

Report on the activities of Bank Pekao S.A. Group for the first half of 2015



Warsaw, August 2015

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

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1 Highlights of Bank Pekao S.A. Group

	1 HALF 2015	1 HALF 2014	2014	2013
INCOME STATEMENT CONTINUED OPERATIONS – SELECTED ITEMS^(*) <i>(in PLN million)</i>				
Operating income	3,582.0	3,645.1	7,345.7	7,493.6
Operating costs	(1,612.5)	(1,650.7)	(3,285.8)	(3,330.9)
Gross operating profit	1,969.5	1,994.4	4,060.0	4,162.7
Profit before income tax	1,538.7	1,629.3	3,359.7	3,432.9
Net profit for the period attributable to equity holders of the Bank	1,243.6	1,319.3	2,714.7	2,767.3
INCOME STATEMENT – SELECTED ITEMS <i>(in PLN million)</i>				
Operating income	3,582.0	3,645.1	7,345.7	7,565.3
Operating costs	(1,612.5)	(1,650.7)	(3,285.8)	(3,376.1)
Gross operating profit	1,969.5	1,994.4	4,060.0	4,189.2
Profit before income tax	1,538.7	1,629.3	3,359.7	3,454.2
Net profit for the period attributable to equity holders of the Bank	1,243.6	1,319.3	2,714.7	2,784.8
PROFITABILITY RATIOS				
Return on average equity (ROE)	10.3%	11.1%	11.5%	12.0%
Net interest margin	2.8%	3.3%	3.1%	3.4%
Non-interest income / operating income	41.3%	36.5%	38.3%	39.6%
Cost / income	45.0%	45.3%	44.7%	44.6%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS <i>(in PLN million)</i>				
Total assets	170,896.6	156,872.6	167,625.0	158,521.7
Net loans and advances to customers ^(**)	120,808.7	109,674.4	114,978.1	103,937.3
Amounts due to customers	125,310.7	114,710.0	125,609.0	119,796.7
Debt securities issued	3,979.6	3,579.5	3,857.0	3,063.7
Equity	22,117.6	22,597.7	24,045.7	23,514.2
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Net loans / total assets	70.7%	69.9%	68.6%	65.6%
Securities / total assets	16.8%	17.1%	15.0%	22.2%
Deposits ^(***) / total assets	75.7%	75.4%	77.2%	77.5%
Net loans / deposits ^(****)	93.4%	92.7%	88.8%	84.6%
Equity / total assets	12.9%	14.4%	14.3%	14.8%
Capital Adequacy Ratio (Basel III) ^(****)	17.8%	18.1%	17.3%	18.3%
EMPLOYEES AND NETWORK				
Total number of employees	18,629	18,684	18,765	18,916
Number of outlets	1,013	998	1,034	1,001
Number of ATMs	1,789	1,837	1,825	1,847

(*) As financial data for 2015 and 2014 don't include results of PJSC UniCredit Bank – sold on July 16, 2013 – to ensure comparability, the section "Income statement continued operations – selected items" was added where for 2013 only results of continued operations, i.e. excluding PJSC UniCredit Bank, are reported.

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

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

(****) The total capital ratio for the period of 2013-2015 was calculated in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 in force since January 1, 2014.

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

Highlights of Bank Pekao S.A. Group for the first half of 2015 and for 2014 beginning from takeover date (i.e. December 22, 2014) include data of Spółdzielcza Kasa Oszczędnościowo-Kredytowa named Mikołaj Kopernik in Ornontowice.

Highlights of Bank Pekao S.A. Group for the first half of 2015 include data of Pekao Investment Banking S.A. (f. UniCredit CAIB Poland S.A.) took over by the Bank on January 1, 2015 under acquisition of 100% of the share capital.

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2 Highlights of Bank Pekao S.A.

	1 HALF 2015	1 HALF 2014	2014	2013
INCOME STATEMENT – SELECTED ITEMS <i>(in PLN million)</i>				
Operating income	3,552.4	3,541.3	7,034.7	7,187.3
Operating costs	(1,501.2)	(1,549.6)	(3,086.6)	(3,124.8)
Gross operating profit	2,051.2	1,991.7	3,948.1	4,062.5
Profit before income tax	1,626.9	1,642.9	3,270.1	3,436.4
Net profit for the period	1,348.8	1,354.1	2,662.3	2,800.0
PROFITABILITY RATIOS				
Return on average equity (ROE)	11.8%	11.7%	11.6%	12.3%
Net interest margin	2.8%	3.3%	3.1%	3.3%
Non-interest income / operating income	37.9%	33.3%	36.2%	38.0%
Cost / income	42.3%	43.8%	43.9%	43.5%
STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS <i>(in PLN million)</i>				
Total assets	167,951.3	153,384.8	164,322.8	155,286.6
Net loans and advances to customers ^(*)	117,269.9	106,161.1	111,389.2	100,569.2
Amounts due to customers	125,479.3	114,757.3	126,381.3	119,868.7
Debt securities issued	2,824.1	2,556.5	2,819.7	2,240.5
Equity	21,595.8	21,962.2	23,387.2	22,848.7
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS				
Net loans / total assets	69.8%	69.2%	67.8%	64.8%
Securities / total assets	17.0%	17.3%	15.3%	22.6%
Deposits ^(**) / total assets	76.4%	76.5%	78.6%	78.6%
Net loans / deposits ^(**)	91.4%	90.5%	86.2%	82.4%
Equity / total assets	12.9%	14.3%	14.2%	14.7%
Capital Adequacy Ratio (Basel III) ^(***)	17.4%	18.0%	17.1%	18.3%
EMPLOYEES AND NETWORK				
Total number of employees	16,631	16,888	16,914	17,092
Number of outlets	1,013	998	1,034	1,001
Number of ATMs	1,789	1,837	1,825	1,847

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

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

(***) The total capital ratio for the period of 2013-2015 was calculated in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 in force since January 1, 2014.

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

Highlights of Bank Pekao S.A. for the first half of 2015 and for 2014 beginning from takeover date (i.e. December 22, 2014) include data of Spółdzielcza Kasa Oszczędnościowo-Kredytowa named Mikołaj Kopernik in Omontowice.

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3 Summary of Performance

Net profit of Bank Pekao S.A. Group attributable to equity holders for the first half of 2015 amounted to PLN 1,243.6 million allowing return on average capital (ROE) at the level of 10.3% achieved with a strong capital base reflected by CAR at 17.8% (Basel III). Normalized ROE (return on minimum equity equivalent to CAR at 10%) amounted to 15.4%.

The Group's gross operating profit (excluding guarantee funds charges) reported for the first half of 2015 was lower by PLN 24.9 million, i.e. 1.3% in comparison to the first half of 2014 with lower operating income, affected by lower interest rates and negative impact of regulatory constraints, supported by growing volumes and gains on sale of available for sale portfolio, and with lower operating costs.

The strength of the liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 93.4% at the end of June 2015. This together with strong equity level enables for further sound and stable development of the Group's activities.

In the area of mortgage lending, the Bank continued its policy of offering only PLN mortgage loans. The residual stock of mortgage loans denominated in foreign currencies, almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA in 2007, represents only 4.6% of total loans of the Bank.

- In the first half of 2015, the Group's operating income amounted to PLN 3,582.0 million, a decrease of PLN 63.1 million, i.e. 1.7% in comparison with the first half of 2014 with the following trends:
 - total net interest income, dividend income and income from equity investments in the first half of 2015 amounted to PLN 2,101.8 million and was lower by PLN 211.1 million, i.e. 9.1% compared to the first half of 2014 due to negative impact of lower interest rates, including in particular reduction of the maximum interest rate applicable to loans. In the first half of 2015, average WIBOR 3M rate stood at the level of 1.8% and was lower by 0.9 b.p. than in the first half of 2014, while the NBP Lombard rate went from 4.0% at the end of June 2014 to 2.5% in March 2015.
 - the Group's net non-interest income in the first half of 2015 amounted to PLN 1,480.2 million, an increase of PLN 148.0 million, i.e. 11.1% in comparison with the first half of 2014 thanks to higher trading result and net other operating income and expenses, supported by gains on sale of AFS portfolio and compensation under insurance contract with net fee and commission income lower by 4.4% compared to the first half of 2014, mainly due to negative impact of interchange rates reduction.
- In the first half of 2015, the operating costs (excluding guarantee funds charges) were kept under control and amounted to PLN 1,612.5 million. They were lower than the operating costs in the first half of 2014 by PLN 38.2 million, i.e. 2.3%.
- Guarantee funds charges in the first half of 2015, amounted to PLN 137.5 million, an increase of PLN 66.3 million, i.e. 93.1% in comparison with the first half of 2014 due to higher BGF rates introduced in 2015.
- The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 267.3 million in the first half of 2015, a decrease of PLN 22.9 million, i.e. 7.9% as compared with the first half of 2014.

As at June 30, 2015, the ratio of impaired receivables to total receivables amounted to 6.7% and was better by 0.1 p.p. as compared to the end of 2014.

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- As at the end of June 2015, the total amounts due to the Group's customers and debt securities issued amounted to PLN 129,290.3 million, a decrease of PLN 175.7 million, i.e. 0.1% in comparison to the end of 2014.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 58,708.7 million at the end of June 2015, an increase of PLN 2,774.1 million, i.e. 5.0% in comparison to the end of 2014. The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 17,722.7 million at the end of June 2015, an increase of PLN 607.7 million, i.e. 3.6% in comparison to the end of 2014.

The total volume of corporate customers deposits, repo and sell-buy-back transactions, Certificates of Deposit, Pekao Bank Hipoteczny S.A. covered bonds, interest and other amounted to PLN 70,581.6 million at the end of June 2015, a decrease of PLN 2,949.8 million, i.e. 4.0% as compared to the end of 2014 following the strategy to focus on growth in retail customers deposits with cost optimization approach in area of corporate deposits.

- As at the end of June 2015, the volume of total customers' financing amounted to PLN 127,133.1 million, an increase of PLN 5,940.3 million, i.e. 4.9% in comparison to the end of 2014.

As at the end of June 2015, the volume of retail loans amounted to PLN 51,738.9 million, an increase of PLN 2,474.9 million, i.e. 5.0% in comparison to the end of 2014.

The volume of corporate loans, non-quoted securities, reverse repo transactions and securities issued by non-monetary entities increased by PLN 3,465.4 million, i.e. 4.8% as compared to the end of 2014 and amounted to PLN 75,394.2 million at the end of June 2015.

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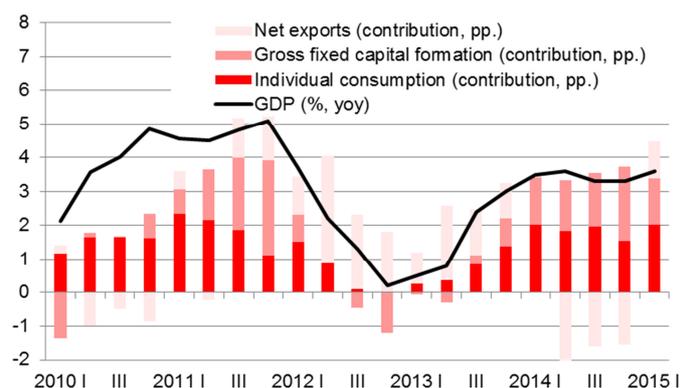
4 External Environment

Economic growth

In the first quarter of 2015, Poland's economy expanded by 3.6% year on year as compared with 3.3% year on year in the fourth quarter of 2014. According to seasonally adjusted data the GDP growth accelerated to 1.0% quarter on quarter in the first quarter of 2015 from 0.8% quarter on quarter in the fourth quarter of 2014. Pace of domestic demand was substantially lower than in the fourth quarter of 2014, it increased by 2.6% year on year in the first quarter of 2015 vs. 5.0% year on year in the previous quarter. The slowdown was mainly a consequence of decline in inventories, which reduced the annual growth in the GDP by 1.5 p.p.

For the first time since the first quarter of 2014, foreign trade had a positive impact on the GDP (positive contribution of 1.1 p.p.). Improvement in the economic situation in European Union was also a supported factor and as a consequence exports increased by 8.0% year on year after increase by 5.6% year on year in the previous quarter. It was accompanied by a slowdown in imports growth to 6.0% year on year from 9.5% year on year in the fourth quarter of 2014. The main components of domestic demand continued to grow at a high rate. Individual consumption increased by 3.1% year on year and continued expanding at the annual growth rate around 3%. In the first quarter of 2015, fixed investments increased by 11.4% year on year vs. 8.6% year on year in the previous quarter. Private consumption growth was supported by positive developments on the labour market and price declines, which boosted real purchasing power of households. It should be noted that investment activity continued robust expansion.

In 2015, economic growth is projected to reach ca. 3.8%. The GDP growth will be fostered by further increase in domestic demand, supported by solid households consumption and dynamic growth of fixed investments and also by improving foreign trade balance. Thanks to improving economic conditions in the European Union – a recipient of some 80% of Polish exports – the GDP in 2015 will be based on both domestic demand and net exports. Net exports was countercyclical in the previous years. Robust expansion of domestic demand was usually accompanied by a negative contribution of net exports and during periods of slowdown in domestic demand the GDP growth was based on improving foreign trade.

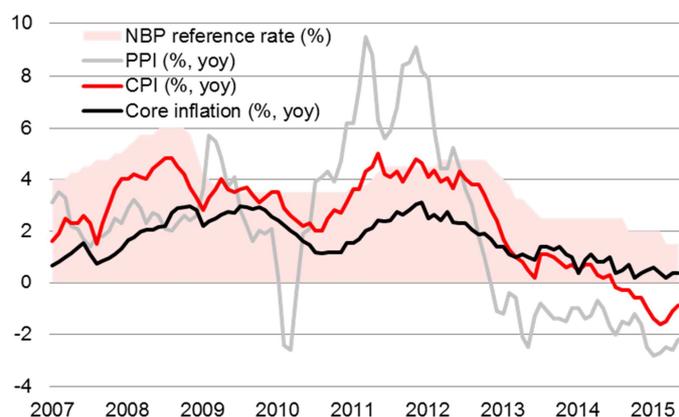


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Inflation and monetary policy

The CPI amounted to -0.8% year on year in June 2015 and was below the lower limit of the range of permissible deviations from the NBP target amounted to 1.5%. Low level of June inflation resulted mainly from price cuts in the categories of: transport (by 7.3% year on year), clothing and footwear (by 4.8% year on year) and food (1.9% year on year).

The Monetary Policy Council (MPC) kept interest rates unchanged in the second quarter of 2015 and the NBP reference rate stood at 1.50% and the Lombard rate stood at 2.50% at the end of June. The MPC said in its statement that the annual price growth would remain negative in the coming months, mainly due to the earlier sharp fall in commodity prices. In the opinion of the MPC, at the same time, the expected gradual acceleration of economic growth, amidst recovery in the euro area and good situation in the domestic labour market, reduce the risk of inflation remaining below the target in the medium term.



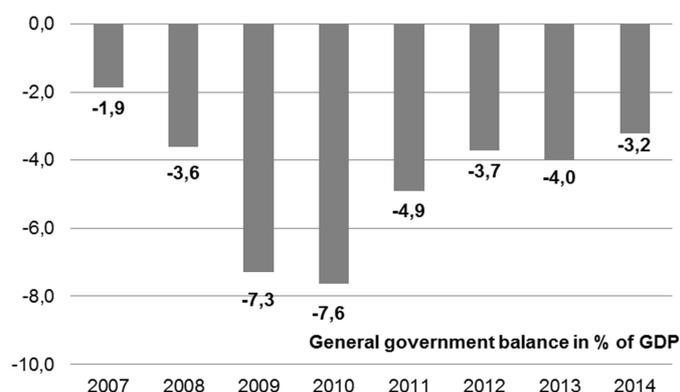
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Fiscal policy

Despite improving economic conditions, in the first months of 2015 lower indirect taxes revenues were recorded, in particular VAT collections. VAT revenues in the first five months of 2015 were by nearly PLN 4 billion lower than in the corresponding period of 2014. Despite the state budget deficit after May 2015 amounted to PLN 19.6 billion (42.6% of the annual plan) as compared with PLN 22.4 billion in the same period of the last year and PLN 23.1 billion envisaged in the project of budget execution schedule. In the period January – May total budget revenues were by PLN 1.0 billion higher than in the first five months of 2014 (mainly thanks to higher non-tax revenues by PLN 2.1 billion), while expenditures were by PLN 1.7 billion lower than in the corresponding period of 2014 and by PLN 6.6 billion lower than assumed in the project of budget execution plan.

The general government deficit moderated to 3.2% of the GDP in 2014 and was close to the reference value (3.0% of the GDP) required by the Stability and Growth Pact. At the same time ESA2010 public debt was below 60% of the GDP. As a consequence while assessing Poland's fiscal policy the European Commission took into account the cost of a systemic pension reform (0.4% of the GDP) and recommended the European Council to abrogate the excessive deficit procedure imposed on Poland on 7 July 2009. In 2015, the general government deficit is expected to narrow further to 2.8% of the GDP.

According to the official data of the Ministry of Finance at the end of first quarter of 2015 Polish state public debt amounted to PLN 848.1 billion (48.7% of the GDP) vs. PLN 826.8 billion (47.8% of the GDP) at the end of 2014. The domestic debt stood at PLN 559.1 billion (65.9% of total debt) and foreign debt reached PLN 289.0 billion. In the first quarter of 2015, the domestic debt expanded by PLN 24.3 billion and foreign debt decreased by PLN 3.0 billion. The general government debt totaled PLN 885.7 billion (50.8%) at the end of the first quarter of 2015 as compared with PLN 866.6 billion (50.1% of the GDP) at the end of 2014.

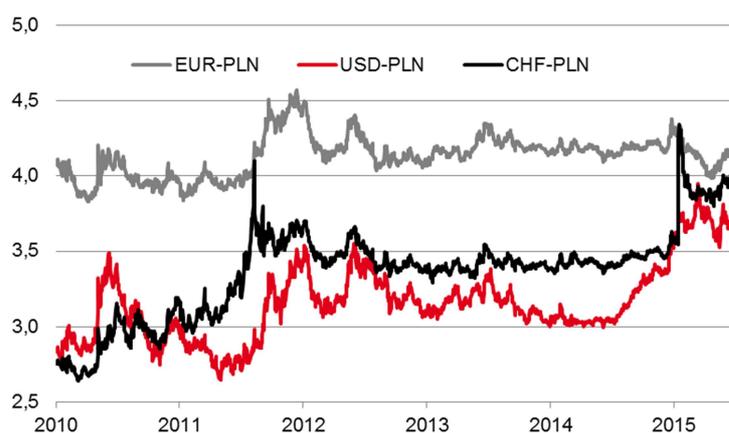


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Currency exchange rate

After significant strengthening of the USD against the EUR in the first quarter of 2015, in the second quarter it was noted a correction of this movement in the form of appreciation of the EUR against the USD by 3.9%. It took place mainly in April and May amid releases of a series of worse-than-expected data from the US economy (including a significant slowdown in economic growth in the first quarter of 2015), after which the rest of the quarter brought fluctuations of the EUR-USD within the range 1.08 -1.14. The weakening of the USD against the EUR was also supported by a reduction of 2015 GDP forecast by the Federal Reserve (Fed) and its less "hawkish" than expected rhetoric in the context of the planned start of monetary policy normalization, as well as a slightly faster-than-expected rise in inflation in the euro area. A factor limiting the increase in the EUR-USD in the second quarter was the lack of agreement between Greece and its creditors, which translates into increasing risk of Greece's bankruptcy and exit from the euro zone.

The escalation of Greece's problems in the second quarter of 2015 resulted in an elevated level of global risk aversion, which in turn translated into the weakening of emerging markets' currencies, including the zloty. Additional burden for the Polish currency was an increase in political risk before the autumn parliamentary elections in the context of the May presidential election which was won by the opposition. In turn, the domestic monetary policy, after the MPC had entered into an extended period of interest rates stabilization, remained a relatively neutral factor for the exchange rate. As a result, in the second quarter of 2015 the PLN depreciated against the EUR (by 2.6%) and the CHF (by 3.3%), while against the USD it recorded a slight strengthening (by 1.3%) due to an increase in the EUR-USD. In the second half of the year, important factors supporting the Polish currency will be the prospect of dampening deflationary pressures and expectations of better data from the real economy. The key determinants of the zloty's exchange rate may, however, be external factors such as the Fed's planned departure from the policy of historically low interest rates and increased risk aversion due to concerns about the economic slowdown in China, which may translate into a significant outflow of capital from emerging markets. Also, a possible change in the political status quo after the autumn parliamentary elections could be a negative factor for the Polish currency. In the baseline scenario, in the second half of the year the zloty's weakening to clearly above 4.20/EUR is expected and a return to this barrier at the end of the year.



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Banking sector

According to the NBP data, in the period of January – May 2015 net profit of the banking sector amounted to PLN 6.4 billion and was lower by 8.6% as compared to the corresponding period of 2014. The sector's financial results were under pressure of historically low NBP's interest rates (most of all – by the Lombard rate which was lowered to 2.5% starting from March 2015, limiting the maximum rate of consumer loans to 10%) as well as by unfavorable regulations such as a decline of interchange fees or an increase of the contribution to the Bank Guarantee Fund. As a result of unfavorable environment banking activity result decreased by 3.7% year on year. This was due to both, decrease in net interest income by 8.8% year on year and fee and decrease in commission income by 4.8% year on year, which was only partially compensated for by an increase in income from other banking activity by 28,3% year on year. Simultaneously, the overall operating cost increased by 1.1% year on year.

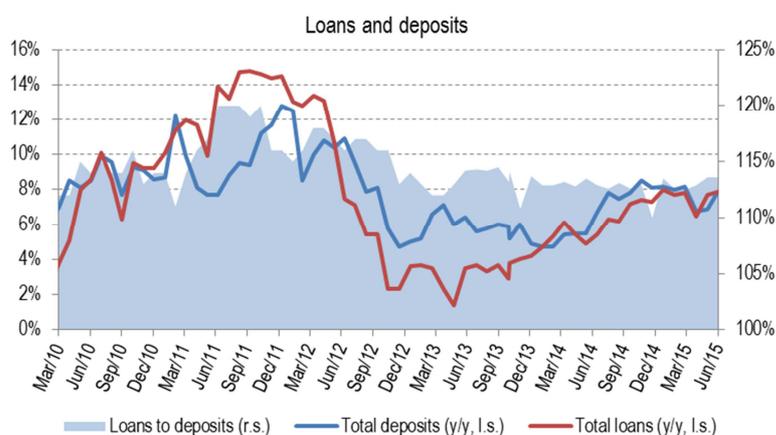
According to the Financial Supervision Authority (KNF), at the end of May 2015 banking sector assets amounted to PLN 1,570 billion, an increase of 6.1% year on year. Loans to non-financial sector increased by 7.6% year on year and deposits of that sector increased by 9.8% year on year.

According to the NBP data, at the end of June 2015 the nominal volume of loans to households was by 7.9% higher as compared to the end of June 2014. Relatively fast nominal pace of growth of retail loans resulted to large extent from strengthening of CHF against the zloty (after the Swiss National Bank had decided to cease to defend EUR/CHF anchor at 1.20). CHF/PLN rate at the end of June 2015 increased by 18% year on year, making the zloty value of CHF denominated loans to expand. The FX-adjusted real pace of growth of loans to household came at ca. 3 – 4% year on year. Taking into consideration favorable macro environment (the GDP and salaries increase and lower unemployment rate) as well as low interest rates, it should be regarded as an unsatisfying result. In June the growth rate in loans to enterprises was by 6.9% year on year.

The relatively low pace of growth of loans to households resulted partially from unfavorable regulatory environment (e.g. higher down-payment requirements in case of mortgages) and low deposit rates (which strengthened tendency to purchase homes for cash as savers stated to search for alternative investment opportunities such as real estates) as well as relatively high penetration of consumer loans in relation to the GDP. Concerning loans to enterprises, macro environment and historically low level of interest rates provide strong support to credit action. On the other hand, enterprises tend to diversify sources of funding through the capital market (which is reflected by high pace of growth of corporate bonds market).

At the end of June 2015, the volume of deposits of households increased by 8.6% year on year. Despite low deposit rates, the pace of growth of volume is relatively high, which reflects favorable macroeconomic environment (growth of the GDP, employment and wages, combined with deflation) affecting financial situation and liquidity of households.

Concerning corporate deposits, the volume increased by 12.4% year on year at the end of June 2015. Positive business climate supports financial results and liquidity surplus of enterprises. Inflow of funds from abroad to foreign-owned local subsidiaries also influence the pace of growth of corporate deposits, as enterprises temporarily place such funds in local banking system before financing operating activities and/or investments with them.



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5 Internal Factors

5.1 Description of the Group

The Group's structure is presented in the Notes to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2015 to 30 June 2015.

5.2 Changes in the Group's structure

Acquisition of the company

On January 1, 2015, the Bank acquired 100% of the share capital of UniCredit CAIB Poland S.A. and obtained control over the entity. On January 14, 2015, the name of UniCredit CAIB Poland S.A. was changed to Pekao Investment Banking S.A. Pekao Investment Banking S.A. specializes in corporate finance, in particular referring to mergers and acquisitions, public and private offering, as well as securities trading on secondary market. As a result of the acquisition, the Group extended the offer of services provided to the customers from corporate banking segment.

Liquidation of the company

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

On April 30, 2015, the Management Board of Bank Pekao S.A. informed in the current report no. 11/2015 that on April 30, 2015 the Extraordinary Shareholders Meeting of Pekao Leasing Holding S.A., which the Bank is the only shareholder, took resolution on winding-up of the company and starting liquidation procedure of the company within the date the resolution was taken. Decision on the liquidation of holding company aims at simplification of organization structure in the group as well as governance of leasing and as a consequence rationalization of operating costs.

5.3 Changes in the Statutory Bodies of the Bank

Supervisory Board

On April 28, 2015, the Management Board of Bank Pekao S.A. informed in the current report no. 6/2015 about resignation from the position of Member of the Supervisory Board of the Bank as of the end of April 30, 2015 by Mrs. Małgorzata Adamkiewicz, due to new professional duties and by Mr. Paweł Dangel due to new professional duties outside Poland.

On April 30, 2015, the Management Board of Bank Pekao S.A. informed in the current report no. 9/2015 that the Ordinary General Meeting of Bank Pekao S.A. on 30 April 2015 appointed Mr. Dariusz Filar and Ms. Katarzyna Majchrzak as Members of the Supervisory Board of the Bank effective May 1, 2015 for the current, common term of office of the Supervisory Board of the Bank. The Management Board of the Bank informed that the Supervisory Board, having performed the assessment, gave its opinion that Mr. Dariusz Filar and Ms. Katarzyna Majchrzak meet the requirements for individual and collective suitability as required from members of the Supervisory Board of the Bank.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

Composition of the Supervisory Board:

JUNE 30, 2015	DECEMBER 31, 2014
Jerzy Woźnicki Chairman of the Supervisory Board	Jerzy Woźnicki Chairman of the Supervisory Board
Roberto Nicastrò Deputy Chairman of the Supervisory Board	Roberto Nicastrò Deputy Chairman of the Supervisory Board
Leszek Pawłowicz Deputy Chairman of the Supervisory Board	Leszek Pawłowicz Deputy Chairman of the Supervisory Board
Alessandro Decio Secretary of the Supervisory Board	Alessandro Decio Secretary of the Supervisory Board
Dariusz Filar Member of the Supervisory Board	Małgorzata Adamkiewicz Member of the Supervisory Board
Katarzyna Majchrzak Member of the Supervisory Board	Paweł Dangel Member of the Supervisory Board
Laura Penna Member of the Supervisory Board	Laura Penna Member of the Supervisory Board
Wioletta Rosołowska Member of the Supervisory Board	Wioletta Rosołowska Member of the Supervisory Board
Doris Tomanek Member of the Supervisory Board	Doris Tomanek Member of the Supervisory Board

Management Board of the Bank

The Management Board of Bank Pekao S.A. informed in the current report no. 10/2015 that the Supervisory Board of the Bank appointed, effective from April 30, 2015, Mr. Adam Niewiński as Vice President of the Management Board of Bank Pekao S.A. for the current, common term of office of the Management Board of the Bank. The Supervisory Board of the Bank gave its opinion, that Mr. Adam Niewiński meets the requirements of the individual and collective suitability as required from members of the Management Board of the Bank.

Composition of the Management Board:

JUNE 30, 2015	DECEMBER 31, 2014
Luigi Lovaglio President of the Management Board, CEO	Luigi Lovaglio President of the Management Board, CEO
Diego Biondo Vice President of the Management Board	Diego Biondo Vice President of the Management Board
Andrzej Kopyrski Vice President of the Management Board	Andrzej Kopyrski Vice President of the Management Board
Adam Niewiński Vice President of the Management Board	Grzegorz Piwowar Vice President of the Management Board
Grzegorz Piwowar Vice President of the Management Board	Stefano Santini Vice President of the Management Board
Stefano Santini Vice President of the Management Board	Marian Ważyński Vice President of the Management Board
Marian Ważyński Vice President of the Management Board	

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

5.4 The Bank's shareholding structure

As at June 30, 2015, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034 and it was divided into 262,470,034 shares.

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

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

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

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	JUNE 30, 2015		DECEMBER 31, 2014	
UniCredit S.p.A.	131,497,488	50.10%	131,497,488	50.10%
Other shareholders (below 5%)	130,972,546	49.90%	130,972,546	49.90%
Total	262,470,034	100.00%	262,470,034	100.00%

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

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

5.5 Financial credibility ratings

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

As at June 30, 2015, Bank Pekao S.A.'s creditworthiness was rated as follows:

FITCH RATINGS	BANK PEKAO S.A.	POLAND
Long-term rating (IDR)	A-	A-
Short-term rating	F2	F2
Viability rating	a-	-
Support rating	2	-
Outlook	Stable	Stable
STANDARD AND POOR'S RATINGS SERVICES	BANK PEKAO S.A.	POLAND
Long-term rating	BBB+	A-
Short-term rating	A-2	A-2
Stand-alone credit profile	bbb+	-
Outlook	Negative	Positive
MOODY'S INVESTORS SERVICE LTD. (UNSOLICITED RATING)	BANK PEKAO S.A.	POLAND
Long-term foreign-currency deposit rating	A2	A2
Short-term deposit rating	Prime-1	Prime-1
Baseline Credit Assessment	baa1	-
Long-term counterparty risk assessment	A1(cr)	-
Short-term counterparty risk assessment	Prime-1(cr)	-
Outlook	Stable	Stable / Negative(*)

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

Bank Pekao S.A. has the highest Viability rating assigned by Fitch Ratings, the highest Stand-Alone Credit Profile rating assigned by Standard & Poor's Rating Services and the highest Baseline Credit Assessment rating and both Long-term and Short-term counterparty risk assessment assigned by Moody's Investors Service among banks rated by these agencies in Poland.

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

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

6 Activity of Bank Pekao S.A. Group

6.1 Achievements of Bank Pekao S.A.

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

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

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

	30.06.2015	31.12.2014
Total number of outlets	1,013	1,034
Total number of own ATMs	1,789	1,825

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

As at the end of June 2015, the Bank maintained 5,247.7 thousand PLN-denominated current accounts, 298.7 thousand mortgage loan accounts and 577.8 thousand consumer loan accounts.

(in thousand)

	30.06.2015	31.12.2014
Total number of PLN current accounts (*)	5,247.7	5,214.3
of which packages	3,912.6	3,873.8
Number of mortgage loans accounts (**)	298.7	287.9
of which PLN mortgage loans accounts	261.3	249.7
Number of consumer loan accounts (***)	577.8	593.8

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

(**) Retail customers accounts.

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

Individual clients

In the first half of 2015, the Bank's activities focused on key lending products (Pożyczka Ekspresowa, mortgage loans). The total value of new granted loans amounted to PLN 6.6 billion and was by 8% higher in comparison with the first half of 2014. The Bank continued also activities aimed at the acquisition of customers which resulted in the acquisition of 158.1 thousand new customers.

In the first half of 2015, the next edition of the Academy of Finance of Bank Pekao S.A., which consists over 1,000 actions in schools and universities throughout Poland. The Academy aims to provide students with the most important rules of the bank day-to-day services, secure management of savings and knowledge of the innovative banking products.

In January 2015, the Bank for the seventeenth time participated in the annual Final of The Great Orchestra of Christmas Charity. The Bank, in co-operation with the Great Orchestra of Christmas Charity Foundation, prepared for the consecutive time a dedicated prepaid card Pekao WOŚP with contactless functionality whose holders support the Foundation by performing card payments. In addition, users of the PeoPay mobile application had an opportunity to transfer funds for The Great Orchestra of Christmas Charity with the use of QR code as well as HCE PeoPay technology.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

Loans

In the area of cash loans, the Bank strengthened its leading position on the consumer goods financing market. The value of cash loans granted in the first half of 2015 amounted to over PLN 3.1 billion and was by 23% higher in comparison with the first half of 2014.

The Bank provides transparent and attractive offer of the Express Loan (Pożyczka Ekspresowa) and focus its activities on strengthening the relationship with customers, among others, through preparation of individual loan offers with the use of CRM tools as well as electronic channels including website dedicated to consumer loans, the Pekao24 system and mobile application.

In the first half of 2015, the Bank introduced new, fast and fully automatic cash loan granting process through the Internet "Klik Gotówka" ("Click Cash") in the Pekao24 system for the selected customers of the Bank. Loan disbursement is automatically processed after approval of agreement in the Pekao24 system.

In the first half of 2015, the Bank unified also the maximum loan period of the Express Loan for all customers and adjusted process of insurance sale to the Recommendation U of the Financial Supervision Authority on good practices in bancassurance addressed to the banking sector.

In the first half of 2015, value of PLN mortgage loans granted by the Bank amounted to over PLN 3.4 billion and the Bank's share in this segment amounted to 18% (in terms of volume) at the end of June 2015.

The Bank actively participated in sale of mortgage loan "Mieszkanie dla Młodych" ("Apartment for the Young") under the government program supporting the persons aged up to 35 in acquisition of the first new apartment. In the first half of 2015, the Bank's market share in the sale of these loans amounted to 40%.

The mortgage loans offer of the Bank was adjusted and updated to changing market conditions and customer needs and mortgage loans granting process was adopted to the Recommendation U. The Bank conducted also local and country-wide promotional activities of mortgage loans, including promotional campaigns in the Internet and internal channels of marketing communication as well as participated on a regular basis in real estate fairs organized all over the country.

Payment cards

In the first half of 2015, the Bank extended its offer within credit cards by implementing a new card Flexia. The card is dedicated to customers who appreciate the convenience of payment cards usage while looking for a simple and transparent solutions for financing of certain expenditures. The Flexia card has all the standard functionalities of credit card with additional possibility to rescheduling selected payments.

In the first half of 2015, debit cards offer was extended by multicurrency debit card MasterCard Debit. The MasterCard Debit is the first card on the Polish market with innovative multicurrency functionality that enables execution of transactions in PLN and foreign currencies (EUR, USD, GBP, CHF) without FX conversion thanks to card's connection with corresponding currency accounts.

Complement of offer for multicurrency debit card holders is FX exchange service available on-line in the Pekao24 system.

Saving and investment products

Thanks to a wide range of deposit products and dedicated commercial actions, in the first half of 2015, an increase by PLN 3 billion in savings volume of individuals was noted. The most popular among the customers were the Internet deposits (e-lokata) and negotiable deposits.

In the area of investment products, in the first half of 2015, the Bank extended offer by a new investment-insurance product of TU Allianz, which allows acquisition of selected funds managed by Pioneer TFI, TFI Allianz, ING TFI, Union Investment TFI, Schrodgers, Franklin Templeton Investments and J.P. Morgan Asset Management. Moreover, the Bank introduced to distribution investment units of mixed fund Pioneer Wzrostu i Dochodu Rynku Amerykańskiego and Pioneer Alternatywny Globalnego Dochodu enabling customers to diversify investment portfolios.

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In the first half of 2015, product offer of IKE pension program was enhanced by new funds Pioneer Strategii Globalnej, Pioneer Wzrostu i Dochodu Rynku Europejskiego and Pioneer Wzrostu i Dochodu Rynku Amerykańskiego. Under the program of regular savings PAK funds of Pioneer Pieniężny Plus, Pioneer Wzrostu i Dochodu Rynku Europejskiego, Pioneer Wzrostu i Dochodu Rynku Amerykańskiego and Pioneer Alternatywny - Globalnego Dochodu were offered.

Under the program of regular savings Moja Perspektywa a new portfolio - Portfel Globalny consisting of funds Pioneer Strategii Globalnej, Alternatywny – Globalnego Dochodu and Pieniężny Plus was created.

Brokerage activity

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

As at the end of the first half of 2015, the brokerage entities maintained 350.3 thousand investment accounts which was 24.5% share in total of investment accounts in Poland according to data of The National Depository for Securities (KDPW) and offered to its clients an electronic service of investment accounts allowing to buy and sell all instruments listed on the Warsaw Stock Exchange (WSE) and on the BondSpot market via the Internet. As at June 30, 2015, the total value of assets deposited on investment accounts run by the Group's retail brokerage entities amounted to PLN 24.2 billion.

In the first half of 2015, activities of the Group's brokerage entities were focused on new customers acquisition and development of tools to improve the quality of customer service via remote channels. CDM and Dom Maklerski implemented a new solution for customers that allows access to tax settlements on a daily basis. Moreover, in the first half of 2015, the Group's brokerage entities have implemented the SPAN methodology for calculating deposits collateral (Standard Portfolio Analysis of Risk), which currently is the international standard.

Pekao24 – electronic banking for individual clients

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

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

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As at the end of June 2015, the number of clients with an access to the Pekao24 system amounted to 2,787.5 thousand. In the second quarter of 2015, 1,487.9 thousand clients logged into the electronic banking services.

As at the end of June 2015, the number of clients with an access to mobile banking amounted to 729.2 thousand. In the second quarter of 2015, 275.9 thousand of clients logged into the mobile service m.pekao24.pl and the Pekao24 mobile banking application.

	(in thousand)	
	30.06.2015	31.12.2014
Number of individuals with an access to electronic banking Pekao24 as at the end of period	2,787.5	2,661.2
Number of individuals actively using electronic banking Pekao24 (*)	1,487.9	1,448.4
Number of individuals with an access to mobile banking as at the end of period	729.2	595.9
Number of individuals actively using mobile banking (**)	275.9	229.9

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

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

The most important projects realized in the first half of 2015 in the Pekao24 electronic banking system included:

- providing fully automatic cash loan granting process through the Pekao24 Internet service of “Klik Gotówka” (“Click Cash”) with automatic loan disbursement after approval of agreement in the Pekao24 system,
- providing the customers with opportunity to sign agreement on foreign currency account, saving account for customer or a child and debit card issuance in the Internet service of Pekao24 without visiting the Bank’s outlet,
- simplifying the activation process of mobile application in operational system iOS, Android and Windows Phone,
- providing prompt payments up to PLN 50 for on-line purchases via PayU Express service,
- possibility to divide into instalments selected payments of Flexia credit card debt in the Internet service of Pekao24.

Private Banking

In the first half of 2015, the Bank’s activities in the area of Private Banking were focused on offer development as well as on initiatives aiming at acquiring new clients and strengthening the existing relations.

Within the framework of product offer modification, the previous credit card Pekao MasterCard World Signia was replaced by the Pekao MasterCard World Elite with a personalized set of services. Moreover, in the second quarter of 2015, prestigious cards offer was extended by multicurrency debit card World Elite Debit MasterCard connected with Eurokonto Prestiżowe. The World Elite Debit MasterCard is the first card on the Polish market with innovative multicurrency functionality that enables execution of transactions in PLN and foreign currencies (EUR, USD, GBP, CHF) without FX conversion thanks to card’s connection with corresponding currency account. The card provides the attractive package of additional services, including domestic assistance. Both, debit and credit cards are available in unique design.

Within the framework of investment offer, the customers were provided, through CDM Pekao S.A., with investment certificates of PZU’s Closed Investment Fund FORTE, as well as PZU’s Medical Closed Investment Fund and Pioneer Global Multi-Asset Target Income Closed Investment Fund. Additionally, the new open investment sub-funds were added: Pioneer Growth and Income of American Market and Pioneer Alternative - Global Income, funds created as a part of Pioneer Global Funds SFIO as well as Franklin K2 Alternative Strategies Fund and Franklin Euro Short Duration Bond Fund from the offer of Franklin Templeton Investments Poland.

Two editions of structured deposits “Indeks na Zysk” were conducted. Within one of subscription coupon is linked with the USD/PLN exchange rate and within the second subscription is linked with GBP/PLN exchange rate.

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Changes in insurance and investment products were implemented as a result of the Recommendation U on good practices in bancassurance directed by the Financial Supervision Authority to the banking sector as well as fees for life insurance service connected with insurance capital funds Plan Inwestycyjny Prestiż were optimized. The list of available capital insurance funds was also extended by the solution offered by Union Investment TFI SA.

In the first half of 2015, during the meetings organized by the Bank for customers, experts from the Bank and selected investment funds discussed investment directions and trends on the financial markets.

In addition, Private Banking customers also benefited from the opportunity to participate in the events sponsored by the Bank such as Gala Paszporty Polityki, The Easter Festival of Ludwig van Beethoven, Filharmonica della Scala concert, Łódzkie Spotkania Baletowe, Champions League football tournament and prestigious meeting associated with Forbes magazine announcement of a list of 100 Polish billionaires in 2015.

Small and micro enterprises (SME)

In the first half of 2015, the Bank's activities focused on product offer enrichment, acquisition of new customers and strengthening the Bank's market position in the area of small and micro enterprises, including also AGRO sector.

The total value of new granted loans in this period amounted to PLN 1.2 billion and was by 17% higher in comparison with the first half of 2014.

The Bank introduced to its loan offer new products: working capital loans to finance contracts with extended maturity date up to three years, investment loan for refinancing capital expenditures and Pożyczka Ekspresowa Biznes (Business Express Loan) for financing expenses related to business activity without the need to indicate the loan purpose. In addition, the Bank introduced to offer for agri-food sector customers a new solution giving opportunity to diversify amount of repayment addressed to farmers whose activity is subject to seasonality.

The Bank's offer was enriched by new Mój Biznes packages. Apart from the standard packages for all groups of customers, specified groups of customers, i.e. farmers and enterprises of agri-food sector, communities and housing associations as well as non-profit organizations were provided with dedicated accounts.

In the first half of 2015, the Bank's offer was extended by new debit card Visa Business. Currently, business customers have an opportunity to choose between Mastercard and Visa system.

The Bank at a conference held in Warsaw presented the fifth edition of report "Raport o sytuacji mikro i małych firm" (Report on the situation of SME clients). The report has been prepared based on nearly 7 thousand interviews conducted with the enterprises' owners employed up to 49 persons. The special subject of this edition were innovations in micro and small companies.

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Electronic banking for SME clients

Business customers of Bank Pekao S.A. use the systems of electronic banking such as the PekaoBiznes24 and the Pekao24 for entrepreneurs that comprise Pakiet Mój Biznes (My Business Package). The PekaoBiznes24 system offers the Internet banking and fully transactional mobile banking application.

In the first half of 2015, it was implemented a new version of mobile application which simplify activation process and new features were supplemented.

As at the end of June 2015, 243.1 thousand clients had an access to the electronic banking systems, of which 162.4 thousand are active clients. The number of business clients with an access to electronic banking systems increased by 2.5 thousand compared to the end of 2014.

(in thousand)

	30.06.2015	31.12.2014
Number of business clients (SME) with an access to electronic banking systems as at the end of period	243.1	240.6
Number of business clients (SME) actively using electronic banking systems (*)	162.4	159.5

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

As at the end of June 2015, 15.3 thousand clients had an access to mobile banking application, of which 9.7 thousand are active clients. The number of business clients with an access to mobile banking application increased by 2.6 thousand compared to the end of 2014.

(in thousand)

	30.06.2015	31.12.2014
Number of business clients (SME) with an access to mobile banking as at the end of period	15.3	12.7
Number of business clients (SME) actively using mobile banking (*)	9.7	8.6

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

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Corporate clients

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

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

The service of the financial institutions and public finance sector entities is conducted by the specialized entity at the level of the Bank's Head Office as well as dedicated advisers in the Corporate Centers.

The services for medium-sized companies are conducted in the Corporate Centers, which are organized in macro-region structures.

The corporate clients of the Bank benefit from a full range of standard credit and deposit products as well as from transactional and investment banking services.

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

In the first half of 2015, the Bank's activities were focused on expansion of product offer and adjustment the products and range of service to the customer needs and changing market conditions thus supporting the Bank's leading position on the market of corporate clients financial service.

In the first half of 2015, the Bank adjusted to the changing environment the organizational structure of Corporate Centers network serving medium-sized companies by streamlining the management structure, opening outlets in new locations and consolidation the selected units. The introduced changes influence on improvement of products and services sales efficiency and strengthening the relationship and improvement of communication with corporate customers.

Transactional banking

Special accounts

In the second quarter of 2015, the Bank's offer was extended with a new product Open Escrow Account for Housing Developers (Otwarty Mieszkaniowy Rachunek Powierniczy), which was created in response to the introduction of the Act on the protection of the rights of the purchasers of a housing unit or a detached house (Ustawa o ochronie praw nabywcy lokalu mieszkalnego lub domu jednorodzinnego). The main feature of this product is to protect the funds of purchasers collected for housing purposes and disbursement in stages in favour of developers in accordance with schedule of investment realization and after control conducted by the Banking Supervisory Inspector. A new product strengthens the Bank's position on the real estate market and increasing opportunity of the Bank's participation in financing investments.

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Electronic banking - PekaoBiznes24

The electronic banking system PekaoBiznes24 that offers a wide range of services, the highest standards of security and flexibility in management of user access is dedicated to large companies, corporations and local government units. As at the end of the first half of 2015, over 14.5 thousand customers used the PekaoBiznes24 system.

In the first half of 2015, the Bank's offer for corporate customers within the scope of electronic banking was extended, among others, by:

- PekaoBiznes24 Mobile application, which allows the use of wide range of functionalities of the system, in particular processing of all types of payments via mobile phones. Application operates in Android, iOS and Windows Phone system,
- opportunity to process foreign transfers in express mode in another currencies allowing the customers to manage settlements with counterparts flexibly and settle foreign transfers in ten currencies,
- providing services for customers – agents in foreign payments,
- new schedules for processing transactions for standing orders and automatic settlements that allow flexible management of deadline and frequency of payment orders.

Implementation of these functionalities makes the offer more attractive in the scope of electronic banking and adjusted the offer to the customers' expectations, in particular in the area of accessing to funds management regardless of the device used (computers, mobile devices).

Moreover, in the first quarter of 2015, the Bank implemented a new model of supporting the users of electronic banking systems. Realization of project in co-operation with the Group's entity specialized in full range of remote services for the Bank's customers allowed, among others, to obtain high flexibility in supporting services by increasing the number of consultants and providing all day service seven days a week.

In the first half of 2015, the number and volume of incoming payments increased by 16%, 12%, and SEPA outgoing transfers increased by 40% and 20% as compared to the first half of 2014 which confirms the increasing popularity of cross-border settlement in the SEPA form and the attractiveness of the Bank's offer in respect of efficient settlements, convenient cut-off times and the functionality of electronic banking system.

In the first half of 2015, the Bank recorded also an increase in the number of domestic payments by 7.5% as compared to the same period of 2014.

Payment cards

In the first half of 2015, the Bank introduced another functionalities that allow for better control of expenditures and security of card transactions. The Bank introduced also possibility to manage transactional limits by holders of company payment cards for transactions performed without the physical use of the card.

Custodial services

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

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

In the first half of 2015, the Bank maintained its leader position in the area of custodial services servicing more than 50% programs related to depository receipts.

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Investment banking, structured finance and commercial real estate

The Bank consequently supports development of companies on the market. Customers are provided with wide range of structured finance services and commercial real estate financing.

In the first half of 2015, the Bank participated in financing, among others, the following projects:

- financing of nationwide retail chain, amount of financing accounted for PLN 515 million,
- financing of investor associated with the Polish brewing industry, amount of financing accounted for PLN 500 million,
- financing of modernization and development of a company from transportation sector, the amount of loan accounted for PLN 350 million,
- financing of office building construction in Warsaw, the amount of loan accounted for EUR 46 million,
- financing of one of the leading company from fuel industry, amount of financing accounted for PLN 300 million,
- financing of entities belonging to the group operating in commercial real estate sector, amount of loan accounted for EUR 56 million,
- financing of investment associated with foreign expansion of Polish company, the amount of loan accounted for PLN 120 million.

Financial market and commercial debt instruments

In the first half of 2015, the Bank conducted, among others, the following commercial debt securities issues:

- the issue of 5-year bonds for the total amount of PLN 1 billion for one of the leading group operating in energy sector in Poland,
- the issue of 5-year covered bonds for the amount of PLN 300 million for a company, which is a leading hotel operator in Poland and the region,
- the issue of 5-year bonds for the amount of PLN 200 million for entity belonging to the international capital group that offers consumer loans,
- the issue of bonds for three companies from developer sector; 5-year bonds for the amount of PLN 100 million for a company listed on stock exchange and operating in housing construction sector, 5-year bonds for the amount of PLN 65 million for a company listed on stock exchange and operating in housing construction and commercial real estate sector and 4-year bonds for the amount of PLN 50 million for a company belonging to developer group operating mainly in office property segment,
- debut issue of 3-year bonds for the amount of PLN 50 million for a company providing non-wage employee benefits.

In addition, in the first half of 2015, the Bank signed, among others, new agreement for servicing of short-term debt securities issues for a company operating in rail transport sector for the amount of PLN 350 million, for a company operating in hotel industry for the amount of PLN 500 million and two agreements for local government units.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

In the area of organization and servicing of commercial debt securities issuance, as at June 30, 2015, Bank Pekao S.A. took the second place with market share of nearly 21% (based on the Rating & Market Bulletin published by Fitch Poland).

At the end of the first half of 2015, the market position of the Bank in each category was as follows:

- 2nd place on corporate bonds market and corporate revenue bonds market (with maturities over 365 days) with a share of nearly 25%,
- 2nd place in the segment of short-term debt securities with over 17% market share,
- 2nd place in the area of mortgage bonds with nearly 25% market share,
- 2nd place on municipal bonds market (with maturities over 365 days) with a share of 27%.

Comprehensive services for the public finance sector

In the first half of 2015, in the area of the co-operation with public sector entities, the Bank continued strategy of maintaining undisputed leader position of airport infrastructure financing in Poland. In the first quarter of 2015, the Bank signed an agreement on financing infrastructure of the largest airport in a form of bonds issuance for the amount of PLN 600 million with the redemption date until 2022. Moreover, as a completion of previously granted financing for construction one of regional airports, the Bank additionally entered into interest rate hedge transaction. Thanks to this solution, the customer received a favourable fixed interest rate for the whole bonds issue program in the amount of PLN 112.5 million, until the date of final repayment.

In the first half of 2015, the Bank provided new funds for direct financing of municipal budgets. The largest transactions include agreement with one of the largest cities on issuance municipal bonds to the amount of PLN 82.7 million as well as short-term loans granting for local budgets to the amount of PLN 150 million and long-term loans to the amount of PLN 69.6 million.

The Bank also extended co-operation on current servicing with a company whose majority shareholder is the State Treasury.

Co-operation with international clients

In the first half of 2015, the Bank continued realization of “The internationalization of group customers” project within UniCredit Group. The project supports development of international clients co-operation and service of international business in Europe.

International transactional banking

The Bank implemented for its customers a new channel for realization of SEPA transfers. From the first quarter of 2015, SEPA transfers can be processed through the EuropeanGate Target Location service that allows international customers to manage the accounts of subordinated entities in one system through selected bank belonging to UniCredit Group.

The SEPA transfer processing expanded the EuropeanGate transactions package, which include domestic transfers, thereof transfers to tax office and ZUS (Social Insurance), SORBNET transfers, direct debits and foreign payments.

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6.2 Achievements of subsidiaries

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

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

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

Pioneer Pekao Investment Management S.A. – PPIM

As at June 30, 2015, the net asset value of investment funds under the management of Pioneer Pekao TFI S.A. (a company managed by Pioneer Pekao Investment Management S.A. in which the Bank holds a 49% share), amounted to PLN 17,722.7 million, an increase of PLN 607.7 million (3.6%) as compared to the end of 2014.

As at the end of June 2015, PPIM maintained 893.6 thousand open customer accounts (decrease by 1.5% in comparison to the end of 2014), managing portfolios of 43 investment funds and sub-funds.

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

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

In the first half of 2015, Pekao Leasing concluded 4,350 new agreements. The value of leased assets was higher by 8.1% in comparison to the same period of the previous year and amounted to PLN 841.5 million, 62.0% of the leased assets were vehicles, 30.9% - plant and equipment, 0.5% - properties and 6.6% - other.

Thanks to the co-operation program between Pekao Leasing and Bank Pekao S.A. in terms of sale, the value of assets leased to the customers who are also the Bank's customers amounted to PLN 587.3 million, i.e. 69.8% sales of the company.

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

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

In the first half of 2015, turnover volume of Pekao Faktoring increased by 20.0% in comparison with the same period of 2014. The company takes the fourth position on the Polish factoring market with 11.4% market share.

Pekao Investment Banking S.A. – Pekao IB

Pekao Investment Banking S.A. operates as a brokerage house and specializes in transactional consulting, in particular: mergers and acquisitions (M&A), public and private offers, securities trading on the secondary market and macroeconomic, sector and entities research.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

6.3 Awards

Global Finance: Bank Pekao S.A. Innovator of the Year in transactional banking

Bank Pekao S.A. was awarded the title of „Innovators 2015 – Transactions Services” in the international ranking organized by Global Finance magazine. Independent experts appreciated platform EDI Finansowanie which is a pioneering initiative on the Polish corporate market. This solution enables corporates to initiate debt financing in the Bank in the same place where they exchange orders, invoices and confirmations of supply, i.e. in accounting system of the company.

Integration of the Pekao Biznes24 Internet banking system with the country’s largest EDI platform serving 30 thousand users from 30 countries to exchange commercial documents in electronic form, was implemented in co-operation with company CA Consulting S.A. belonging to Comarch Group. The combination of both tools allows companies to full supply service, i.e. submission and execution orders and invoicing as well as debt financing management within the frame of eFinancing and Kredyt Zaliczka service on one common platform adapted to the technological level of small, medium and large companies.

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

Bank Pekao S.A. for the fourth consecutive year won the title of the best custodian Bank in Poland “Best Sub-Custodian Bank in Poland 2015” in the ranking organized by the Global Finance magazine what confirms professional and comprehensive approach to the Bank’s custodian services.

The Global Finance magazine in co-operation with experts selected winner among the institutions that provide the best custodian services on local and international markets. The considered criteria include: customer relations, quality of service, competitive pricing, technology platforms, business continuity plans and knowledge of local regulations and practices.

Warsaw Commodity Clearing House: „Rozrachunek specjalny za rok 2014” (“Special Settlement for 2014”) award for Bank Pekao S.A.

In the first quarter of 2015, Bank Pekao S.A. received a distinction for its contribution in creation of Nowy Model Rozrachunku Gieldy (New Settlement Model). The award „Rozrachunek specjalny za rok 2014” (Special Settlement for 2014) is a recognition for the most active participants on markets settled by IRGIT (Warsaw Commodity Clearing House).

„Contactless Intelligence” conference: the title „Business Leader of the Year” for Bank Pekao S.A. for contactless payments market development

Bank Pekao S.A. received the title „Business Leader of the Year” at the conference „Contactless Intelligence” in London, dedicated contactless payments which is one of the most important events in the sector. In the first half of 2015, the number of card transactions in payment terminals of the Bank increased more than double year-on-year.

In 2014, Bank Pekao S.A. significantly contributed to development of non-cash payments market in Poland. The Bank introduced payment terminals in one of the largest retail chains in Poland in just eight weeks. There were also conducted educational campaigns to promote contactless payments among the customers.

„Contactless Intelligence” conference were organized for the eighth time. In the competition Contactless & Mobile Awards held during the conference, were distinguished these solutions, which permanently contributed to the development of non-cash payments market in Europe and outside Europe.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

BANK magazine: Two awards for Bank Pekao S.A. during “Horyzonty Bankowości 2015” edition

Bank Pekao S.A. took the second place in the main ranking “50 largest banks in Poland” and took the second position among banks offering consumer loans in category Consumer Finance in competition organized by BANK financial magazine.

In June 2015, at a gala ceremony during “Horyzonty Bankowości 2015” the results of the 20th anniversary edition of the one of the most prestigious competitions were announced. The position of the bank in each category is determined by objective financial data evaluated by independent analysts.

Bankier.pl and Money.pl: first and the second place for mobile banking of Bank Pekao S.A.

In the first quarter of 2015, the Pekao24 mobile application together with the PeoPay payment system took the first place in the ranking of mobile banking application prepared by the Internet portal Bankier.pl and the second place for the best banking application 2015 in the ranking of Internet portal Money.pl.

Moreover, in the second quarter of 2015, mobile payments application PeoPay HCE of Bank Pekao S.A. was recognized as 2014 financial innovation in a sixth edition of on-line contest “Złoty Bankier” (“Golden Banker”) of the best products and services in 2014. Bank Pekao S.A. is the first bank in Poland and one of the first in Europe offering HCE mobile payments technology to its customers. New technology allows to make payments without necessity to use a specific mobile operator.

Foundation for the reputation of the brand “Premium Brand”: Company of High Reputation title for Pioneer Pekao TFI

Pioneer Pekao TFI was the winner of the tenth edition of Premium Brand and received the title of Company of High Reputation Premium Brand 2015 in nationwide survey of public opinion on a group of Polish consumers. Pioneer Pekao TFI has received this honor for the third time. The assessment of the reputation conducted in five areas: trust in the brand, references, media atmosphere around the brand, social commitment and perception of the company as an employer.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

6.4 Factors which will affect the results of the Group

Financial results of the banking sector will stay under pressure of low interest rates at least till mid-2016, when first interest rate hikes are expected. Inflation recorded the lowest level in this cycle (in February at -1.6% year on year), and in coming quarters its growth will be followed. An additional factor in favor of rate hikes will be improving economic dataflow. In the whole 2015 it should be expected growth of the GDP at the level 3.8%, and in the final quarter of 2015 it may even exceed 4.0%. One of the key factors contributing to such a positive scenario is continuation of solid increase of wages in the corporate sector. Nominal wage growth amounted to almost 4% year on year in the first half of the year, and in the second half a slightly stronger growth is expected. It should be also pointed out that such a nominal growth amid deflation means even stronger real growth. Another positive factor is continued increase of employment, at around 1% year on year, which may even accelerate in the coming quarters. These two factors taken together produced solid growth of real wage bill (almost 7% year on year in the first quarter of 2015, in the second half of the year it is expected growth by 5-6% year on year, mostly due to increasing inflation), and wage bill has primary significance for private consumption, nominally the largest part of the GDP. Another key GDP component are investments, which growth dynamics even exceeded 10% year on year in the first quarter of 2015. In the second half of the year it is expected slowdown of the dynamic in investments, mainly due to the fact that EU funds from the previous financial perspective will not supported the real economy, such acceleration is expected in 2016. In the corporate sector the investment mood is clearly improving, the capacity utilization is also increasing, which together with low level of investments in the previous years means high probability of further acceleration of investments. That would likely translate into stronger demand for bank loan, and thus into better results of the banking sector. However, it should be kept in mind that in the early phase of the investment cycle the domestic corporate sector usually finances investments mostly from its own funds, and thus a significant demand for bank loan is likely after few quarters.

An important factor for the economic dynamics on the whole, as well as for the regulatory environment of the banks will be the outcome of autumn parliamentary elections. The key opposition party postulates introduction of tax on bank assets, which would lower the financial results of the sector. On the other hand, the social postulates point toward higher budget spending – that would be an additional demand impulse in the economy, additionally boosting growth. The key question here is whether implementation of these projects will wait until and unless new, additional revenue (mostly from “tightening” of the tax system) appears – or will be independent from that. In that second case there would be a danger of increase of budget deficit, which would negatively impact zloty and would increase volatility of the financial markets.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

6.5 Description of major sources of risk and threats relating to the remaining months of 2015

Economic factors

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

Risk management

Effective risk management is a prerequisite for maintaining a high level of security of the funds entrusted to the Bank, and for achieving a sustainable and balanced profit growth. The key risks material for the Group include credit risk, liquidity and market risks and operational risk. Moreover, business, real estate, financial investment, model, macroeconomic, reputation compliance, leverage and bancassurance risks are also recognized.

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

The Management Board is responsible for achieving the strategic risk management goals, while the Supervisory Board oversees whether the Bank's policy of exposure to various types of risk is compliant with the overall strategy and financial plan. The Bank's Credit Committee plays an important role in the credit risk management, the Asset, Liability and Risk Committee in market and liquidity risk management, and management of the operational risk falls within the scope of responsibility of the Operational Risk Committee. The rules of managing each of the risks are defined in internal procedures and are subject to the assumptions of the credit and investment policies adopted annually by the Management Board and approved by the Supervisory Board. The rules of managing operational risk are determined by the objectives specified in the Operational Risk Management Strategy.

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

The risk management process has not changed significantly in relation to that described in the Report on the activities of Bank Pekao S.A. Group for the year 2014.

Risks related to the remaining months of 2015

In the second half of 2015, the Bank will continue its efforts and focus on keeping credit risk at adequate and safe level through prudent policy of credit portfolio development. Prudent standards in credit risk management stay unchanged with particular attention to potential threats coming from macroeconomic pillars and their effects on portfolio performance with timely actions undertaken along a strict monitoring of borrowers' risk profile. The same approach and focus is applied to the performance of the Bank's subsidiaries.

In the case of liquidity and market risks Bank Pekao S.A. does not expect substantial threats in the second half of 2015. Taking into account the continuing market uncertainty as well as possible increase of the market parameters volatility, the policy of the Bank is to keep the level of its exposure to market risk strictly under control.

The Bank is assessing the structural interest rate risk as moderate, which is reflected by the re-pricing mismatch embedded in the Bank's balance sheet. Taking into account external conditions and the Bank's exposure to interest rate risk, further decrease of interest rates lead to deterioration of net interest income of the Bank. However, the risk of materialization of such a scenario is assessed as limited.

As regards liquidity risk, it should be underlined that the Bank is a net lender on the interbank market and is characterized by a well-diversified, stable and low concentration deposits base, manages a substantial liquidity reserve buffer of eligible and marketable government securities. The cautious liquidity risk management policy of the Bank enables to expect that in the second half of 2015 it should not recognize significant threats to that risk.

The Bank does not identify any significant, new threats from operational risk, which could occur in the second half of 2015.

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7 Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from 1 January to 30 June, 2015 and 2014 respectively was presented in the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2015 to 30 June 2015.

The Report on activities of Bank Pekao S.A. Group for the first half of 2015 includes statement of financial position in a short form and income statement in a presentation form as well as the key, selected items from these statements were discussed.

Following decision of The Polish Financial Supervision Authority on December 5, 2014 Bank Pekao S.A. took over Spółdzielcza Kasa Oszczędnościowo-Kredytowa named Mikołaj Kopernik in Ornontowice. Due to the above, items of income statement of Bank Pekao S.A. Group for the first half of 2015 and items of statement of financial position of Bank Pekao S.A. Group as at December 31, 2014 and June 30, 2015, presented in this chapter, include data of Spółdzielcza Kasa Oszczędnościowo-Kredytowa. The detailed information concerning above mentioned take over is presented in the Note 2 of the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2014.

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

The balance sheet of Bank Pekao S.A. determines the amount of total assets in balance sheet and the structure of the assets and liabilities of the Group. As at the end of June 2015, the total assets of Bank Pekao S.A. constitutes 98.3% of the total assets of the whole Group.

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

ASSETS	30.06.2015		31.12.2014		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	6,681.8	3.9%	9,226.3	5.5%	(27.6%)
Loans and advances to banks (*)	5,161.6	3.0%	7,175.9	4.3%	(28.1%)
Loans and advances to customers (**)	120,808.7	70.7%	114,978.1	68.6%	5.1%
Securities (***)	28,626.1	16.8%	25,161.2	15.0%	13.8%
Investments in associates	130.2	0.1%	184.2	0.1%	(29.3%)
Property, plant and equipment and intangible assets	2,128.6	1.2%	2,171.2	1.3%	(2.0%)
Other assets	7,359.6	4.3%	8,728.1	5.2%	(15.7%)
Total assets	170,896.6	100.0%	167,625.0	100.0%	2.0%

(*) Including net investments in financial leases to banks.

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

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

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EQUITY AND LIABILITIES	30.06.2015		31.12.2014		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	0.9	0.0%	1.0	0.0%	(10.0%)
Amounts due to other banks	8,866.6	5.2%	5,344.7	3.2%	65.9%
Amounts due to customers	125,310.7	73.3%	125,609.0	74.9%	(0.2%)
Debt securities issued	3,979.6	2.3%	3,857.0	2.3%	3.2%
Other liabilities	10,621.2	6.3%	8,767.6	5.3%	21.1%
Total equity, including	22,117.6	12.9%	24,045.7	14.3%	(8.0%)
non-controlling interests	15.3	0.0%	28.0	0.0%	(45.4%)
Total equity and liabilities	170,896.6	100.0%	167,625.0	100.0%	2.0%

Customers' Financing

Customer structure of loans and advances

(in PLN million)

	30.06.2015	31.12.2014	CHANGE
Loans and advances at nominal value	126,153.6	120,293.6	4.9%
Loans (*)	106,696.8	104,108.3	2.5%
Retail	51,738.9	49,264.0	5.0%
Corporate	54,957.9	54,844.3	0.2%
Non-quoted securities	11,177.9	10,399.6	7.5%
Reverse repo transactions	8,278.9	5,785.7	43.1%
Other (**)	515.1	347.7	48.1%
Nominal value adjustment	103.2	107.2	(3.7%)
Impairment losses	(5,963.2)	(5,770.4)	3.3%
Total net receivables	120,808.7	114,978.1	5.1%
Securities issued by non-monetary entities (***)	979.5	899.2	8.9%
Total customers' financing (****)	127,133.1	121,192.8	4.9%

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

(**) Including interest and receivables in transit.

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

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

As at the end of June 2015, the volume of total customers' financing amounted to PLN 127,133.1 million, an increase of PLN 5,940.3 million, i.e. 4.9% in comparison to the end of 2014.

As at the end of June 2015, the volume of retail loans amounted to PLN 51,738.9 million, an increase of PLN 2,474.9 million, i.e. 5.0% in comparison to the end of 2014.

In the area of mortgage lending, the Bank continued its policy of offering only PLN mortgage loans. The residual stock of mortgage loans denominated in foreign currencies, almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA in 2007, represents only 4.6% of total loans of the Bank.

The volume of corporate loans, non-quoted securities, reverse repo transactions and securities issued by non-monetary entities increased by PLN 3,465.4 million, i.e. 4.8% as compared to the end of 2014 and amounted to PLN 75,394.2 million at the end of June 2015.

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Receivables and impairment losses

(in PLN million)

	30.06.2015	31.12.2014	CHANGE
Gross receivables (*)	126,356.7	120,458.0	4.9%
Not impaired	117,931.4	112,255.8	5.1%
Impaired	8,425.3	8,202.2	2.7%
Impairment losses	(5,963.2)	(5,770.4)	3.3%
Interest	415.2	290.5	42.9%
Total net receivables	120,808.7	114,978.1	5.1%

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

As at June 30, 2015, the ratio of impaired receivables to total receivables amounted to 6.7% and was better by 0.1 p.p. as compared to the end of 2014.

Impairment losses as at the end of June 2015 amounted to PLN 5,963.2 million.

Loans and advances to customers by currency*

	30.06.2015		31.12.2014		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	105,043.3	82.9%	99,594.0	82.5%	5.5%
Denominated in foreign currencies (**)	21,728.6	17.1%	21,154.5	17.5%	2.7%
Total	126,771.9	100.0%	120,748.5	100.0%	5.0%
Impairment losses	(5,963.2)	x	(5,770.4)	x	3.3%
Total net	120,808.7	x	114,978.1	x	5.1%

(*) Including interest and receivables in transit.

(**) Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish zloty; as at the end of June 2015, their share was 82.9%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (58.5%), CHF (25.7%) and USD (15.5%).

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

	30.06.2015		31.12.2014		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	21,390.1	16.9%	18,848.8	15.6%	13.5%
1 to 3 months	2,763.7	2.2%	3,368.6	2.8%	(18.0%)
3 months to 1 year	12,611.8	9.9%	11,347.1	9.4%	11.1%
1 to 5 years	39,008.3	30.8%	38,136.7	31.6%	2.3%
Over 5 years	50,482.9	39.8%	48,699.6	40.3%	3.7%
Other	515.1	0.4%	347.7	0.3%	48.1%
Total	126,771.9	100.0%	120,748.5	100.0%	5.0%
Impairment losses	(5,963.2)	x	(5,770.4)	x	3.3%
Total net	120,808.7	x	114,978.1	x	5.1%

(*) Including interest and receivables in transit.

At the end of June 2015, loans and advances with maturity over 5 years represented 39.8% of total loans and advances (mainly attributed to mortgage loans and receivables for which the maturity date already passed).

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External sources of financing

(in PLN million)

	30.06.2015	31.12.2014	CHANGE
Amounts due to Central Bank	0.9	1.0	(10.0%)
Amounts due to other banks	8,866.6	5,344.7	65.9%
Amounts due to customers	125,310.7	125,609.0	(0.2%)
Debt securities issued	3,979.6	3,857.0	3.2%
Total external sources of financing	138,157.8	134,811.7	2.5%

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

Total customer savings

(in PLN million)

	30.06.2015	31.12.2014	CHANGE
Amounts due to corporate	61,525.7	64,490.7	(4.6%)
Non-financial entities	46,515.5	49,142.8	(5.3%)
Non-banking financial entities	7,937.4	9,138.8	(13.1%)
Budget entities	7,072.8	6,209.1	13.9%
Retail deposits	58,103.5	55,275.7	5.1%
Repo and sell-buy-back transactions	5,219.0	4,976.3	4.9%
Other (*)	462.5	866.3	(46.6%)
Amounts due to customers	125,310.7	125,609.0	(0.2%)
Debt securities issued, of which	3,979.6	3,857.0	3.2%
Structured Certificates of Deposit (SCD)	202.7	203.7	(0.5%)
Certificates of Deposit	2,594.1	2,594.7	(0.0%)
Pekao Bank Hipoteczny S.A. covered bonds	1,148.7	1,029.3	11.6%
Interest	34.1	29.3	16.4%
Amounts due to customers and debt securities issued, total	129,290.3	129,466.0	(0.1%)
Investment funds of Pioneer Pekao TFI	17,722.7	17,115.1	3.6%
Bond and money market funds	11,575.8	11,162.0	3.7%
Balanced funds	3,221.8	3,163.9	1.8%
Equity funds	2,925.1	2,789.2	4.9%
including distributed through the Group's network	17,372.1	16,669.7	4.2%

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

As at the end of June 2015, the total amounts due to the Group's customers and debt securities issued amounted to PLN 129,290.3 million, a decrease of PLN 175.7 million, i.e. 0.1% in comparison to the end of 2014.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 58,708.7 million at the end of June 2015, an increase of PLN 2,774.1 million, i.e. 5.0% in comparison to the end of 2014. The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 17,722.7 million at the end of June 2015, an increase of PLN 607.7 million, i.e. 3.6% in comparison to the end of 2014.

The total volume of corporate customers deposits, repo and sell-buy-back transactions, Certificates of Deposit, Pekao Bank Hipoteczny S.A. covered bonds, interest and other amounted to PLN 70,581.6 million at the end of June 2015, a decrease of PLN 2,949.8 million, i.e. 4.0% as compared to the end of 2014 following the strategy to focus on growth in retail customers deposits with cost optimization approach in area of corporate deposits.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

Amounts due to customers by currency^(*)

	30.06.2015		31.12.2014		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	105,047.3	83.8%	106,221.9	84.6%	(1.1%)
Denominated in foreign currencies	20,263.4	16.2%	19,387.1	15.4%	4.5%
Total	125,310.7	100.0%	125,609.0	100.0%	(0.2%)

(*) Including interest and amounts due in transit.

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of June 2015 amounted to 83.8%. The majority of amounts due to customers denominated in foreign currencies were in EUR (60.2%) and USD (34.8%).

Amounts due to customers by contractual maturities

	30.06.2015		31.12.2014		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	60,111.2	48.1%	59,847.4	48.0%	0.4%
Term deposits	64,737.0	51.9%	64,895.3	52.0%	(0.2%)
Total deposits	124,848.2	100.0%	124,742.7	100.0%	0.1%
Interest accrued	165.2	x	194.6	x	(15.1%)
Funds in transit	297.3	x	671.7	x	(55.7%)
Total	125,310.7	x	125,609.0	x	(0.2%)

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

7.2 The consolidated income statement – presentation form

Net profit of Bank Pekao S.A. Group attributable to equity holders for the first half of 2015 amounted to PLN 1,243.6 million allowing return on average capital (ROE) at the level of 10.3% achieved with a strong capital base reflected by CAR at 17.8% (Basel III). Normalized ROE (return on minimum equity equivalent to CAR at 10%) amounted to 15.4%.

The Group's gross operating profit (excluding guarantee funds charges) reported for the first half of 2015 was lower by PLN 24.9 million, i.e. 1.3% in comparison to the first half of 2014 with lower operating income, affected by lower interest rates and negative impact of regulatory constraints, supported by growing volumes and gains on sale of available for sale portfolio, and with lower operating costs.

The strength of the liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 93.4% at the end of June 2015. This together with strong equity level enables for further sound and stable development of the Group's activities.

The consolidated income statement – presentation form

(in PLN million)

	1 HALF 2015	1 HALF 2014	CHANGE
Net interest income	2,058.4	2,270.0	(9.3%)
Dividend income and income from equity investments	43.4	42.9	1.2%
Total net interest income, dividend income and other income from equity investments	2,101.8	2,312.9	(9.1%)
Net fee and commission income	993.8	1,039.1	(4.4%)
Trading result	359.9	237.3	51.7%
Net other operating income and expenses	126.5	55.8	>100%
Net non-interest income	1,480.2	1,332.2	11.1%
Operating income	3,582.0	3,645.1	(1.7%)
Operating costs	(1,612.5)	(1,650.7)	(2.3%)
Gross operating profit	1,969.5	1,994.4	(1.3%)
Net impairment losses on loans and off-balance sheet commitments	(267.3)	(290.2)	(7.9%)
Net operating profit	1,702.2	1,704.2	(0.1%)
Net result on other provisions	(26.6)	(3.2)	>100%
Guarantee funds charges	(137.5)	(71.2)	93.1%
Net result on investment activities	0.6	(0.5)	x
Profit before tax	1,538.7	1,629.3	(5.6%)
Income tax expense	(294.7)	(300.8)	(2.0%)
Net profit for the period	1,244.0	1,328.5	(6.4%)
Attributable to equity holders of the Bank	1,243.6	1,319.3	(5.7%)
Attributable to non-controlling interest	0.4	9.2	(95.7%)

Operating income

In the first half of 2015, the Group's operating income amounted to PLN 3,582.0 million, a decrease of PLN 63.1 million, i.e. 1.7% in comparison with the first half of 2014 mainly due to lower total net interest income, dividend income and income from equity investment.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

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

(in PLN million)

	1 HALF 2015	1 HALF 2014	CHANGE
Interest income	2,721.9	3,155.8	(13.7%)
Interest expense	(663.5)	(885.8)	(25.1%)
Net interest income	2,058.4	2,270.0	(9.3%)
Dividend income	13.3	8.2	62.2%
Income from equity investments	30.1	34.7	(13.3%)
Total net interest income, dividend income and income from equity investments	2,101.8	2,312.9	(9.1%)

Total net interest income, dividend income and income from equity investments in the first half of 2015 amounted to PLN 2,101.8 million and was lower by PLN 211.1 million, i.e. 9.1% compared to the first half of 2014 due to negative impact of lower interest rates, including in particular reduction of the maximum interest rate applicable to loans. In the first half of 2015, average WIBOR 3M rate stood at the level of 1.8% and was lower by 0.9 b.p. than in the first half of 2014, while the NBP Lombard rate went from 4.0% at the end of June 2014 to 2.5% in March 2015. This impact was partially compensated thanks to significantly higher volumes.

Net non-interest income

(in PLN million)

	1 HALF 2015	1 HALF 2014	CHANGE
Fee and commission income	1,200.2	1,296.6	(7.4%)
Fee and commission expense	(206.4)	(257.5)	(19.8%)
Net fee and commission income	993.8	1,039.1	(4.4%)
Trading result	359.9	237.3	51.7%
of which gains on disposal of AFS assets	154.7	34.8	>100%
Net other operating income and expense	126.5	55.8	>100%
Net non-interest income	1,480.2	1,332.2	11.1%

The Group's net non-interest income in the first half of 2015 amounted to PLN 1,480.2 million, an increase of PLN 148.0 million, i.e. 11.1% in comparison with the first half of 2014 thanks to higher trading result and net other operating income and expenses, supported by gains on sale of AFS portfolio and compensation under insurance contract with net fee and commission income lower by 4.4% compared to the first half of 2014, mainly due to negative impact of interchange rates reduction.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

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

(in PLN million)

	1 HALF 2015	1 HALF 2014	CHANGE
Net fee and commission income	993.8	1,039.1	(4.4%)
on loans	231.7	216.9	6.8%
on cards	174.5	217.4	(19.7%)
capital market related	209.0	178.2	17.3%
other	378.6	426.6	(11.3%)

The Group's net fee and commission income in the first half of 2015 amounted to PLN 993.8 million and was lower by PLN 45.3 million, i.e. 4.4% in comparison with the first half of 2014 mainly due to negative impact of interchange rates reduction on fee and commission income on cards.

Operating costs

In the first half of 2015, the operating costs (excluding guarantee funds charges) were kept under control and amounted to PLN 1,612.5 million. They were lower than the operating costs in the first half of 2014 by PLN 38.2 million, i.e. 2.3%.

(in PLN million)

	1 HALF 2015	1 HALF 2014	CHANGE
Personnel expenses	(952.1)	(955.4)	(0.3%)
Other administrative expenses	(495.7)	(532.3)	(6.9%)
Depreciation and amortization	(164.7)	(163.0)	1.0%
Operating costs	(1,612.5)	(1,650.7)	(2.3%)

In the first half of 2015, cost / income ratio amounted to 45.0% in comparison with 45.3% in the first half of 2014.

As at the end of June 2015, the Group employed 18,629 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,765 employees as at the end of 2014. The number of the Group's employees as at the end of June includes data of Pekao Investment Banking S.A. (f. UniCredit CAIB Poland S.A.) taken over by the Bank on January 1, 2015 under acquisition of 100% of the share capital.

As at the end of June 2015, the Bank employed 16,631 employees as compared to 16,914 employees as at the end of 2014.

Guarantee funds charges

Guarantee funds charges in the first half of 2015, amounted to PLN 137.5 million, an increase of PLN 66.3 million, i.e. 93.1% in comparison with the first half of 2014 due to higher BGF rates introduced in 2015.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

7.3 The structure of the net profit

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

(in PLN million)

	1 HALF 2015	1 HALF 2014	CHANGE
Net profit of Bank Pekao S.A.	1,348.8	1,354.1	(0.4%)
Entities consolidated under full method			
Pekao Leasing Holding S.A. w likwidacji ^(*)	60.9	0.5	>100%
Centralny Dom Maklerski Pekao S.A.	23.5	20.2	16.3%
Pekao Leasing Sp. z o.o.	18.8	35.5	(47.0%)
Pekao Investment Banking ^(**)	5.5	-	x
Pekao Financial Services Sp. z o.o.	4.1	3.6	13.9%
Pekao Faktoring Sp. z o.o.	4.0	4.0	0.0%
Pekao Bank Hipoteczny S.A.	3.3	5.4	(38.9%)
Pekao Pioneer PTE S.A.	1.0	13.1	(92.4%)
Centrum Bankowości Bezpośredniej Sp. z o.o.	0.9	1.3	(30.8%)
FPB "Media" Sp. z o.o.	0.2	0.2	0.0%
Pekao Fundusz Kapitałowy Sp. z o.o.	0.1	0.1	0.0%
Pekao Property S.A. ^(***)	(0.1)	(0.4)	(75.0%)
Centrum Kart S.A.	(0.3)	0.9	x
Pekao Telecentrum Sp. z o.o. w likwidacji ^(****)	-	0.1	x
Property Sp. z o.o. w likwidacji ^(****)	-	0.2	x
Entities valued under the equity method			
Pioneer Pekao Investment Management S.A.	23.7	28.9	(18.0%)
Krajowa Izba Rozliczeniowa S.A.	5.5	5.3	3.8%
Dom Inwestycyjny Xelion sp. z o.o.	0.9	0.5	80.0%
Exclusions and consolidation adjustments ^(*****)	(257.2)	(154.2)	66.8%
Net profit of the Group attributable to equity holders of the Bank	1,243.6	1,319.3	(5.7%)

(*) The result of Pekao Leasing Holding S.A. for the first half of 2015 mainly include the dividend received from Pekao Leasing Sp. z o.o. On April 30, 2015, the Extraordinary Shareholders Meeting of Pekao Leasing Holding S.A., which the Bank is the only shareholder, took resolution on winding-up of the company and starting liquidation procedure of the company within the date the resolution was taken.

(**) On January 1, 2015, the Bank acquired 100% of the share capital of UniCredit CAIB Poland S.A. and obtained control over the entity. On January 14, 2015, the name of UniCredit CAIB Poland S.A was changed to Pekao Investment Banking S.A.

(***) On September 26, 2014, the merger of Pekao Property S.A. and Property Sp. z o.o. w likwidacji was accomplished.

(****) On January 8, 2015, the Bank's subsidiary Pekao Telecentrum Sp. z o.o. w likwidacji was removed from the National Court Register.

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

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

The results of Bank Pekao S.A.

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

(in PLN million)

	1 HALF 2015	1 HALF 2014	CHANGE
Net interest income	1,995.6	2,207.1	(9.6%)
Dividend income	210.6	153.4	37.3%
Total net interest income and dividend income	2,206.2	2,360.5	(6.5%)
Net non-interest income	1,346.2	1,180.8	14.0%
Operating income	3,552.4	3,541.3	0.3%
Operating costs	(1,501.2)	(1,549.6)	(3.1%)
Gross operating profit	2,051.2	1,991.7	3.0%
Net impairment losses on loans and off-balance sheet commitments	(264.2)	(278.0)	(5.0%)
Net operating profit	1,787.0	1,713.7	4.3%
Net result on other provisions	(26.5)	(1.8)	>100%
Guarantee funds charges	(136.6)	(68.3)	100.0%
Net result on investment activities	3.0	(0.7)	x
Profit before tax	1,626.9	1,642.9	(1.0%)
Net profit for the period	1,348.8	1,354.1	(0.4%)

In the first half of 2015, the Bank's net profit amounted to PLN 1,348.8 million, a decrease of PLN 5.3 million, i.e. 0.4% in comparison to the first half of 2014.

The Bank's gross operating profit reported for the first half of 2015 amounted to PLN 2,051.2 million and was higher by PLN 59.5 million, i.e. 3.0% in comparison with the first half of 2014 thanks to higher operating income and lower operating costs.

The main Bank's financial information are as follows:

	30.06.2015	31.12.2014	CHANGE
Total gross loans in PLN million ^(*)	102,983.2	100,330.6	2.6%
Impaired receivables to total receivables in %	6.5%	6.6%	(0.1) p.p.
Total deposits in PLN million ^(*)	119,809.2	120,279.7	(0.4%)
Repo and sell-buy-back transactions in PLN million	5,243.7	5,253.4	(0.2%)
Structured Certificates of Deposit in PLN million	202.7	203.7	(0.5%)
Certificates of Deposit in PLN million	2,594.1	2,594.7	(0.0%)
Total assets in PLN million	167,951.3	164,322.8	2.2%
Investment funds distributed through the Bank's network in PLN million	16,323.4	15,660.9	4.2%
Capital adequacy ratio (Basel III) in %	17.4%	17.1%	0.3 p.p.

^(*) The nominal value.

The volume of gross loans of the Bank's clients as at the end of June 2015 amounted to PLN 102,983.2 million, increasing by PLN 2,652.6 million, i.e. 2.6% as compared to the end of 2014. At the end of June 2015, the total volume of retail loans amounted to PLN 50,798.0 million and volume of corporate loans amounted to PLN 52,185.2 million.

The total amounts due to the Bank's customers (including customer deposits, repo and sell-buy-back transactions, Structured Certificates of Deposit, Certificates of Deposit) amounted to PLN 127,849.7 million and decreased by PLN 481.8 million, i.e. 0.4% compared to the end of 2014.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. and distributed by the Bank's network increased by PLN 662.5 million, i.e. 4.2% as compared to the end of 2014.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

Results of the Bank's major related entities

Pioneer Pekao Investment Management S.A. – PPIM

In the first half of 2015, consolidated net profit of PPIM amounted to PLN 48.4 million compared with PLN 59.0 million in comparable period of 2014. The Bank's share in the company's profit was **PLN 23.7 million**.

Centralny Dom Maklerski Pekao S.A. – CDM

In the first half of 2015, net profit of CDM amounted to **PLN 23.5 million** compared with PLN 20.2 million profit earned in the first half of 2014.

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

In the first half of 2015, Pekao Leasing reported a net profit of **PLN 18.8 million** compared with PLN 35.5 million in the first half of 2014. Pekao Leasing result for 2014 on top of positive commercial income includes positive impact of VAT settlements.

Pekao Investment Banking S.A. – Pekao IB

In the first half of 2015, Pekao IB reported net profit of **PLN 5.5 million**. The entity's results are consolidated since January 1, 2015, i.e. since the acquisition date.

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

In the first half of 2015, Pekao Faktoring reported a net profit of **PLN 4.0 million** and it was at the similar level compared with the first half of 2014.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In the first half of 2015, Pekao Bank Hipoteczny reported a net profit of **PLN 3.3 million** compared with PLN 5.4 million in the first half of 2014, being under negative impact of external factors, mainly the reduction of interest rates and higher BGF rates.

Pekao Pioneer PTE S.A. – PTE

In the first half of 2015, PTE reported net profit of PLN 1.0 million (the Bank's share equaled to **PLN 0.67 million**) compared with net profit of PLN 13.1 million in the first half of 2014. The higher profit in the first half of 2014 resulted from Open Pensions Funds (OFE) settlement which occurred after transfer of assets from OFE to The Social Insurance Institution (ZUS) as a consequence of pension funds reform.

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

In the first half of 2015, Xelion reported a net profit of PLN 1.8 million (the Bank's share equaled to **PLN 0.9 million**) and it was higher than the profit earned in the first half of 2014 in the amount of PLN 0.9 million.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

7.4 Provisions, deferred tax assets and liabilities

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	30.06.2015	31.12.2014	30.06.2015	31.12.2014
Total provisions	473.9	442.5	469.0	437.0
of which:				
provisions for off-balance sheet commitments	134.2	102.4	137.8	105.2
provisions for liabilities to employees	300.5	301.5	297.4	298.8
other provisions	39.2	38.6	33.8	33.0
Deferred tax liabilities	2.2	2.1	-	-
Deferred tax assets	1,064.3	877.4	824.3	672.5

7.5 Net impairment losses

(in PLN million)

	GROUP		BANK PEKAO S.A.	
	1 HALF 2015	1 HALF 2014	1 HALF 2015	1 HALF 2014
Impairment losses on loans	(236.1)	(280.3)	(232.2)	(267.9)
Impairment losses on off-balance sheet commitments	(31.2)	(9.9)	(32.0)	(10.1)
Total	(267.3)	(290.2)	(264.2)	(278.0)

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 267.3 million in the first half of 2015, a decrease of PLN 22.9 million, i.e. 7.9% as compared with the first half of 2014.

The Bank's net impairment losses on loans and off-balance sheet commitments amounted to PLN 264.2 million in the first half of 2015, a decrease of PLN 13.8 million i.e. 5.0% as compared with the first half of 2014.

7.6 Off-balance sheet items

(in PLN million)

	30.06.2015	31.12.2014	CHANGE
Contingent liabilities granted and received	55,710.2	54,257.2	2.7%
Liabilities granted:	42,453.8	41,585.2	2.1%
financial	28,149.0	27,376.5	2.8%
guarantees	14,304.8	14,208.7	0.7%
Liabilities received:	13,256.4	12,672.0	4.6%
financial	873.0	496.5	75.8%
guarantees	12,383.4	12,175.5	1.7%
Derivative financial instruments	235,081.1	251,602.9	(6.6%)
interest rate transactions	139,116.7	147,004.1	(5.4%)
transactions in foreign currency and in gold	94,279.3	102,912.9	(8.4%)
transactions based on commodities and equity securities	1,685.1	1,685.9	(0.0%)
Other	57,222.2	32,292.0	77.2%
Total off-balance sheet items	348,013.5	338,152.1	2.9%

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

7.7 Capital adequacy

Capital ratios are the basic measures applied for the measurement for capital adequacy according to Regulation of the European Parliament and of the Council (EU) No 575/2013 of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, which entered into force since January 1, 2014.

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

The minimum Total Capital Ratio required by law cannot be lower than 8% while according to recommendation of European Banking Authority (EBA) and Polish Financial Supervision Authority (KNF) total capital ratio must be not lower than 12% and Tier 1 Capital ratio not lower than 9%. Total Capital Ratio for Pekao Group amounted to 17.84% and was more than twice the minimum value required by the law and significantly higher than the level recommended by the EBA and the KNF.

The table below presents the basic data concerning the Group capital adequacy as at June 30, 2015 and December 31, 2014 according to the new rules of Basel III.

(in PLN thousand)

CAPITAL REQUIREMENT	30.06.2015	31.12.2014
Credit risk	7,912,189	7,937,365
Exceeding large exposure limits	-	-
Market risk	66,244	192,563
Delivery and contractor risk	324,600	442,446
Exceeding exposure concentration limit	-	-
Operational risk	677,855	705,781
Total capital requirement	8,980,888	9,278,155
OWN FUNDS		
Common Equity Tier 1 Capital	20,026,880	20,063,716
Own funds for total capital ratio	20,026,880	20,063,716
Common Equity Tier 1 Capital ratio (%)	17.8%	17.3%
Total capital ratio (%)	17.8%	17.3%

Total Capital Ratio at the end of June 2015 compared with December 2014 increased by 0.5 p.p. Total capital requirement decreased by 3.2% and own funds for total capital ratio remain on almost the same level (decrease by 0.2%).

Total capital requirement as at end of June 2015 decreased as a result of decrease of capital requirements for all risks.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

7.8 Reconciliation of income statement – presentation form and long form

Consolidated income statement for the first half of 2015

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	1 HALF 2015	COMMENTS
Net interest income		<u>2,058,425</u>	
Dividend income and income from equity investments		<u>43,437</u>	
	Dividend income	13,337	
	Gains (losses) on subsidiaries and associates	30,100	
Total net interest income, dividend income and other income from equity investments		2,101,862	
Net fee and commission income	Net fee and commission income	<u>993,817</u>	
Trading result		<u>359,860</u>	
	Result on financial assets and liabilities held for trading	200,058	
	Result on fair value hedge accounting	5,241	
	Net result on other financial instruments at fair value through profit and loss	-	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	154,715	
	(Gains) losses on disposal of financial liabilities	(154)	
Net other operating income and expenses		<u>126,500</u>	
	Net other operating income and expenses	127,518	
	less - Refunding of administrative expenses	(1,420) /1	
	Gains (losses) on disposal of loans and other financial receivables	402	
Net non-interest income		1,480,177	
Operating income		3,582,039	
Operating costs		<u>(1,612,584)</u>	
	Personnel expenses	(952,089)	
	Other administrative expenses	(634,717)	
	less –Guarantee funds charges	137,571	
	Refunding of administrative expenses	1,420 /1	
	Depreciation and amortization	(164,769)	
Gross operating profit		1,969,455	
Net impairment losses on loans and off-balance sheet commitments		<u>(267,214)</u>	
	Net impairment losses on loans	(236,071)	
	Net impairment provision for off-balance sheet commitments	(31,143)	
Net operating profit		1,702,241	
Net result on other provisions	Net result on other provisions	<u>(26,639)</u>	
Guarantee funds charges	Guarantee funds charges	(137,571)	
Net result on investment activities		<u>629</u>	
	Gains (losses) on disposal of property, plant and equipment and intangible assets.	574	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	55	
Profit before income tax		1,538,660	
Income tax expense	Income tax expense	<u>(294,672)</u>	
Net profit for the period	Net profit for the period	1,243,988	
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	1,243,626	
Attributable to non-controlling interest	Attributable to non-controlling interest	362	

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

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

Consolidated income statement for the first half of 2014

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	1 HALF 2014	COMMENTS
Net interest income		<u>2,269,979</u>	
Dividend income and income from equity investments		<u>42,882</u>	
	Dividend income	8,189	
	Gains (losses) on subsidiaries and associates	34,693	
Total net interest income, dividend income and other income from equity investments		2,312,861	
Net fee and commission income	Net fee and commission income	<u>1,039,063</u>	
Trading result		<u>237,323</u>	
	Result on financial assets and liabilities held for trading	216,620	
	Result on fair value hedge accounting	(14,117)	
	Net result on other financial instruments at fair value through profit and loss	-	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	34,837	
	(Gains) losses on disposal of financial liabilities	(17)	
Net other operating income and expenses		<u>55,851</u>	
	Net other operating income and expenses	56,574	
	less - Refunding of administrative expenses	(1,807) /1	
	Gains (losses) on disposal of loans and other financial receivables	1,084	
Net non-interest income		1,332,237	
Operating income		3,645,098	
Operating costs		<u>(1,650,707)</u>	
	Personnel expenses	(955,390)	
	Other administrative expenses	(605,358)	
	less – Guarantee funds charges	71,228	
	Refunding of administrative expenses	1,807 /1	
	Depreciation and amortization	(162,994)	
Gross operating profit		1,994,391	
Net impairment losses on loans and off-balance sheet commitments		<u>(290,168)</u>	
	Net impairment losses on loans	(280,275)	
	Net impairment provision for off-balance sheet commitments	(9,893)	
Net operating profit		1,704,223	
Net result on other provisions	Net result on other provisions	<u>(3,150)</u>	
Guarantee funds charges	Guarantee funds charges	(71,228)	
Net result on investment activities		<u>(543)</u>	
	(Gains) losses on disposal of property, plant and equipment and intangible assets.	(543)	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	-	
Profit before income tax		1,629,302	
Income tax expense	Income tax expense	<u>(300,803)</u>	
Net profit for the period	Net profit for the period	1,328,499	
Attributable to equity holders of the Bank	Attributable to equity holders of the Bank	1,319,321	
Attributable to non-controlling interest	Attributable to non-controlling interest	9,178	

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

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

8 Quarterly Income Statement

8.1 Consolidated income statement – long form

Consolidated income statement for 2015 and 2014 - Provided for comparability purposes.

	(in PLN thousand)					
	Q1 2015	Q2 2015	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Interest income	1,398,296	1,323,599	1,571,029	1,584,757	1,594,530	1,474,974
Interest expense	(355,366)	(308,104)	(440,956)	(444,851)	(460,586)	(417,603)
Net interest income	1,042,930	1,015,495	1,130,073	1,139,906	1,133,944	1,057,371
Fee and commission income	583,905	616,307	631,965	664,663	612,307	627,346
Fee and commission expense	(103,338)	(103,057)	(119,066)	(138,499)	(107,285)	(127,696)
Net fee and commission income	480,567	513,250	512,899	526,164	505,022	499,650
Dividend income	1	13,336	-	8,189	109	-
Result on financial assets and liabilities held for trading	105,127	94,931	105,443	111,177	105,102	121,579
Result on fair value hedge accounting	2,234	3,007	(10,725)	(3,392)	(1,598)	(1,532)
Net result on other financial instruments at fair value through profit and loss	-	-	-	-	-	-
Gains (losses) on disposal of:	152,944	2,019	414	35,490	94,620	141,531
loans and other financial receivables	344	58	414	670	-	17,495
available for sale financial assets and held to maturity investments	152,626	2,089	17	34,820	94,618	124,045
financial liabilities	(26)	(128)	(17)	-	2	(9)
Operating income	1,783,803	1,642,038	1,738,104	1,817,534	1,837,199	1,818,599
Net impairment losses on financial assets and off-balance sheet commitments:	(137,132)	(130,082)	(147,502)	(142,666)	(134,194)	(135,213)
loans and other financial receivables	(146,890)	(89,181)	(149,004)	(131,271)	(173,182)	(118,373)
off-balance sheet commitments	9,758	(40,901)	1,502	(11,395)	38,988	(16,840)
Net result on financial activity	1,646,671	1,511,956	1,590,602	1,674,868	1,703,005	1,683,386
Administrative expenses	(789,433)	(797,373)	(776,702)	(784,046)	(778,424)	(762,962)
personnel expenses	(471,922)	(480,167)	(471,380)	(484,010)	(479,962)	(469,718)
other administrative expenses	(317,511)	(317,206)	(305,322)	(300,036)	(298,462)	(293,244)
Depreciation and amortization	(81,738)	(83,031)	(81,945)	(81,049)	(82,263)	(81,422)
Net result on other provisions	(25,872)	(767)	(1,188)	(1,962)	99	349
Net other operating income and expenses	9,623	117,895	34,237	22,337	12,677	5,085
Operating costs	(887,420)	(763,276)	(825,598)	(844,720)	(847,911)	(838,950)
Gains (losses) on subsidiaries and associates	15,556	14,599	19,282	15,411	15,320	13,197
Gains (losses) on disposal of property, plant and equipment, and intangible assets	628	(54)	(333)	(210)	122	2,218
Profit before income tax	775,435	763,225	783,953	845,349	870,536	859,851
Income tax expense	(150,866)	(143,806)	(146,017)	(154,786)	(165,454)	(168,316)
Net profit for the period	624,569	619,419	637,936	690,563	705,082	691,535
Attributable to equity holders of the Bank	624,417	619,209	634,244	685,077	704,370	691,023
Attributable to non-controlling interest	152	210	3,692	5,486	712	512

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

8.2 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for 2015 and 2014

(in PLN thousand)

	Q1 2015	Q2 2015	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Net profit	624,569	619,419	637,936	690,563	705,082	691,535
Attributable to equity holders of the Bank	624,417	619,209	634,244	685,077	704,370	691,023
Attributable to non-controlling interest	152	210	3,692	5,486	712	512
Other comprehensive income						
<i>Items that are or may be reclassified subsequently to profit or loss:</i>						
Foreign currency translation differences	6	(19)	5	6	(8)	(72)
Change in fair value of available-for-sale financial assets	(85,527)	(441,980)	36,868	322,991	127,131	(4,924)
Change in fair value of cash flow hedges	(56,220)	(52,662)	(11,416)	113,138	74,877	(8,490)
Income tax expense on other comprehensive income	26,932	93,982	(4,836)	(82,865)	(38,381)	2,548
<i>Items that will never be reclassified to profit or loss:</i>						
Re-measurements of the defined benefit liabilities	-	-	-	-	-	(44,338)
Share in re-measurements of the defined benefit liabilities of associates	-	-	-	-	-	(38)
Tax on items that will never be reclassified to profit or loss	-	-	-	-	-	8,424
Other comprehensive income (net)	(114,809)	(400,679)	20,621	353,270	163,619	(46,890)
Total comprehensive income	509,760	218,740	658,557	1,043,833	868,701	644,645
Attributable to equity holders of the Bank	509,608	218,530	654,865	1,038,347	867,989	644,133
Attributable to non-controlling interest	152	210	3,692	5,486	712	512

8.3 Consolidated income statement – presentation form

Consolidated income statement for 2015 and 2014

(in PLN thousand)

	Q1 2015	Q2 2015	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Net interest income	1,042,930	1,015,495	1,130,073	1,139,906	1,133,944	1,057,371
Dividend income and income from equity investments	15,502	27,935	19,282	23,600	15,429	13,197
Total net interest income, dividend income and other income from equity investments	1,058,432	1,043,430	1,149,355	1,163,506	1,149,373	1,070,568
Net fee and commission income	480,567	513,250	512,899	526,164	505,022	499,650
Trading result	259,961	99,899	94,718	142,605	198,124	244,083
Net other operating income and expenses	9,131	117,369	32,856	22,995	12,148	21,664
Net non-interest income	749,659	730,518	640,473	691,764	715,294	765,397
Operating income	1,808,091	1,773,948	1,789,828	1,855,270	1,864,667	1,835,965
Operating costs	(801,363)	(811,221)	(820,047)	(830,660)	(825,416)	(809,644)
Gross operating profit	1,006,728	962,727	969,781	1,024,610	1,039,251	1,026,321
Net impairment losses on loans and off-balance sheet commitments	(137,132)	(130,082)	(147,502)	(142,666)	(134,194)	(135,213)
Net operating profit	869,596	832,645	822,279	881,944	905,057	891,108
Net result on other provisions	(25,872)	(767)	(1,188)	(1,962)	99	349
Guarantee funds charges	(68,972)	(68,599)	(36,805)	(34,423)	(34,742)	(33,824)
Net result on investment activities	683	(54)	(333)	(210)	122	2,218
Profit before income tax	775,435	763,225	783,953	845,349	870,536	859,851
Income tax expense	(150,866)	(143,806)	(146,017)	(154,786)	(165,454)	(168,316)
Net profit for the period	624,569	619,419	637,936	690,563	705,082	691,535
Attributable to equity holders of the Bank	624,417	619,209	634,244	685,077	704,370	691,023
Attributable to non-controlling interest	152	210	3,692	5,486	712	512

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

9 Human Resources Management

Human Capital as a key asset

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

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

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

Training and professional development

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

The Bank constantly extends its internal training programs ensuring professional services to customers and improves methods and ways to deliver training. Training programs include class-room training, on-the-job training, electronic training, coaching and system of Virtual Class which provides training at a distance in a form of remote seminars. In the first half of 2015, the Bank continued also structured rotation program allowing for direct exchange of professional knowledge between experts.

In the first half of 2015, the main training priorities of the Bank were as follows:

- preparation of the Bank's personnel to changes in law and regulations,
- professional skills development of the Bank's employees,
- development of middle and top managers,
- realization of mandatory training required under internal and external regulations.

Preparation of the Bank's personnel to changes in law and regulations

In the first half of 2015, the Bank realized training projects supporting personnel in proper implementation of regulatory and legal changes, especially in the bancassurance area in relation to entering into force the Recommendation U and Legal Academy covering wide range of changes in law and strengthening the Bank's employees knowledge in scope of practical implementation of those changes.

Professional skills development of the Bank's employees

The Bank expanded also a number of training projects aimed at reinforcement of risk culture and training regarding introduction of new priority products according to business strategy. In the second half of the year and in incoming years the Bank plans to continue this direction in order to reinforce the long term Bank's strategy.

Development of middle managers

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

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

Realization of mandatory training required under internal and external regulations

Within the scope of mandatory training related to the introduction of new market regulations as well as the strategy of the Bank and UniCredit Group, the Bank has launched a number of consecutive training projects aimed at providing the Bank's employees with specialized knowledge. There were realized, among others, complex offer in scope of bancassurance, Protection of information/Bank's secrecy, Compliance Introductory training, Assessment of documents authenticity.

In the first half of 2015, the Bank delivered almost 330 thousand of training hours, in which attended over 15,8 thousand of employees (above 95% of employed) confirming the Bank's determination in efficient implementation of required regulations and customer care.

Development programs and initiatives

Key priority of the Bank's development processes is identification, review, verification and development of current and future leaders of the Bank.

In the Bank operates four main processes concerned with this issue:

- Executive Development Plan (EDP) - annual appraisal process for managers which involved 606 persons,
- Talent Management Review (TMR) - annual appraisal process of potential and professional achievements aimed at managing and development of talents in the Bank and UniCredit Group which involved 152 persons,
Key outcomes of the EDP and the TMR processes are succession plans which are crucial for ensuring continuous employment on strategic positions, continuity of long-term projects and minimizing operational risk.
- Annual Employee Appraisal System – process of evaluation of the Bank's employees which involved 14,607 employees in the first half of 2015.

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

Internship and trainee programs

The Bank offers students and graduates the following development programs:

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

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

Remuneration policy

On February 6, 2015, the Supervisory Board of Bank Pekao S.A. approved the Remuneration Policy of the Bank, which reflects the mission and values of the Bank's approach to remuneration systems. The policy defines basics of remuneration, management of structure, corporate and organizational processes and confirms compliance requirements of the adopted remuneration system with generally binding law, defines the rules for monitoring of market practices and the approach to remuneration systems, which ensure sustainability of the Bank.

Retention Plans

In the first half of 2015, the Long-Term Incentive Plans of UniCredit Group (edition 2007 and 2008 within the scope of stock options) addressed to the top management was carried out.

The local Retention Program 2010-2013 of Bank Pekao S.A. dedicated to the key employees was completed.

Incentive systems

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

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

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

Executive Variable Compensation System is dedicated to people holding managerial positions, who have significant influence on the risk profile of the Bank. The aim of the System is to support the execution of the Bank's operational strategy and to mitigate excessive risk conflicts of interest. Participant covered by the System may receive a bonus, amount of which depends on the assessment of the effects of the person's work, organizational unit and the Bank's bottom line as well as on the assessment of participant's compliance with generally applicable laws and adopted by the Bank standards.

Additional benefits for employees

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

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

The Bank contributes to the Social Benefit Fund which is spent on financial assistance to the Bank's current and former employees.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

Relations with Trade Union Organizations

The co-operation between the Bank and the Trade Union Organizations in the fields of consultation, negotiation, and agreements was carried out in the first half of 2015 in accordance to the rules and procedures defined by the Labour Law and with respect to the interest of the parties and with the principles of social dialogue. Six meetings were held between the Bank and the Unions in that period.

Relations with Works Council

In May 2015, the four-year term of the Works Council at Bank Pekao S.A. was completed. In order to meet the requirements specified in the Worker Information and Consultation Act of April 7, 2006, the Bank initiated the procedure of electing a Works Council for the new term 2015-2019. Being a representative of the employees, the Council is eligible for getting information and for consulting them. The Council held several meetings with the Bank in the first half of 2015 to discuss the related questions indicated by the law. Co-operation with the Works Council progressed with respect to the mutual rights of the parties involved.

Corporate values

The Bank implements the project "System of Values" which defines the corporate values to be cherished by the Bank's employees in their daily relations at work. The Bank's values are described in the Integrity Charter as: respect, reciprocity, transparency, fairness, confidence, and freedom (to act). These values provide a reference system for routine work and for problem situations which many not be addressed by external and internal regulations.

The foundation of this "System of Values" is the work of Integrity Charter Ombudsmen who are independent, experienced, retired managers to whom the employees may report behaviors which clash with the corporate values. The Ombudsmen use such available tools as meetings and notices when they undertake measures to restore respect to the corporate values in relations among employees wherever they are disrupted. Their work directly supports the Bank's internal communication and defines certain standards of conduct and communication patterns for all the employees to follow. In the first half of 2015, the Integrity Charter Ombudsmen held several meetings with the Bank's employees in order to familiarize them with the "System of Values" and the Ombudsmen's service.

Workforce in number

As at June 30, 2015, the Group employed 18,629 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,765 employees as at the end of 2014. The number of the Group's employees as at the end of June includes data of Pekao Investment Banking S.A. (f. UniCredit CAIB Poland S.A.) taken over by the Bank on January 1, 2015 under acquisition of 100% of the share capital.

As at June 30, 2015, the Bank employed 16,631 employees (less by 283 persons as compared to the end of 2014). The average age of the employees was 45.7 years, 63.6% of the employees are university graduates, women represent 80% of the total workforce.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

10 Other Information

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

The Bank has not published the forecast of the financial results for 2015.

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

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

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

	AS AT THE DATE OF SUBMITTING THE REPORT		CHANGE
	FOR THE FIRST HALF OF 2015	FOR THE FIRST QUARTER OF 2015	
Luigi Lovaglio	64,035	64,035	0
Diego Biondo	9,500	9,500	0
Total	73,535	73,535	0

10.3 Related party transactions

In the first half of 2015, the Bank and its subsidiaries have not concluded any significant transactions (single or aggregate) with related entities other than those executed on arm's length.

In the first half of 2015, the Bank and its subsidiaries did not provide any sureties or guarantees in respect of loans or advances to an entity or a subsidiary of such entity, as a result of which the total value of existing sureties and guarantees would have equaled or exceeded 10% of the Bank's equity.

10.4 Accounting principles adopted in the preparation of the report

Accounting principles adopted in the preparation of the report are described in the Notes to the Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2015 to 30 June 2015.

10.5 Seasonality or cyclical nature of the Bank's activity

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

10.6 Issuance, redemption and repayment of debt securities

Structured Certificates of Deposit

Structured Certificates of Deposit are investment products for the Bank's clients that form an alternative to traditional banks' deposits. The total value of the Bank's liabilities relating to these products amounted to PLN 202.7 million (principal value) as at the end of June 2015. There are 3 issues of Structured Certificates of Deposit open in PLN with the maximum maturity date set at March 24, 2016. Those liabilities that mature in 2015 and 2016 account for 34.7%, and 65.3% of its total value, respectively.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

Certificates of Deposit

Certificates of Deposit are investment products denominated in PLN that guarantee 100% protection of invested funds also in case of termination before redemption date. The total value of the Bank's liabilities under these products amounted to PLN 2,594.1 million (principal value) as at the end of June 2015. There are 19 issues of Certificates of Deposit, and the maturity date up to 3 months accounts for 62.1%, up to 6 months accounts for 6.6% and up to 1 year accounts for 31.3% of its total value.

Pekao Leasing Sp. z o.o. bonds

The total value of the company's liabilities under bonds amounted to PLN 82.5 million as at June 30, 2015 with the maturity date up to 1 month.

Pekao Bank Hipoteczny S.A. covered bonds

The total value of liabilities due to covered bonds amounted to PLN 1,202.7 million as at June 30, 2015. The liabilities under covered bonds with maturity date up to 1 year account for 0.6%, with maturity date from 1 up to 3 years account for 22.2%, with maturity date from 3 up to 5 years account for 18.2% and with maturity date from 5 up to 10 years account for 59.0% of the total nominal value.

10.7 Appropriation of profit achieved in 2014

On April 30, 2015, the Ordinary General Meeting of Bank Pekao S.A. took a resolution regarding the distribution of the net profit of the Bank for 2014 in the amount of PLN 2,662,265,662.64 in the following manner:

- 98.6% of net profit of the Bank i.e. PLN 2,624,700,340.00 is allocated to dividend,
- PLN 37,565,322.64 is allocated to fund for general banking risk.

10.8 Information on dividend

Pursuant to Resolution of the Ordinary General Meeting of Bank Pekao S.A. dated April 30, 2015, PLN 2,624,700,340.00 (98.6% of the net profit of the Bank for 2014) was allocated as dividend, i.e. PLN 10 per one share. The dividend's date was established on June 22, 2015 and the dividend's pay-out day was established on July 7, 2015. All the Bank's shares are ordinary shares.

10.9 Pending litigations

In the first half of 2015, the number of the legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of the Group's liabilities was 640 with the total value amounting to PLN 1,122.1 million. The number of legal proceedings in respect of receivables was 11,885 with the total value of PLN 1,152.5 million.

In the first half of 2015, there were no legal proceedings relating to the liabilities and/or receivables of the Group in which asserted claims accounted for at least 10% of the Bank's own funds.

In the opinion of the Bank none of the individual pending proceedings before any courts, arbitration bodies or public administration authorities during the first half of 2015, nor the proceedings in aggregate pose any threat to the Bank's financial liquidity.

10.10 Subsequent events

Sale of shares in Krajowa Izba Rozliczeniowa S.A.

On July 15, 2015 the Bank sold 3,125 shares of Krajowa Izba Rozliczeniowa S.A. As a result of the transaction, the Bank's share in the share capital and the votes in the General Meeting of the Company was reduced from 34.44% to 5.74%. The impact of the transaction on net profit of the Group is PLN 44,313 thousand.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

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

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

- the Condensed Unconsolidated Interim Financial Statements of Bank Pekao S.A. for the period from 1 January 2015 to 30 June 2015 and Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2015 to 30 June 2015 and comparative figures have been prepared in accordance with applicable accounting policies and that they reflect in a true, fair and clear manner the Bank's and the Group's financial position and their results,
- the Report on the activities of Bank Pekao S.A. Group for the first half of 2015 provides a true picture of Bank Pekao S.A. Group's development, achievements and situation, including the main threats and risks.

The Management Board of Bank Pekao S.A. declares that the registered audit company performing the review of the Condensed Unconsolidated Interim Financial Statements of Bank Pekao S.A. for the period from 1 January 2015 to 30 June 2015 and Condensed Consolidated Interim Financial Statements of Bank Pekao S.A. Group for the period from 1 January 2015 to 30 June 2015 has been selected in pursuance of applicable provisions of law. The company and the registered auditors performing the review meet the requirements indispensable for issuing an objective and independent report on the review concerning condensed interim unconsolidated financial statements and condensed interim consolidated financial statements, in accordance with applicable provisions of law and professional standards.

Report on the activities of Bank Pekao S.A. Group for the first half of 2015

Signatures of all Members of the Bank's Management Board

03.08.2015	Luigi Lovaglio	President of the Management Board, CEO	
Date	Name/Surname	Position/Function	Signature
03.08.2015	Diego Biondo	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
03.08.2015	Andrzej Kopyrski	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
03.08.2015	Adam Niewiński	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
03.08.2015	Grzegorz Piwowar	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
03.08.2015	Stefano Santini	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
03.08.2015	Marian Ważyński	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature