets are measured at fair value, whereas gains and losses resulting from changes in fair value against amortized cost are recognized in the revaluation reserves. Amounts in the revaluation reserves are recognized in the income statement either on the sale of an asset, or its impairment. In case of impairment of an asset, previous increases from revaluation to fair value will decrease the 'Revaluation reserves'. Should the amount of previously recognized increases be insufficient to cover the impairment, the difference will be recorded in the income statement as 'Net impairment losses on financial assets and off-balance sheet commitments'.

Notes to the financial statements (cont.)

(In PLN thousand)

Dividends from equity instruments are recognized in the profit or loss at the moment the rights to receive such payments are established.

Standardized purchase and sale transactions of financial assets designated at fair value through profit or loss, designated as held for trading (except for derivatives), held to maturity, and available for sale, are recognized and derecognized by the Bank on the settlement date of such transaction, i.e. as at the date of receipt or delivery of such assets.

Changes in the fair value of assets, which occur during the period from transaction date to transaction settlement date, shall be recognized similarly as in the case of the asset held.

Credits and loans are recognized on the date of cash disbursement to the debtor.

Derivative instruments are recognized or derecognized on transaction dates.

Reclassification of financial assets

The Bank may reclassify the financial assets classified as available for sale, which meet the definition of loans and receivables, from the category of available for sale financial assets to the category of loans and receivables, if the Bank has the intent and the ability to hold such financial assets in foreseeable future or until their maturity.

If the financial asset with a given maturity is reclassified, prior gains and losses associated with such asset, recognized in other comprehensive income, are amortized in the profit or loss throughout the remaining period until maturity, using the effective interest rate method. Any differences between such new amortized cost and embedded amount is amortized throughout the period remaining until the maturity of such asset using the effective interest rate method, similar to premium or discount amortization.

The Bank allows the reclassification of financial assets classified as financial assets measured at fair value through profit or loss, if extraordinary circumstances occur, i.e. events that are unusual and highly unlikely to recur in the near term.

Such financial assets are reclassified at fair value as at reclassification date. The gains or losses recognized in the profit or loss before such reclassification cannot be reversed. The fair value of financial assets, as at reclassification date, is recognized as its new cost or its new amortized cost.

Impairment of financial assets

Assets measured at amortized cost – loans and advances

At each balance sheet date the Bank assesses whether there is any objective evidence ('triggers') that loans and advances or financial assets held-to-maturity measured at amortized cost ('loan exposures') are impaired. In the process of impairment assessment the Bank considers all loan exposures, irrespective of the level of risk of particular loan exposures or a group of loan exposures.

The Bank splits the loan exposures into individually significant exposures and individually insignificant exposures.

In respect to exposures assessed individually the Bank applies the following list of impairment triggers:

- overdue in repayment of principal, interest or credit fees more than 90 days and more than 2 working days in case of exposure towards banks including credit transactions and reverse repo/sell-buy-backs,
- significant financial difficulties of borrower (including loss of job or other events that could impact on ability to repayment in case of individuals). Significant financial difficulties of economic entity mean financial standing that could threaten timely repayment of liabilities towards the Bank, especially when incurred losses have consumed equity in 50%, excluding projects where losses have been assumed or where external financial support exists (in form of injections to the equity, granting a loan, warranty/guarantee by related company or other third party, conversion of loan into equity, issuance of shares/bonds),
- restructuring, if it is related with granting an advantage, due to economic or legal reasons resulted from financial difficulties of the borrower, that in other circumstances the Bank would not give. The advantage leads to reduction of the Bank's loan exposure, and may include: reduction of the interest rate, temporary interest accruing holidays, cancelling a part or total of the exposures, in this interest or principal,

Notes to the financial statements (cont.)

(In PLN thousand)

- lowering by the well-known and accepted rating agency a borrower's rating or country's rating – country of domicile or rating of debt securities issued by the borrower by at least 4 notches including modifiers within one year. Decrease in credit rating alone is not an evidence of impairment trigger but could be confirmation of impairment if it is analyzed together with other available information,
- significant worsening of rating or scoring analysis results. It means the decrease in rating by 4 notches in the scale and at the same time move to non-performing category based only on rating criterion, excluding situations of rating deterioration resulted from seasonality of activity and excluding impact of classification in RMT ('Risk Management Tool') on rating. Decrease in rating alone is not an evidence of impairment trigger but could be confirmation of impairment if it is analyzed together with other available information,
- the Bank has started an execution process or has been informed about execution towards borrower,
- the debt/loan is questioned by the borrower including commencement of legal proceedings,
- the debt/loan has been due as the credit agreement has been terminated,
- the motion for borrower's bankruptcy has been filled in the court or legal proceedings has been instituted,
- disappearance of active market for given credit exposure resulted from financial difficulties of debtor. This impairment trigger could refer to financial instruments listed on stock exchanges, when due to significant deterioration in financial standing of issuer (eventually bankruptcy), the liquidity of assets trading is so low that reliable price fixing is not possible,
- receivership has been established or debtor has stopped/suspended its activity,
- unknown place of stay and not disclosed assets of the borrower.

In respect to exposures assessed collectively the Bank applies the following list of impairment triggers:
- overdue in repayment of principal, interest or credit fees greater or equal to 90 days,
- significant financial difficulties of retail debtor, including loss of job or other events that could impact on ability to repayment,
- unknown place of stay and not disclosed assets of the retail debtor or sole trader.

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

In case of identification of impairment triggers for at least one of loan exposures of the borrower, all loan exposures of such borrower are assessed for impairment.

For all loans exposures, which are impaired, the Bank measures the amount of impairment allowance as the difference between the loan exposure's carrying amount and the present value of estimated future cash flows, discounted at the loan exposure's original effective interest rate. The carrying amount of the loan exposure is reduced through use of an allowance account. The amount of the impairment loss is recognized in profit or loss. If, in a subsequent period, the amount of impairment loss decreases, then the previously recognized impairment loss is reversed by adjusting an allowance account. The amount of the reversal is recognized in profit or loss.

For all individually significant exposures, which are impaired as at balance sheet date, the Bank measures the impairment allowance (impairment loss) as part of individual assessment. The individual assessment is carrying out by the Bank's employees and consists of individual verification of the impairment occurrence and projection of future cash flows from foreclosure less costs for obtaining and selling the collateral or other resources. The Bank compares the estimated future cash flows applied for measurement of individual impairment allowances with the actual cash flows on a regular basis.

Notes to the financial statements (cont.)

(In PLN thousand)

For all individually insignificant exposures, which are impaired as at balance sheet date, the Bank measures the impairment allowance (impairment loss) as part of collective assessment. Each exposure assessed collectively is grouped based on similar credit risk characteristics on the basis of the borrower's type, the product's type, past-due status or other relevant factors impacting on the debtor's ability to pay all amounts due according to the contractual terms. The future cash flows are estimated on the basis of historical data of cash flows and historical loss experience for exposures with credit risk characteristics similar to those in the group. Historical data, when necessary, are adjusted on the basis of current data to remove the effects of conditions in the historical period that do not exist currently. The recovery rates ('RR') and the methodology and assumptions used for estimating future cash flows for particular groups of loan exposures are reviewed regularly.

For all loan exposures, for which no impairment triggers have been identified, the Bank measures the allowance for losses incurred, but not reported ('IBNR'). As part of IBNR assessment the Bank estimates the loss resulting from events not reported as at balance sheet date and for which no impairment triggers have been identified, but the events occurred prior to balance sheet date and the loss was incurred. While estimating the IBNR, it is assumed that there is a several-months period from the date of emergence of objective impairment trigger to the date of its reporting, i.e. loss identification period ('LIP'). The value of LIP parameter is estimated on the basis of statistical analysis using the historical data. The Bank applies different loss identification periods for different groups of loan exposures, taking into account the client's segment, the product's type and the collateral. The update of LIP parameter is carrying out at least once a year.

The IBNR is measured based on the likelihood that the debtor will be unable to meet its obligations during loss identification period ('PD_LIP') multiplied by impairment loss estimated analogously like collective allowance for value of exposure at default ('EAD'). The value of EAD parameter is estimated on the basis of historical data.

The Bank estimates the value of PD_LIP parameter using the PD measured by Basel models with relevant transformation taking into account the shortening of loss identification period for applied length of LIP and Point-in-Time adjustment. Within the transformation the Bank calibrates the values of PD parameter to the most up to date realized PD_LIP values once a month. The values of PD_LIP as estimated reflect the current economic conditions the best. The model applied to measurement of PD_LIP is of 'Point-In-Time' type.

The values of LIP, PD_LIP, EAD and RR applied for IBNR measurement as well as the methodology and assumptions used for estimating such parameters for particular groups of loan exposures are reviewed regularly.

Financial assets available for sale

When a decline in the fair value of an available for sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that has been recognized directly in equity is removed from equity and recognized in the income statement. The amount of the cumulative loss transferred to the income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in the income statement.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Off-balance sheet commitments

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

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

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

Repo and reverse-repo agreements

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

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

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

An adjustment for the hedged risk on hedged interest position is amortized in the profit and loss account at the point of ceasing to apply hedge accounting.

Cash flow hedge accounting principles
Changes in the fair value of the derivative financial instruments indicated as cash flow hedging instruments are recognized:
- directly in the caption 'Revaluation reserves' in the part constituting the effective hedge,
- in the income statement in the line 'Result on financial assets and liabilities held for trading' in the part representing ineffective hedge.

The amounts accumulated in the 'Revaluation reserves' are transferred to the income statement in the period, in which the hedge is reflected in the income statement and are presented in the same lines as individual components of the hedged position measurement, i.e. the interest income from hedging derivatives in cash flow hedge accounting is recognized in the interest result, whereas gains/losses from foreign exchange revaluation are presented in the foreign exchange gains (losses).

The Bank ceases to apply hedge accounting when the hedging instrument expires or is sold, or if the Bank revokes the designation. In such cases, the accumulated gains or losses related to such hedging item, initially recognized in 'Revaluation reserves', if the hedge was effective, are still presented in equity until the planned transaction was closed and recognized in the income statement.

If the planned transaction is no longer probable, the cumulative gains or losses recognized in 'Revaluation reserves' are transferred to the income statement for the given period.

Financial liabilities
The Bank's financial liabilities are classified to the following categories:
- financial liabilities held for trading, valued at fair value,
- financial liabilities not held for trading, valued at amounts payable, measured at amortized cost using the effective interest rate method.

Financial liabilities not held for trading consist of amounts due to banks and customers, loans from other banks, and own debt securities issued.

De-recognition of financial instruments from the statement of financial position
Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the Bank transfers the contractual rights to receive the cash flows in a transaction in which substantially all risk and rewards of ownership of the financial asset are transferred.

The Bank derecognizes a credit or a loan receivable, or its part, when it is sold. Additionally, the Bank writes-off a receivable against the corresponding impairment allowance when the debt redemption process is completed and when no further cash flows from the given receivable are expected. Such cases are documented in compliance with the current tax regulations.

The Bank derecognizes a financial liability, or its part, when the liability expires. The liability expires when the obligation stated in the agreement is settled, redeemed or the period for its collection expires.

4.7 Valuation of other items in the Bank's unconsolidated statement of financial position

Investments in subsidiaries and associates

Subsidiaries
Subsidiaries are entities controlled by the Bank, i.e. the Bank has existing rights that give it the current ability to direct the relevant activities - the activities that significantly affect the investee's returns and is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

Associates
Associates are entities, over which the Bank has a significant influence and which are neither subsidiaries, nor joint ventures. The Bank usually holds from 20% to 50% of voting rights at the governing body of the entity.

Recognition and measurement
In the Bank's Financial Statements, the investments in subsidiaries, associates and entities under common control are measured at purchase price. The carrying amount of the investment is tested for impairment according to IAS 36 'Impairment of assets'. The impairment is recognized in the income statement under 'Gains (losses) from associates and subsidiaries. Dividends constituting an income from the investments are recognized in the income statement at the payment date.

Moreover, the capital investments in the entity operating abroad are non-financial assets. Non-financial assets are valued at historical cost in foreign currency, are translated into PLN using the exchange rate at the transaction date. Investments in foreign entity, acquired before the date of adoption of IFRS, are recognized at the carrying amount as at that date.

Business combinations
The Bank recognizes a business combination (except for purchase transactions under common control) using the acquisition method. The consideration transferred in the business combination of projects is measured at fair value of the assets given, liabilities incurred to the former owners of the acquiree and the equity interests issued by the Bank. The consideration transferred includes the fair value of an asset or liability resulting from a contingent payment arrangements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at initial recognition at their fair values at the acquisition date.

Costs related to the acquisition of a business are recorded as expenses in the period.

The excess of the consideration transferred over the fair value of the identifiable net assets acquired is recognized as goodwill. If all of the consideration transferred, the recognized non-controlling interests and the previously held shares is lower than the fair value of the net assets of the subsidiary acquired in a bargain purchase, the difference is recognized directly in the income statement.

Recognition of common control transactions at book value
Business combinations under common control are excluded from the scope of IFRS regulations. As a consequence, following the recommendation included in IAS 8 'Accounting Policies. Changes in Accounting Estimates and Errors', in the absence of any specific guidance within IFRS, the Bank Pekao S.A. adopted the accounting policy commonly used in all business combinations under common control within the UniCredit Group, of which the Bank is a member, and recognizes those transactions at book value.

The adopted accounting principles are as follows:

The acquirer recognizes the assets and liabilities of the target entity at their existing book value adjusted only as a result of aligning the combining enterprises' accounting policies. Neither goodwill, nor negative goodwill is recognized. The difference between the book value of acquired net assets and the fair value of the amount paid is recognized in the Bank's equity. In applying the book value method of accounting, the data concerning the comparative periods is not restated.

If the transaction results in acquisition of non-controlling interests, the acquisition of any non-controlling interest is recognized separately.

There is no guidance in IFRS how to determine the percentage of non-controlling interests acquired from the perspective of a subsidiary. Accordingly Bank Pekao S.A. uses the same principles as the ultimate parent for estimating the value of non-controlling interests acquired.

Intangible assets

Goodwill

Goodwill arising in a business combination is recognized in the amount of the excess of the consideration transferred over the fair value of the identified assets, liabilities and contingent liabilities at the date of acquisition. Goodwill at initial recognition is carried at purchase price reduced by any accumulated impairment losses. Impairment is determined by estimating the recoverable value of the cash generating unit, to which given goodwill pertains. If the recoverable value of the cash generating unit is lower than the carrying amount, an impairment charge is made. Impairment identified in the course of such tests is not subject to subsequent adjustments.

Other intangible assets

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

These mainly include:

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

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

Intangible assets with a definite useful life are amortized over their estimated useful life. Intangible assets with indefinite useful life are not amortized.

All intangible assets are reviewed on a periodical basis to verify if any significant impairment triggers occurred, which would require performing a test for impairment and a potential impairment charge.
As far as intangible assets with indefinite useful life and those still not put into service are concerned, impairment test is performed on a yearly basis and additionally when impairment triggers are identified.

Property, plant and equipment

Property, plant and equipment are defined as controlled non-current assets and assets under construction. Non-current assets include certain tangible assets with an expected useful life longer than one year, which are maintained for the purpose of own use or to be leased to other entities.

Property, plant and equipment are recognized at historical cost less accumulated depreciation and accumulated impairment write downs. Historical cost consists of purchase price or development cost and costs directly related to the purchase of a given asset.

Each component of property, plant and equipment, the purchase price or production cost of which is significant compared to the purchase price or production cost of the entire item is subject to separate depreciation. The Bank separates the initial value of property, plant and equipment into its significant parts.

Subsequent expenditures relating to property plant and equipment are capitalized only when it is probable that such expenditures will result in future economic benefits to the Bank, and the cost of such expenses can be reliably measured.

Notes to the financial statements (cont.)

(In PLN thousand)

Service and maintenance costs of property, plant and equipment are expensed in the reporting period in which they have been incurred.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense.

Depreciation and amortization

Depreciation expense for property, plant and equipment and investment properties and the amortization expense for intangible assets are calculated using straight line method over the expected useful life of an asset. Depreciated value is defined as the purchase price or cost to develop a given asset, less residual value of the asset. Depreciation rates and residual values of assets, determined for balance-sheet purposes, are subject to regular reviews, with results of such reviews recognized in the same period.

The statement of financial position depreciation rates applied to property, plant and equipment, investment properties and intangible assets are as follows:

a) depreciation rates applied for non-current assets:

Buildings and structures and cooperative ownership rights to residential premises and cooperative ownership rights to commercial premises	1.5% – 10.0%
Technical equipment and machines	4.5% – 30.0%
Vehicles	7% – 20.0%

b) amortization rates for intangible assets:

Software licenses, copyrights	12.5% – 50.0%
Costs of completed development projects	33.3%
Other intangibles	20% - 33.3%

c) depreciation rates for investment properties:

Buildings and structures	1.5% – 10.0%

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

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

Investment properties

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Non-current assets held for sale and discontinued operations

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

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

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

Leases

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

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

Operating leases

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

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

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

Finance leases

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Provisions

The provisions are recognized when the Bank has a present obligation (legal or constructive) resulting from the past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, the amount of a provision is established by discounting forecasted future cash flows to the present value, using the discount rate reflecting current market estimates of the time value of money and the possible risk associated with the obligation.

The provisions include the provisions relating to long-term employee benefits, in this those measured by an actuary and provisions for restructuring costs. The provision for restructuring costs is recognized when the general recognition criteria for provisions and detailed criteria for recognition of provisions for restructuring cost under IAS 37 'Provisions, contingent liabilities and contingent assets' are met. The amount of employment restructuring provision is calculated by the Bank on the basis of the best available estimates of direct outlays resulting from restructuring activities, which are not connected with the Bank's current activities.

The provisions are charged to the income statement, except for actuarial gains and losses from the measurement of the defined benefit plans obligations, which are recognized in other comprehensive income.

Deferred income and accrued expenses (liabilities)

This caption includes primarily commission income settled using the straight line method and other income charged in advance, that will be recognized in the income statement in the future periods.

Accrued expenses include accrued costs resulting from services provided for the Bank by counterparties which will be settled in future periods, accrued payroll and other employee benefits (including annual and Christmas bonuses, other bonuses and awards and accrued holiday pay).

Deferred income and accrued expenses are presented in the statement of financial position under the caption 'Other liabilities'.

Government grants

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

Notes to the financial statements (cont.)

(In PLN thousand)

Bank's equity

Equity is comprised of the capital and funds created by the companies of the Bank in accordance with the binding legal regulations and the appropriate laws and Articles of Association. Equity also includes retained earnings and net profit for the period.

Bank's equity comprises of the following:

a) share capital – can be increased through the issue of new shares or through an increase of the nominal value of already issued shares. At the General Shareholder's Meeting the share capital can be increased by means of reserve capital or other capital, if it is in accordance with the Bank's Articles of Association and Corporate Code,

b) reserve capital – created out of the annual net profit write-offs to be called in the event of loss, which may occur due to Bank's operations. Annual write-off should amount to at least 8% of net profit and should be made until the reserve capital reaches 1/3 of share capital value. Share premium formed from agio obtained from the issue of share, reduced by the attributable direct costs incurred with that issue is also a part of reserve capital,

c) revaluation reserve arises from the revaluation of financial instruments classified as available for sale, cash flow hedge derivatives rate, remeasurements of the defined benefit liabilities and the value of deferred tax for items classified as temporary differences recognized as revaluation reserve. In the statement of financial position revaluation reserve is recognized in net value,

d) exchange rate differences include differences arising from the recalculation of the result of a foreign branch at the weighted average exchange rate at the balance sheet date in relation to the average NBP exchange rate,

e) other reserve capital utilized for the purposes defined in the Articles of Association is created from appropriations of profits,

f) capital components:
   - bonds convertible to shares - includes the fair value of financial instruments issued as part of transactions settled in equity instruments, and
   - provision for purchase of parent entity stocks,

g) general banking risk fund in Bank Pekao S.A. is created in accordance with the Banking Act dated 29 August 1997 with subsequent amendments, from profit after tax,

h) retained earnings from prior periods is created from undistributed result from previous years,

i) net profit/loss, which constitutes of profit/loss for the period. Net profit is after taxation.

Share-based payment

Employee participation programs are established by the Bank under which key management staff is granted pre-emptive rights to buy shares of the Bank, including phantom shares and shares of UniCredit S.p.A. (see Note 44).

Bank's Pekao S.A. phantom shares-settled share-based payment transaction

The cost of transactions settled with employees in phantom shares is measured by reference to the fair value of the liability as of the balance sheet date.

The fair value of the liability is estimated based upon the Bank's shares price on the WSE as of the balance sheet date and expected number of phantom shares to which full rights will be acquired.

The cost of phantom share-based payments is recognized in 'Personnel expenses' together with the accompanying increase in the value of liabilities towards employees presented in 'Provisions'.

The accumulated cost recognized for transactions settled in phantom shares for each balance sheet date until the vesting date reflects the extent of elapse of the vesting period and the number of rights to shares the rights to which – in the opinion of the Bank's Management Board for that date based on best available estimates of the number of phantom shares – will be eventually vested.

Stock options and stock of the UniCredit S.p.A.

The Bank entities joined the UniCredit-wide long term incentive program. The aim of the program is to offer to selected key Bank's employees share options and shares of UniCredit S.p.A.

The fair value of the instruments granted to the Bank employees was established following the UCI Bank-wide applied Hull-White model.

The expenses related to the rights granted are recognized in 'Personnel expenses' and respective increase is recognized as liabilities presented in 'Other liabilities'.

The Bank is obliged to pay to UniCredit S.p.A. the fair value of the instruments vested at the time the instruments are exercised.

4.8 Income tax

Income tax expense comprises current and deferred tax. The income tax expense is recognized in the income statement excluding the situations when it is recognized directly in equity. The current tax consists of the tax payable on the taxable income for the period, calculated based on binding tax rates, and any adjustment to tax payable in respect of previous years. The receivables resulting from taxes are disclosed if the company has sufficient certainty that they exist and that they will be recovered.

Deferred income tax assets and liabilities are calculated, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tax asset or the deferred tax liability is realized.

A deferred tax asset is recognized for negative temporary differences to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilized.

A deferred tax liability is calculated using the balance sheet method based on identification of positive temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

4.9 Other

Contingent liabilities and commitments

The Bank enters into transactions which are not recognized in the statement of financial position as assets or liabilities, but which result in contingent liabilities and commitments. Contingent liabilities are characterized as:

- a potential obligation the existence of which will be confirmed upon occurrence or non-occurrence of uncertain future events that are beyond the control of the Bank (e.g. litigations),
- a current obligation which arises as a result of past events but is not recognized in the statement of financial position as it is improbable that it will result in an outflow of benefits to settle the obligation or the amount of the obligation cannot be reliably measured (mainly: unused credit lines and guarantees and letters of credit issued).

The issuer of the financial guarantee contract recognizes it at the higher of:

- the amount determined in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets',
- the amount initially recognized less, when appropriate, cumulative amortization charges recognized in accordance with IAS 18 'Revenue'.

Cash and cash equivalents

Cash and cash equivalents in the unconsolidated cash flow statement include 'Cash and due from Central Bank' as well as loans and receivables from banks with maturities of up to three months.

Segment reporting

Information concerning segment reporting of the Group are presented in Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on 31 December 2014.

5. Risk management

The risk management policy of the Bank has a goal of optimizing the structure of the statement of financial position and off-balance sheet positions under the consideration of all risks in relation to income and other risk that the Bank encounters in conducting its daily activity. Risks are monitored and controlled with reference to profitability and equity coverage and are regularly reported in accordance with rules briefly presented below.

All important risk types, occurring in the course of the Bank's operations are described as follows.

5.1 Organizational structure of risk management

Supervisory Board
The Supervisory Board provides supervision over the risk management control system, assessing its adequacy and effectiveness. Moreover, the Supervisory Board also provides supervision of the compliance with Bank policy with respect to risk management as it relates to Bank's strategy and financial planning.

Management Board
The Management Board is responsible for the development, implementation and functioning of risk management processes by, among others, introduction of relevant, internal regulations, also taking into consideration the results of internal audit inspections.

The Bank's Management Board is responsible for the effectiveness of the risk management system, internal control system, internal capital computation process and the effectiveness of the review of the process of computing and monitoring of internal capital. Moreover, the Management Board also introduces the essential adjustments or improvements to those processes and systems whenever necessary. This need may be a consequence of changing risk levels of Bank's operations, business environment factors or other irregularities in the functioning of processes or systems.

Periodically, the Bank Management Board submits to the Bank's Supervisory Board concise information on the types, scale and significance of risks the Bank is exposed to, as well as on methods used in the management of such risks.

The Bank Management Board is responsible for assessing, whether activities such as identification, measurement, monitoring, reporting and control or mitigation are being carried out appropriately within the scope of the risk management process. Moreover, the Management Board examines whether the management at all levels is effectively managing the risks within the scope of their competence.

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

5.2 Credit risk

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

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

The Bank established the following portfolio limits:

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

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

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

Rating models utilized in the credit risk management process

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

3. The Bank divides clients belonging to corporate segment (except for finacial institutions, municipalities and clients requiring specialist finansing) into the following groups:
- clients with income not exceeding PLN 30 million,
- clients with income exceeding PLN 30 million.

Notes to the financial statements (cont.)

(In PLN thousand)

Rating scale

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

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

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

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

RATING CLASS	MORTGAGE LOANS			CONSUMER LOANS			NON-INSTALLMENT LOANS		
	RANGE OF PD	NOMINAL VALUE		RANGE OF PD	NOMINAL VALUE		RANGE OF PD	NOMINAL VALUE	
		31.12.2014	31.12.2013		31.12.2014	31.12.2013		31.12.2014	31.12.2013
1	0.00% <= PD < 0.19%	3.5%	4.9%	0.00% <= PD < 0.30%	4.4%	4.8%	0.00% <= PD < 0.01%	0.8%	0.7%
2	0.19% <= PD < 0.24%	9.5%	10.6%	0.30% <= PD < 0.50%	6.4%	6.8%	0.01% <= PD < 0.03%	10.2%	10.2%
3	0.24% <= PD < 0.31%	28.2%	29.5%	0.50% <= PD < 0.60%	4.0%	4.8%	0.03% <= PD < 0.04%	2.8%	2.8%
4	0.31% <= PD < 0.40%	45.4%	41.9%	0.60% <= PD < 0.80%	10.5%	12.1%	0.04% <= PD < 0.07%	6.9%	7.1%
5	0.40% <= PD < 0.61%	5.0%	5.0%	0.80% <= PD < 1.30%	15.7%	17.0%	0.07% <= PD < 0.15%	17.0%	17.3%
6	0.61% <= PD < 1.02%	2.0%	1.1%	1.30% <= PD < 2.10%	21.4%	20.3%	0.15% <= PD < 0.25%	17.5%	18.0%
7	1.02% <= PD < 2.20%	1.7%	1.9%	2.10% <= PD < 3.70%	19.1%	16.7%	0.25% <= PD < 0.59%	9.0%	9.6%
8	2.20% <= PD < 6.81%	1.7%	1.9%	3.70% <= PD < 7.20%	8.9%	7.2%	0.59% <= PD < 1.20%	8.6%	10.3%
9	6.81% <= PD < 14.10%	0.9%	1.0%	7.20% <= PD < 15.40%	3.4%	3.2%	1.20% <= PD < 2.58%	5.3%	5.1%
10	14.10% <= PD < 100.00%	2.1%	2.2%	15.40% <= PD < 100.00%	6.2%	7.1%	2.58% <= PD < 100.00%	21.9%	18.9%
Total		**100.0%**	**100.0%**		**100.0%**	**100.0%**		**100.0%**	**100.0%**

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

RATING CLASS	RANGE OF PD	NOMINAL VALUE	
		31.12.2014	31.12.2013
1	0.00% <= PD < 0.11%	2.0%	1.4%
2	0.11% <= PD < 0.22%	4.4%	4.1%
3	0.22% <= PD < 0.45%	9.3%	9.7%
4	0.45% <= PD < 1.00%	17.3%	16.5%
5	1.00% <= PD < 2.10%	18.1%	19.3%
6	2.10% <= PD < 4.00%	15.6%	15.8%
7	4.00% <= PD < 7.00%	12.5%	12.8%
8	7.00% <= PD < 12.00%	8.6%	8.4%
9	12.00% <= PD < 22.00%	6.3%	6.8%
10	22.00% <= PD < 100.00%	5.9%	5.2%
Total		**100.0%**	**100.0%**

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

RATING CLASS	RANGE OF PD	NOMINAL VALUE	
		31.12.2014	31.12.2013
1	0.00% <= PD < 0.15%	10.1%	8.7%
2	0.15% <= PD < 0.27%	10.5%	10.8%
3	0.27% <= PD < 0.45%	14.9%	17.9%
4	0.45% <= PD < 0.75%	14.6%	12.9%
5	0.75% <= PD < 1.27%	12.8%	11.9%
6	1.27% <= PD < 2.25%	11.0%	9.0%
7	2.25% <= PD < 4.00%	3.9%	8.5%
8	4.00% <= PD < 8.50%	20.6%	16.7%
9	8.50% <= PD < 100.00%	1.6%	3.6%
Total		**100.0%**	**100.0%**

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

Client/transaction rating and credit risk decision-making level

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

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

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

Validation of rating models

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

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

Bank's exposure to credit risk

The maximum credit risk exposure

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

	31.12.2014	31.12.2013
Due from Central Bank	5 826 906	2 086 607
Loans and advances from banks and from customers (*)	118 604 439	108 223 044
Financial assets held for trading	513 078	188 377
Derivative financial instruments (held for trading)	4 464 894	1 999 346
Hedging instruments	470 822	250 186
Investment securities	24 572 130	34 845 508
Other assets (**)	3 573 738	2 545 019
Balance sheet exposure (***)	**158 026 007**	**150 138 087**
Obligations to grant loans	26 930 834	26 922 182
Other contingent liabilities	15 727 886	12 818 277
Off-balance sheet exposure	**42 658 720**	**39 740 459**
Total	**200 684 727**	**189 878 546**

(*) Loans and advances to customers include bills of exchange eligible for rediscounting at Central Bank.
(**) Includes the following items of the statement of financial position: 'Investments in subsidiaries', 'Investments in associates' and part of 'Other assets' (Accrued income, Interbank and interbranch settlements, Card settlements, Other debtor).
(***) Balance sheet exposure is equal to the carrying amount presented in the statement of financial position.

Notes to the financial statements (cont.)

(In PLN thousand)

Credit risk mitigation methods

Bank Pekao S.A. has established specific policies with regard to collateral accepted to secure loans and guarantees. This policy is reflected under internal rules and regulations, which are based on supervision rules, specified in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

The most frequently used types of collateral for credits and loans, accepted in compliance with the relevant policy of Pekao Bank, are as follows:

COLLATERAL	COLLATERAL VALUATION PRINCIPLES
MORTGAGES	
- commercial - residential	Collateral value is defined as the fair market value endorsed by a real estate expert. Other evidenced sources of valuation are acceptable, e.g. binding purchase offer, value dependent on the stage of tendering procedure, etc.
REGISTERED PLEDGE/ ASSIGNMENT:	
- inventories	The value is defined basing on well evidenced sources e.g. amount derived from pledge agreement, amount disclosed in last financial statement, insurance policy, stock exchange quotations, the value disclosed through foreclosure procedure supported with evidence e.g. prepared by bailiff/receiver.
- machines and appliances	The value is defined as expert appraisal or present value determined based on other, sound sources, such as current purchase offer, register of debtor's non-current assets, value evidenced by bailiff or court receiver, etc.
- vehicles	The value is defined based on available tables (e.g. from insurance companies) proving the car value depending on its producer, age, initial price, or other reliable sources e.g. value stated in the insurance policy.
- other	The value is defined upon individually. The valuation should result from reliable sources.
- securities and cash	The value is defined upon individually estimated fair market value. Recovery rate shall be assessed prudently reflecting the securities price volatility.
TRANSFER OF RECEIVABLES	
- from clients with investment rating assigned by independent rating agency or by internal rating system of the Bank	The value is defined upon individually assessed claims' amount.
- from other counterparties	The value is defined upon individually assessed claim's amount.
GUARANTIES/SURETIES (INCL. RAFTS)/ACCESSION TO DEBT	
- from banks and the State Treasury	Up to the guaranteed amount.
- from other counterparties enjoying good financial standing, particularly when confirmed by investment rating, assigned by an independent rating agency or by the internal rating system of the Bank	The value is defined upon individually assessed claim's amount.
- from other counterparties	Individually assessed fair market value.

The financial effect of pledged collaterals for exposure portfolio with recognized impairment defined individually amounts to PLN 1 453 471 thousand as at 31 December 2014 (PLN 1 352 740 thousand as at 31 December 2013). The level of required impairment allowances for the portfolio would increase by this amount, if the discounted cash flows from collateral were not taken into account during estimation.

Notes to the financial statements (cont.)

(In PLN thousand)

Offsetting financial assets and financial liabilities

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

The netting agreements concluded by the Bank are:

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

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

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

- derivatives,
- repo and reverse-repo transactions.

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

31.12.2014	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	4 935 716	(3 855 316)	(239 865)	840 535
Reverse-repo transactions	531 315	(530 528)	(385)	402
TOTAL	**5 467 031**	**(4 385 844)**	**(240 250)**	**840 937**

31.12.2014	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	5 906 720	(3 855 316)	(1 140 883)	910 521
Repo transactions	2 391	(2 391)	-	-
TOTAL	**5 909 111**	**(3 857 707)**	**(1 140 883)**	**910 521**

31.12.2013	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	2 249 532	(1 695 415)	(145 840)	408 277
Reverse-repo transactions	2 130 711	(2 128 726)	(723)	1 262
TOTAL	**4 380 243**	**(3 824 141)**	**(146 563)**	**409 539**

31.12.2013	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	3 062 269	(1 695 415)	(831 035)	535 819
Repo transactions	450 113	(442 179)	-	7 934
TOTAL	**3 512 382**	**(2 137 594)**	**(831 035)**	**543 753**

Notes to the financial statements (cont.)

(In PLN thousand)

The carrying amount of financial assets and financial liabilities disclosed in the above tables have been measured in the statement of financial position on the following bases:

- derivatives – fair value,
- assets and liabilities resulting from repo and reverse-repo transactions – amortized cost.

Reconciliation of the carrying amount of financial assets and financial liabilities subject to enforceable master netting agreements and similar agreements to the amounts presented in the statement of financial position

31.12.2014	NET CARRYING AMOUNT	LINE ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	4 291 499	Derivative financial instruments (held for trading)	4 464 894	173 395	25
	470 822	Hedging instruments	470 822	-	27
Reverse-repo transactions	531 315	Loans and advances to banks	7 215 362	6 684 047	23
FINANCIAL LIABILITIES					
Derivatives	4 328 577	Derivative financial instruments (held for trading)	4 422 292	93 715	25
	1 484 428	Hedging instruments	1 484 428	-	27
Repo transactions	2 391	Amounts due to other banks	3 129 856	3 127 465	38

31.12.2013	NET CARRYING AMOUNT	LINE ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	1 928 749	Derivative financial instruments (held for trading)	1 999 346	70 597	25
	165 954	Hedging instruments	250 186	84 232	27
Reverse-repo transactions	2 130 711	Loans and advances to banks	7 653 801	5 523 090	23
FINANCIAL LIABILITIES					
Derivatives	1 924 386	Derivative financial instruments (held for trading)	2 054 385	129 999	25
	1 007 884	Hedging instruments	1 007 884	-	27
Repo transactions	450 113	Amounts due to other banks	4 754 732	4 304 619	38

Notes to the financial statements (cont.)

(In PLN thousand)

Overall characteristics of monitoring process

The monitoring process is oriented at the identification of symptoms and threats, affecting the client, undertaking actions preventing the deterioration of credit portfolio quality for the purpose of maximizing the probability of recovery of assets made available to the client.

In particular, the monitoring of credit risk includes the control of timely debt service, analysis of client's financial standing, verification of meeting the terms of credit agreement and reviewing the collaterals.

Loans for large corporate clients are monitored using the rating system and data from both internal and external sources of information. In case of small and medium-size clients, the monitoring process is carried out using an internal tool, embedded into the statistical behavioral model. Process efficiency is further enhanced by regular reviews of the credit portfolio, carried out by representatives of the Risk Management Division and other Business Divisions for the purpose of determining the actual quality of individual exposures and of the entire credit portfolio.

The monitoring of individual clients is carried by IT systems and is based on the results of behavioral scoring.

Overall characteristics of provisioning model

The Bank establishes loan loss provisions ('LLP') in line with International Financial Reporting Standards ('IFRS'). LLP reflects the loan impairment and whether the Bank recognizes objective impairment triggers. Impairment of loans is recognized under an individual and collective approach.

The process of identifying impaired exposures covered by individual valuation is carried out with the use of an internal tool and consists of the following stages:

- identification, whether the impairment trigger for a given credit exposure has been recognized and, upon such identification, determination of the type of such trigger and assignment of default status to the exposure,
- assessment of future cash flows, discounted using the effective interest rate, generated both from collateral and client operations,
- calculation and registration of loan loss provision in the IT system.

Exposures covered by the collective approach valuation are classified into the default class for overdue amounts exceeding 90 days. For such exposures, the loan loss provision is calculated using a statistical model.

If an impairment trigger is not recognized, the Bank establishes provisions for incurred but not reported losses (IBNR) applying a statistical model of expected loss.

The applied statistical models are based on historical data for homogenous groups of exposure.

Both the models and parameters applied in the establishment of loan loss provision are subject to regular validation.

Notes to the financial statements (cont.)

(In PLN thousand)

The quality analysis of the Bank's financial assets

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
- not past due	-	-	602 972	1 191 694
- up to 1 month	-	-	38 982	101 788
- between 1 month and 3 months	-	-	102 477	457 622
- between 3 months and 1 year	-	-	746 774	443 213
- between 1 year and 5 years	9 160	18 089	2 545 244	2 019 612
- above 5 years	-	-	1 075 231	834 395
Total gross carrying amount	**9 160**	**18 089**	**5 111 680**	**5 048 324**
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(199 010)	(353 894)
- up to 1 month	-	-	(7 985)	(50 121)
- between 1 month and 3 months	-	-	(58 176)	(132 587)
- between 3 months and 1 year	-	-	(312 789)	(180 945)
- between 1 year and 5 years	(9 160)	(9 788)	(1 415 195)	(1 160 069)
- above 5 years	-	-	(887 430)	(736 308)
Total allowance for impairment	**(9 160)**	**(9 788)**	**(2 880 585)**	**(2 613 924)**
Net carrying amount of exposure individually impaired	**-**	**8 301**	**2 231 095**	**2 434 400**
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
- not past due	-	-	60 051	63 262
- up to 1 month	-	-	33 784	34 183
- between 1 month and 3 months	-	-	49 713	30 450
- between 3 months and 1 year	-	-	346 647	395 765
- between 1 year and 5 years	-	-	1 366 191	1 359 506
- above 5 years	9 800	15 662	816 259	554 871
Total gross carrying amount	**9 800**	**15 662**	**2 672 645**	**2 438 037**
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(32 243)	(34 697)
- up to 1 month	-	-	(16 966)	(17 564)
- between 1 month and 3 months	-	-	(26 065)	(15 992)
- between 3 months and 1 year	-	-	(207 366)	(236 622)
- between 1 year and 5 years	-	-	(1 091 855)	(1 051 931)
- above 5 years	(9 800)	(15 662)	(777 123)	(534 101)
Total gross carrying amount	**(9 800)**	**(15 662)**	**(2 151 618)**	**(1 890 907)**
Net carrying amount of exposure collectively impaired	**-**	**-**	**521 027**	**547 130**

Notes to the financial statements (cont.)

(In PLN thousand)

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS (*)			
			CORPORATE		RETAIL	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
- not past due	7 215 919	7 645 771	62 883 973	56 085 618	44 315 903	39 852 292
- up to 30 days	-	-	69 203	206 057	1 241 026	1 299 370
- between 30 days and 60 days	-	-	29 176	29 634	186 926	177 009
- above 60 days	-	-	113 466	108 852	296 500	299 214
Total gross carrying amount	**7 215 919**	**7 645 771**	**63 095 818**	**56 430 161**	**46 040 355**	**41 627 885**
IBNR PROVISION						
- not past due	(557)	(271)	(256 434)	(218 388)	(127 781)	(123 852)
- up to 30 days	-	-	(1 690)	(2 658)	(73 635)	(86 202)
- between 30 days and 60 days	-	-	(1 139)	(1 192)	(22 130)	(22 057)
- above 60 days	-	-	(922)	(599)	(15 322)	(15 385)
Total gross carrying amount	**(557)**	**(271)**	**(260 185)**	**(222 837)**	**(238 868)**	**(247 496)**
Net carrying amount of exposure with no impairment	**7 215 362**	**7 645 500**	**62 835 633**	**56 207 324**	**45 801 487**	**41 380 389**

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

The Bank exposures to credit risk, broken down by impairment triggers criteria

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
IMPAIRED EXPOSURE				
Gross carrying amount	18 960	33 751	7 784 325	7 486 361
Allowance for impairment	(18 960)	(25 450)	(5 032 203)	(4 504 831)
Total net carrying amount	**-**	**8 301**	**2 752 122**	**2 981 530**
EXPOSURES WITH IMPAIRMENT TRIGGERS FOR WHICH NO IMPAIRMENT HAS BEEN IDENTIFIED				
Gross carrying amount, in this:	-	-	23 601	38 589
Exposure with collateral value included in expected discounted cash flow, in this:	-	-	*23 601*	*38 589*
Past due exposures	-	-	*5 597*	*6 354*
IBNR provision	-	-	(1 676)	(2 765)
Total net carrying amount	**-**	**-**	**21 925**	**35 824**
EXPOSURES WITH NO IMPAIRMENT TRIGGERS				
Gross carrying amount	7 215 919	7 645 771	109 112 572	98 019 457
IBNR provision	(557)	(271)	(497 377)	(467 568)
Total net carrying amount	**7 215 362**	**7 645 500**	**108 615 195**	**97 551 889**

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

RATING	DEBT SECURITIES				
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS	TOTAL
AA+ to AA-	-	1 048 585	-	-	1 048 585
A+ to A-	310 654	14 838 185	672 495	7 716 100	23 537 434
BBB+ to BBB-	-	248 985	-	-	248 985
no rating	202 424	6 850 034(*)	851 445(**)	-	7 903 903
Total	**513 078**	**22 985 789**	**1 523 940**	**7 716 100**	**32 738 907**

(*) including NBP bills in an amount of PLN 6 147 781 thousand
(**) including NBP bills in an amount of PLN 851 445 thousand

Classification of exposures to debt securities according to Standard & Poor's ratings as at 31 December 2013

RATING	DEBT SECURITIES				
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS	TOTAL
AA+ to AA-	-	262 534	-	-	262 534
A+ to A-	188 377	17 599 157	1 050 967	5 694 771	24 533 272
BBB+ to BBB-	-	248 865	-	-	248 865
no rating	-	14 836 974(*)	837 757(**)	-	15 674 731
Total	**188 377**	**32 947 530**	**1 888 724**	**5 694 771**	**40 719 402**

(*) including NBP bills in an amount of PLN 14 159 186 thousand
(**) including NBP bills in an amount of PLN 837 757 thousand

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

RATING	DERIVATIVE INSTRUMENTS						TOTAL
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			
	BANKS	OTHET FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHET FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	155	-	-	-	-	-	155
AA+ to AA-	165 233	-	-	7 996	-	-	173 229
A+ to A-	2 672 019	275 856	-	415 222	-	-	3 363 097
BBB+ to BBB-	490 530	-	1 129	20 649	-	-	512 308
BB+ to BB-	26 026	-	2 623	-	-	-	28 649
B+ do B-	-	-	103	-	-	-	103
no rating	320 146	202 607	308 467	21 383	5 572	-	858 175
Total	**3 674 109**	**478 463**	**312 322**	**465 250**	**5 572**	**-**	**4 935 716**

Notes to the financial statements (cont.)

(In PLN thousand)

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

RATING	DERIVATIVE INSTRUMENTS						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			TOTAL
	BANKS	OTHET FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHET FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	8	-	-	-	-	-	8
AA+ to AA-	88 394	-	-	11 492	-	-	99 886
A+ to A-	1 290 956	31 507	-	116 674	-	-	1 439 137
BBB+ to BBB-	193 747	-	1 446	23 945	-	-	219 138
BB+ to BB-	31 553	-	2 861	-	-	-	34 414
B+ do B-	-	-	1 141	-	-	-	1 141
no rating	125 343	19 249	213 141	9 527	4 316	84 232	455 808
Total	**1 730 001**	**50 756**	**218 589**	**161 638**	**4 316**	**84 232**	**2 249 532**

Forbearance measures

With reference to European Securities and Markets Authority (ESMA) document 2012/853 and instructions issued by European Banking Authority in terms of disclosure as far as forborne exposures, the Bank in cooperation with its mother company has implemented a process of classification of this type of exposures.

Forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Based on these difficulties, the Bank decides to modify the terms and conditions of the contract to allow the borrower sufficient ability to service the debt or refinance the contract, either totally or partially. Modification of the terms and conditions of the contract may include i.e. the reduction of the interest rate, principal, accrued interest or the rescheduling of the dates of payment of principal and/or interests.

In particular, the Bank assumes that the forbearance has taken place when:

- the modified contract was classified as impaired and the modifications were made within restructuring activities;
- the modified contract was totally or partially past-due by more than 30 days (without being impaired) at least once during the three months prior to its modification or would be more than 30 days past-due, totally or partially, without modification;
- simultaneously with or close in time to the concession of additional debt by the Bank, the debtor made payments of principal or interest on another contract with the Bank that was totally or partially 30 days past due at least once during the three months prior to its refinancing.

The classification as forborne exposure shall be discontinued when all the following conditions are met:

- the contract is considered as exposure without impairment triggers;
- a minimum 2 year probation period has passed from the date the forborne exposure was considered as exposure without impairment triggers;
- regular payments of more than an insignificant amount of principal or interest have been made;
- none of the exposures to the debtor is more than 30 days past-due at the end of the probation period of forborne exposure.

If a decision is made to extend a concession, modify the contractual terms or refinance, which is not related to the financial difficulties of the borrower, then forbearance has not occurred.

The forbearance agreements are monitored for fulfillment of contractual provisions. Dedicated units of the Bank manage the agreements with identified forbearance measures and monitor such agreements on a current basis.

Notes to the financial statements (cont.)

(In PLN thousand)

When the exposure is classified as forborne and at each balance sheet date the Bank assesses whether there is any objective evidence that the exposure is impaired. The accounting policies in respect to the evaluation and the provisioning of the forborne exposures generally follow the principles in line with the provisions of IAS39, i.e. whether there are objective evidences that it has incurred a loss for impairment of loans valued at amortized cost, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet incurred) discounted at the original effective interest rate of the loan.

When the forbearance measures lead to derecognition of the original loan, the Bank recognizes the new loan at its fair value. The difference between the carrying amount of the original loan and the fair value of the new loan is recognized in income statement.

The Banks also performs an in-depth analysis of the credit risk characteristics of assets for which forbearance measures have been applied, when assessing for specific as well as collective impairment.

Share of forborne exposures in the Bank's loan portfolio

	31.12.2014	31.12.2013
LOANS AND ADVANCES TO CUSTOMERS		
Exposures with no impairment, of which:	**108 637 120**	**97 587 713**
forborne exposures	430 768	377 681
Impaired exposures, of which:	**2 752 122**	**2 981 530**
forborne exposures	1 710 511	1 554 655
Total net carrying amount, of which:	**111 389 242**	**100 569 243**
forborne exposures	2 141 279	1 932 336

The quality analysis of forborne exposures

	31.12.2014	31.12.2013
Exposures with no impairment		
Gross carrying amount	471 267	408 582
IBNR provisions	(40 499)	(30 901)
Net carrying amount	**430 768**	**377 681**
Impaired exposures		
Gross carrying amount, of which:	2 858 150	2 440 750
exposures individually impaired	2 717 279	2 439 955
exposures collectively impaired	140 871	795
Allowances for impairment, of which:	(1 147 639)	(886 095)
exposures individually impaired	(1 065 476)	(885 672)
exposures collectively impaired	(82 163)	(423)
Net carrying amount	**1 710 511**	**1 554 655**
Total net carrying amount	**2 141 279**	**1 932 336**

The Bank holds the collaterals for forborne exposures amounting to PLN 1 228 049 thousand as at 31 December 2014 (PLN 987 047 thousand as at 31 December 2013).

Notes to the financial statements (cont.)

(In PLN thousand)

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

	31.12.2014	31.12.2013
Gross carrying amount of exposures with no impairment, of which:	**471 267**	**408 582**
- not past due	342 879	288 727
- up to 30 days	91 987	91 646
- between 30 days and 60 days	22 848	17 875
- above 60 days	13 553	10 334
IBNR provisions for exposures with no impairment, of which:	**(40 499)**	**(30 901)**
- not past due	(21 691)	(13 879)
- up to 30 days	(12 077)	(12 024)
- between 30 days and 60 days	(3 793)	(2 952)
- above 60 days	(2 938)	(2 046)
Gross carrying amount of impaired exposures, of which:	**2 858 150**	**2 440 750**
- not past due	610 881	1 101 692
- up to 1 month	47 492	41 995
- between 1 month and 3 months	107 409	209 585
- between 3 months and 1 year	651 006	356 285
- between 1 year and 5 years	1 434 364	729 621
- above 5 years	6 998	1 572
Allowances for impairment, of which:	**(1 147 639)**	**(886 095)**
- not past due	(198 862)	(308 090)
- up to 1 month	(12 309)	(6 121)
- between 1 month and 3 months	(63 280)	(106 455)
- between 3 months and 1 year	(225 414)	(121 250)
- between 1 year and 5 years	(641 166)	(343 031)
- above 5 years	(6 608)	(1 148)
Total net carrying amount	**2 141 279**	**1 932 336**

Changes in net carrying amount of forborne exposures

	2014	2013
Net carrying amount at the beginning of period	**1 932 336**	**1 718 376**
Amount of exposures recognized in the period	709 550	672 165
Amount of exposures derecognized in the period	(142 296)	(197 814)
Changes in impairment allowances in the period	(164 031)	(195 484)
Other changes	(194 280)	(64 907)
Net carrying amount at the end of period	**2 141 279**	**1 932 336**
Interest income	197 829	190 916

Forborne exposures by type of forbearance activity

	31.12.2014	31.12.2013
Modification of terms and conditions	3 137 806	2 664 960
Refinancing	191 611	184 372
Total gross carrying amount	**3 329 417**	**2 849 332**
Impairment allowances	(1 188 138)	(916 996)
Total net carrying amount	**2 141 279**	**1 932 336**

Notes to the financial statements (cont.)

(In PLN thousand)

Forborne exposures by product type

	31.12.2014	31.12.2013
Mortgage loans	464 163	270 514
Current accounts	332 691	310 180
Operating loans	583 040	738 724
Investment loans	1 467 691	1 387 785
Purchased debt receivables	266 330	1 497
Other loans and advances	215 502	140 632
Total gross carrying amount	**3 329 417**	**2 849 332**
Impairment allowances	(1 188 138)	(916 996)
Total net carrying amount	**2 141 279**	**1 932 336**

Forborne exposures by industrial sectors

	31.12.2014	31.12.2013
Corporations	2 826 612	2 538 263
Manufacturing	670 068	431 703
Construction	654 406	770 692
Real estate activities	485 099	542 885
Professional, scientific and technical activities	475 414	367 642
Accommodation and food service activities	206 707	186 292
Wholesale and retail trade	150 748	120 132
Mining and quarrying	71 658	66 556
Transportation and storage	51 361	45 383
Agriculture, forestry and fishing	45 055	2 196
Other sectors	16 096	4 782
Individuals	502 805	311 069
Total gross carrying amount	**3 329 417**	**2 849 332**
Impairment allowances	(1 188 138)	(916 996)
Total net carrying amount	**2 141 279**	**1 932 336**

Forborne exposures by geographical structure

	31.12.2014	31.12.2013
Poland	3 063 666	2 849 225
Ukraine	254 098	-
Cyprus	10 880	-
Other countries	773	107
Total gross carrying amount	**3 329 417**	**2 849 332**
Impairment allowances	(1 188 138)	(916 996)
Total net carrying amount	**2 141 279**	**1 932 336**

Notes to the financial statements (cont.)

(In PLN thousand)

Credit risk concentration

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

a) Breakdown by individual entities:

As at 31.12.2014

EXPOSURE TO 10 LARGERST CLIENTS OF THE BANK	% SHARE OF PORTFOLIO
Client 1	1.9%
Client 2	1.5%
Client 3	1.1%
Client 4	0.9%
Client 5	0.9%
Client 6	0.9%
Client 7	0.8%
Client 8	0.8%
Client 9	0.8%
Client 10	0.7%
Total	**10.3%**

b) Concentration by capital groups:

As at 31.12.2014

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE BANK	% SHARE OF PORTFOLIO
Group 1	4.7%
Group 2	2.2%
Group 3	2.1%
Group 4	1.5%
Group 5	1.1%
Total	**11.6%**

c) Breakdown by industrial sectors.

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

Concentration ratios are determined on the basis of the 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 timely identification of the sectors in which the concentration of sector risk may become excessive. If such situation arises an analysis of the economic situation of the sector is performed considering the current and predicted trends and the quality of the current exposure to that sector. These measures enable the Bank to develop policies that reduce sector risk and allow for a timely reaction to a changing environment.

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents the structure of exposures by industrial sectors:

SECTOR DESCRIPTION	31.12.2014	31.12.2013
Wholesale and retail trade; repair of motor vehicles	13.3%	11.9%
Financial and insurance activities	13.1%	9.5%
Public administration and defence	12.2%	13.3%
Real estate activities	10.0%	12.2%
Electricity, gas, steam	9.2%	9.0%
Transportation and storage	6.1%	5.5%
Information and communication	5.0%	4.1%
Construction	4.9%	5.5%
Mining and quarrying	4.0%	3.1%
Manufacture of metals, metal products and machinery	3.7%	3.7%
Manufacture of food products and beverages	2.9%	3.3%
Manufacture of chemicals, pharmaceuticals and refined petroleum products	2.8%	3.8%
Manufacture of rubber, plastic and non-metallic products	1.8%	2.2%
Other manufacturing	3.9%	4.8%
Other sectors	7.1%	8.1%
Total	**100.0%**	**100.0%**

Credit exposures towards Ukraine

As at 31 December 2014, the Bank carried the level of net direct balance sheet exposures towards Ukraine amounting to PLN 962 million (0.6% of total Bank Pekao exposures).

Majority of mentioned amount refers to intra group exposures in the form of interbank placements from which 50% will be repaid up to 2015 and 50% up to 2017. The remaining share of exposures refer to two international corporate groups.

The Bank is strictly monitoring evolution of the situation in the country, however the nature of our exposures do not pose any treat in the overall quality of our assets.

The below table presents the Bank's exposure towards the Ukrainian entities.

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

(In PLN thousand)

5.3 Market risk

The Bank is exposed in its operations to market risk and other types of risk caused by changing market risk parameters.

Market risk is the risk of deteriorating financial result or capital of the Bank resulting from market changes. The main factors of market risk are as follows:

- interest rates,
- foreign exchange rates,
- stock prices,
- commodity prices.

The Bank established a market risk management system, providing structural, organizational and methodological procedures for the purpose of shaping the structure of statement of financial position and off-balance items to assure the achievement of strategic goals.

The main objective of market risk management is to optimize financial results and the influence on the worth of economic capital assuring the implementation of financial goals of the 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.

The organization of the market risk management process is based on a three-tier control system, established in compliance with the best international banking practices and recommendations from banking supervision. The process of market risk management and procedures regulating it have been developed taking into consideration the split into trading and banking books.

Market risk of the trading book

The Bank's management of market risk of the trading book aims at optimizing the financial results and assuring the highest possible quality of customer service in reference to the market accessability (market making) while staying within the limits of risk approved by the Management Board and the Supervisory Board.

The main tool for market risk of the trading book measurement is Value at Risk model (VaR). This value corresponds to the level of a one-day loss, which will not be incurred with the probability of 1%. VaR value is calculated with historical simulation method based on 2 years of historical observations of market risk factors' dynamics. The set of factors used when calculating VaR consists of all significant market factors that are taken into account for valuation of financial instruments, excluding specific credit risk of an issuer and counterparty. Estimating the impact of changes in market factors on the present value of a given portfolio is performed under the full revaluation (which is a difference between the value of the portfolio after the adjustments in market parameters' levels by historically observed changes of the parameters and the present value of the portfolio). The set of probable changes in the portfolio value (distribution), VaR is defined to be equal to 1% quantile.

The model is subject to continuous, statistical verification by comparing the VaR values to actual and revaluated performance figures. Results of analyses carried out in 2014 and 2013 confirmed the adequacy of the model applied.

The tables below presents the market risk exposure of the trading portfolio of the Bank measured by Value at Risk in 2014 and 2013:

	31.12.2014	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	44	11	413	2 183
interest rate risk	1 260	616	1 675	3 432
Trading portfolio	1 238	559	1 719	3 494

	31.12.2013	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	34	11	493	2 676
interest rate risk	1 210	808	1 432	2 868
Trading portfolio	1 082	762	1 478	2 917

(In PLN thousand)

Interest rate risk of the banking book

In managing the interest rate risk of the banking book the Bank aims to hedge the economic value of capital 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 (repricing gap), duration analysis, sensitivity analysis, stress testing and VaR.

The table below presents the sensitivity levels of the interest income (NII) to interest rate change by 100 b.p. and of economic value of the Bank's equity (EVE) to interest rate change by 200 b.p. for the end of December 2014 and December 2013, assuming perfect elasticity of the Bank's administrated rates to the markets rates changes (excluding current accounts priced in PLN, for which the Bank applies the model adjusting the profile of product's revaluation) and parallel changes in Central Bank's interest rates. The increase in sensitivity of interest income comes from the reduced level of the lombard rate at the end of 2014 and the potential impact of its further lowering on the interest income of the Bank.

SENSITIVITY IN %	31.12.2014	31.12.2013
NII	(12.33)	(7.69)
EVE	(0.21)	(1.83)

Currency risk

Currency risk management is performed simultaneously for the trading and the banking book. The objective of currency risk management is to maintain the currency profile of statement of financial position and off-balance items within the internal limits.

The table below presents the Bank's foreign currency risk profile by major foreign currencies measured at Value at Risk:

	31.12.2014	31.12.2013
Currencies total (*)	387	39

(*) VaR presented in 'Currencies total' is VaR for the whole portfolio, and includes correlations among currencies.

5.4 Liquidity risk

The objective of liquidity risk management is to:

- ensure and maintain the Bank's solvency with respect to current and future payables taking into account the cost of acquiring liquidity and return on the Bank's equity,
- prevent the occurrance of crisis situations, and
- provide solutions necessary to survive a crisis situation when such circumstances occur.

The Bank invests free funds primarily in treasury securities of the Government of the Republic of Poland with high levels of liquidity. At the end of 2014 the share of government securities (including NBP securities) in total securities portfolio was 64% and 13% in total assets. Due to their liquidity characteristics and pledge possibilities, regularly monitored, these financial instruments would assist the Bank to overcome crisis situations.

The Bank is also monitoring daily the short-term (operating) liquidity, including financial market operations and the size of available stocks of liquid and marketable securities, which may also serve as collateral offered to Central Banks. Moreover, the Bank is also monitoring the structural liquidity on a monthly basis, which includes a whole spectrum of the Bank financial position, including long-term liquidity.

Financial liquidity management also includes the monitoring, limiting, controlling and reporting to the Bank Management of a number of liquidity ratios, broken down by PLN and main foreign currencies and presented as aggregate values. In accordance with the banking supervisory recommendations, the Bank introduced among others internal liquidity indicators, defined as the ratio of adjusted maturing assets to adjusted maturing liabilities due in 1 month and 1 year, as well as covering ratios showing relation of adjusted maturing liabilities to adjusted maturing assets due in more than 1, 2, 3, 4 or 5 years.

Notes to the financial statements (cont.)

(In PLN thousand)

The Bank implemented emergency procedures 'Liquidity management policy in emergency situation', approved by the Management Board of the Bank, defining the action in case of a liquidity risk increase and any substantial deterioration of the Bank's financial liquidity.

This policy, referring to the deteriorating financial liquidity of the Bank's, includes daily monitoring of warning signals of systemic and specific nature for the Bank, including four degrees of threats to liquidity, depending upon the level of warning signals, the Bank situation and market conditions. The policy also identifies the sources of coverage of such foreseen outflow of cash and cash equivalents from the Bank. Apart from the above, the document describes also liquidity monitoring procedures, contingency procedures and organizational structures of task teams responsible for restoring the Bank's liquidity, as well as the scope of liability of Bank's management for taking the necessary decisions, associated with the restoration of the necessary financial liquidity levels of the Bank. Both the mentioned policy and the capacity to raise cash from sources specified in this plan are subject to periodic verification.

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

Monitoring the liquidity, the Bank pays special attention to the liquidity in foreign currencies through monitoring, limiting and controlling the liquidity individually for each currency (according to the description above) as well as monitoring demand for the current and future currency liquidity and in case of identification of such need the Bank hedges using currency swaps. The Bank monitors also the potential influence on the liquidity of placing required collateral deposits for derivative transaction.

The adjusted liquidity gaps presented below include, inter alia, the adjustments concerning the stability of core deposits and their maturities, adjustments of flows due to off-balance sheet commitments for financial liabilities granted and guarantees liabilities granted and assets without contractual repayment schedules. On top of that, included are also the adjusted flows stemming from security portfolio and flows resulting from earlier repayment of mortgage loans portfolio. These are the main elements differentiating adjusted gaps from unadjusted ones. The maturity tables below present additionally financial liabilities arranged according to contractual maturities.

Moreover the gaps are of static nature, i.e. they do not take into consideration the impact of volume changes (i.e. new deposits) upon the liquidity profile of the Bank statement of financial position and off-balance items, as well as of non-equity related cash flows.

Adjusted liquidity gap

31.12.2014	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Periodic gap	5 766 441	(3 701 312)	9 449 820	21 289 393	(33 719 252)	(914 910)
Cumulated gap		2 065 129	11 514 949	32 804 342	(914 910)	

31.12.2013	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Periodic gap	1 383 230	(3 721 046)	12 334 503	21 380 240	(31 981 941)	(605 014)
Cumulated gap		(2 337 816)	9 996 687	31 376 927	(605 014)	

Notes to the financial statements (cont.)

(In PLN thousand)

Structure of financial liabilities by contractual maturities

31.12.2014	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	1 698 396	136 868	6 273	115 437	1 301 127	3 258 101
Amounts due to customers	100 492 050	14 233 740	11 252 379	739 128	17 280	126 734 577
Debt securities issued	78 716	1 201 582	1 431 088	135 463	-	2 846 849
Financial liabilities held for trading	-	-	362 582	173 090	55 639	591 311
Total	**102 269 162**	**15 572 190**	**13 052 322**	**1 163 118**	**1 374 046**	**133 430 838**
OFF-BALANCE SHEET COMMITMENTS (**)						
Off- balance sheet commitments Financial liabilities granted	27 028 137	-	-	-	-	27 028 137
Off- balance sheet commitments Guarantees liabilities granted	15 598 380	-	-	-	-	15 598 380
Total	**42 626 517**	**-**	**-**	**-**	**-**	**42 626 517**

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

31.12.2013	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	1 968 459	1 451 927	12 592	168 225	1 397 852	4 999 055
Amounts due to customers	96 262 673	12 977 722	10 394 565	587 032	20 389	120 242 381
Debt securities issued	1 403 210	607 087	237 973	-	-	2 248 270
Financial liabilities held for trading	-	-	163 892	93 692	52 158	309 742
Total	**99 634 342**	**15 036 736**	**10 809 022**	**848 949**	**1 470 399**	**127 799 448**
OFF-BALANCE SHEET COMMITMENTS (**)						
Off- balance sheet commitments Financial liabilities granted	27 287 840	-	-	-	-	27 287 840
Off- balance sheet commitments Guarantees liabilities granted	12 187 126	-	-	-	-	12 187 126
Total	**39 474 966**	**-**	**-**	**-**	**-**	**39 474 966**

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

(In PLN thousand)

According to Bank's policy, off-balance derivative transactions settled in net amounts include:

- Interest Rate Swaps (IRS),
- Forward Rate Agreements (FRA),
- Foreign currency options and for gold,
- Interest rate options (Cap/Floor),
- Options based on commodities and equity securities,
- Commodity swaps.

Off-balance derivative transactions settled by the Bank in gross amounts include:

- Cross-Currency Interest Rate Swaps (CIRS),
- Foreign currency forward contracts,
- Foreign currency swaps,
- Securities forwards.

Liabilities from off-balance transactions on derivatives recognized in net amounts

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2014	109 831	66 827	157 414	2 488 669	1 598 823	**4 421 564**
31.12.2013	37 841	82 412	170 399	1 221 097	505 495	**2 017 244**

Flows related to off-balance derivative transactions settled in gross amounts

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2014						
inflows	20 531 975	11 645 192	5 339 427	8 365 126	3 000 995	**48 882 715**
outflows	20 517 653	11 635 627	5 451 489	9 091 869	3 084 889	**49 781 527**
31.12.2013						
inflows	9 859 595	6 918 333	6 513 048	4 360 422	4 639 247	**32 290 645**
outflows	9 836 552	6 924 706	6 386 575	4 782 678	4 966 904	**32 897 415**

5.5 Operational risk

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

Operational risk management is based on internal procedures that are consistent with the law requirements, resolutions, recommendations and guidelines of the supervisor, and the standards of UniCredit Group. Operational risk management includes identification, assessment, monitoring, preventing and reporting. Identification and assessment of operational risk is based on an analysis of internal factors and external factors that may have a significant impact on the achievement of the objectives of the Bank. The main tools used in identifying and assessing operational risk are: internal operational events, external operational events, key risk indicators, scenario analysis and self-assessment of operational risk. Monitoring activities are conducted on three levels of control: operational control (all employees), risk management control (Financial and Operational Risk Department) and internal audit (Internal Audit Department). Preventing operational risk includes definition of operational risk limits, and the obligation to initiate protective action in the event they are exceeded, the system of internal control, business continuity plans and insurance coverage. Operational risk reporting system enables the assessment of the Bank's exposure to operational risk and the effective management of this risk, and also plays a fundamental role in the process of informing the Supervisory Board, the Management Board and executives of the Bank's exposure to operational risk. It is based in particular on the quarterly operational risk control reports that include, among

Notes to the financial statements (cont.)

(In PLN thousand)

others: profile of operational risk, loss limit utilization, analysis of trends in the relevant categories of operational risk, potential losses, information on key indicators of operational risk and operational risk capital requirement.

The Supervisory Board, the Management Board and the Operational Risk Committee are involved in operational risk management. The Department of Financial and Operational Risk Management coordinates the process of operational risk management. All employees of the Bank and selected specialized units are responsible in their areas for operational risk management, due to diversified character of this risk which requires professional knowledge.

The operational risk capital requirement for the Bank is calculated with the use of advanced method AMA (Advanced Measurement Approach) according to the internal model of UniCredit Group. The Advanced Measurement Approach (AMA) is based on internal loss data, external loss data, scenario analysis data as well as key risk indicators. The calculated overall AMA capital requirement is allocated to UniCredit Group legal entities. The capital requirement allocated by means of the allocation mechanism reflects the entities' risk exposures. The operational risk capital requirement, in part related to Bank Pekao S.A. is subject to evaluation for its adequacy at the end of June and December.

Operational risk management system is subjected to internal validation at least once a year. Validation aims to examine compliance with regulatory requirements and standards of the UniCredit Group.

The table below depicts operating events grouped into categories regulated in the New Capital Accord of the Basel Committee and Resolution No. 76/2010 of the Polish Financial Supervision Authority:

- internal frauds – losses resulting from acts of intended fraud, misappropriation of property, circumvention of regulations, the laws and internal policies of a company, excluding losses resulting from diversity or discrimination of employees, which concern at least one internal party,
- external frauds – losses being a consequence of acts of defraud, misappropriation of property or circumvention of regulations performed by a third party,
- employment practices and workplace safety – losses due to acts inconsistent with regulations or employment agreements, workplace health and safety agreements, payments from personal injuries claims or losses from discrimination and unequal employee treatment,
- clients, products and business practices – losses arising from failures of meeting professional obligations towards clients due to unintended or negligent acts (including custody requirements and appropriate behavior) or concerning specific features or a design of a product,
- damages to physical assets – losses due to damage or loss of tangible assets resulting from natural disasters or other events,
- business disruption and system failures – losses stemming from business or system failures,
- execution, delivery and process management – losses resulting from failed transaction settlements or process management and losses from relations with cooperating parties and vendors.

OPERATING EVENTS BY CATEGORIES	2014	2013
Internal frauds	36.65%	17.48%
External frauds	24.73%	19.66%
Clients, products and business practices	14.77%	14.96%
Execution, delivery and process management	9.64%	20.47%
Damages to physical assets	8.94%	15.28%
Employment practices and workplace safety	4.66%	10.73%
Business disruption and system failures	0.61%	1.42%
Total	**100.00%**	**100.00%**

In 2014, operating losses were dominated by internal and external frauds. The largest share was a loss of internal frauds category, which accounted for 36.65% of total losses (17.48% in 2013). The second category of high losses was external frauds, representing 24.73% of the total losses (19.66% in 2013), while the third category - clients, products and business practices accounted for 14.77% of all registered losses (14.96% in 2013).

5.6 Equity management

The capital management process applied by Bank Pekao S.A. has been adopted for the following purposes:

- assurance of safe operating by maintaining the balance between the capacity to undertake risk (limited by own funds), and the risk levels generated,
- maintenance of capital for covering risk above the minimum stated levels in order to assure further business operations, taking into consideration the possible, future changes in capital requirements and to safeguarding the interests of shareholders,
- maintenance of the optimal capital structure in order to maintain the desired quality of risk coverage capital,
- creation of value to shareholders by the best possible utilization of the Bank funds.

The Bank has put in place a formalized process of capital management and monitoring, established within the scope of ICAAP procedure. The Finance Division under the Chief Financial Officer is responsible for functioning of the capital management process in the Bank. The ultimate responsibility for capital management is allocated to the Management Board of the Bank, supported by the Assets, Liabilities and Risk Management Committee, which approves the capital management process. The Bank has also implemented the Capital Contingency Policy which establishes rules and obligations in the event of crisis appearance or further development that would significantly reduce capitalization level of the Bank or Group. The policy defines the principles of supervision including split of responsibilities for the purpose of early and consistent management in case of crisis situation development.

The Capital Management Strategy defines the objectives and general rules of the management and monitoring of Bank's capital adequacy, such as the guidelines concerning risk coverage sources, preferred structure of capital for risk coverage, long-term capital targets, capital limits system, sources of additional capital under contingency situations and the structure of capital management process.

The capital adequacy of the Bank is controlled by the Assets, Liabilities and Risk Management Committee and Management Board of Bank. Periodic reports on the scale and direction of changes of the capital ratios together with indication of potential threats are prepared for the Management Board and for the Assets, Liabilities and Risk Management Committee. The level of basic types of risks is monitored according to the external limits of the banking supervision and the internal limits of the Bank. Analyses and evaluations of directions of business activities development are performed assessing the compliance with capital requirements. Forecasting and monitoring of risk weighted assets, own funds and capital ratios constitute an integral part of the planning and budgeting process, including stress tests.

The Bank also has a capital allocation process in place, with an aim of guaranteeing the shareholders a safe and effective return on invested capital. On one hand, the process requires capital allocations to products/clients/business lines, which guarantee profits adequate to the risks taken, while on the other hand taking into consideration the cost of capital associated with the business decisions taken. Risk-related efficiency ratios are used in the analyses of income generated compared against the risk taken as well as for the optimization of capital usage for different types of operations.

Regulatory capital requirements

Capital ratios are the basic measure applied for the measurement of capital adequacy. The minimum Total Capital Ratio required by law cannot be lower than 8% while according to recommendation of European Banking Authority and Polish Financial Supervision Authority total capital ratio must be not lower than 12% and Tier 1 Capital ratio not lower than 9%.

Calculations of the regulatory capital requirements at both report dates were done based on Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

Notes to the financial statements (cont.)

(In PLN thousand)

As at 31 December 2014 total capital ratio of the Bank amounted at 17.1% (as at 31 December 2013 – 18.3%).

	31.12.2014	31.12.2013
CAPITAL REQUIREMENTS		
Credit and counterparty risk	8 337 734	7 354 111
Market risk	195 446	127 803
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**
OWN FUNDS REQUIREMENTS		
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.

For the purpose of capital requirement calculation the Bank uses:

- Standardized Approach for credit risk capital requirement calculation,
- Financial Collateral Comprehensive Method for credit risk mitigation,
- Advanced Measurement Approach for operational risk measurement,
- Standard approach for foreign-exchange risk capital requirement calculation,
- Simplified approach for commodities risk capital requirement calculation,
- standardized method for own funds requirements for credit risk valuation adjustment risk,
- standard method for specific risk and maturity-based calculation for general risk capital requirement calculation.

Notes to the financial statements (cont.)

(In PLN thousand)

Own funds

Bank defines components of own funds in line with the binding law, particularly with Regulation No 575/2013 and The Banking Act.

Bank's own funds consist only of Common Equity Tier 1 Capital. Additional Capital Tier 1 and Tier 2 Capital are not identified in the Bank.

	31.12.2014	31.12.2013 (*)
OWN FUNDS		
Capital	**23 387 243**	**22 848 703**
Component of the capital not included into own funds, in which:	**(2 662 266)**	**(2 800 000)**
Current year net profit	(2 662 266)	(2 800 000)
Regulatory adjustments, in which:	**(1 204 953)**	**(772 937)**
Intangible assets	(535 641)	(534 406)
Capitals from revaluation	(112 283)	68 673
Unrealised loss from debt and capital instruments available for sale	3 279	37 513
Unrealised gain from debt and capital instruments available for sale	(525 304)	(305 952)
Additional value adjustments due to prudent calculation	(35 004)	(38 765)
Common Equity Tier 1 Capital	**19 520 024**	**19 275 766**
Own funds for total capital ratio	**19 520 024**	**19 275 766**

(*) Data calculated according to Regulation No 575/2013.

Components of capital not included into own funds:

- Current year net profit – net profit of current reporting period, verified by statutory auditor responsible for auditing of the Bank's accounts reduced by all foreseeable charge and dividend, can be included into Common Equity Tier 1 Capital only with the permission of Polish Financial Supervision Authority. As at 31 of December 2014, current profit of the Bank was not included into Common Equity Tier 1 Capital.

Regulatory adjustments:

- Intangible assets (after deduction of deferred tax liabilities) decrease Common Equity Tier 1 Capital, according to Article 36 of Regulation No 575/2013.
- Capital from revaluation reflects fair value of cash flow hedges decrease Common Equity Tier 1 Capital, according to Article 33 of Regulation No 575/2013.
- Unrealised losses from debt and capital instruments classified as available for sale according to Article 467 of Regulation No 575/2013 and KNF decision, decrease Common Equity Tier 1 capital in 80%.
- Unrealised gains from debt and capital instruments classified as available for sale according to Article 468 of Regulation No 575/2013 and KNF decision are removed in 100% from Common Equity Tier 1 Capital.
- Additional value adjustments due to prudent valuation are created for every asset measured at fair value, according to Article 34 of Regulation No 575/2013.

Internal capital adequacy assessment

To assess the internal capital adequacy, the Bank applies methods designed internally. In internal capital adequacy assessment.

Bank takes the following risk types into consideration:

- credit risk,
- operational risk,
- market risk (banking book and trading book),
- liquidity risk,
- real estate risk,
- macroeconomic risk,
- business risk (including strategic risk),
- compliance risk,
- reputational risk,
- model risk,
- leverage risk,
- bancassurance risk,
- financial investment risk.

For each risk deemed material, the Bank develops and applies adequate risk assessment and measurement methods. The Bank applies the following risk assessment methods:

- qualitative assessment – applied in case of risks which are difficult to measure or for which capital is not a sufficient means to cover losses (compliance, reputational and bancassurance risks),
- assessment by estimation of capital buffer, for risks that are not easily quantifiable however some aggregate assessment of their impact is possible (model risk and macroeconomic risk),
- quantitative assessment – applied for risks which can be measured with the use of economic capital (other risk types apart from liquidity risk and leverage risk) or based on other risk-specific measures (liquidity risk and leverage risk).

Preferred methods of measuring quantifiable risks and determining the resulting capital requirements are Value at Risk models, based on assumptions derived from the Bank's risk appetite (99.93% confidence level and a one-year time horizon). The models are developed in compliance with the best market practices and regulatory requirements and supplemented with stress tests or scenario analyses. In case of risk types for which such methodologies have not been finally developed or implemented, the Bank uses modified regulatory models supplemented with stress tests or simplified measurement methods. A consistent methodology for estimating the buffer for macroeconomic and model risks has been developed. The macroeconomic risk capital buffer is determined on the basis of the impact of the economic slowdown scenario on economic capital in the forecast horizon.

Model risk is assessed qualitatively based on the analysis of data, assumptions and methodologies used. An additional element of the model risk assessment are scenario analyses making it possible to evaluate the impact of potential model inconsistencies on its output. Based on the aggregated output, the model risk capital buffer is determined.

The procedure of estimating capital needs starts with the calculation of economic capital, separately for each material quantifiable risk identified by the Bank. Next, economic capital figures for individual risks are aggregated inclusive of diversification effect. The amount is then increased by the capital buffer for model and macroeconomic risks. The sum of economic capital (inclusive of diversification effect) and the capital buffer constitutes the internal capital of the Bank.

Notes to the financial statements (cont.)

(In PLN thousand)

5.7 Fair value of financial assets and liabilities

Financial instruments that are measured at fair value in the unconsolidated statement of financial position of the Bank

The measurement of fair value of financial instruments, for which market values from active markets are available, is based on market quotations of a given instrument (mark-to-market).

The measurement of fair value of Over-the-counter ('OTC') derivatives and instruments with limited liquidity (i.e. for which no market quotations are available), is made on the basis of other instruments quotations on active markets by replication thereof using a number of valuation techniques, including the estimation of present value of future cash flows (mark-to-model).

As of 31 December 2014 and on 31 December 2013, the Bank classified the financial assets and liabilities measured at fair value into the following three categories based on the valuation method:

- Level 1: mark-to-market, applies exclusively to quoted securities,
- Level 2: mark-to-model valuation with model parameterization, based on quotations from active markets for given type of instrument. This method applies to illiquid government, municipal, corporate and central bank debt securities, linear and non-linear derivative instruments of interest rate markets (including forward transactions on debt securities), equity instruments, commodities and foreign currency exchange, except for those cases that meet the criteria belonging to Level 3,
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors. This method is applicable to corporate and municipal debt securities and for linear and non-linear derivative instruments of interest rate and foreign currency exchange markets for which unobservable parameters (e.g. credit risk factors) are recognized as significant.

The measurement at fair value is performed directly by a unit within Risk Management Division, independent from front-office units. The methodology of fair value measurement, including the changes of its parameterization are subject to approval of Assets and Liabilities Committee (ALCO). The adequacy of measurement methods is subject to on-going analysis and periodical reviews in framework of model risk management. Within the same unit, assessment of adequacy and significance of risk factors is performed, including assignment of valuation models to appropriate method class, according to established principles of classification. The principles of classification are regulated by internal procedures and subject to approval of the Management Board Member, responsible for the Financial Division.

Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2014	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	**16 254 029**	**11 820 799**	**422 156**	**28 496 984**
Financial assets held for trading	310 654	38 016	164 408	513 078
Derivative financial instruments, including:	-	4 461 927	2 967	4 464 894
- Banks	-	3 671 138	2 967	3 674 105
- Customers	-	790 789	-	790 789
Hedging instruments, including:	-	470 822	-	470 822
- Banks	-	465 249	-	465 249
- Customers	-	5 573	-	5 573
Securities available for sale	15 943 375	6 850 034	254 781	23 048 190
Liabilities:	**591 311**	**5 906 720**	**-**	**6 498 031**
Financial liabilities held for trading	591 311	-	-	591 311
Derivative financial instruments, including:	-	4 422 292	-	4 422 292
- Banks	-	3 692 116	-	3 692 116
- Customers	-	730 176	-	730 176
Hedging instruments, including:	-	1 484 428	-	1 484 428
- Banks	-	1 484 428	-	1 484 428
- Customers	-	-	-	-

31.12.2013	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	**18 053 554**	**17 083 881**	**257 258**	**35 394 693**
Financial assets held for trading	188 377	-	-	188 377
Derivative financial instruments, including:	-	1 996 721	2 625	1 999 346
- Banks	-	1 730 001	-	1 730 001
- Customers	-	266 720	2 625	269 345
Hedging instruments, including:	-	250 186	-	250 186
- Banks	-	161 638	-	161 638
- Customers	-	88 548	-	88 548
Securities available for sale	17 865 177	14 836 974	254 633	32 956 784
Liabilities:	**309 742**	**3 062 269**	**-**	**3 372 011**
Financial liabilities held for trading	309 742	-	-	309 742
Derivative financial instruments, including:	-	2 054 385	-	2 054 385
- Banks	-	1 744 107	-	1 744 107
- Customers	-	310 278	-	310 278
Hedging instruments, including:	-	1 007 884	-	1 007 884
- Banks	-	1 007 884	-	1 007 884
- Customers	-	-	-	-

Notes to the financial statements (cont.)

(In PLN thousand)

Change in fair value of financial instruments measured by the Bank at fair value according to Level 3

2014	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE	DERIVATIVE FINANCIAL INSTRUMENTS (LIABILITIES)
Opening balance	**-**	**2 625**	**254 633**	**-**
Increases, including:	14 379 046	4 541	9 980	-
Acquisition	14 377 748	-	-	-
Derivatives transactions made in 2014	-	1 488	-	-
Gains on financial instruments	1 298	3 053	9 980	-
recognized in the income statement	1 298	3 053	9 980	-
Decreases, including:	(14 214 638)	(4 199)	(9 832)	-
Reclassification	-	-	-	-
Settlement/redemption	(1 432 830)	(4 199)	(9 832)	-
Sale	(12 780 680)	-	-	-
Losses on financial instruments	(1 128)	-	-	-
recognized in the income statement	(1 128)	-	-	-
Closing balance	**164 408**	**2 967**	**254 781**	**-**
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	**(801)**	**1 479**	**470**	**-**
Income statement:	235	1 479	292	-
net interest income	235	-	292	-
result on financial assets and liabilities held for trading	-	1 479	-	-
Other comprehensive income	(1 036)	-	178	-

2013	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE	DERIVATIVE FINANCIAL INSTRUMENTS (LIABILITIES)
Opening balance	**321 153**	**24 360**	**953 833**	**24 360**
Increases, including:	18 158 767	12 905	11 540	-
Reclassification	-	12 905	-	-
Acquisition	18 158 767	-	-	-
Gains on financial instruments	-	-	11 540	-
recognized in the income statement	-	-	11 539	-
recognized in revaluation reserves	-	-	1	-
Decreases, including:	(18 479 920)	(34 640)	(710 740)	(24 360)
Reclassification	-	(24 360)	(699 084)	(24 360)
Settlement/redemption	(970 080)	(7 621)	(11 656)	-
Sale	(17 509 840)	-	-	-
Losses on financial instruments	-	(2 659)	-	-
recognized in the income statement	-	(2 659)	-	-
Closing balance	**-**	**2 625**	**254 633**	**-**
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	**-**	**(528)**	**351**	**-**
Income statement:	-	(528)	350	-
net interest income	-	-	350	-
result on financial assets and liabilities held for trading	-	(528)	-	-
Other comprehensive income	-	-	1	-

Notes to the financial statements (cont.)

(In PLN thousand)

Transfers from Level 1 to 2 are based on availability of active market quotations as at the end of the reporting period.

Transfers from Level 2 to 3 takes place if observable valuation parameter is changed to an unobservable one or if a new unobservable parameter is applied, provided the change results in significant impact on the valuation of instrument. Transfer from Level 3 to Level 2 takes place if unobservable valuation parameter is changed to an observable one, or the impact of unobservable parameter becomes insignificant. The transfers between levels take place on date and at the end of the reporting period.

In the period from 1 January till to 31 December 2014, there was no transfer of instruments measured at fair value between Level 1 and Level 2.

In the period from 1 January till to 31 December 2014, there was no transfer of instruments measured at fair value between Level 2 and Level 3.

The impact of estimated parameters on measurement of financial instruments for which the Bank applies fair value valuation according to Level 3 as at 31 December 2014 and as at 31 December 2013 is as follows:

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 31.12.2014	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2014	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Equity derivatives	2 967	Black Scholes Model	Correlation	0-1	263	(581)
Corporate debt securities	412 537	Discounted cash flow	Credit spread	0.61% -1.13%	5 856	(1 928)

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 31.12.2013	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2013	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Interest rate derivatives	3 624	Discounted cash flow	PD	18%-32%	158	(30)
		Discounted cash flow	LGD	39%-49%	36	(36)
Corporate debt securities	252 225	Discounted cash flow	Credit spread	0.5%-1.3%	4 620	-

Notes to the financial statements (cont.)

(In PLN thousand)

Financial instruments that are not measured at fair value in the unconsolidated statement of financial position of the Bank

The Bank also holds financial instruments which are not presented at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

As of 31 December 2014 and on 31 December 2013, the Bank classified the financial assets and liabilities not measured at fair value in the consolidated statement of financial position into the following three categories based on the valuation level:

- Level 1: mark-to-market. Applies to government securities quoted on the liquid market and cash,
- Level 2: mark-to-model valuation with model parameterization, based on quotations from active markets for given type of instrument. This method applies to interbank deposits, own issues, illiquid government, municipal, corporate and central bank debt securities,
- Level 3: mark-to-model valuation with partial model parameterization, based on estimated risk factors. This method is applicable to corporate and municipal debt securities and loans and deposits for which the applied credit risk factor (an unobservable parameter) is recognized significant.

In case of certain groups of financial assets, recognized at the amount to be received with impairment considered, the fair value was assumed to be equal to carrying amount. The above applies in particular to cash and other financial assets and liabilities.

In the case of loans for which no quoted market values are available, the fair values presented are generally estimated using valuation techniques taking into consideration the assumption, that at the moment when the loan is granted its fair value is equal to its carrying amount. Fair value of non-impaired loans is equal to the sum of future expected cash flows, discounted at the balance sheet date. The discount rate is defined as the appropriate market risk-free rate plus the credit risk margin and current sales margin (taking commission income into consideration) for the given loan products group. The margin is computed on loans granted during last three months broken down by loan product groups and maturity. For the purpose of the fair value of foreign currency loans estimation, the margin on PLN loans adjusted by the cross-currency basis swap quotes is used. The fair value of impaired loans is defined as equal to the sum of expected recoveries, discounted with the use of effective interest rate, since the average expected recovery values take the element of credit risk fully into consideration. In case of loans without repayment schedule (loans in current account, overdrafts and credit cards), the fair value was assumed as equal to the carrying amount.

For the Bank's capital exposure, for which no active market prices are available and market values are unattainable, the Bank does not measure their fair value. Such exposures include companies from financial sector, associated with the use of the financial and banking infrastructure and payment card services and companies taken-over as a result of debt restructuring.

Since no quoted market prices are available for deposits, their fair values have been generally estimated using valuation techniques with the assumption that the fair value of a deposit at the moment of its receipt is equal to its carrying amount. The fair value of term deposits is equal to the sum of future expected cash flows, discounted at the relevant balance sheet date. The cash flow discount rate is defined as the relevant market risk-free rate, increased by the sales margin. The margin is computed on deposits acquired during last three months broken down by deposit product groups and maturity. In case of short term deposits (current deposits, overnights, saving accounts), the fair value was assumed as equal to the carrying amount.

The fair value of deposits and loans, apart from mortgage loans denominated in PLN and CHF for which prepayment model is used, is calculated based on contractual cash flows.

The mark-to-model valuation of own issue debt instruments is based on the method of discounting the future cash flows. Variable cash flows are estimated based upon rates adopted for specific markets (depending upon issue specifications). Both the fixed and implied cash flows are discounted using interbank money market rates.

Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2014	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
ASSETS					
Cash and due from Central Bank	9 226 249	9 226 249	3 399 331	5 826 918	-
Receivables from banks	7 215 362	7 242 490	-	5 340 029	1 902 461
Loans and advances to customers (*)	111 389 242	110 325 516	-	7 513 821	102 811 695
Debt securities held to maturity	1 523 940	1 537 537	686 091	851 446	-
Total assets	**129 354 793**	**128 331 792**	**4 085 422**	**19 532 214**	**104 714 156**
LIABILITIES					
Amounts due to Central Bank	971	997	-	-	997
Amounts due to other banks	3 129 856	3 180 615	-	909 115	2 271 500
Amounts due to customers	126 381 270	126 025 212	-	5 257 218	120 767 994
Debt securities issued	2 819 713	2 824 154	-	2 824 154	-
Total liabilities	**132 331 810**	**132 030 978**	**-**	**8 990 487**	**123 040 491**

(*) Including bills of exchange eligible for rediscount at Central Bank.

31.12.2013	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
ASSETS					
Cash and due from Central Bank	4 191 223	4 191 223	2 104 616	2 086 607	-
Receivables from banks	7 653 801	7 654 406	-	4 434 648	3 219 758
Loans and advances to customers (*)	100 569 243	99 737 977	-	7 914 160	91 823 817
Debt securities held to maturity	1 888 724	1 910 920	1 073 161	837 759	-
Total assets	**114 302 991**	**113 494 526**	**3 177 777**	**15 273 174**	**95 043 575**
LIABILITIES					
Amounts due to Central Bank	985	985	-	-	985
Amounts due to other banks	4 754 732	4 809 248	-	2 761 626	2 047 622
Amounts due to customers	119 868 743	119 509 154	-	3 667 699	115 841 455
Debt securities issued	2 240 452	2 240 719	-	2 240 719	-
Total liabilities	**126 864 912**	**126 560 106**	**-**	**8 670 044**	**117 890 062**

(*) Including bills of exchange eligible for rediscount at Central Bank.

(In PLN thousand)

6. Custody activity

Custody activities are performed by virtue of a permit, issued by the Polish Financial Supervision Authority. The Bank's clients include a number of domestic and foreign financial institutions, banks offering custody and investment services, insurance companies, investment and pension funds, as well as non-financial institutions. The Bank provides custody services, including, inter alia, the settlement of transactions effected on domestic and international markets, custody of clients' assets, running of securities accounts, valuation of assets and services related to dividend and interest payments. The Bank also performs the activities of investment and pension funds depository.

In 2014, the Bank acquired a number of new clients from the segment of investment funds, insurance companies and foreign banks. Particularly, Bank increased value of the assets under custody thanks to mandate given by one of the leading global custodian banks. The Bank also maintained its leading position in terms of depositary notes, by handling more than 50% of all programmes.

As of 31 December 2014 the Bank maintained 8 812 securities accounts (in comparison to 4 865 securities accounts as at 31 December 2013).

7. Brokerage activity

Bank Pekao S.A. offers a wide range of capital market products and services via specialized Bank's organizational unit – Dom Maklerski Pekao.

Dom Maklerski Pekao is a specialized organizational unit of the Bank designed to sell capital market products. The objective of the entity is providing the highest quality brokerage services. The comprehensive offering enables clients, especially the individual clients of the Bank to invest in shares, derivatives (futures and options), bonds traded on exchanges and OTC markets. The entity intermediates also in sales of Structured Certificates of Deposit issued by Bank Pekao S.A. and invests in securities offered in IPOs and traded on foreign exchanges. Clients are served in 621 Brokerage Services Spots located in Bank branches throughout Poland and through remote channels of Pekao24Makler (via Internet, mobile service and by phone) fully integrated with the Bank's electronic banking platform Pekao24.

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

Dom Maklerski Pekao conforms to the Good Practices Code of Brokerage Firms guaranteeing comprehensive services in accordance with highest ethics standards.

The Director of Dom Maklerski Pekao is the Vice-President of the Chamber of Brokerage Houses.

Dom Maklerski Pekao actively participates in capital market development in Poland.

Information about the financial instruments of the clients held on securities accounts or stored in a form of document

	31.12.2014		31.12.2013	
	QUANTITY (PCS)	VALUE	QUANTITY (PCS)	VALUE
CLIENTS' FINANCIAL INSTRUMENTS				
Held on securities accounts	838 209 498	2 466 533	1 350 396 302	4 880 828
Equity securities and rights to such financial assets	837 768 420	2 364 384	1 337 023 765	4 380 965
Debt instruments and rights to such financial assets	441 078	102 149	13 372 537	499 863

Notes to the financial statements (cont.)

(In PLN thousand)

Customers' cash on brokerage accounts

	31.12.2014	31.12.2013
Deposited on cash accounts in brokerage house and paid for securities bought in IPO or on the primary market	229 624	225 987
Other customers' cash	16 808	16 359
Total	**246 432**	**242 346**

Settlements due to unsettled transactions

	31.12.2014	31.12.2013
Receivables from executed transactions	28	2 747
Liabilities from executed transactions	-	-

Settlements with the National Depository of Securities (KDPW), KDPW_CCP and other stock exchange clearing houses

	31.12.2014	31.12.2013
Receivables from clearing fund	1 326	1 593
Receivables from margin deposits	11 041	11 096
Other receivables	83	92
Total receivables	**12 450**	**12 781**
Amounts due to clearing fund	-	4
Amounts due on margin deposits	-	-
Other liabilities	116	176
Total liabilities	**116**	**180**

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

	31.12.2014	31.12.2013
Receivables from compensation fund	320	255
Prepaid expenses- system maintenance payments	59	37
Deferred income- benefits from system	(379)	(292)
Total net balance sheet items concerning participation In the compensation fund	**-**	**-**

Settlements with entities running regulated securities markets and commodity exchanges

	31.12.2014	31.12.2013
Amounts due to Warsaw Stock Exchange	76	111
Total liabilities	**76**	**111**

Notes to the financial statements (cont.)

(In PLN thousand)

8. Interest income and expense

Interest income

	2014	2013
Loans and other receivables from customers	4 815 229	5 031 989
Interbank placements	144 205	168 225
Reverse repo transactions	97 559	93 832
Investment securities	833 850	1 032 946
Hedging derivatives	137 056	157 139
Financial assets held for trading	10 928	11 992
Total	**6 038 827**	**6 496 123**

Interest income for 2014 includes income from impaired financial assets in the amount of PLN 312 691 thousand (in 2013 PLN 336 286 thousand).

Total amount of interest income for 2014, measured at amortized cost using the effective interest rate method which applies to financial assets not measured at fair value through profit or loss amounted to PLN 3 902 940 thousand (in 2013 PLN 3 876 727 thousand).

Interest expense

	2014	2013
Deposits from customers	(1 522 981)	(1 909 684)
Interbank deposits	(25 571)	(43 210)
Repo transactions	(80 048)	(103 225)
Loans and advances received	(16 788)	(16 599)
Debt securities issued	(58 935)	(112 881)
Total	**(1 704 323)**	**(2 185 599)**

Total amount of interest expenses for 2014, measured at amortized cost using the effective interest rate method with reference to financial liabilities, which are not valued at fair value through profit or loss amounted to PLN 1 420 093 thousand (in 2013 PLN 1 855 202 thousand).

Notes to the financial statements (cont.)

(In PLN thousand)

9. Fee and commission income and expense

Fee and commission income

	2014	2013
Accounts maintenance, payment orders and cash transactions	679 545	705 360
Payment cards	827 460	891 113
Loans and advances	374 564	356 436
Investment products sales intermediation	205 513	231 201
Securities operations	54 535	45 215
Custody activity	63 867	55 913
Guarantees, letters of credit and similar transactions	50 041	52 176
Other	73 767	78 087
Total	**2 329 292**	**2 415 501**

Fee and commission expense

	2014	2013
Payment cards	(423 821)	(435 524)
Money orders and transfers	(20 793)	(20 771)
Securities operations and derivatives	(11 499)	(9 868)
Custody activity	(10 710)	(8 790)
Acquisition services	(16 186)	(13 225)
Accounts maintenance	(3 314)	(3 422)
Other	(10 481)	(12 604)
Total	**(496 804)**	**(504 204)**

10. Dividend income

	2014	2013
From subsidiaries	90 312	85 170
From associates	54 946	51 858
From other entities	8 290	6 751
Total	**153 548**	**143 779**

11. Result on financial assets and liabilities held for trading

	2014	2013
Foreign currency exchange result	358 609	397 959
Gains (losses) on derivatives	65 369	46 105
Gains (losses) on securities	7 490	12 314
Total	**431 468**	**456 378**

In 2014, the total change in the fair value of financial instruments valued at fair value through profit or loss, determined with the use of valuation techniques (when no published quotations from active markets are available) amounted to PLN 69 193 thousand (in 2013 PLN 53 730 thousand).

Notes to the financial statements (cont.)

(In PLN thousand)

12. Gains (losses) on disposal

Realized gains

	2014	2013
Loans and other financial receivables	18 579	63
Available for sale financial assets – debt instruments	243 836	308 019
Available for sale financial assets – equity instruments	9 100	-
Held to maturity investments	-	899
Debt securities issued	6	444
Total	**271 521**	**309 425**

Realized losses

	2014	2013
Loans and other financial receivables	-	(130)
Available for sale financial assets – debt instruments	(78)	(563)
Debt securities issued	(30)	(3 593)
Total	**(108)**	**(4 286)**

Net realized profit	**271 413**	**305 139**

The change in fair value of financial assets available for sale referred in 2014 directly to equity amounted to PLN 725 884 thousand (increase), in 2013 PLN 250 382 thousand (decrease).

The change in fair value of financial assets, related in 2014 from equity to financial income amounted to PLN 243 758 thousand (profit), in 2013 PLN 307 456 thousand (profit).

13. Administrative expenses

Personnel expenses

	2014	2013
Wages and salaries	(1 453 229)	(1 409 934)
Insurance and other charges related to employees	(263 860)	(263 054)
Share-based payments expense	(13 065)	(5 621)
Total	**(1 730 154)**	**(1 678 609)**

Other administrative expenses

	2014	2013
General expenses	(1 002 683)	(1 078 355)
Taxes and charges	(35 027)	(33 773)
Bank Guarantee Fund fee	(136 718)	(105 553)
Financial supervision authority fee (KNF)	(16 023)	(15 355)
Total	**(1 190 451)**	**(1 233 036)**

Total administrative expenses	**(2 920 605)**	**(2 911 645)**

Notes to the financial statements (cont.)

(In PLN thousand)

14. Depreciation and amortization

	2014	2013
Property, plant and equipment	(183 442)	(186 718)
Investment property	(1 152)	(2 114)
Intangible assets	(123 790)	(137 831)
Total	**(308 384)**	**(326 663)**

15. Net other operating income and expenses

Other operating income

	2014	2013
Rental income	25 209	29 956
Miscellaneous income	16 644	32 436
Credit insurance charges	21 643	29 715
Recovery of debt collection costs	17 231	22 388
Excess payments, repayments	10 003	14 602
Compensation, penalty fees and fines received (including received compensations from damages in relation to fixed assets)	7 264	7 175
Refunding of administrative expenses	5 658	7 916
Income from written-off liabilities	680	2 011
Releases of impairment allowances for litigation and other assets	326	204
Other	3 071	5 977
Total	**107 729**	**152 380**

Other operating expenses

	2014	2013
Credit insurance expense	(26 138)	(27 817)
Reimbursement and deficiencies	(5 515)	(10 186)
Miscellaneous expense	(14 631)	(9 496)
Customers complaints expense	(2 567)	(2 978)
Impairment allowances for litigation and other assets	(9 815)	(2 517)
Costs of litigation and claims	(1 898)	(2 989)
Compensation, penalty fees and fines paid	(169)	(1 370)
Losses on disposal of other assets	-	(37)
Other	(12 817)	(9 497)
Total	**(73 550)**	**(66 887)**

Net other operating income and expenses	**34 179**	**85 493**

Notes to the financial statements (cont.)

(In PLN thousand)

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

2014	OPENING BALANCE	INCREASES			DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT(**)
		BUSINESS COMBINATIONS	IMPARIMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPARIMENT CHARGES	OTHER (*)		
Impairment of financial assets and off- balance sheet commitments									
Loans and advances to banks valued at amortized cost	25 721	-	610	1 176	-	(7 779)	(210)	19 518	7 169
Loans and advances to customers valued at amortized cost	4 975 164	229 996	1 139 906	41 103	(202 093)	(572 311)	(80 509)	5 531 256	(567 595)
Financial assets available for sale	101	-	-	-	-	-	(1)	100	-
Off-balance sheet commitments	116 874	-	67 469	709	-	(79 905)	-	105 147	(12 436)
Total financial assets and off-balance sheet commitments	**5 117 860**	**229 996**	**1 207 985**	**42 988**	**(202 093)**	**(659 995)**	**(80 720)**	**5 656 021**	**(547 990)**
Impairment of other assets									
Investments in subsidiaries and associates	54 482	-	-	-	-	-	(3 006)	51 476	-
Intangible assets	10 961	-	-	-	-	-	-	10 961	-
Property, plant and equipment	6 753	-	-	-	-	-	-	6 753	-
Investment properties	3 080	-	-	-	-	-	-	3 080	-
Other	63 273	-	9 815	147	(1 124)	(326)	(1 334)	70 451	(9 489)
Total impairment of other assets	**138 549**	**-**	**9 815**	**147**	**(1 124)**	**(326)**	**(4 340)**	**142 721**	**(9 489)**
Total	**5 256 409**	**229 996**	**1 217 800**	**43 135**	**(203 217)**	**(660 321)**	**(85 060)**	**5 798 742**	**(557 479)**

(*) Including foreign exchange differences and transfers between positions.
(**) 'Impairment of financial assets and off-balance sheet commitments' includes net impairment in the amount of PLN minus 547 990 thousand and proceeds from recovered bad debt in the amount of PLN 6 621 thousand, the total is PLN minus 541 369 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

2013	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT(**)
		IMPARIMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPARIMENT CHARGES	OTHER (*)		
Impairment of financial assets and off- balance sheet commitments								
Loans and advances to banks valued at amortized cost	70 132	3	750	-	(44 245)	(919)	25 721	44 242
Loans and advances to customers valued at amortized cost	4 616 933	1 365 143	93 545	(322 136)	(682 936)	(95 385)	4 975 164	(682 207)
Financial assets available for sale	101	-	-	-	-	-	101	-
Off-balance sheet commitments	125 379	75 421	361	-	(84 287)	-	116 874	8 866
Total financial assets and off-balance sheet commitments	**4 812 545**	**1 440 567**	**94 656**	**(322 136)**	**(811 468)**	**(96 304)**	**5 117 860**	**(629 099)**
Impairment of other assets:								
Investments in subsidiaries and associates	54 482	-	-	-	-	-	54 482	-
Intangible assets	10 961	-	-	-	-	-	10 961	-
Property, plant and equipment	7 394	1 582	-	(2 223)	-	-	6 753	(1 582)
Investment properties	2 154	926	-	-	-	-	3 080	(926)
Other	65 930	2 517	-	(650)	(204)	(4 320)	63 273	(2 313)
Total impairment of other assets	**140 921**	**5 025**	**-**	**(2 873)**	**(204)**	**(4 320)**	**138 549**	**(4 821)**
Total	**4 953 466**	**1 445 592**	**94 656**	**(325 009)**	**(811 672)**	**(100 624)**	**5 256 409**	**(633 920)**

(*) Including foreign exchange differences and transfers between positions.
(**) 'Impairment of financial assets and off-balance sheet commitments' includes net impairment in the amount of PLN minus 629 099 thousand and proceeds from recovered bad debt in the amount of PLN 6 128 thousand, the total is PLN minus 622 971 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

17. Gains (losses) on subsidiaries and associates

	2014	2013
Profit (loss) from disposal/ liquidation of shares in subsidiaries and associates	-	-
Release of impairment allowances for equity investments	-	69 972
Total gains (losses) on subsidiaries and associates	**-**	**69 972**

18. Gains (losses) on disposal of property, plant and equipment, and intangible assets

	2014	2013
Gains (losses) on disposal of property, plant and equipment classified as assets held for sale	561	18 796
Gains (losses) on de-recognition of property, plant and equipment and intangible assets other than classified as assets held for sale	930	(107)
Total gains (losses) on disposal of property plant and equipment and intangible assets	**1 491**	**18 689**

19. Income tax

Reconciliation between tax calculated by applying the current tax rate to accounting profit and the actual tax charge presented in the unconsolidated income statement.

	2014	2013
Profit before income tax	**3 270 105**	**3 436 400**
Tax charge according to applicable tax rate	**621 320**	**652 916**
Permanent differences:	**(13 481)**	**(16 516)**
Non taxable income	(39 941)	(33 497)
Non tax deductible costs	26 374	14 080
Impact of other tax rates applied under a different tax jurisdiction	-	1 412
Tax relieves not included in the income statement	111	293
Other	(25)	1 196
Effective income tax charge on gross profit	**607 839**	**636 400**

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

	2014	2013
INCOME STATEMENT		
Current tax	**(717 740)**	**(595 454)**
Current tax charge in the income statement	(721 668)	(591 282)
Adjustments related to the current tax from previous years	7 433	903
Other taxes (e.g. withholding tax, income tax relating to foreign branch)	(3 505)	(5 075)
Deferred tax	**109 901**	**(40 946)**
Occurrence and reversal of temporary differences	109 901	(40 946)
Tax charge in the Bank's income statement	**(607 839)**	**(636 400)**
EQUITY		
Deferred tax	**(115 145)**	**107 257**
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments, used as cash flows hedges	(31 941)	(6 618)
revaluation of available for sale financial assets – debt securities	(92 969)	106 031
revaluation of available for sale financial assets – equity securities	1 365	(42)
Tax on items that are or may be reclassified subsequently to profit or loss	**(123 545)**	**99 371**
Tax charge on items that will never be reclassified to profit or loss	**8 400**	**7 886**
revaluation of the defined benefit liabilities	8 400	7 886
Total tax charge	**(722 984)**	**(529 143)**

Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2014								
	OPENING BALANCE			CHANGES RECOGNIZED IN		OTHER	CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	THE INCOME STATEMENT	IN EQUITY	THE INCOME STATEMENT	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY
DEFFERED TAX LIABILITY									
Accrued income – securities	-	-	-	-	-	-	-	-	-
Accrued income – loans	74 573	74 573	-	23 246	-	483	98 302	98 302	-
Change in revaluation of financial assets	83 288	61 121	22 167	48 252	123 545	66	255 151	109 439	145 712
Accelerated depreciation	127 288	127 288	-	(4 286)	-	319	123 321	123 321	-
Investment relief	5 808	5 808	-	(333)	-	-	5 475	5 475	-
Other	69 830	69 830	-	11 816	-	7 146	88 792	88 792	-
Gross deferred tax liability	**360 787**	**338 620**	**22 167**	**78 695**	**123 545**	**8 014**	**571 041**	**425 329**	**145 712**
DEFFERED TAX ASSET									
Accrued expenses - securities	20 663	20 663	-	75 554	-	-	96 217	96 217	-
Accrued expenses - deposits and loans	40 332	40 332	-	(690)	-	753	40 395	40 395	-
Downward revaluation of financial assets	211 284	211 284	-	86 983	-	-	298 267	298 267	-
Income received to be amortized over time from loans and current accounts	128 338	128 338	-	23 633	-	3 433	155 404	155 404	-
Loan provisions charges	503 835	503 835	-	(12 090)	-	-	491 745	491 745	-
Personnel related provisions	87 106	76 600	10 506	4 091	8 400	414	100 011	81 105	18 906
Accruals	12 446	12 446	-	7 500	-	55	20 001	20 001	-
Previous year losses	-	-	-	-	-	-	-	-	-
Other	36 948	36 948	-	3 615	-	935	41 498	41 498	-
Gross deferred tax asset	**1 040 952**	**1 030 446**	**10 506**	**188 596**	**8 400**	**5 590**	**1 243 538**	**1 224 632**	**18 906**
Deferred tax charge	**x**	**x**	**x**	**109 901**	**(115 145)**	**(2 424)**	**x**	**x**	**x**
Net deferred tax assets	**680 165**	**691 826**	**(11 661)**	**x**	**x**	**x**	**672 497**	**799 303**	**(126 806)**
Net deferred tax provision	**-**	**-**	**-**	**x**	**x**	**x**	**-**	**-**	**-**

Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2013								
	OPENING BALANCE			CHANGES RECOGNIZED IN		OTHER	CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	THE INCOME STATEMENT	IN EQUITY	THE INCOME STATEMENT	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY
DEFFERED TAX LIABILITY									
Accrued income – securities	-	-	-	-	-	-	-	-	-
Accrued income – loans	53 691	53 691	-	20 882	-	-	74 573	74 573	-
Change in revaluation of financial assets	274 379	152 841	121 538	(91 720)	(99 371)	-	83 288	61 121	22 167
Accelerated depreciation	127 816	127 816	-	(528)	-	-	127 288	127 288	-
Investment relief	6 139	6 139	-	(331)	-	-	5 808	5 808	-
Other	49 393	49 393	-	20 437	-	-	69 830	69 830	-
Gross deferred tax liability	**511 418**	**389 880**	**121 538**	**(51 260)**	**(99 371)**	**-**	**360 787**	**338 620**	**22 167**
DEFFERED TAX ASSET									
Accrued expenses - securities	82 733	82 733	-	(62 070)	-	-	20 663	20 663	-
Accrued expenses - deposits and loans	75 558	75 558	-	(35 226)	-	-	40 332	40 332	-
Downward revaluation of financial assets	323 432	323 432	-	(110 243)	-	(1 905)	211 284	211 284	-
Income received to be amortized over time from loans and current	118 753	118 753	-	9 585	-	-	128 338	128 338	-
Loan provisions charges	410 182	410 182	-	93 653	-	-	503 835	503 835	-
Personnel related provisions	75 483	72 863	2 620	3 737	7 886	-	87 106	76 600	10 506
Accruals	4 501	4 501	-	7 945	-	-	12 446	12 446	-
Previous year losses	3 284	3 284	-	(3 284)	-	-	-	-	-
Other	33 251	33 251	-	3 697	-	-	36 948	36 948	-
Gross deferred tax asset	**1 127 177**	**1 124 557**	**2 620**	**(92 206)**	**7 886**	**(1 905)**	**1 040 952**	**1 030 446**	**10 506**
Deferred tax charge	**x**	**x**	**x**	**(40 946)**	**107 257**	**(1 905)**	**x**	**x**	**x**
Net deferred tax assets	**615 759**	**734 677**	**(118 918)**	**x**	**x**	**x**	**680 165**	**691 826**	**(11 661)**
Net deferred tax provision	**-**	**-**	**-**	**x**	**x**	**x**	**-**	**-**	**-**

Notes to the financial statements (cont.)

(In PLN thousand)

In the opinion of the Bank the deferred tax asset in the amount of PLN 672 497 thousand reported as at 31 December .2014 is sustainable in total amount. The analysis was performed based on the past results of the company and assumed results in the future periods. The analysis assumed the five years' time horizon.

As at 31 December 2014 and 31 December 2013, there were no temporary differences related to investments in subsidiaries and associates, for which deferred tax liability was not created as a result of meeting the conditions of controlling the terms of temporary differences' reversing and being probable that these differences will not reverse in foreseeable future.

As at 31 December 2014 and 31 December 2013, there were no temporary differences, unused tax losses and unused tax relieves which were not included in the deferred tax assets.

20. Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing net profit by the weighted average number of the ordinary shares outstanding during the given period.

Earnings per share

	2014	2013
Net profit	2 662 266	2 800 000
Weighted average number of ordinary shares in the period	262 470 034	262 470 034
Earnings per share (in PLN per share)	10.14	10.67

Diluted earnings per share

Diluted earnings per share are calculated by dividing net profit by the weighted average number of the ordinary shares outstanding during the given period, adjusted for all potential dilution of ordinary shares.

As at 31 December 2014 there no diluting instruments in the form of convertible bonds in the Bank.

	2014	2013
Net profit	2 662 266	2 800 000
Weighted average number of ordinary shares in the period	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	10.14	10.67

21. Dividend proposal

The Management Board of the Bank has decided to propose to the Ordinary General Meeting of Shareholders a dividend payment for 2014 in the amount of PLN 10.00 per share. Total dividend proposed to be paid amounts to PLN 2 624 700 thousand. The dividend has not been recognized as liabilities and there are no tax consequences for the Bank.

The final decision on the distribution of net profit and its allocating to dividend will be made by the General Meeting of Shareholders.

(In PLN thousand)

22. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	31.12.2014	31.12.2013
Cash	3 399 331	2 104 604
Current account at Central Bank	5 826 906	2 086 607
Other	12	12
Total	**9 226 249**	**4 191 223**

AMOUNTS DUE TO CENTRAL BANK	31.12.2014	31.12.2013
Term deposits	971	985
Total	**971**	**985**

Cash and balances with Central Bank by currencies

31.12.2014	ASSETS	LIABILITIES
PLN	7 719 524	971
EUR	834 006	-
USD	246 688	-
CHF	72 104	-
Other currencies	353 927	-
Total	**9 226 249**	**971**

31.12.2013	ASSETS	LIABILITIES
PLN	3 637 603	985
EUR	271 158	-
USD	162 712	-
CHF	33 382	-
Other currencies	86 368	-
Total	**4 191 223**	**985**

During the day, the Bank may use funds from the mandatory reserve account for ongoing payments pursuant to an instruction, submitted to the National Bank of Poland. It must, however, ensure that the average monthly balance on such accounts comply with the requirements described in the mandatory reserve declaration.

As at 31 December 2014 the interest rate of funds held on the mandatory reserve account is at 1.8% (0.9 of NBP reference rate). As at 31 December 2013 the interest rate was at 2.475% (0.9 of rediscount rate for bills of exchange).

Notes to the financial statements (cont.)

(In PLN thousand)

23. Loans and advances to banks

Loans and advances to banks by product type

	31.12.2014	31.12.2013
Current accounts and overnight placements	2 260 502	1 566 820
Interbank placements	1 124 831	1 326 016
Loans and advances	202 358	122 357
Cash collateral	1 675 036	1 094 355
Reverse repo transactions	1 930 811	3 119 010
Debt securities	-	136 786
Cash in transit	41 342	314 178
Total gross amount	**7 234 880**	**7 679 522**
Impairment allowances	(19 518)	(25 721)
Total net amount	**7 215 362**	**7 653 801**

Loans and advances to banks by quality

	31.12.2014	31.12.2013
Loans and advances to banks, including:		
non impaired (gross)	7 215 920	7 645 771
impaired (gross)	18 960	33 751
individual impairment allowances	(9 160)	(9 788)
collective impairment allowances (*)	(10 358)	(15 933)
Total	**7 215 362**	**7 653 801**

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

Loans and advances to banks by contractual maturities

	31.12.2014	31.12.2013
Loans and advances to banks, including:		
up to 1 month	6 157 329	6 554 364
between 1 and 3 months	220 620	185 922
between 3 months and 1 year	456 719	392 779
between 1 and 5 years	367 091	352 332
over 5 years	-	160 203
past due	33 121	33 922
Total gross amount	**7 234 880**	**7 679 522**
Impairment allowances	(19 518)	(25 721)
Total net amount	**7 215 362**	**7 653 801**

Loans and advances to banks by currencies

	31.12.2014	31.12.2013
PLN	2 713 587	3 913 545
CHF	3 457	22 651
EUR	2 779 959	2 332 382
USD	1 553 786	1 199 546
Other currencies	164 573	185 677
Total	**7 215 362**	**7 653 801**

Changes in the level of impairment allowances in 2014 and 2013 are presented in the Note 16.

Notes to the financial statements (cont.)

(In PLN thousand)

24. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by issuer and product structure

31.12.2014	ASSETS	LIABILITIES
Securities issued by State Treasury	310 654	591 311
T- bills	-	-
T- bonds	310 654	591 311
Securities issued by banks	119 312	-
Securities issued by business entities	83 112	-
Total	**513 078**	**591 311**

31.12.2013	ASSETS	LIABILITIES
Securities issued by State Treasury	188 377	309 742
T- bills	-	-
T- bonds	188 377	309 742
Securities issued by banks	-	-
Securities issued by business entities	-	-
Total	**188 377**	**309 742**

Financial assets and liabilities held for trading by maturities

31.12.2014	ASSETS	LIABILITIES
Debt securities, including:		
up to 1 month	26 201	-
between 1 and 3 months	13 214	-
between 3 months and 1 year	65 729	362 582
between 1 and 5 years	225 685	173 090
over 5 years	182 249	55 639
Total	**513 078**	**591 311**

31.12.2013	ASSETS	LIABILITIES
Debt securities, including:		
up to 1 month	76 898	-
between 1 and 3 months	1 993	-
between 3 months and 1 year	-	163 892
between 1 and 5 years	55 544	93 692
over 5 years	53 942	52 158
Total	**188 377**	**309 742**

(In PLN thousand)

Financial assets and liabilities held for trading by currencies

31.12.2014	ASSETS	LIABILITIES
PLN	467 819	591 311
EUR	41 876	-
USD	3 383	-
Total	**513 078**	**591 311**

31.12.2013	ASSETS	LIABILITIES
PLN	141 482	309 742
EUR	8 349	-
USD	38 546	-
Total	**188 377**	**309 742**

25. Derivative financial instruments (held for trading)

Derivative financial instruments at the Bank

In its operations the Bank uses different financial derivatives for managing risks involved in the Bank's business. The majority of derivatives at the Bank include over-the-counter contracts. Regulated stock exchange contracts (mainly futures) represent a small part of those derivatives.

Derivative foreign exchange transactions include either the obligation or the right to buy or sell foreign and domestic currency assets. Forward foreign exchange transactions are based on the foreign exchange rates, specified on the transaction date for a predefined future date. These transactions are valued using the discounted cash flow model. Cash flows are discounted according to zero-coupon yield curves, relevant for a given market.

Foreign exchange swaps are a combination of a swap of specific currencies as at spot date and of reverse a transaction as at forward date with foreign exchange rates specified in advance on transaction date. Transactions of such type are settled by an exchange of assets. Foreign exchange swap transactions are mostly concluded in the process of managing the Bank's currency liquidity. These transactions are valued using the discounted cash flow model. Cash flows are discounted according to zero-coupon yield curves relevant for a given market.

Foreign exchange options with delivery are defined as contracts, where one of the parties, i.e. the option buyer, purchases from the other party, referred to as the option writer, at a so-called premium price the right without the obligation to buy (call option) or to sell (put option), at a specified point of time in the future or during a specified time range a foreign currency amount specified in the contract at the exchange rate set during the conclusion of the option agreement.

In case of options settled in net amounts, upon acquisition of the rights, the buyer receives an amount of money equal to the product of notional and difference between spot ad strike price.

Barrier option with one barrier is a type of option where exercise of the option depends on the underlying crossing or reaching a given barrier level. A barrier may be reached starting from lower ('UP') or from higher ('DOWN') level of the underlying instrument. 'IN' options start their lives worthless and only become active when a predetermined knock-in barrier price is breached. 'OUT' options start their lives active and become null and void when a certain knock-out barrier price is breached.

Foreign exchange options are priced using the Garman-Kohlhagen valuation model (and in case of barrier and Asian options using the so-called expanded Garman-Kohlhagen model). Parameters of the model based on market quotations of plain-vanilla at-the-money options and market spreads for out-of-the-money and in-the-money options (volatility smile) for standard maturities.

Derivatives related to interest rates enable the Bank and its customers to transfer, modify or limit interest rate risk.

Notes to the financial statements (cont.)

(In PLN thousand)

In the case of Interest Rate Swaps (IRS), counterparties exchange between each other the flows of interest payments, accrued on the nominal amount identified in the contract. These transactions are valued using the discounted cash flow model. Floating (implied) cash flows are estimated on base of respective IRS rates. Floating and fixed cash flows are discounted by relevant zero-coupon yield curves.

Forward Rate Agreements (FRA) involve both parties undertaking to pay interest on a predefined nominal amount for a specified period starting in the future and charged according to the interest rate determined on the day of the agreement The parties settle the transaction on value date using the reference rate as a discount rate in the process of discounting the difference between the FRA rate (forward rate as at transaction date) and the reference rate. These transactions are valued using the discounted cash flow model.

Cross currency IRS involves both parties swapping capital and interest flows in different currencies in a specified period. These transactions are valued using the discounted cash flow model. Valuation of Basis Swap transactions (cross currency IRS with floating coupon) takes into account market quotations of basis spread (Basis swap spread).

In the case of forward transactions on securities, counterparties agree to buy or sell specified securities on a forward date for a payment fixed on the date of transaction. Such transactions are measured based upon the valuation of the security (mark-to-market or mark-to-model) and valuation of the related payment (method of discounting cash flows by money market rate).

Interest rate options (cap/floor) are contracts where one of the parties, the option buyer, purchases from the other party, the option writer, at a so-called premium price, the right without the obligation to borrow (cap) or lend (floor) at specified points of time in the future (independently) amounts specified in the contract at the interest rate set during the conclusion of the option. Contracts are net-settled (without fund location) at agreed time. Transactions of this type are valued using the Black model. The model is parameterized based upon market quotations of at-the-money options as at standard quoted maturities.

Interest rate futures transactions refer to standardized forward contracts purchased on the stock market. Futures contracts are measured based upon quotations available directly from stock exchanges.

Derivative financial instruments embedded in other instruments

The Bank uses derivatives financial instruments embedded in complex financial instruments, i.e. such as including both a derivative and base agreement, which results in part of the cash flows of the combined instrument changing similarly to cash flows of an independent derivative. Derivatives embedded in other instruments cause part or all cash flows resulting from the base agreement to be modified as per a specific interest rate, price of a security, foreign exchange rate, price index or interest rate index.

Call options in some of the corporate, municipal bonds and own equity placements are derivatives embedded in balance sheet financial instruments. In this case, embedded financial instruments are closely related to the base contract and thus the embedded derivative does not need to be isolated or recognized and valuated separately.

The Bank has deposits and certificates of deposits on offer which include embedded derivatives. As the nature of such instrument is not strictly associated with the nature of the deposit agreement, the embedded instrument is separated and classified into the portfolio held-for-trading. The valuation of such instrument is recognized in the income statement. Embedded instruments include simple options (plain vanilla) and exotic options for single stocks, commodities, indices and other market indices, including interest rate indices, foreign exchange rates and their related baskets.

All embedded options are immediately closed back-to-back on the interbank market.
Currency options embedded in deposits are valued as other currency options.

Other plain vanilla and exotic options embedded in deposits as well as their close positions are valued using the Monte-Carlo simulation technique assuming Geometric Brownian Motion model of risk factors. Model parameters are determined first of all on the basis of quoted options and futures contracts and in their absence based on statistical measures of the underlying instrument dynamic.

The Bank carried out an analysis of the portfolio of credit agreements and of regular agreements in order to isolate embedded derivatives and decided that the agreements in question do not require isolation and separate treatment of embedded instruments.

Notes to the financial statements (cont.)

(In PLN thousand)

Risk involved in financial derivatives

Market risk and credit risk are the basic types of risk, associated with derivatives.

At the beginning, financial derivatives usually have a small market value or no market value at all. It is a consequence of the fact that derivatives require no initial net investments, or require a very small net investment compared to other types of contracts, which display a similar reaction to changing market conditions.

Derivatives gain positive or negative value as a result of change in specific interest rates, prices of securities, prices of commodities, currency exchange rates, price index, credit standing or credit index or another market parameter. In case of such changes, the derivatives held become more or less advantageous than instruments with the same residual maturities, available at that moment on the market.

Credit risk related to derivative contracts is a potential cost of concluding a new contract on the original terms and conditions if the other party to the original contract fails to meet its obligations. In order to assess the potential cost of replacement the Bank uses the same method as for credit risk assessment. In order to control its credit risk levels the Group performs assessments of other contract parties using the same methods as for credit decisions.

The following tables present nominal amounts of financial derivatives and fair values of such derivatives. Nominal amounts of certain financial instruments are used for comparison with balance sheet instruments but need not necessarily indicate what the future cash flow amounts will be or what the current fair value of such instruments is and therefore do not reflect the Bank's credit or price risk level.

Fair value of trading derivatives

31.12.2014	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	3 773 088	3 772 430
Forward Rate Agreements (FRA)	4 558	6 956
Options	13 263	13 076
Other	110	84
Foreign currencies and in gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	52 673	70 612
Currency Forward Agreements	149 692	82 594
Currency Swaps (FX–swap)	144 810	146 319
Options for currency and for gold	46 657	52 016
Transactions based on commodities and equity securities		
Options	5 428	5 431
Swaps	274 615	272 774
Total	**4 464 894**	**4 422 292**

31.12.2013	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 695 176	1 738 507
Forward Rate Agreements (FRA)	12 574	10 365
Options	16 742	16 359
Other	724	863
Foreign currencies and in gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	15 985	36 098
Currency Forward Agreements	56 866	100 447
Currency Swaps (FX–swap)	122 157	73 061
Options for currency and for gold	58 259	58 287
Transactions based on commodities and equity securities		
Options	5 817	5 818
Swaps	15 046	14 580
Total	**1 999 346**	**2 054 385**

Notes to the financial statements (cont.)

(In PLN thousand)

Nominal value of trading derivatives

31.12.2014	CONTRACTUAL MATURITY UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Interest rate transactions						
Interest Rate Swaps (IRS)	1 147 605	6 245 573	13 829 713	73 743 192	22 198 923	117 165 006
Forward Rate Agreements (FRA)	1 000 000	3 250 000	14 850 000	-	-	19 100 000
Options	-	-	60 849	3 831 712	175 094	4 067 655
Other	290 794	-	-	-	-	290 794
Foreign currencies and in gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) – currency bought	-	-	-	1 440 276	663 859	2 104 135
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	-	-	-	1 445 981	663 859	2 109 840
Currency Forward Agreements – currency bought	4 812 561	4 020 619	2 985 569	1 027 281	-	12 846 030
Currency Forward Agreements – currency sold	4 810 233	3 966 133	2 986 073	1 046 140	-	12 808 579
Currency Swaps (FX-swap) – currency bought	12 621 631	5 122 372	881 967	-	-	18 625 970
Currency Swaps (FX-swap) – currency sold	12 604 930	5 131 739	877 453	-	-	18 614 122
Options bought	279 014	329 465	248 512	1 848 245	-	2 705 236
Options sold	273 929	332 571	248 814	1 848 245	-	2 703 559
Transactions based on commodities and equity securities						
Options	-	-	200 058	180 496	-	380 554
Swaps	435 895	-	-	869 387	-	1 305 282
Total	**38 276 592**	**28 398 472**	**37 169 008**	**87 280 955**	**23 701 735**	**214 826 762**

31.12.2013	CONTRACTUAL MATURITY UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Interest rate transactions						
Interest Rate Swaps (IRS)	2 173 615	4 125 919	13 639 585	50 230 200	10 386 886	80 556 205
Forward Rate Agreements (FRA)	1 075 000	14 750 000	12 850 000	-	-	28 675 000
Options	-	233 753	352 550	2 638 436	195 996	3 420 735
Other	762 979	-	-	-	-	762 979
Foreign currencies and in gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) – currency bought	-	42 359	1 079 014	964 144	-	2 085 517
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	-	44 289	1 087 967	962 366	-	2 094 622
Currency Forward Agreements – currency bought	3 962 115	2 804 400	1 552 650	483 306	-	8 802 471
Currency Forward Agreements – currency sold	3 955 353	2 851 515	1 558 484	510 350	-	8 875 702
Currency Swaps (FX-swap) – currency bought	4 718 267	1 942 043	1 108 129	-	-	7 768 439
Currency Swaps (FX-swap) – currency sold	4 726 152	1 935 766	1 049 208	-	-	7 711 126
Options bought	565 212	767 503	1 583 012	-	-	2 915 727
Options sold	566 726	762 267	1 577 828	-	-	2 906 821
Transactions based on commodities and equity securities						
Options	-	176 615	55 877	82 020	-	314 512
Swaps	-	-	-	748 698	-	748 698
Total	**22 505 419**	**30 436 429**	**37 494 304**	**56 619 520**	**10 582 882**	**157 638 554**

Notes to the financial statements (cont.)

(In PLN thousand)

26. Loans and advances to customers

Loans and advances to customers by product type

	31.12.2014	31.12.2013
Mortgage loans	39 596 941	36 086 703
Current accounts	11 179 250	11 149 641
Operating loans	16 993 890	15 010 351
Investment loans	20 420 028	19 488 173
Payment cards receivables	805 592	778 736
Purchased debt receivables	2 167 942	1 960 318
Other loans and advances	9 488 795	8 978 067
Debt securities	10 442 561	9 473 835
Reverse repo transactions	5 789 064	2 581 676
Cash in transit	36 270	36 677
Total gross amount	**116 920 333**	**105 544 177**
Impairment allowances	(5 531 256)	(4 975 164)
Total net amount	**111 389 077**	**100 569 013**

Loans and advances to customers by customer type

	31.12.2014	31.12.2013
Corporate	56 719 518	50 257 134
Individuals	48 387 092	43 712 325
Budget entities	11 813 723	11 574 718
Total gross amount	**116 920 333**	**105 544 177**
Impairment allowances	(5 531 256)	(4 975 164)
Total net amount	**111 389 077**	**100 569 013**

Loans and advances to customers by quality

	31.12.2014	31.12.2013
Loans and advances to customers, including:		
non impaired (gross)	109 136 008	98 057 816
impaired (gross)	7 784 325	7 486 361
individual impairment allowances	(2 910 754)	(2 629 793)
collective impairment allowances (*)	(2 620 502)	(2 345 371)
Total	**111 389 077**	**100 569 013**

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

Loans and advances to customers by contractual maturity

	31.12.2014	31.12.2013
Loans and advances to customers, including:		
up to 1 month	20 441 821	16 066 468
between 1 and 3 months	2 979 129	2 702 807
between 3 months and 1 year	10 507 802	10 249 451
between 1 and 5 years	35 817 560	32 989 931
over 5 years	41 329 579	38 640 987
expired	5 844 442	4 894 533
Total gross amount	**116 920 333**	**105 544 177**
Impairment allowances	(5 531 256)	(4 975 164)
Total net amount	**111 389 077**	**100 569 013**

(In PLN thousand)

Loans and advances to customers by currency

	31.12.2014	31.12.2013
PLN	92 735 082	82 913 939
CHF	4 258 319	4 507 192
EUR	11 087 929	11 115 299
USD	3 184 137	1 983 134
Other currencies	123 610	49 449
Total	**111 389 077**	**100 569 013**

Changes in impairment allowances in 2014 and 2013 are presented in the Note 16.

27. Hedge accounting

As at 31 December 2014 the Bank applies fair value hedge accounting and cash flow hedge accounting.

In the period from 1 January to 31 December 2014 the Bank continued to apply the following hedge accounting:

- fair value hedge accounting for fixed coupon debt securities classified as available-for-sale (AFS) hedged with interest rate swaps (IRS) - described in 27.1,
- cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions - described in 27.2,
- cash flow hedge accounting for floating-rate financial assets hedged with interest rate swap (IRS) transactions - described in 27.3,
- cash flow hedge accounting for portfolio of variable rate loans in EUR and USD hedged with fx-swap instruments - described in 27.4.

In the period from 1 January till to 31 December of 2014 the Bank:

- designated highly probable cash flow denominated in EUR (short position in EUR for the Bank) hedged with foreign exchange forward transactions as a cash flow hedging relationship - described in 27.5 - and terminated the relationship. Termination of the relationship resulted from settlement of transactions included in the hedging relationship. Last cash flows from hedged items occurred on 31 December 2014,
- discontinued cash flow hedge accounting for floating rate EUR deposits portfolio hedged with interest rate swap (IRS) transactions - described in 27.6. Termination resulted from maturity of transactions included in the hedging relationship. The hedging instruments expired on 5 December 2014,
- terminated fair value hedge accounting for the portfolio of deposits in EUR hedged against interest rate risk with cross-currency interest rate swap (CIRS) transactions - described in 27.7. The hedging relationship was terminated due to expiration of the hedging instruments.

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents the fair values of hedging derivatives

31.12.2014	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	-	298 881
Cross-currency interest rate swaps (CIRS)	-	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	425 946	-
Cross-currency interest rate swaps (CIRS)	29 120	1 097 779
Fx-swaps	15 756	87 768
Total	**470 822**	**1 484 428**

31.12.2013	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	1 460	158 856
Cross-currency interest rate swaps (CIRS)	84 232	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	51 928	14 472
Cross-currency interest rate swaps (CIRS)	24 183	834 556
Fx-swaps	88 383	-
Total	**250 186**	**1 007 884**

The table below presents nominal values of hedging derivatives

31.12.2014	CONTRACTS ACCORDING TO MATURITIES					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Fair value hedge accounting						
Interest rate swaps (IRS)	-	-	-	1 027 033	1 214 295	2 241 328
Cross-currency interest rate swap (CIRS)	-	-	-	-	-	-
Cash flow hedge accounting						
Interest rate swaps (IRS)	50 000	80 000	100 000	1 990 000	2 000 000	4 220 000
Cross-currency interest rate swap (CIRS)	-	-	1 441 928	12 497 315	4 758 167	18 697 410
FX-swaps	5 909 479	5 039 957	1 617 926	-	-	12 567 362
Total	**5 959 479**	**5 119 957**	**3 159 854**	**15 514 348**	**7 972 462**	**37 726 100**

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

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents the amounts recognized in income statement and revaluation reserves related due to cash flow hedge accounting

	2014	2013
Revaluation reserves (deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge - gross value)	138 622	(29 487)
Net interest income on hedging derivatives	179 276	207 273
Ineffective portion in changes in fair value of hedging transactions recognized in income statement	527	673

The table below presents changes in the revaluation reserves during the period due to cash flow hedge accounting

	2014	2013
Opening balance	**(29 487)**	**(64 318)**
Deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge	168 057	34 779
Amount of the deferral of fair value changes of hedging instruments of the effective hedge removed from revaluation reserves and presented in net profit or loss	52	52
Closing balance	**138 622**	**(29 487)**

The table below presents the amounts recognized in income statement related to fair value hedge accounting

TYPE OF GAINS/LOSSES	2014	2013
Gains/losses from revaluation of hedging instruments to fair value	(146 149)	45 259
Gains/losses from revaluation of hedged item associated with hedged risk to fair value	128 902	(62 682)
Result on fair value hedge accounting	**(17 247)**	**(17 423)**
Net interest income of hedging derivatives	(42 220)	(50 134)

27.1 Fair value hedge of fixed-coupon debt securities

Description of the hedging relationship
The Bank hedges a portion of the interest rate risk resulting from the fair value changes of the hedged item related to the volatility of market swap curves with the designated IRS transactions.

Hedged item
The hedged items are fixed coupon debt securities classified as AFS, denominated in PLN, EUR and USD.

Hedging derivatives
The hedging derivatives consist of IRS transactions in PLN, EUR and USD (short position in fixed-rate) for which the Bank receives floating-rate payments and pays fixed-rate.

Financial Statements presentation
The result of the change in the hedged items' fair value that relates to the hedged risk is presented in the income statement line item 'Result on fair value hedge accounting'. The remaining portion of the change in the hedged items' fair value (resulting from spread between swap yield curve and bond yield curve) is recognized in accordance with the accounting principles applicable to AFS (i.e. in the revaluation reserve in equity). Interest accrued on AFS bonds is presented in the net interest income.
Changes in the fair value of hedging derivatives under the fair value hedge accounting are presented in the income statement in the result on fair value hedge accounting. Interest accrued on the hedging derivatives under the fair value hedge accounting is presented in the net interest income.

27.2 Cash flow hedge of floating-rate loans and floating-rate deposits

Description of the hedging relationship
The Bank hedges a portion of the interest rate risk and the foreign currency risk resulting from the volatility of cash flows from floating-rate assets and liabilities with the designated CIRS transactions (basis swap).

Hedged items
Hedged item consists of two separate components, which are cash flows arising from floating-rate assets portfolio and floating-rate liabilities portfolio.

Hedging derivatives
Hedging derivatives consist of a portfolio of CIRS transactions (basis swap), where the Bank pays floating-rate currency cash flows and receives floating-rate PLN/currency cash-flows. CIRS transactions are decomposed into the part hedging the assets portfolio and the part hedging the liabilities portfolio.

Financial Statements presentation
The effective portion of the change in fair value of hedging derivatives' is recognized in the revaluation reserve in equity. The ineffective portion of the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading. The interest on CIRS transactions and hedged items is presented in the net interest income.

Period in which the cash flows related to the hedged items are expected to occur
It is expected that the cash flows related to the hedged items will occur until 15 May 2029.

27.3 Cash flow hedge of floating-rate loans

Description of hedging relationship
The Bank hedges a portion of the interest rate risk related to the volatility of cash flows on floating-rate assets with the designated IRS transactions.

Hedged items
The hedged items consist of the cash flows from floating-rate assets.

Hedging derivatives
The hedging derivatives consist of portfolio of IRS transactions (short position in floating rate – the Bank receives fixed payments and pays floating-rate).

Financial Statements presentation
The effective portion of the change in fair value of hedging derivatives is recognized in the revaluation reserve in equity. The ineffective portion of change in fair value hedging derivatives is recognized in the result on financial assets and liabilities held for trading. The interest on IRS transactions and hedged items is presented in the net interest income.

Period in which the cash flows related to the hedged items are expected to occur
It is expected that the cash flows related to the hedged items will occur until 29 April 2020.

27.4 Cash flow hedge of floating-rate currency assets hedged with fx-swap transactions against the exchange and interest rate risk

Description of hedging relationship
The Bank hedges volatility of cash flows constituting floating-rate financial assets (loans in EUR and USD) with fx-swap transactions. The currency and interest rate risk is hedged.

Hedged items
Loans with variable interest rate risk, denominated in EUR and USD constitute hedged items.

Hedging derivatives
Fx-swap transaction portfolio constitutes the hedging position.

Financial Statements presentation
The effective portion of the change in fair value of hedging derivatives is recognized in the revaluation reserve in equity. The ineffective portion of the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading.

Settled part of the swap points on the hedging instrument is transferred from the revaluation reserve in equity and recognized in interest income. Currency revaluation regarding the first capital exchange on the hedging instrument is transferred from the revaluation reserve in equity and recognized in the foreign currency exchange result.

Period in which the cash flows related to the hedged items are expected to occur
It is expected that the cash flows related to the hedged items will occur until 7 May 2015.

27.5 Cash flow hedge of expected future outflow in foreign currency – relationship completed

Description of hedging relationship
The Bank hedged the volatility of cash flows denominated in EUR constituting the projected costs from expected purchase with the designated fx-forward transactions. The currency risk was being hedged. Discontinuation of the hedge accounting resulted from settlement of transactions included in the hedging relationship.

Hedged items
Projected purchase costs dependent on EUR and Polish zloty exchange rates were the hedged item.

Hedging derivatives
The hedging derivatives consisted of a portfolio of fx-forward transactions (fx-spot and series of fx-swap), in which the Bank buys EUR currency in exchange for PLN currency on 31 December 2014 at an agreed exchange rate.

Financial Statements presentation
The amount of the settlement of hedging transactions adjusted the settlement of the hedged item.

Notes to the financial statements (cont.)

(In PLN thousand)

27.6 Cash flow hedge of floating-rate deposits – relationship completed

Description of hedging relationship
The Bank hedged a portion of the interest rate risk related to the volatility of cash flows on floating-rate deposits with the designated IRS transactions. Discontinuation of the hedge accounting resulted from maturity of transactions included in the hedging relationship.

Hedged items
Cash flows from floating-rate deposits denominated in EUR were the hedged items.

Hedging derivatives
The hedging derivatives consisted of portfolio of IRS transactions (short position in fix-rate – the Bank received floating-rate payments and paid fixed-rate).

Financial Statements presentation
The effective portion of the change in fair value of hedging derivatives was recognized in the revaluation reserve in equity. The ineffective portion of change in fair value hedging derivatives was recognized in the net result on financial assets and liabilities held for trading. The interest on IRS transactions and hedged items were presented in the net interest income.

27.7 Fair value hedge of interest rate risk for deposit portfolio – relationship completed

Description of hedging relationship
The Bank hedged the interest rate risk component of the fair value changes of the hedged item related to the volatility of market interest rates with the designated CIRS transactions. Discontinuation of the hedge accounting resulted from maturity of transactions included in the hedging relationship.

Hedged item
The hedged item was a portfolio of deposits denominated in EUR and insensitive to interest rate changes.

Hedging derivatives
The hedging items consisted of CIRS transactions in which the Bank received fixed-rate payments in EUR and paid floating-rate payments in Polish Zloty.

Financial Statements presentation
The result of the change in the hedged items' fair value that relates to the hedged risk was presented in the income statement in the result on fair value hedge accounting. The remaining portion of change in the hedged items' fair value was recognized as a separate line in the liabilities. The interest on deposits were presented in the net interest income.
Changes in the fair value of hedging derivatives under the fair value hedge accounting were presented in the income statement in the result on fair value hedge accounting. Interest accrued on the hedging derivatives under the fair value hedge accounting was presented in the net interest income.

Notes to the financial statements (cont.)

(In PLN thousand)

28. Investment (placement) securities

	31.12.2014	31.12.2013
Debt securities available for sale (AFS)	22 985 789	32 947 530
Equity securities available for sale (AFS)	62 401	9 254
Debt securities held to maturity (HTM)	1 523 940	1 888 724
Total	**24 572 130**	**34 845 508**

Debt securities available for sale (AFS)

	31.12.2014	31.12.2013
Securities issued by State Treasury	15 886 770	17 861 691
T-bills	-	-
T-bonds	15 886 770	17 861 691
Securities issued by Central Banks	6 147 781	14 159 186
Securities issued by business entities	248 985	248 865
Securities issued by local governments	702 253	677 788
Total	**22 985 789**	**32 947 530**
including impairment of assets	-	-

Equity securities available for sale (AFS)

	31.12.2014	31.12.2013
Shares	62 401	9 254
Total	**62 401**	**9 254**
including impairment of assets	(100)	(101)

Debt securities held to maturity (HTM)

	31.12.2014	31.12.2013
Securities issued by State Treasury	672 495	1 050 967
T- bills	-	-
T- bonds	672 495	1 050 967
Securities issued by Central Banks	851 445	837 757
Total	**1 523 940**	**1 888 724**
including impairment of assets	-	-

Investment debt securities according to contractual maturities

	31.12.2014	31.12.2013
Debt securities, including:		
up to 1 month	6 999 226	15 476 132
between 1 and 3 months	-	-
between 3 months and 1 year	559 261	442 157
between 1 and 5 years	13 411 109	12 701 308
over 5 years	3 540 133	6 216 657
Total	**24 509 729**	**34 836 254**

Notes to the financial statements (cont.)

(In PLN thousand)

Investment debt securities according to currencies

	31.12.2014	31.12.2013
PLN	20 542 074	31 791 545
EUR	2 027 262	1 725 017
USD	1 940 393	1 319 692
Total	**24 509 729**	**34 836 254**

Changes in investment (placement) securities

	2014	2013
SECURITIES AVAILABLE FOR SALE (AFS)		
Opening balance	**32 956 784**	**25 808 501**
Increases (purchase)	351 511 479	400 588 990
Decreases (sale and redemption)	(362 907 222)	(393 526 423)
Changes in fair value	609 094	(650 007)
Exchange rate differences	301 923	(37 279)
Accrued interest	659 300	742 615
Other changes	(83 168)	30 387
Closing balance	**23 048 190**	**32 956 784**
DEBT SECURITIES HELD UNTIL MATURITY (HTM)		
Opening balance	**1 888 724**	**2 778 555**
Increases (purchase)	43 977 482	38 298 785
Decreases (sale and redemption)	(44 386 249)	(39 269 991)
Accrued interest	25 799	41 641
Other changes	18 184	39 734
Closing balance	**1 523 940**	**1 888 724**
Total investment (placement) securities	**24 572 130**	**34 845 508**

(In PLN thousand)

29. Reclassification of securities

IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' provide, under certain conditions, the possibility for reclassification of financial instruments into other categories.

In 2014 and 2013, the Bank did not reclassify any financial instruments into other categories.

On 1 October 2008, however, due to the exceptional situation related to the financial crisis, the Bank made use of the possibility for reclassification of its financial instruments.

The tables below present the information on the reclassified financial assets

	AMOUNT OF RECLASSIFICATION	31.12.2014		31.12.2013	
		CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	1 331 580	73 987	69 820	78 527	73 941
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	602 507	672 495	686 090	675 946	695 183
Total	**1 934 087**	**746 482**	**755 910**	**754 473**	**769 124**

If the Bank failed to perform the reclassification, the income and revaluation equity would have changed as follows:

31.12.2014	NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	REVALUATION RESERVE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	-	154
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	(5 641)	-
Total	**(5 641)**	**154**

31.12.2013	NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	REVALUATION RESERVE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	-	(39)
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	(23 296)	-
Total	**(23 296)**	**(39)**

Net interest income on reclassified financial assets

	2014	2013
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	2 511	7 376
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	15 922	20 996
Total	**18 433**	**28 372**

Notes to the financial statements (cont.)

(In PLN thousand)

30. Assets held for sale and discontinued operations

According to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the Bank identifies non-current assets meeting the requirements of IFRS 5 (concerning classification of non-current assets as held for sale) of the item 'Assets held for sale'.

As at 31 December 2014, non-current assets classified as held for sale included following items classified as held for sale:

- real estate, and
- other property, plant and equipment owned by the Bank.

Assets held for sale:

	31.12.2014	31.12.2013
PJSC UniCredit Bank exposure	-	-
Property, plant and equipment	31 952	32 587
Total	**31 952**	**32 587**

In 2013 the Bank sold its all shares in subsidiary PJSC UniCredit Bank to UniCredit S.p.A. (Parent Entity of the Bank).

Effect of disposal of equity investment in PJSC UniCredit Bank recognized in the equity of the Bank:

	2014	2013
Sales proceeds	-	671 287
Carrying amount of equity investment disposed (including costs to sell)	-	(669 917)
Gross result on sale	**-**	**1 370**
Income tax expense	-	(260)
Net result on sale	**-**	**1 110**

The table below presents changes in the balance of non-current assets held for sale:

ASSETS HELD FOR SALE	2014	2013
Opening balance	**32 587**	**1 564 477**
Increases, including:	97	2 236
transfer from investments in subsidiaries	-	850
transfer from investment properties	-	-
exchange rate differences	-	1 333
other changes	97	53
Decreases, including:	(732)	(1 534 126)
transfer to property, plant and equipment	-	(255)
disposal	(732)	(46 031)
exchange rate differences	-	-
other changes	-	(704)
PJSC UniCredit Bank assets	-	(1 487 136)
Closing balance	**31 952**	**32 587**

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

	31.12.2014	31.12.2013
Sales revenues	1 293	67 602
Net carrying amount of disposed assets (including costs to sell)	732	48 806
Profit/loss on sale before income tax	**561**	**18 796**

Notes to the financial statements (cont.)

(In PLN thousand)

31. Investments in subsidiaries

Condensed information about subsidiaries as at 31 December 2014 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT /LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage services	1 134 503	970 357	134 787	42 369	100.00	56 332
Pekao Faktoring Sp. z o.o.	Lublin	Factoring	1 184 785	1 125 281	37 094	8 156	100.00	50 268
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Business consulting	51 780	109	1 087	291	100.00	51 380
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension funds management	68 264	2 458	18 424	15 405	65.00	88 126
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	35 484	6 200	39 442	7 180	100.00	4 500
Pekao Leasing Sp. z o.o. (**)	Warsaw	Lease services	3 586 334	3 038 173	169 394	54 585	36.49	84 658
Centrum Kart S.A.	Warsaw	Additional financial services	44 112	10 368	536	2 608	100.00	17 592
Pekao Telecentrum Sp. z o.o. (in liquidation)	Warsaw	Services	10 530	2	147	99	100.00	8 193
Pekao Bank Hipoteczny S.A.	Warsaw	Banking services	1 827 782	1 521 223	75 356	10 047	100.00	233 823
Pekao Leasing Holding S.A.	Warsaw	Lease services	242 407	82	1 399	995	100.00	230 745
Pekao Property S.A.	Warsaw	Real estate development services	59 008	7 689	79	(936)	100.00	31 374
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	11 366	5 167	13 420	2 415	100.00	522
Total								**857 513**

(*) Data available at the date of financial statements.
(**)Total Bank's share in equity of Pekao Leasing Sp. z o.o. amounted to 100.00% (direct Bank's share amounted to 36.49%, indirect share through Pekao Leasing Holding S.A. amounted to 63.51%).

Notes to the financial statements (cont.)

(In PLN thousand)

Condensed information about subsidiaries as at 31 December 2013 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT/ LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage services	862 764	694 047	135 033	39 330	100.00	56 332
Pekao Faktoring Sp. z o.o.	Lublin	Factoring	939 117	877 704	45 818	10 063	100.00	50 268
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Business consulting	52 139	118	1 230	641	100.00	51 380
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension funds management	67 100	2 918	31 112	13 781	65.00	88 126
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	33 674	4 954	39 515	6 583	100.00	4 500
Pekao Leasing Sp. z o.o. (**)	Warsaw	Lease services	3 259 272	2 765 278	181 090	40 628	36.49	84 658
Centrum Kart S.A.	Warsaw	Additional financial services	46 401	13 719	644	1 645	100.00	17 592
Pekao Telecentrum Sp. z o.o. (in liquidation)	Warsaw	Services	10 445	16	283	172	100.00	8 193
Pekao Bank Hipoteczny S.A.	Warsaw	Banking services	1 752 865	1 445 672	83 810	12 732	100.00	233 823
Pekao Leasing Holding S.A.	Warsaw	Lease services	241 396	66	1 771	27 862	80.10	166 345
Pekao Property S.A.	Warsaw	Real estate development services	60 128	23 739	129	(393)	100.00	24 376
Property Sp. z o.o. (in liquidation)	Warsaw	Real estate management services	16 538	672	604	280	100.00	6 998
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	12 526	4 829	11 211	3 887	100.00	522
Total								**793 113**

(*) Data available at the date of financial statements.
(**)Total Bank's share in equity of Pekao Leasing Sp. z o.o. amounted to 87.36% (direct Bank's share amounted to 36.49%, indirect share through Pekao Leasing Holding S.A. amounted to 50.87%).

Changes in investment into subsidiaries

	2014	2013
Opening balance	**793 113**	**793 113**
Increases, including:	64 400	-
acquisition	64 400	-
Closing balance	**857 513**	**793 113**

The structure of investments in subsidiaries

	31.12.2014	31.12.2013
Investment in subsidiaries, including:		
banks	233 823	233 823
other financial institutions	532 221	519 201
non-financial institutions	91 469	40 089
Total	**857 513**	**793 113**

Notes to the financial statements (cont.)

(In PLN thousand)

32. Investments in associates

Information about associates as at 31 December 2014 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing services	122 162	24 408	124 131	30 792	34.44	1 875
Pioneer Pekao Investment Management S.A.	Warsaw	Assets Management	342 974	53 209	389 431	106 006	49.00	14 995
Dom Inwestycyjny Xelion Sp. z o.o.	Warsaw	Financial intermediation	46 656	29 501	43 195	2 905	50.00	12 557
CPF Management	Tortola, British Virgin Islands	Advisory services– currently does not provide its services	n/a	n/a	n/a	n/a	40.00	-
Polish Banking System S.A. (in liquidation)	Warsaw	Company in liquidation	n/a	n/a	n/a	n/a	48.90	-
PPU Budpress Sp. z o.o. (in liquidation)	Żyrardów	Company in liquidation	n/a	n/a	n/a	n/a	36.20	-
Total								**29 427**

(*) Data available as at the reporting date.

Information about associates as at 31 December 2013 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing services	114 568	18 086	113 276	29 527	34.44	1 875
Pioneer Pekao Investment Management S.A.	Warsaw	Assets Management	329 296	52 462	402 877	98 781	49.00	14 995
Dom Inwestycyjny Xelion Sp. z o.o.	Warsaw	Financial intermediation	46 917	32 664	44 507	2 138	50.00	12 557
CPF Management	Tortola, British Virgin Islands	Advisory services– currently does not provide its services	n/a	n/a	n/a	n/a	40.00	-
Polish Banking System S.A. (in liquidation)	Warsaw	Company in liquidation	n/a	n/a	n/a	n/a	48.90	-
PPU Budpress Sp. z o.o. (in liquidation)	Żyrardów	Company in liquidation	n/a	n/a	n/a	n/a	36.20	-
Total								**29 427**

(*) Data available as at the reporting date.

Notes to the financial statements (cont.)

(In PLN thousand)

Changes in investment in associates

	2014	2013
Opening balance	**29 427**	**29 427**
Closing balance	**29 427**	**29 427**

The structure of investments in associates

	31.12.2014	31.12.2013
Investment in associates, including:		
banks	-	-
other financial institutions	29 427	29 427
non-financial institutions	-	-
Total	**29 427**	**29 427**

As at 31 December 2014 and 31 December 2013, the Bank did not have the investment in entities under common control.

33. Intangible assets

	31.12.2014	31.12.2013
Intangible assets, including:	549 038	549 896
research and development expenditures	10 412	12 031
licenses and patents	417 368	428 426
other	10 845	1 035
assets under construction	110 413	108 404
Goodwill	52 635	51 675
Total	**601 673**	**601 571**

The goodwill was transferred to Bank Pekao S.A. on integration with Bank BPH S.A. It represents the goodwill recognized upon acquisition of Pierwszy Komercyjny Bank S.A. in Lublin ('PKBL') by Bank BPH S.A. and relates to those branches of the PKBL which were transferred to Bank Pekao S.A. as a result of integration with Bank BPH S.A. It is determined the smallest identifiable cash-generating units ('CGU'), to which the goodwill has been allocated in the amount of PLN 51 675 thousand.

Moreover there is also goodwill recognized upon acquisition of Spółdzielcza Kasa Oszczędnościowo – Kredytowa im. Mikołaja Kopernika by Bank Pekao S.A. It is determined the smallest identifiable cash-generating units ('CGU'), to which the goodwill has been allocated in the amount of PLN 960 thousand.

In respect to the goodwill, the impairment test is performed annually, irrespective of whether there is any indication that it may be impaired.

The impairment test is performed by comparing the carrying amount of the CGU, including the goodwill, with the recoverable amount of the CGU. The recoverable amount is estimated on the basis of value in use of the CGU. The value in use is the present, estimated value of the future cash flows for the period of 5 years, taking into account the residual value of the CGU. The residual value of the CGU is calculated based on an extrapolation of cash flows projections beyond the forecast period using the growth rate of 2.5%. The forecasts of the future cash flows are based on the assumptions included the Bank's budget for 2015 and financial plan for 2016-2019. To discount the future cash flows, it is applied the discount rate of 7.64%, which includes the risk-free rate and the risk premium. The impairment test performed as at 31 December 2014 showed the surplus of the recoverable amount over the carrying amount of the CGU, and therefore no CGU impairment was recognized.

Notes to the financial statements (cont.)

(In PLN thousand)

Changes in 'Intangibles assets' in the course of the reporting period

2014	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
GROSS VALUE					
Opening balance	**90 483**	**1 945 607**	**38 647**	**108 404**	**2 183 141**
Increases, including:	2 367	114 588	11 444	122 135	250 534
acquisitions	-	-	-	122 135	122 135
business combinations	-	411	4 700	-	5 111
other	737	-	6 569	-	7 306
transfer from investments outlays	1 630	114 177	175	-	115 982
Decreases, including:	(3 489)	(17 353)	(449)	(120 126)	(141 417)
liquidation	(3 489)	(9 938)	(449)	-	(13 876)
other	-	(7 415)	-	(4 144)	(11 559)
transfer from investments outlays	-	-	-	(115 982)	(115 982)
Closing balance	**89 361**	**2 042 842**	**49 642**	**110 413**	**2 292 258**
ACCUMULATED AMORTIZATION					
Opening balance	**78 452**	**1 517 181**	**26 651**	**-**	**1 622 284**
Amortization	3 925	118 231	1 634	-	123 790
Liquidation	(3 489)	(9 938)	(449)	-	(13 876)
Other	61	-	-	-	61
Closing balance	**78 949**	**1 625 474**	**27 836**	**-**	**1 732 259**
IMPAIRMENT					
Opening balance	**-**	**-**	**10 961**	**-**	**10 961**
Closing balance	**-**	**-**	**10 961**	**-**	**10 961**
NET VALUE					
Opening balance	**12 031**	**428 426**	**1 035**	**108 404**	**549 896**
Closing balance	**10 412**	**417 368**	**10 845**	**110 413**	**549 038**

Notes to the financial statements (cont.)

(In PLN thousand)

2013	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
GROSS VALUE					
Opening balance	**90 934**	**1 846 654**	**38 628**	**140 764**	**2 116 980**
Increases, including:	-	127 522	68	97 625	225 215
acquisitions	-	-	-	96 167	96 167
other	-	1 245	-	1 458	2 703
transfer from investments outlays	-	126 277	68	-	126 345
Decreases, including:	(451)	(28 569)	(49)	(129 985)	(159 054)
liquidation	(451)	(28 569)	(49)	-	(29 069)
other	-	-	-	(3 640)	(3 640)
transfer from investments outlays	-	-	-	(126 345)	(126 345)
Closing balance	**90 483**	**1 945 607**	**38 647**	**108 404**	**2 183 141**
ACCUMULATED AMORTIZATION					
Opening balance	**75 076**	**1 412 966**	**25 207**	**-**	**1 513 249**
Amortization	3 827	132 511	1 493	-	137 831
Liquidation	(451)	(28 329)	(49)	-	(28 829)
Other	-	33	-	-	33
Closing balance	**78 452**	**1 517 181**	**26 651**	**-**	**1 622 284**
IMPAIRMENT					
Opening balance	**-**	**-**	**10 961**	**-**	**10 961**
Closing balance	**-**	**-**	**10 961**	**-**	**10 961**
NET VALUE					
Opening balance	**15 858**	**433 688**	**2 460**	**140 764**	**592 770**
Closing balance	**12 031**	**428 426**	**1 035**	**108 404**	**549 896**

In the period from 1 January to 31 December 2014, the Bank acquired intangible assets in the amount of PLN 122 135 thousand (in 2013 - PLN 96 168 thousand). In the period from 1 January to 31 December 2014 and in 2013 there have been no intangible assets whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 31 December 2014 the contractual commitments for the acquisition of intangible assets amounted to PLN 34 715 thousand, whereas as at 31 December 2013 - PLN 21 501 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

34. Property, plant and equipment

	31.12.2014	31.12.2013
Non-current assets, including:	1 441 212	1 473 307
land and buildings	1 106 080	1 131 945
machinery and equipment	250 647	278 935
transport vehicles	40 241	26 295
other	44 244	36 132
Non-current assets under construction and prepayments	84 381	91 381
Total	**1 525 593**	**1 564 688**

Changes in 'Property, plant and equipment' in the course of the reporting period

2014	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
GROSS VALUE						
Opening balance	**2 239 158**	**1 424 969**	**68 741**	**329 072**	**91 381**	**4 153 321**
Increases, including:	44 682	70 668	25 918	16 849	119 870	277 987
acquisitions	-	-	-	-	118 678	118 678
business combinations	3 006	1 261	144	295	5	4 711
other	96	612	25 774	59	1 187	27 728
transfer from non-current assets under construction	41 580	68 795	-	16 495	-	126 870
Decreases, including:	(19 144)	(74 617)	(16 232)	(16 217)	(126 870)	(253 080)
liquidation and sale	(19 048)	(73 964)	(16 232)	(16 200)	-	(125 444)
transfer to non-current assets held for sale	-	-	-	-	-	-
other	(96)	(653)	-	(17)	-	(766)
transfer from non-current assets under construction	-	-	-	-	(126 870)	(126 870)
Closing balance	**2 264 696**	**1 421 020**	**78 427**	**329 704**	**84 381**	**4 178 228**
ACCUMULATED DEPRECIATION						
Opening balance	**1 104 694**	**1 141 977**	**42 446**	**292 763**	**-**	**2 581 880**
Increases, including:	66 243	98 507	10 879	8 475	-	184 104
depreciation	66 197	97 940	10 879	8 426	-	183 442
other	46	567	-	49	-	662
Decreases, including:	(14 840)	(74 042)	(15 139)	(15 919)	-	(119 940)
liquidation and sale	(14 794)	(73 446)	(15 139)	(15 900)	-	(119 279)
transfer to non-current assets held for sale	-	-	-	-	-	-
other	(46)	(596)	-	(19)	-	(661)
Closing balance	**1 156 097**	**1 166 442**	**38 186**	**285 319**	**-**	**2 646 044**
IMPAIRMENT						
Opening balance	**2 519**	**4 057**	**-**	**177**	**-**	**6 753**
Increases	-	-	-	-	-	-
Decreases	-	(126)	-	(36)	-	(162)
Closing balance	**2 519**	**3 931**	**-**	**141**	**-**	**6 591**
NET VALUE						
Opening balance	**1 131 945**	**278 935**	**26 295**	**36 132**	**91 381**	**1 564 688**
Closing balance	**1 106 080**	**250 647**	**40 241**	**44 244**	**84 381**	**1 525 593**

Notes to the financial statements (cont.)

(In PLN thousand)

Changes in 'Property, plant and equipment' in the course of the reporting period

2013	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
GROSS VALUE						
Opening balance	**2 227 339**	**1 477 861**	**71 741**	**340 618**	**90 641**	**4 208 200**
Increases, including:	42 318	58 096	1 650	10 473	111 915	224 452
acquisitions	-	-	-	-	110 257	110 257
other	-	536	1 650	85	1 658	3 929
transfer from non-current assets under construction	42 318	57 560	-	10 388	-	110 266
Decreases, including:	(30 499)	(110 988)	(4 650)	(22 019)	(111 175)	(279 331)
liquidation and sale	(29 290)	(110 808)	(4 546)	(21 970)	-	(166 614)
transfer to non-current assets held for sale	(855)	-	-	-	-	(855)
other	(354)	(180)	(104)	(49)	(909)	(1 596)
transfer from non-current assets under construction	-	-	-	-	(110 266)	(110 266)
Closing balance	**2 239 158**	**1 424 969**	**68 741**	**329 072**	**91 381**	**4 153 321**
ACCUMULATED DEPRECIATION						
Opening balance	**1 066 286**	**1 152 201**	**34 129**	**306 050**	**-**	**2 558 666**
Increases, including:	66 999	98 186	12 235	8 224	-	185 644
depreciation	66 999	97 838	12 132	8 167	-	185 136
other	-	348	103	57	-	508
Decreases, including:	(28 591)	(108 410)	(3 918)	(21 511)	-	(162 430)
liquidation and sale	(28 154)	(108 244)	(3 815)	(21 490)	-	(161 703)
transfer to non-current assets held for sale	(255)	-	-	-	-	(255)
other	(182)	(166)	(103)	(21)	-	(472)
Closing balance	**1 104 694**	**1 141 977**	**42 446**	**292 763**	**-**	**2 581 880**
IMPAIRMENT						
Opening balance	**992**	**5 957**	**17**	**428**	**-**	**7 394**
Increases	1 527	55	-	-	-	1 582
Decreases	-	(1 955)	(17)	(251)	-	(2 223)
Closing balance	**2 519**	**4 057**	**-**	**177**	**-**	**6 753**
NET VALUE						
Opening balance	**1 160 061**	**319 703**	**37 595**	**34 140**	**90 641**	**1 642 140**
Closing balance	**1 131 945**	**278 935**	**26 295**	**36 132**	**91 381**	**1 564 688**

In the period from 1 January to 31 December 2014 the Bank acquired property, plant and equipment in the amount of PLN 118 678 thousand (in 2013 - PLN 110 257 thousand), while the value of property, plant and equipment sold amounted to PLN 4 097 thousand (in 2013 - PLN 1 024 thousand).

The amount of compensations received from third parties for impairment of loss of property, plant and equipment items recognized in the income statement for 2014 stood at PLN 1 656 thousand (PLN 2 282 thousand in 2013).

In 2014 and 2013 there have been no restrictions to legal titles to property, plant and equipment, nor pledges in place as security for liabilities.

Contractual commitments

As at 31 December 2014 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 63 077 thousand, whereas as at 31 December 2013 - PLN 68 267 thousand.

(In PLN thousand)

35. Investment property

The Bank values investment property using the historical cost model.
The rights to sell the investment property and the rights to transfer related revenues and profits are not a subject to limitations.

Changes in the 'Investment property' in the course of the reporting period

	2014	2013
GROSS VALUE		
Opening balance	**50 905**	**51 141**
Increases, including:	319	24
acquisitions	319	24
other	-	-
Decreases, including:	(3 951)	(260)
sale of real estate	(3 951)	-
other	-	(260)
Closing balance	**47 273**	**50 905**
ACCUMULATED DEPRECIATION		
Opening balance	**21 844**	**20 916**
Increases, including:	1 152	1 188
depreciation	1 152	1 188
other	-	-
Decreases, including:	(2 055)	(260)
sale of real estate	(2 055)	-
other	-	(260)
Closing balance	**20 941**	**21 844**
IMPAIRMENT		
Opening balance	**3 080**	**2 154**
Increases, including:	-	926
impairment charges	-	926
Decreases, including:	(550)	-
sale of real estate	(550)	-
Closing balance	**2 530**	**3 080**
NET VALUE		
Opening balance	**25 981**	**28 071**
Closing balance	**23 802**	**25 981**

The fair value of investment property as at 31 December 2014 stood at PLN 35 790 thousand (PLN 39 727 thousand as at 31 December 2013). The fair value of investment property are categorized in Level 3 of the fair value hierarchy. The fair value was measured based on valuations of the property appraisers, having appropriate professional qualifications and recent experience in the location of the properties being valued. The valuations of investment property are based on investment method or profits method, taking into account such unobservable input data as expected rental growth rate, void periods, occupancy rate, discount rate.

Notes to the financial statements (cont.)

(In PLN thousand)

The following amounts of revenues and costs associated with investment properties have been recognized in the income statement

	2014	2013
Rental revenues from investment properties	2 989	2 737
Direct operating expenses associated with investment properties (including repair and maintenance costs) which generated rental revenues during the reporting period	(884)	(876)
Direct operating expenses associated with investment properties (including repair and maintenance costs) which did not generate rental revenues during the reporting period	-	-

36. Other assets

	31.12.2014	31.12.2013
Prepaid expenses	24 484	25 675
Perpetual usufruct rights	15 434	15 706
Accrued income	36 714	37 757
Interbank and interbranch settlements	7 461	2 056
Other debtors	896 330	126 191
Card settlements	1 746 293	1 556 479
Total	**2 726 716**	**1 763 864**

Prepaid expenses represent expenditures, which will be amortized against income statement in the forthcoming reporting periods.

The item ‘Other debtors’ includes assets for sale in the amount of PLN 7 thousand as at 31 December 2014 (PLN 3 thousand as at 31 December 2013). Assets for sale represent assets taken over for debts. They are presented in a debt value reduced by impairment charge, calculated as a difference between the amount of debt and fair value of taken over assets (if lower than the amount of debt). In case of surplus between the fair value of taken over asset and the amount of debt, the difference is recognized as a liability to debtor.
The Bank disposes of the assets for sale taken over for debts. The period in which the assets should be disposed is 5 years for real estate and 3 years for other assets for sale (the period starts from the date of assets’ taken over). When the period expires, the Bank reclassifies the carrying value of unsold assets for sales into appropriate category of property, plant and equipment used by the Bank.

37. Assets pledged as collateral

As at 31 December 2014 the Bank held the financial assets pledged as security for liabilities

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	3 003 206	2 774 855	3 004 383
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	679 136	640 000	-
Lombard and technical loan	bonds	5 338 928	5 008 832	-
Other loans	bonds	333 538	325 000	218 585
Deposits	bonds			
Coverage of the Gurantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposit	11 167	11 167	-
Derivatives	bonds	47 790	42 160	33 640

Notes to the financial statements (cont.)

(In PLN thousand)

As at 31 December 2013 the Bank held financial assets pledged as security for liabilities

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	4 553 357	4 251 825	4 563 231
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	603 348	575 000	-
Lombard and technical loan	bonds	5 379 355	5 271 118	-
Other loans	bonds	312 865	325 000	246 385
Deposits	bonds	216 628	206 450	205 894
Coverage of the Gurantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposit	11 096	11 096	-

The freeze on securities is a consequence of:

- in case of Repo and Sell-buy-back transactions – binding money market standards for such transactions,
- in case of freeze to the benefit of BFG – binding provisions of the Law on Banking Guaranty Fund BFG,
- in case of Lombard and technical credits – policy and standards, applied by the National Bank of Poland NBP,
- in case of Other loans, Deposits items and Derivatives – terms and conditions of the agreement, entered between Bank Pekao S.A. and its clients,
- in case of freeze to the benefit of KDPW – with the status of the clearing member for brokerage transactions.

38. Amounts due to other banks

Amounts due to other banks by product type

	31.12.2014	31.12.2013
Current accounts and overnight deposits	1 222 549	1 165 320
Interbank deposits and other liabilities	462 570	1 322 799
Loans and advances received	1 303 141	1 340 777
Repo transactions	126 277	905 238
Cash in transit	15 319	20 598
Total	**3 129 856**	**4 754 732**

Amounts due to other banks by currencies

	31.12.2014	31.12.2013
PLN	1 479 161	2 277 775
CHF	380 003	392 790
EUR	1 192 885	1 950 530
USD	42 194	69 641
Other currencies	35 613	63 996
Total	**3 129 856**	**4 754 732**

(In PLN thousand)

39. Amounts due to customers

Amounts due to customers by entity and product type

	31.12.2014	31.12.2013
Amounts due to corporate, including:	59 490 002	59 913 656
current accounts and overnight deposits	24 818 198	23 349 161
term deposits and other liabilities	34 671 804	36 564 495
Amounts due to budget entities, including:	6 210 578	5 822 045
current accounts and overnight deposits	5 089 978	4 893 607
term deposits and other liabilities	1 120 600	928 438
Amounts due to individuals, including:	54 771 125	50 315 303
current accounts and overnight deposits	29 768 467	27 395 838
term deposits and other liabilities	25 002 658	22 919 465
Repo transactions	5 256 415	3 668 011
Cash in transit	653 150	149 728
Total	**126 381 270**	**119 868 743**

Amounts due to customers by currencies

	31.12.2014	31.12.2013
PLN	107 063 874	101 596 625
CHF	205 924	173 546
EUR	11 816 040	10 389 108
USD	6 608 786	7 072 255
Other currencies	686 646	637 209
Total	**126 381 270**	**119 868 743**

40. Debt securities issued

Debt securities issued by type

	31.12.2014	31.12.2013
Certificates of deposit	2 819 713	2 240 452
Total	**2 819 713**	**2 240 452**

The Bank redeems its own debt securities issued on a timely basis.

Debt securities issued by currencies

	31.12.2014	31.12.2013
PLN	2 819 713	2 240 452
EUR	-	-
USD	-	-
Total	**2 819 713**	**2 240 452**

Changes in debt securities issued

	2014	2013
Opening balance	**2 240 452**	**3 966 148**
Increase (issuance)	5 876 940	3 649 300
Decrease (redemption)	(5 312 326)	(4 314 694)
Decrease (partial redemption)	(1 838)	(1 022 028)
Foreign currency exchange differences	-	986
Other	16 485	(39 260)
Closing balance	**2 819 713**	**2 240 452**

Notes to the financial statements (cont.)

(In PLN thousand)

41. Provisions

Changes in provisions in the reporting period

2014	PROVISIONS FOR LITIGATION AND CLAIM	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**32 676**	**204 989**	**116 874**	**36 857**	**391 396**
Provision charges/revaluation	3 556	22 442	67 469	12 742	106 209
Provision utilization	(2 859)	(6 462)	-	(13 638)	(22 959)
Provision releases	(2 544)	-	(79 905)	-	(82 449)
Foreign currency exchange differences	-	-	709	134	843
Other changes	2 146	44 398	-	(2 632)	43 912
Closing balance	**32 975**	**265 367**	**105 147**	**33 463**	**436 952**
Short term	5 698	-	46 669	940	53 307
Long term	27 277	265 367	58 478	32 523	383 645

2013	PROVISIONS FOR LITIGATION AND CLAIM	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**55 043**	**152 393**	**125 379**	**40 675**	**373 490**
Provision charges/revaluation	7 426	16 221	75 421	15 548	114 616
Provision utilization	(8 262)	(5 813)	-	(19 908)	(33 983)
Provision releases	(21 257)	-	(84 287)	-	(105 544)
Foreign currency exchange differences	(274)	-	361	85	172
Other changes	-	42 188	-	457	42 645
Closing balance	**32 676**	**204 989**	**116 874**	**36 857**	**391 396**
Short term	6 159	10 925	66 159	9 249	92 492
Long term	26 517	194 064	50 715	27 608	298 904

Litigation provisions

Provisions for litigation and claims include court, administrative and other legal proceedings. The provisions were estimated in the amount of expected outflow of resources embodying economic benefits.

Provisions for defined benefit plans

Detailed information in respect to provisions for defined benefit plans were presented in Note 43.

Other provisions

Other provisions include in particular provisions for long term employee benefits and provision for employment restructuring concerning planned liquidation of the Branch in Paris.

Notes to the financial statements (cont.)

(In PLN thousand)

42. Other liabilities

	31.12.2014	31.12.2013
Deferred income	121 351	103 409
Provisions for holiday leave	49 676	49 823
Provisions for other employee-related liabilities	167 408	173 815
Provisions for administrative costs	126 804	84 021
Other costs to be paid	50 912	59 719
Other creditors	270 268	186 220
Interbank and interbranch settlements	658 461	983 499
Card settlements	157 502	167 018
Total	**1 602 382**	**1 807 524**

43. Defined benefit plans

Based on internal regulations in respect to remuneration, the employees of the Bank or their families are entitled to defined benefits other than remuneration:

a) retirement benefits,

b) death-in-service benefits.

The present value of such obligations is measured by an independent actuary using the projected unit credit method.

The amount of the retirement benefits and death-in-service benefits is dependent on length of service and amount of remuneration. The expected amount of the benefits is discounted actuarially, taking into account the financial discount rate and the probability of an individual get to the retirement age or die while working respectively. The financial discount rate is determined by reference to market yields at the end of reporting period on government bonds. The probability of an individual get to the retirement age or die while working is determined using the multiple decrement model, taking into consideration the following risks: possibility of dismissal from service, risk of total disability to work and risk of death.

These defined benefit plans expose the Bank to actuarial risk, such as:

- interest rate risk – the decrease in market yields on government bonds would increase the defined benefit plans obligations,
- remuneration risk – the increase in remuneration of the Bank's employees would increase the defined benefit plans obligations,
- longevity risk – the increase in life expectancy of the Bank's employees would increase the defined benefit plans obligations.

The principal actuarial assumptions as at 31 December 2014 are as follows:

- the discount rate at the level of 2.60% (4.48% as at 31 December 2013),
- the future salary growth rate at the level of 2.50% (2.50% as at 31 December 2013),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Bank,
- the mortality adopted in accordance with Life Expectancy Tables for men and women, published the Central Statistical Office, adequately adjusted on the basis of historical data of the Bank.

Notes to the financial statements (cont.)

(In PLN thousand)

Reconciliation of the present value of defined benefit plans obligations

The following table presents a reconciliation from the opening balances to closing balances for the present value of defined benefit plans obligations.

	2014	2013
Balance as at 1 January	**204 989**	**152 393**
Current service cost	13 258	7 748
Interest expense	9 184	8 473
Remeasurements of the defined benefit obligations:	44 212	41 504
actuarial gains and losses arising from changes in demographic assumptions	(30)	12 231
actuarial gains and losses arising from changes in financial assumptions	48 530	15 596
actuarial gains and losses arising from experience adjustments	(4 288)	13 677
Contributions paid by the employer	(6 276)	(5 129)
Balance as at 31 December	**265 367**	**204 989**

Sensitivity analysis

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result of a change in the respective actuarial assumptions by one percent.

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

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

Maturity of defined benefit plans obligations

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

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

(In PLN thousand)

44. Share -based payment

The UniCredit Group incentive programs

In the current and comparative reporting periods the following incentive programs granted to employees of the Bank by the UniCredit Group existed:

- The long-term UniCredit Group Incentive Program 2007 in respect to share options. The rights to exercise the option were acquired in 2011. Strike price is EUR 7.094. The option will expire in 2017.
- The long-term UniCredit Group Incentive Program 2008 in respect to share options. The rights to exercise the option were acquired in 2012. Strike price is EUR 4.185. The option will expire in 2018.
- Employee Share Ownership Plan that offers to eligible UniCredit Group employees the possibility to buy UniCredit ordinary shares with the following advantages: granting of free ordinary shares ('Discount shares' and 'Matching Shares' or rights to 'Matching Shares') measures on the basis of the shares purchased by each participant. The granting of free ordinary shares is subordinated to vesting conditions stated in the rules of the Plan. In 2014 the sixth edition of the Plan has been introduced.
- The long-term UniCredit Group Incentive Program 2011-2013 granted in April 2011 in respect to ordinary shares and share options. Due to the failure to meet the conditions of the Program, the rights to ordinary shares and share options were not granted.

The above mentioned share-based payments are recognized as cash-settled transactions.

The fair value of share options and shares of UniCredit S.p.A. was established based on the Hull and White model.

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

2014	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	2 173 155	17.36/29.42	-	-
Granted during the year	-	-	-	-
Redeemed during the year	-	-	-	-
Exercised during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at the period-end	2 173 155	17.84/30.24	-	-
Executable at the period-end	-	-	-	-

(*)The value of PLN 17.84 relates to the stock options program 2008, whereas the value of PLN 30.24 relates to the stock options program 2007.

2013	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	5 963 582	17.36/29.42	297 688	-
Granted during the year	-	-	-	-
Redeemed during the year	3 790 427	17.36/29.42	297 688	-
Exercised during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at the period-end	2 173 155	17.36/29.42	-	-
Executable at the period-end	-	-	-	-

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

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents the conditions of Employee Share Ownership Plan in 2014.

	FREE SHARES 1ST ELECTION WINDOW	FREE SHARES 2ND ELECTION WINDOW
Date of Free Shares delivery to Group employees	31 January 2014	31 July 2014
Vesting Period Start-Date	31 January 2014	31 July 2014
Vesting Period End-Date	31 January 2015	31 July 2015
‘Discount Shares’ Fair Value (per unit in EUR)	5.774	5.972

The table below presents the conditions of Employee Share Ownership Plan in 2013.

	FREE SHARES 1ST ELECTION WINDOW	FREE SHARES 2ND ELECTION WINDOW
Date of Free Shares delivery to Group employees	5 February 2013	5 August 2013
Vesting Period Start-Date	31 January 2013	31 July 2013
Vesting Period End-Date	31 January 2014	31 July 2014
‘Discount Shares’ Fair Value (per unit in EUR)	4.35	3.78

The fair value of granted rights to shares under Employee Share Ownership Plan until 31 December 2014 amounted to PLN 654 thousand as at 31 December 2014 (PLN 332 thousand as at 31 December 2013).

The remuneration expenses for 2014 relating to the incentive programs granted to the emloyees of the Bank by UniCredit Group amounted to PLN 322 thousand (in 2013 - PLN 186 thousand).

System of Variable Remuneration for the Management Team

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

	System 2011, System 2012, System 2013 and System 2014
Transaction type	Cash-settled share based payments
Start date of the assessment period	System 2011: 1 January 2011 System 2012: 1 January 2012 System 2013: 1 January 2012 System 2014: 1 January 2012
Program announcement date	System 2011: April 2011 System 2012: April 2012 System 2013: April 2013 System 2014: June 2014
Program granting date	System 2011: 1 June 2012 System 2012: 12 June 2013 System 2013: 12 June 2014 System 2014: date of the General Shareholders Meeting held to approve the financial statements for 2014
Number of instruments granted	System 2011: 87 901 System 2012: 80 003 System 2013: 76 013 System 2014: to be settled at the program granting date
Maturity date	System 2011: 31 July 2016 System 2012: 31 July 2017 System 2013: 31 July 2018 System 2014: 31 July 2020
Vesting date for System 2011	For Management Board Members and Executive Vice President: • 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date For remaining participants: • 50% after 2 years from program granting date • 50% after 3 years from program granting date
Vesting date for System 2012	For Management Board Members and Executive Vice President: • 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date For remaining participants: • 20% after year from program granting date • 40% after 2 years from program granting date • 40% after 3 years from program granting date
Vesting date for System 2013	For Management Board Members and Executive Vice President: • 40% after year from program granting date (settlement after 2 year retention period) • 40% after 2 years from program granting date (settlement after 1 year retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period) For remaining participants: • 20% after year from program granting date • 40% after 2 years from program granting date • 40% after 3 years from program granting date
Vesting date for System 2014	For Management Board Members and Executive Vice President: • 40% after year from program granting date (settlement after 3 year retention period) • 30% after 3 years from program granting date (settlement after 1 year retention period) • 30% after 4 years from program granting date (settlement after 1 year retention period) For remaining participants: • 60% after year from program granting date (settlement after 3 year retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period) • 20% after 4 years from program granting date (settlement after 1 year retention period)

Notes to the financial statements (cont.)

(In PLN thousand)

	System 2011, System 2012, System 2013 and System 2014
Vesting conditions	Compliance assessment Continuous employment Reaching the aim based on financial results of the Bank for a given period
Program settlement	On the vesting date, the participant will receive a cash payment amounting to the number the possessed phantom shares times the arithmetic mean of the Bank's share prices at the Warsaw Stock Exchange in the calendar month preceding the month of cash-settlement.

For the System 2011, 2012 and 2013 the fair value of the program was estimated based upon the Bank's shares price on the WSE as of the balance sheet date and expected number of phantom shares to which the rights will be acquired.

For the System 2014, as of 31 December 2014 the Bank prepared the program valuation, presuming that the phantom shares were granted on 31 December 2014. This value will be changed at the actual date of granting the program.

The system of variable remuneration realized in the form of phantom shares is a program settled in cash, and therefore its fair value is adjusted on each balance sheet date until the the program settlement, which in case of this program coincides with the vesting date.

The carrying amount of liabilities for cash-settled phantom shares amounted to PLN 32 003 thousand as at 31 December 2014 (as at 31 December 2013 – PLN 25 909 thousand).

The total intrinsic value of liabilities for vested rights to phantom shares amounted to PLN 35 642 thousand as at 31 December 2014 (as at 31 December 2013 – PLN 30 139 thousand).

The remuneration expenses for 2014 relating to the system of variable remuneration in the form of phantom shares amounted to PLN 13 796 thousand (in 2013 - PLN 15 111 thousand).

The table below presents changes in the number of Bank's phantom shares.

	2014	2013
Opening balance	167 904	87 901
Granted during the year	76 103	80 003
Redeemed during the year	-	-
Exercised during the year	44 466	-
Terminated during the year	-	-
Existing at the period-end	199 452	167 904

The table above does not present the number of shares granted in respect of System 2014. This number will be determined in 2015 after approval of the financial statements for 2014 by the General Shareholder's Meeting. The hypothetical number of shares determined on the basis of the base value of the granted bonus to each of the program participants and arithmetic mean of the Bank's share price on the WSE in December 2014 amounts to 74 031.

(In PLN thousand)

45. Operating and finance leases

Bank as a Lessor

In operating lease of buildings classified as investment properties Bank acts as a lessor.

The amount of future minimum lease payments expected to be received under non-cancellable operating lease can be summarized as follows:

	31.12.2014	31.12.2013
Up to 1 year	9 494	9 504
Between 1 and 5 years	13 044	13 147
Over 5 years	8 684	11 168
Total	**31 222**	**33 819**

The amount of the minimum operating lease payments classified as income in 2014 amounted to PLN 23 104 thousand (PLN 28 094 thousand in 2013).

Bank as a Lessee

The Bank is a lessee of buildings' lease contracts classified as operating lease.

The amount of future minimum lease payments expected to be paid under non-cancellable operating lease can be summarized as follows:

	31.12.2014	31.12.2013
Up to 1 year	109 761	111 469
Between 1 and 5 years	238 727	239 043
Over 5 years	147 709	179 940
Total	**496 197**	**530 452**

The amount of the minimum operating lease payments recognized as an expense in 2014 amounted to PLN 186 949 thousand (expense in 2013 amounted to PLN 212 943 thousand).

The lease agreements are usually entered into for an indefinite period. In case of lease agreements concluded for an indefinite term, the minimum lease payments are determined based upon notice of termination periods ensuing from relevant contracts. The notice period is usually fixed at 3 or 6 months. Lease agreements are denominated in PLN as well as in foreign currencies. Payments are made in PLN, regardless of the contract currency.

Finance leases

In addition, the Bank as a lessee of cars concludes finance lease contracts with its subsidiary Pekao Leasing Sp. z o.o. his contract gives the Bank opportunity to buy an asset after termination of lease contract.

The carrying amount of net assets being subject of finance lease contracts as at 31 December 2014 amounted to PLN 40 099 thousand and as at 31 December 2013 amounted to PLN 26 290 thousand.

	31.12.2014	31.12.2013
Gross liabilities on finance leases	59 745	40 461
Unrealized financial costs	(25 909)	(10 944)
Present value of minimum lease payments	**33 836**	**29 517**

The amount of future minimum lease payments under finance lease by maturity dates can be summarized as follows:

	31.12.2014	31.12.2013
Up to 1 year	21 272	18 358
Between 1 and 5 years	38 473	22 103
Total	**59 745**	**40 461**

46. Contingent commitments

Litigation

In the entire year of 2014 the total value of the litigation subject in the ongoing court proceedings against the Bank was PLN 1 201 037 thousand (in 2013 it was 19 052 804 thousand PLN).

In 2014 there were no proceedings before the court or state administration bodies related to the receivables or payables of the Bank and its subsidiaries in which the pursued claim value (amount to be paid) is at least 10% of the Bank's equity.

The most significant court litigation against the Bank, per its value, ongoing as at 31 December 2014, is the litigation brought via the plaint of private individuals against the Bank and the Central Brokerage House Pekao S.A. for the payment of 306 622 thousand PLN as compensation for the damage arising from the purchase of stocks and the injury resulting from the execution process. In the opinion of the defendant, the plaint is groundless.

Other litigations against the Bank currently ongoing:

- proceedings instigated in the second quarter of 2014 as a result of the plaint brought by a guarantee beneficiary for the payment of PLN 55 996 thousand as the bank guarantee drawing,
- proceedings instigated in 2013 as a result of the plaint brought by a guarantee beneficiary for the payment of PLN 43 760 thousand as the bank guarantee drawing,
- proceedings instigated in the first quarter of 2014 as a result of the plaint brought by guarantee beneficiaries for the payment of PLN 32 750 thousand as the bank guarantee drawing.

Given the analysis of facts and legal aspects, the Bank evaluates the risk of outflow of funds in these three lawsuits as possible.

A still ongoing court dispute is the litigation – already presented in the financial statements of 2013 – resulting from the Bank's minority shareholder lawsuit to repeal resolutions 8 and 24 of the Annual General Shareholder Meeting of 19 April 2011 on the approval of the Bank Capital Group consolidated financial statements for 2010 and granting the vote of approval to the Management Board Member. Compliant to the legally valid decision of the Circuit Court in Warsaw of 4 November 2013, the present value of the proceedings is 692 PLN, instead of the amount of 18 000 000 PLN quoted by the plaintiff.

After 31 December 2014, but before the approval of the financial statements, the Bank received a lawsuit of the guarantee's beneficiaries for pay the amount of PLN 29 204 thousand from the realization of banking guarantee. Given the analysis of facts and legal aspects, the Bank evaluates the risk of outflow of funds in this lawsuit as possible.

As at 31 December 2014, the Bank created provisions for litigations against the Bank, which according to legal opinion are connetcted with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the above provisions, created as at 31 December 2014 amounted to PLN 32 975 thousand (PLN 32 676 thousand as at 31 December 2013).

Notes to the financial statements (cont.)

(In PLN thousand)

Financial off – balance commitments granted

Financial commitments granted by entities

	31.12.2014	31.12.2013
Financial commitments to:		
financial entities	1 369 020	3 430 534
non - financial entities	24 714 163	22 465 144
budget entities	944 954	1 392 162
Total	**27 028 137**	**27 287 840**

Off – balance guarantees issued

Guarantees issued by entities

	31.12.2014	31.12.2013
Liabilities to financial entities, including:	2 405 131	1 942 219
guarantees	2 404 500	1 939 603
confirmed export letters of credit	631	2 616
Liabilities to non-financial entities, including:	13 041 275	10 145 263
guarantees	7 474 912	4 938 823
securities' underwriting guarantees	5 566 363	5 146 660
sureties	-	59 780
Liabilities to budget entities, including:	151 974	99 644
guarantees	13 007	17 434
securities' underwriting guarantees	138 967	82 210
Total	**15 598 380**	**12 187 126**

Notes to the financial statements (cont.)

(In PLN thousand)

Securities underwriting

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

NAME OF ISSUER	TYPE OFSECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT IT SELF	CONTRACT LIFE
Client 1	bonds	1 385 000	23.07.10 - 30.06.20
Client 2	bonds	540 000	29.07.12 - 15.12.17
Client 3	bonds	60 000	29.07.12 - 15.12.17
Client 4	bonds	544 000	21.06.12 - 31.12.17
Client 5	bonds	156 720	06.12.12 - 31.03.16
Client 6	bonds	132 400	28.12.12 - 31.03.15
Client 7	bonds	78 700	28.12.12 - 31.03.15
Client 8	bonds	164 700	01.07.11 - 20.12.17
Client 9	bonds	14 640	19.03.13 - 30.06.15
Client 10	bonds	7 500	06.05.13 - 15.05.15
Client 11	bonds	4 600	06.05.13 - 15.05.15
Client 12	bonds	16 407	24.05.13 - 31.01.15
Client 13	bonds	20 000	29.04.13 - 31.03.15
Client 14	bonds	140 110	20.05.13 - 30.12.15
Client 15	bonds	950	16.08.13 - 31.12.15
Client 16	bonds	80 000	16.09.13 - 10.06.16
Client 17	bonds	11 000	28.10.13 - 30.12.16
Client 18	bonds	73 600	31.10.13 - 30.06.15
Client 19	bonds	25 000	31.10.13 - 30.06.15
Client 20	bonds	565 000	22.10.13 - 30.12.15
Client 21	bonds	50 000	22.10.13 - 30.11.15
Client 22	bonds	10 000	22.11.13 - 31.12.15
Client 23	bonds	3 983	20.12.13 - 31.12.15
Client 24	bonds	25 020	27.01.14 - 31.03.16
Client 25	bonds	84 140	30.04.14 - 30.12.15
Client 26	bonds	13 100	30.04.14 - 30.12.15
Client 27	bonds	31 570	30.04.14 - 30.12.15
Client 28	bonds	15 000	30.04.14 - 30.12.15
Client 29	bonds	14 000	15.05.14 - 31.12.16
Client 30	bonds	5 700	31.05.14 - 31.12.16
Client 31	bonds	1 200	24.06.14 - 31.12.15
Client 32	bonds	183 180	30.06.14 - 31.03.17
Client 33	bonds	61 040	22.07.14 - 31.07.15
Client 34	bonds	4 170	22.07.14 - 31.07.15
Client 35	bonds	100 000	30.07.14 - 30.06.19
Client 36	bonds	26 870	29.07.14 - 30.06.16
Client 37	bonds	9 780	29.07.14 - 30.06.16
Client 38	bonds	800	08.07.14 - 31.12.15
Client 39	bonds	13 000	14.08.14 - 31.12.15
Client 40	bonds	25 000	25.08.14 - 31.08.16

Notes to the financial statements (cont.)

(In PLN thousand)

NAME OF ISSUER	TYPE OFSECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT IT SELF	CONTRACT LIFE
Client 41	bonds	3 580	29.05.14 - 30.04.15
Client 42	bonds	50 000	14.09.14 - 30.06.15
Client 43	bonds	6 500	08.09.14 - 31.12.16
Client 44	bonds	950	09.12.13 - 31.12.15
Client 45	bonds	8 544	03.09.14 - 31.12.15
Client 46	bonds	16 000	09.10.14 - 31.12.15
Client 47	bonds	3 500	09.10.14 - 31.12.15
Client 48	bonds	46 140	31.10.14 - 31.03.16
Client 49	bonds	4 700	28.11.14 - 31.12.15
Client 50	bonds	3 000	15.12.14 - 31.12.15
Client 51	bonds	50 000	22.12.14 - 30.06.17
Client 52	bonds	119 500	30.12.14 - 31.12.15
Client 53	bonds	100 000	30.12.14 - 30.06.16
Client 54	bonds	7 500	30.12.14 - 31.03.16
Client 55	bonds	198 780	30.12.14 - 09.03.16
Client 56	bonds	20 500	30.12.14 - 31.12.16
Client 57	bonds	368 256	25.08.14 - 31.12.16

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance commitment received

Commitments received by entities

	31.12.2014	31.12.2013
Financial commitments from:	457 254	111 792
financial entities	457 254	111 792
non - financial entities	-	-
budget entities	-	-
Guarantees from:	12 172 352	9 117 092
financial entities	1 321 440	1 105 746
non - financial entities	10 102 000	7 302 774
budget entities	748 912	708 572
Total	**12 629 606**	**9 228 884**

Moreover, the Bank has the ability to obtain financing from National Bank of Poland secured by government securities.

47. Share capital

Shareholding structure

CLASS/ISSUE	TYPE OF SHARES	NUMBER OF SHARES	NOMINAL VALUE OF CLASS/ISSUE	NET PROFIT/LOSS	DATE OF REGISTRATION	DIVIDEND RIGHTS (FROM DATE)
A	Common bearer stock	137 650 000	137 650	Fully paid-up	21.12.1997	01.01.1998
B	Common bearer stock	7 690 000	7 690	Fully paid-up	06.10.1998	01.01.1998
C	Common bearer stock	10 630 632	10 631	Fully paid-up	12.12.2000	01.01.2000
D	Common bearer stock	9 777 571	9 777	Fully paid-up	12.12.2000	01.01.2000
E	Common bearer stock	373 644	374	Fully paid-up	29.08.2003	01.01.2003
F	Common bearer stock	621 411	621	Fully paid-up	29.08.2003	19.05.2006 16.05.2007
G	Common bearer stock	603 377	603	Fully paid-up	29.08.2003	15.05.2008
H	Common bearer stock	359 840	360	Fully paid-up	12.08.2004	01.01.2004
I	Common bearer stock	94 763 559	94 764	Fully paid-up	29.11.2007	01.01.2008
Total number of Shares (pcs)		**262 470 034**				
Total share capital in PLN thousand			**262 470**			
Nominal value per share = PLN 1.00						

Change in the number of shares (pcs):

2014	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262 470 034	262 470 034
Closing balance	262 470 034	262 470 034

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

Notes to the financial statements (cont.)

(In PLN thousand)

48. Other capital and reserves, retained earnings and profit for the period

The table below presents the structure of the Bank's equity:

	31.12.2014	31.12.2013
Reserve capital, including:	9 326 529	9 326 529
issue of shares above face value	9 137 221	9 137 221
other	189 308	189 308
Revaluation reserve, including:	540 591	49 713
remeasurements of the defined benefit liabilities	(99 507)	(55 295)
deferred tax	18 906	10 506
revaluation of financial assets portfolio available for sale	628 282	146 156
deferred tax	(119 373)	(27 769)
revaluation of financial hedging instruments portfolio	138 621	(29 487)
deferred tax	(26 338)	5 602
Foreign currency translation differences	1 169	1 238
General Banking Risk Fund	1 937 850	1 937 850
Other reserve capital	8 612 550	8 610 711
Bonds convertible into shares- capital component	28 819	28 819
Provisions for liabilities from dominant entity shares buyout – capital element	-	332
Funds for brokerage activities	15 000	15 000
Total other capital	**20 462 508**	**19 970 192**
Profit (loss) from previous periods	-	(183 959)
Net profit for the period	2 662 266	2 800 000
Total retained earnings and profit for the period	**2 662 266**	**2 616 041**
Total	**23 124 774**	**22 586 233**

The net profit of the Bank for 2013 in the amount of PLN 2 800 00 thousand was distributed in the following way: PLN 2 614 202 thousand – to dividend, PLN 1 839 thousand – to the other reserve capital, and PLN 183 959 thousand – to cover in total the losses from previous years.

From 1982 to 1984 and from 1988 to 1996, the Bank operated in a hyperinflationary economic environment.

IAS 29 'Financial Reporting in Hyperinflationary Economies' requires restatement of each component of owners' equity (except for retained earnings and revaluation surplus) by applying a general price index for the period of hyperinflation. This retrospective application would have resulted in an increase in share capital and other reserves and a decrease in retained earnings in equivalent amounts. This restatement would not have any effect on the total amount of the Bank's equity.

(In PLN thousand)

49. Additional information to the cash flow statement

Cash and cash equivalents

	31.12.2014	31.12.2013
Cash and amounts due from Central Bank	9 226 249	4 191 223
Loans and receivables from banks with maturity up to 3 months	6 327 092	6 423 808
Cash and Cash equivalents presented in the cash flow statement	**15 553 341**	**10 615 031**

Restricted availability cash and cash equivalents as at 31 December 2014 amounted to PLN 4 021 406 thousand (PLN 3 661 336 thousand as at 31 December 2013).

50. Related party transactions

Transactions between the Bank and related parties are typical transactions arising from current operating activities conducted by the Bank. Such transactions mainly include loans, deposits, foreign currency transactions and guarantees.

The credit granting process applicable to the Bank's management and entities related to the Bank

According to the Banking Act, credit transactions with Members of the Banks Management Board and Supervisory Board, persons holding managerial positions at the Bank, with the entities related financially or organizationally therewith, shall be effected according to Regulation adopted by the Supervisory Board of the Bank.

The Regulation provides detailed decision-making procedures, applicable to transactions with such persons and entities, also defining the decision-making levels authorized to take decisions. In particular, the transactions with the Members of the Bank's Management Board or Supervisory Board or with an entity related therewith financially or organizationally, are subject to decisions taken by the Bank's Management Board and Supervisory Board.

Members of the Bank's Management Board and entities related therewith financially or organizationally may take advantage of credit products offered by the Bank on standard terms and conditions of the Bank. In particular, the Bank may not offer more advantageous credit interest rates to such persons or entities.

Credit risk assessment is performed using the methodology applied by the Bank, tailored to the client's segment and type of transaction.

In case of entities related to the Bank, the standard credit procedures are applied, with transaction-related decisions taken exclusively at level of the Bank's Head Office.

Notes to the financial statements (cont.)

(In PLN thousand)

Related party transactions

Related party transactions as at 31 December 2014

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank's parent entity	183 634	-	-	-	15 339	-	654
Entities of UniCredit Group excluding of Pekao S.A. Group entities	1 496 377	-	456 005	4 040	401 444	1 002 599	-
Bank Pekao S.A. Group entities							
Subsidiaries							
Pekao Leasing Sp. z o.o.	1 201 450	-	782	1 123	205 101	-	541
Pekao Faktoring Sp. z o.o.	1 052 341	-	-	16	213 938	-	-
Centralny Dom Maklerski Pekao S.A.	-	-	-	398	984 495	-	56
Pekao Fundusz Kapitałowy Sp. z o.o.	-	-	-	1	46 620	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	-	39	65 366	-	-
Pekao Telecentrum Sp. z o.o. (in liquidation)	-	-	-	-	10 571	-	-
Centrum Kart S.A.	-	-	-	382	30 476	-	5 966
Pekao Financial Services Sp. z o. o.	-	-	-	4	12 883	-	-
Pekao Bank Hipoteczny S.A.	46 135	64 625	16 310	-	16 092	4 717	29
Pekao Leasing Holding S.A.	-	-	-	-	70	-	-
Property Sp. z o.o. (in liquidation)	-	-	-	-	-	-	-
Pekao Property S.A.	11 371	-	-	-	4 819	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	-	-	17	1 079	-	4 304
FPB – Media Sp. z o. o.	11 167	-	-	-	275	-	-
Associates							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	3	22 812	-	36
Pioneer Pekao Investment Management S.A.	-	-	-	-	154 825	-	3
Pioneer Pekao TFI S.A. (PPIM S.A subsidiary)	-	-	-	19 645	144 297	-	9
Krajowa Izba Rozliczeniowa S.A.	-	-	-	-	7 766	-	-
Total of Bank Pekao S.A. Group entities	**2 322 464**	**64 625**	**17 092**	**21 628**	**1 921 485**	**4 717**	**10 944**
Key management personnel of the Bank and UniCredit S.p.A.	6 383	-	-	-	33 273	-	-
Total	**4 008 858**	**64 625**	**473 097**	**25 668**	**2 371 541**	**1 007 316**	**11 598**

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by contractual maturity

31.12.2014	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	4 766	178 868	-	-	-	-	183 634
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	621 730	117 880	43 212	351 608	361 947	-	1 496 377
Bank Pekao S.A. Group entities							
Subsidiaries	286 683	23 356	41 134	898 436	967 349	99 299	2 316 257
Associates	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	5 998	-	-	48	337	6 383
Total	**913 179**	**326 102**	**84 346**	**1 250 044**	**1 329 344**	**99 636**	**4 002 651**

(*) Current receivables include Nostro account and cash collaterals

Liabilities due to loans and deposits by contractual maturity

31.12.2014	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	15 339	-	-	-	-	-	15 339
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	126 309	262 348	-	12 787	-	-	401 444
Bank Pekao S.A. Group entities							
Subsidiaries	787 748	410 352	73 185	18 647	24 394	-	1 314 326
Associates	28 208	102 192	198 800	500	-	-	329 700
Key management personnel of the Bank and UniCredit S.p.A.	15 626	8 679	8 425	443	100	-	33 273
Total	**973 230**	**783 571**	**280 410**	**32 377**	**24 494**	**-**	**2 094 082**

(*) Current receivables include Loro account and cash collaterals

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currency

31.12.2014	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	3 581	180 053	-	-	-	183 634
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	606 305	714 067	6	142 385	33 614	1 496 377
Bank Pekao S.A. Group entities						
Subsidiaries	405 961	7 179	3 464	1 899 652	1	2 316 257
Associates	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	6 383	-	6 383
Total	**1 015 847**	**901 299**	**3 470**	**2 048 420**	**33 615**	**4 002 651**

Liabilities due to loans and deposits by currency

31.12.2014	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	-	-	-	15 339	-	15 339
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	37 093	140	-	364 211	-	401 444
Bank Pekao S.A. Group entities						
Subsidiaries	17 469	23 110	4 029	1 267 610	2 108	1 314 326
Associates	-	-	-	329 700	-	329 700
Key management personnel of the Bank and UniCredit S.p.A.	2 894	845	-	22 825	6 709	33 273
Total	**57 456**	**24 095**	**4 029**	**1 999 685**	**8 817**	**2 094 082**

Notes to the financial statements (cont.)

(In PLN thousand)

Related party transactions as at 31 December 2013

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank's parent entity	4 812	-	-	-	52 758	-	358
Entities of UniCredit Group excluding of Pekao S.A. Group entities	1 151 361	-	303 574	4 114	1 099 066	772 939	1 686
Bank Pekao S.A. Group entities							
Subsidiaries							
Pekao Leasing Sp. z o.o.	1 316 378	-	691	174	24 171	20	206
Pekao Faktoring Sp. z o.o.	838 982	-	-	11	3 180	-	-
Centralny Dom Maklerski Pekao S.A.	-	-	-	303	674 969	-	514
Pekao Fundusz Kapitałowy Sp. z o.o.	-	-	-	-	46 975	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	-	87	32 173	-	-
Pekao Telecentrum Sp. z o.o. (in liquidation)	-	-	-	-	10 443	-	-
Centrum Kart S.A.	-	-	-	283	28 933	-	8 956
Pekao Financial Services Sp. z o. o.	-	-	-	4	9 266	-	-
Pekao Bank Hipoteczny S.A.	-	136 786	2 261	1	44 641	2 934	42
Pekao Leasing Holding S.A.	-	-	-	-	164	-	-
Property Sp. z o.o. (in liquidation)	-	-	-	-	3 000	-	-
Pekao Property S.A.	5 211	-	-	6 231	5 569	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	-	-	61	2 680	-	3 860
FPB – Media Sp. z o. o.	11 717	-	-	-	295	-	-
Associates							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	3	22 905	-	8
Pioneer Pekao Investment Management S.A.	-	-	-	-	148 571	-	3
Pioneer Pekao TFI S.A. (PPIM S.A subsidiary)	-	-	-	16 145	133 659	-	22
Krajowa Izba Rozliczeniowa S.A.	-	-	-	-	13 176	-	-
Total of Bank Pekao S.A. Group entities	**2 172 288**	**136 786**	**2 952**	**23 303**	**1 204 770**	**2 954**	**13 611**
Key management personnel of the Bank and UniCredit S.p.A.	6 922	-	-	-	22 972	-	-
Total	**3 335 383**	**136 786**	**306 526**	**27 417**	**2 379 566**	**775 893**	**15 655**

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by contractual maturity

31.12.2013	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	4 812	-	-	-	-	-	4 812
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	481 226	14 171	953	302 393	352 618	-	1 151 361
Bank Pekao S.A. Group entities							
Subsidiaries	281 968	-	10 875	785 403	993 135	100 907	2 172 288
Associates	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	6 514	-	-	54	354	6 922
Total	**768 006**	**20 685**	**11 828**	**1 087 796**	**1 345 807**	**101 261**	**3 335 383**

(*) Current receivables include Nostro account and cash collaterals

Liabilities due to loans and deposits by contractual maturity

31.12.2013	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	52 758	-	-	-	-	-	52 758
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	281 448	355 062	450 113	12 443	-	-	1 099 066
Bank Pekao S.A. Group entities							
Subsidiaries	671 799	74 829	110 556	5 105	24 170	-	886 459
Associates	20 132	36 011	126 286	135 882	-	-	318 311
Key management personnel of the Bank and UniCredit S.p.A.	1 391	18 316	2 565	600	100	-	22 972
Total	**1 027 528**	**484 218**	**689 520**	**154 030**	**24 270**	**-**	**2 379 566**

(*) Current receivables include Loro account and cash collaterals

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currency

31.12.2013	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	3 521	1 291	-	-	-	4 812
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	517 756	614 246	6	-	19 353	1 151 361
Bank Pekao S.A. Group entities						
Subsidiaries	501 696	3 256	5 749	1 661 587	-	2 172 288
Associates	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	6 922	-	6 922
Total	**1 022 973**	**618 793**	**5 755**	**1 668 509**	**19 353**	**3 335 383**

Liabilities due to loans and deposits by currency

31.12.2013	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	169	-	-	52 589	-	52 758
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	490 171	21	-	600 684	8 190	1 099 066
Bank Pekao S.A. Group entities						
Subsidiaries	13 708	23 615	937	847 236	963	886 459
Associates	-	-	-	318 311	-	318 311
Key management personnel of the Bank and UniCredit S.p.A.	2 447	500	-	13 438	6 587	22 972
Total	**506 495**	**24 136**	**937**	**1 832 258**	**15 740**	**2 379 566**

Notes to the financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2014 to 31 December 2014

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	181	(11)	342	(2 742)	1 108	(13 410)
Entities of UniCredit Group excluding of Pekao S.A. Group entities	48 599	(9 800)	6 206	(228)	7 401	(26 722)
Pekao S.A. Group entities						
Subsidiaries						
Centralny Dom Maklerski Pekao S.A.	-	(7 130)	1 525	(701)	2 894	(2 910)
Pekao Leasing Sp. z o.o.	33 498	(6 843)	3 018	(5)	4 538	-
Pekao Faktoring Sp. z o.o.	15 852	(14)	651	-	168	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(1 289)	786	-	6	-
Pekao Fundusz Kapitałowy Sp. z o.o.	-	(1 089)	6	-	12	-
Centrum Kart S.A.	-	(536)	30	-	862	(55 944)
Pekao Telecentrum Sp. z o.o. (in liquidation)	-	(188)	2	-	3	-
Pekao Financial Services Sp. z o.o.	-	(198)	35	-	42	-
Pekao Bank Hipoteczny S.A.	1 914	(842)	699	-	160	(9 766)
Pekao Leasing Holding S.A.	-	(2)	8	-	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	1	(15)	17	(13 489)	1 892	(31 051)
Pekao Property S.A.	286	(79)	13	-	56	-
FPB - Media Sp .z o.o.	412	-	5	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(3 841)	263	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(3 221)	191 850	-	-	(4)
Dom Inwestycyjny Xelion Sp. z o.o.	-	(565)	70	(24)	187	-
Krajowa Izba Rozliczeniowa S.A.	-	(148)	162	-	-	(9 377)
Total of Pekao S.A. Group entities	**51 963**	**(26 000)**	**199 140**	**(14 219)**	**10 820**	**(109 052)**
Key management personnel of the Bank and UniCredit S.p.A.	261	(633)	15	-	-	-
Total	**101 004**	**(36 444)**	**205 703**	**(17 189)**	**19 329**	**(149 184)**

Notes to the financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2013 to 31 December 2013

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	84	(151)	1 152	(2 503)	1 975	(9 263)
Entities of UniCredit Group excluding of Pekao S.A. Group entities	62 913	(22 191)	7 568	(389)	40 324	(7 098)
Pekao S.A. Group entities						
Subsidiaries						
Public Joint Stock Company UniCredit Bank (*)	16 529	-	6	(23)	-	-
Centralny Dom Maklerski Pekao S.A.	-	(8 589)	1 568	(14)	3 095	(2 504)
Pekao Leasing Sp. z o.o.	39 962	(7 157)	1 777	-	1 863	(244)
Pekao Faktoring Sp. z o.o.	21 386	(43)	1 086	-	175	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(507)	880	-	11	-
Pekao Fundusz Kapitałowy Sp. z o.o.	-	(1 230)	8	-	12	-
Centrum Kart S.A.	-	(643)	35	-	1 114	(62 780)
Pekao Telecentrum Sp. z o.o. (in liquidation)	-	(282)	2	-	3	-
Pekao Financial Services Sp. z o.o.	-	(149)	57	-	62	-
Pekao Bank Hipoteczny S.A.	4 287	(1 796)	660	-	155	(6 644)
Pekao Leasing Holding S.A.	-	(10)	7	-	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	(63)	9	(11 421)	4 085	(32 227)
Property Sp. z o.o. (in liquidation)	-	(88)	2	-	-	-
Pekao Property S.A.	1 545	(44)	96	-	71	-
FPB - Media Sp .z o.o.	435	-	5	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(4 716)	512	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(3 923)	205 325	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	(393)	43	(26)	165	-
Krajowa Izba Rozliczeniowa S.A.	-	(207)	107	-	-	(9 366)
Total of Pekao S.A. Group entities	**84 144**	**(29 840)**	**212 185**	**(11 484)**	**10 811**	**(113 765)**
Key management personnel of the Bank and UniCredit S.p.A.	297	(573)	8	-	-	-
Total	**147 438**	**(52 755)**	**220 913**	**(14 376)**	**53 110**	**(130 126)**

(*) From 1 January 2013 to the disposal date i.e. 15 July 2013.

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees as at 31 December 2014

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	39 009	270 784	-	25 121
Entities of UniCredit Group excluding of Bank Pekao S.A. Group	96 655	557 728	9 885	51 596
Bank Pekao S.A. Group entities				
Subsidiaries				
Pekao Leasing Sp. z o.o.	241 453	1 076 611	-	-
Pekao Faktoring Sp. z o.o.	46 883	-	-	-
Centralny Dom Maklerski Pekao S.A.	114	127	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	60	-	-	-
Centrum Kart S.A.	63	-	-	-
Pekao Financial Services Sp. z o. o.	40	847	-	-
Pekao Bank Hipoteczny S.A.	453 441	355 026	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	3 033	-	-	-
Pekao Property Sp. z o. o.	-	76	-	-
Associates				
Dom Inwestycyjny Xelion Sp. z o.o.	10 030	-	-	-
Pioneer Pekao Investment Management S.A.	15	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	54	-	-	-
Krajowa Izba Rozliczeniowa S.A.	-	500	-	-
Total of Pekao S.A. Group entities	**755 186**	**1 433 187**	**-**	**-**
Key management personnel of the Bank and UniCredit S.p.A.	874	-	-	-
Total	**891 724**	**2 261 699**	**9 885**	**76 717**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees by contractual maturity

31.12.2014	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – Bank's parent entity	-	-	-	39 009	-	-	39 009
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	-	96 464	191	-	96 655
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	-	244 441	500 646	-	745 087
Associates	-	-	-	10 015	84	-	10 099
Key management personnel of the Bank and UniCredit S.p.A.	20	516	5	50	273	10	874
Total	**20**	**516**	**5**	**389 979**	**501 194**	**10**	**891 724**
GUARANTEES ISSUED							
UniCredit S.p.A. – Bank's parent entity	-	-	700	84 875	42 909	142 300	270 784
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	1 214	1 228	44 810	307 825	202 651	557 728
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	-	1 815	110 735	1 320 137	1 432 687
Associates	-	-	-	500	-	-	500
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	-	-	-	-
Total	**-**	**1 214**	**1 928**	**132 000**	**461 469**	**1 665 088**	**2 261 699**
FINANCIAL RECEIVED							
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	9 885	-	-	-	-	-	9 885
Total	**9 885**	**-**	**-**	**-**	**-**	**-**	**9 885**
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	-	1 211	725	14 994	6 699	1 492	25 121
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	550	32 986	15 912	2 148	51 596
Total	**-**	**1 211**	**1 275**	**47 980**	**22 611**	**3 640**	**76 717**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees by currency

31.12.2014	EUR	USD	CHF	PLN	OHTER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – Bank's parent entity	39 009	-	-	-	-	39 009
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	35 164	-	-	61 491	-	96 655
Bank Pekao S.A. Group entities						
Subsidiaries	23 869	4 524	-	715 055	1 639	745 087
Associates	-	-	-	10 099	-	10 099
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	874	-	874
Total	**98 042**	**4 524**	**-**	**787 519**	**1 639**	**891 724**
GUARANTEES ISSUED						
UniCredit S.p.A. – Bank's parent entity	9 607	-	-	261 177	-	270 784
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	46 734	-	-	510 994	-	557 728
Bank Pekao S.A. Group entities						
Subsidiaries	966 641	-	354 470	111 576	-	1 432 687
Associates	-	-	-	500	-	500
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	-	-	-
Total	**1 022 982**	**-**	**354 470**	**884 247**	**-**	**2 261 699**
FINANCIAL RECEIVED						
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	-	9 885	-	9 885
Total	**-**	**-**	**-**	**9 885**	**-**	**9 885**
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	18 130	-	-	6 991	-	25 121
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	18 336	-	-	33 260	-	51 596
Total	**36 466**	**-**	**-**	**40 251**	**-**	**76 717**

Notes to the financial statements (cont.)

(In PLN thousand)

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

NAME OF ENTITY	GRANTED		RECEIVED
	FINANCIAL	GUARANTEES	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	62 569	353 654	48 345
Entities of UniCredit Group excluding of Bank Pekao S.A. Group	732 287	273 410	113 807
Bank Pekao S.A. Group entities			
Subsidiaries			
Pekao Leasing Sp. z o.o.	174 408	659 849	-
Pekao Faktoring Sp. z o.o.	258 025	-	-
Centralny Dom Maklerski Pekao S.A.	453	127	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	60	-	-
Centrum Kart S.A.	64	-	-
Pekao Financial Services Sp. z o. o.	40	933	-
Pekao Bank Hipoteczny S.A.	500 070	492 897	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	1 541	-	-
Pekao Property Sp. z o. o.	-	76	-
Associates			
Dom Inwestycyjny Xelion Sp. z o.o.	30	-	-
Pioneer Pekao Investment Management S.A.	15	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	61	-	-
Krajowa Izba Rozliczeniowa S.A.	-	500	-
Total of Pekao S.A. Group entities	**934 767**	**1 154 382**	**-**
Key management personnel of the Bank and UniCredit S.p.A.	261	-	-
Total	**1 729 884**	**1 781 446**	**162 152**

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

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees by contractual maturity

31.12.2013	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – Bank's parent entity	24 000	-	-	38 569	-	-	62 569
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	362 120	180 829	-	189 123	215	-	732 287
Bank Pekao S.A. Group entities							
Subsidiaries	-	338	-	675 873	258 450	-	934 661
Associates	-	-	-	-	106	-	106
Key management personnel of the Bank and UniCredit S.p.A.	20	-	5	-	226	10	261
Total	**386 140**	**181 167**	**5**	**903 565**	**258 997**	**10**	**1 729 884**
GUARANTEES ISSUED							
UniCredit S.p.A. – Bank's parent entity	67 076	76 743	-	-	99 139	110 696	353 654
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	641	-	44 397	37 951	190 421	273 410
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	-	1 060	162 817	990 005	1 153 882
Associates	-	-	-	500	-	-	500
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	-	-	-	-
Total	**67 076**	**77 384**	**-**	**45 957**	**299 907**	**1 291 122**	**1 781 446**
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	3 000	-	-	13 904	11 742	19 699	48 345
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	29 967	463	980	65 182	14 768	2 447	113 807
Total	**32 967**	**463**	**980**	**79 086**	**26 510**	**22 146**	**162 152**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees by currency

31.12.2013	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – Bank's parent entity	38 569	-	-	24 000	-	62 569
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	29 652	-	-	702 635	-	732 287
Bank Pekao S.A. Group entities						
Subsidiaries	166 303	4 093	338	762 433	1 494	934 661
Associates	-	-	-	106	-	106
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	261	-	261
Total	**234 524**	**4 093**	**338**	**1 489 435**	**1 494**	**1 729 884**
GUARANTEES ISSUED						
UniCredit S.p.A. – Bank's parent entity	11 872	-	-	341 782	-	353 654
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	15 342	-	-	258 068	-	273 410
Bank Pekao S.A. Group entities						
Subsidiaries	162 817	-	464 970	526 095	-	1 153 882
Associates	-	-	-	500	-	500
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	-	-	-
Total	**190 031**	**-**	**464 970**	**1 126 445**	**-**	**1 781 446**
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	44 895	-	-	3 450	-	48 345
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	20 728	-	-	86 510	6 569	113 807
Total	**65 623**	**-**	**-**	**89 960**	**6 569**	**162 152**

Notes to the financial statements (cont.)

(In PLN thousand)

Remuneration of Bank's Management Board and Supervisory Board Members

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

(*) Short-term employee benefits include: base salary, bonuses and other benefits, which will be cleared within 12 months from the date of the balance sheet.
(**) The item 'Other long term benefits' includes: provisions for deferred bonus payments.
(***) The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of fair value of share options and shares, including phantom shares, granted to the Members of the Bank's Management Board.

Bank's Management Board and Supervisory Board Members did not receive any remuneration from subsidiaries and associated entities in 2014 and 2013.

Notes to the financial statements (cont.)

(In PLN thousand)

51. Repo and reverse repo transactions

The Bank increases its funds through the sale of financial instruments with the repurchase promise granted (repo and sell-buy back) at the same price increased by interest.

Securities composing the balance sheet portfolio of the Bank as well as securities with obligation of resale (reverse repo and buy-sell back transactions) may be a subject to repo and sell-buy back transactions.

Securities composing the balance sheet portfolio of the Bank and treated as repo and sell-buy back transactions are not derecognized from the statement of financial position due to the fact that the Bank holds all benefits and risk deriving from these assets.

	31.12.2014		31.12.2013	
	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RELATED LIABILITIES	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RELATED LIABILITIES
Financial assets available for sale				
up to 1 month	2 861 822	2 862 964	4 025 978	4 038 319
between 1 and 3 months	141 383	141 418	527 379	524 912
Total financial assets available for sale	**3 003 205**	**3 004 382**	**4 553 357**	**4 563 231**
Financial assets purchased under reverse repo and buy-sell back				
up to 1 month	2 380 498	2 378 310	10 021	10 018
Total financial assets purchased under reverse repo and buy-sell back	**2 380 498**	**2 378 310**	**10 021**	**10 018**
Total	**5 383 703**	**5 382 692**	**4 563 378**	**4 573 249**

The Bank purchases financial instruments with the obligations of repurchase or resale (reverse-repo and buy-sell back) at the same price increased by interest.

Securities treated as repo and sell-buy back transactions are not derecognized from the statement of financial position due to the fact that the Bank holds all the benefits and the risk deriving from these assets.

	31.12.2014		31.12.2013	
	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGING ASSETS	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGING ASSETS
Loans and advances from banks				
up to 1 month	1 930 811	1 930 148	3 119 010	3 115 331
Total loans and advances from banks	**1 930 811**	**1 930 148**	**3 119 010**	**3 115 331**
Loans and advances from customers				
up to 1 month	5 684 231	5 681 251	2 581 676	2 579 440
between 1 and 3 months	104 833	104 701	-	-
Total loans and advances from customers	**5 789 064**	**5 785 952**	**2 581 676**	**2 579 440**
Total	**7 719 875**	**7 716 100**	**5 700 686**	**5 694 771**

Financial assets which are subject to reverse repo and buy-sell back transactions constitute collateral accepted by the Bank, which the Bank has the right to sell or pledge.

	31.12.2014	31.12.2013
Fair value of assets pledged as collaterals, in this:	7 716 100	5 694 771
Short sale	591 311	309 742
Reverse repo transactions/ buy-sell-back	2 380 498	10 021

(In PLN thousand)

52. Company Social Benefits Fund (‘ZFŚS’)

The Social Benefits Fund Act of 4 March 1994 with subsequent amendments introduced the requirement to create a Company’s Social Benefits Fund by all employers employing over 20 employees. The Bank has created the ZFŚS Fund and is making periodic charges to the ZFŚS Fund in amounts required by the Act. The basic aim of the ZFŚS Fund is to subsidize social assistance in benefit of the employees, former employees (pensioners and the retired) and entitled members of their families.

The liabilities of the ZFŚS Fund represent the accumulated value of charges made by the Company towards the ZFŚS Fund decreased by the amount of non-returnable expenditures of the ZFŚS Fund.

In the statement of financial position, the Bank netted the ZFŚS Fund assets against the ZFŚS Fund value, due to the fact that the assets of the ZFŚS Fund do not represent the assets of the Bank. For this reason the amount pertaining to the ZFŚS Fund in the unconsolidated statement of financial position as at 31 December 2014 and 31 December 2013 was nil.

The table below presents the assets according to type and book value, the balance of the Fund and costs related to ZFŚS

	31.12.2014	31.12.2013
Loans granted to employees	46 474	41 326
Cash at ZFŚS account	3 436	7 694
ZFŚS assets	**49 910**	**49 020**
ZFŚS value	**49 910**	**49 020**
	2014	**2013**
Deductions made to ZFŚS during fiscal period	24 544	24 942

53. Subsequent events

Acquisition of shares in UniCredit CAIB Poland S.A. (presently Pekao Investment Banking S.A.)

On 1 January 2015, the Bank acquired 100% of the share capital of UniCredit CAIB Poland S.A. and obtained control over the entity. The purchase consideration was PLN 274 334 thousand and consisted of cash in total. 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. After the acquisition by the Bank, the entity changed its name on Pekao Investment Banking S.A.

The impact of significant appreciation of the Swiss franc at CHF loan portfolio

In January 2015, a significant appreciation of the Swiss franc against all major currencies, including Polish zloty, was observed. This significant change in exchange rates was caused by the decision of Swiss National Bank to release franc against euro. The Swiss National Bank at the same time decided to cut interest rates. As at 31 December 2014 the average NBP rate for PLN / CHF was 3.5447, and as of 15 January 2015, i.e. the announcement day of the Swiss National Bank decision, the average NBP exchange rate reached 4.1611.

Notes to the financial statements (cont.)

(In PLN thousand)

The following table presents CHF loans portfolio of the Bank as at 31 December 2014:

	LOANS AND ADVANCES TO BANKS	LOANS AND ADVANCES TO CUSTOMERS	
		CORPORATES	INDIVIDUALS
Gross carrying amount, of which:	**3 457**	**49 713**	**4 387 369**
- denominated in CHF	3 457	49 713	553 832
- indexed to CHF	-	-	3 833 537
Impairment allowances, of which:	**-**	**(10 530)**	**(168 233)**
- denominated in CHF	-	(10 530)	(14 720)
- indexed to CHF	-	-	(153 513)
Net carrying amount, of which:	**3 457**	**39 183**	**4 219 136**
- denominated in CHF	3 457	39 183	539 112
- indexed to CHF	-	-	3 680 024

The following table presents quality of CHF loans portfolio as at 31 December 2014:

	LOANS AND ADVANCES TO BANKS	LOANS AND ADVANCES TO CUSTOMERS	
		CORPORATES	INDIVIDUALS
Gross carrying amount of exposures with no impairment, of which:	**3 457**	**32 051**	**4 186 602**
- not past due	3 457	28 327	3 858 855
- up to 30 days	-	2 892	270 770
- between 30 days and 60 days	-	155	41 936
- above 60 days	-	677	15 041
IBNR provisions for exposures with no impairment, of which:	**-**	**(545)**	**(31 015)**
- not past due	-	(428)	(12 286)
- up to 30 days	-	(85)	(12 716)
- between 30 days and 60 days	-	(4)	(4 026)
- above 60 days	-	(28)	(1 987)
Gross carrying amount of impaired exposures, of which:	**-**	**17 662**	**200 767**
- not past due	-	2 510	12 024
- up to 1 month	-	358	8 064
- between 1 month and 3 months	-	24	11 839
- between 3 months and 1 year	-	810	23 473
- between 1 year and 5 years	-	4 179	74 085
- above 5 years	-	9 781	71 282
Allowances for impairment, of which:	**-**	**(9 985)**	**(137 218)**
- not past due	-	(295)	(5 117)
- up to 1 month	-	(69)	(3 362)
- between 1 month and 3 months	-	(24)	(5 150)
- between 3 months and 1 year	-	(726)	(12 011)
- between 1 year and 5 years	-	(1 177)	(50 475)
- above 5 years	-	(7 694)	(61 103)
Total net carrying amount	**3 457**	**39 183**	**4 219 136**

Notes to the financial statements (cont.)

(In PLN thousand)

Since 2003 Bank Pekao S.A. has not granted loans in CHF. Almost the entire portfolio of retail loans was granted before August 2006 by Bank BPH S.A. and then taken over by Bank Pekao S.A. as a result of the merger. Total volume of this portfolio represents a marginal share in the total assets of the Bank.

The average LTV for CHF loans granted by the Bank amounted as of 31 December 2014 to 52.4%, with an average LTV for the whole portfolio of 67.2%. As of the exchange rate of 4.1611 reported on 15 January 2015, the above mentioned values amounted to 61.6% and 68.2% respectively.

Considering the characteristics of this portfolio we do not expect worsening of its performances.

Signatures of all Management Board Members

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

Annexes to the financial statements

The accompanying notes to the financial statement constitute an integral part of the consolidated financial statements

Annex 1

New standards, interpretations and amendments to published standards that have been approved and published by the European Union and are effective from 1 January 2014

- **IFRS 10** 'Consolidated Financial Statements'

  The standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The IFRS 10 supersedes IAS 27 'Consolidated and Separate Financial Statements' and SIC-12 'Consolidation - Special Purpose Entities'. The IFRS 10 defines the principle of control established the basis for determining which entities are to be consolidated. The IFRS presents the additional guidelines useful in determining the existence of the control when it is hard to define.

  The Group claims that the new standard had no material impact on its financial statements in the period of its first application, except for the change in accounting policy in respect to consolidation.

- **IFRS 11** 'Joint Arrangements'

  The standard establishes more realistic reflection of joint arrangements, concentrating on rights and obligations resulting from those arrangements, and not on its legal form. The standard addresses inconsistencies in financial reporting of joint arrangements by introduction of homogenous method of accounting of interest in jointly controlled entities.
  IFRS 11 requires accounting of interests in joint arrangements only under the equity method, thus eliminating the proportionate consolidation. The existence of an independent legal entity is not a fundamental classification condition. Transitional provisions vary depending on the method of classification of joint arrangements under IAS 31.

  The Group claims that the new standard had no material impact on its financial statements in the period of its first application.

- **IFRS 12** 'Disclosure of Interests in Other Entities'

  The standard establishes new and complex principles for disclosure of entity's interests in other entities, including subsidiaries, joint ventures, associates and other entities that are not consolidated.

  The Group claims that the new standard had no material impact on its financial statements in the period of its first application, except for extending the scope of disclosures.

- **IAS 27** 'Separate Financial Statements'

  The standard establishes principles for the presentation and disclosures to be applied in accounting for investments in subsidiaries, associates and joint ventures. The standard supersedes the previous version of IAS 27 'Consolidated and Separate Financial Statements'.

  The Group claims that the new standard had no material impact on its financial statements in the period of its first application.

Annexes to the financial statements (cont.)

- **IAS 28** 'Investments in Associates and Joint Ventures'

  The new standard refers to accounting for investments in associates and establishes the requirements for the application of the equity method for investments in associates and joint ventures. The standard will supersede the previous version of IAS 28 'Investments in Associates'.

  The Group claims that the new standard had no material impact on its financial statements in the period of its first application.

- **IAS 32 (amendment)** 'Financial Instruments: Presentation'

  The aim of this Standard is to address inconsistencies in requirements concerning the offsetting criteria for financial assets and financial liabilities.

  The Group claims that the standard's amendment, except for extending the scope of disclosures, had no material impact on its financial statements in the period of its first application.

- **IAS 36 (amendment) '**Impairment of Assets'

  When developing IFRS 13 'Fair Value Measurement', the IASB decided to amend IAS 36 to require disclosures about the recoverable amount of impaired assets.
  The amendments clarify the IASB's original intention: the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs to sell.

  The Group claims that the standard's amendment had no material impact on its financial statements in the period of its first application.

- **IAS 39 (amendment) '**Financial Instruments: Recognition and Measurement'

  The amendment allows to continuously apply hedge accounting in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

  The Group claims that the standard's amendment had no material impact on its financial statements in the period of its first application.

Annexes to the financial statements (cont.)

Annex 2

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

- **IFRIC 21** ‘Levies’

  Date of application: the first financial year beginning after 17 June 2014.

  IFRIC 21 is an interpretation of IAS 37 ‘Provisions, Contingent Liabilities and Contingent Assets’. The interpretation clarifies what is an event giving rise to the obligation to pay a levy.

  The impact of the initial application of the Interpretation will depend on the specific levies imposed, applicable at the date of initial application. The Group does not expect the Interpretation to have a material impact on the annual consolidated financial statements. However, it may have a material impact on the interim financial statements. The Group has been analysing the impact the Interpretation will have on the interim financial statements.

- **IFRS 14** ‘Regulatory deferral accounts’

  Date of application: the first financial year beginning after 1 January 2016.

  The aim of this standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities.

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

Annexes to the financial statements (cont.)

Annex 3

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

- **IFRS 9** 'Financial Instruments'

  Date of application: the first financial year beginning after 1 January 2018.

  New regulations compose a part of changes superseding IAS 39 'Financial Instruments: Recognition and Measurement'.
  Main changes resulting from the new standard include:
  - New categorisation of financial assets,
  - New criteria of assets classification to the group of financial assets measured at amortized cost,
  - New principles on recognition of changes in fair value measurement of investments in equity instruments,
  - Elimination of the need to separate embedded derivatives from financial assets.

  Most requirements of IAS 39 relating to financial liabilities classification and valuation were transferred to IFRS 9 unchanged.
  The standard was extended by parts concerning principles of measurement at amortized cost as well as principles of hedge accounting application.

  The Group is currently assessing the impact of the IFRS 9 application on its financial statement, however due to the nature of the Bank, it is expected that these changes will have a significant impact on the Bank's financial instruments valuation and presentation.

- **IFRS 15** 'Revenue from Contracts with Customers'

  Date of application: the first financial year beginning after 1 January 2017.

  The Standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
  The core principle of the new Standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. In accordance with new IFRS 15, the revenue is recognized when the control over the goods or services is transferred to the customer.

  The Group is currently assessing the impact of the IFRS 15 application on its financial statements.

Annexes to the financial statements (cont.)

- **IAS 19 (amendment) '**Employee benefits'

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

  The amendment applies to contributions from employees or third parties to defined benefit plans. The aim of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of remuneration.

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

- **IAS 16 (amendment) '**Property, Plant and Equipment' and **IAS 38 (amendment) '**Intangible Assets'

  Date of application: the first financial year beginning after 1 January 2016.

  The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.
  The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

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

- **IAS 16 (amendment) '**Property, Plant and Equipment' and **IAS 41 (amendment) '**Agriculture'

  Date of application: the first financial year beginning after 1 January 2016.

  IAS 41 'Agriculture' currently requires all biological assets related to agricultural activity to be measured at fair value less costs to sell. This is based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement. However, there is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods. At the end of their productive lives they are usually scrapped. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits.
  The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 'Property, Plant and Equipment', because their operation is similar to that of manufacturing.

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

- **IFRS 11 (amendment) '**Joint Arrangements'

  Date of application: the first financial year beginning after 1 January 2016.

  The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

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

Annexes to the financial statements (cont.)

- **Improvements to IFRS 2010-2012**

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

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

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

- **Improvements to IFRS 2011-2013**

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

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

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

- **Improvements to IFRS 2012-2014**

  Date of application: the first financial year beginning after 1 January 2016.

  The annual improvements to IFRS 2012-2014 principally aim to solve inconsistencies and specify vocabulary.

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

- **IFRS 10 (amendment) '**Consolidated Financial Statements' and **IAS 28 (amendment) '**Investments in Associates and Joint Ventures'

  Date of application: the first financial year beginning after 1 January 2016.

  The amendments concern the sale or contribution of assets between the investor and the associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

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

- **IAS 27 (amendment) '**Separate Financial Statements'

  Date of application: the first financial year beginning after 1 January 2016.

  The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

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

Annexes to the financial statements (cont.)

Annex 4

Glossary

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

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

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

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

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

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

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

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

IBNR – Incurred but Not Reported losses.

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

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

EAD – Exposure at Default.

EL – Expected Loss.

CCF – Credit Conversion Factor.

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

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

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

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