Bank Pekao

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Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on 31 December 2015

Warsaw, February 2016

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Consolidated income statement

(In PLN thousand)

	NOTE	2015	2014
Interest income	10	5 456 369	6 225 290
Interest expense	10	(1 289 799)	(1 763 996)
Net interest income		**4 166 570**	**4 461 294**
Fee and commission income	11	2 388 523	2 536 281
Fee and commission expense	11	(382 997)	(492 546)
Net fee and commission income		**2 005 526**	**2 043 735**
Dividend income	12	**13 635**	**8 298**
Result on financial assets and liabilities held for trading	13	**428 048**	**443 301**
Result on fair value hedge accounting	30	**5 547**	**(17 247)**
Gains (losses) on disposal of:	14	**229 601**	**272 055**
loans and other financial receivables		534	18 579
available for sale financial assets and held to maturity investments		229 551	253 500
financial liabilities		(484)	(24)
Operating income		**6 848 927**	**7 211 436**
Net impairment losses on financial assets and off-balance sheet commitments:	18	**(517 558)**	**(559 575)**
loans and other financial receivables		(500 355)	(571 830)
off-balance sheet commitments		(17 203)	12 255
Net result on financial activity		**6 331 369**	**6 651 861**
Administrative expenses	15	**(3 426 592)**	**(3 102 134)**
personnel expenses		(1 908 519)	(1 905 070)
other administrative expenses		(1 518 073)	(1 197 064)
Depreciation and amortization	16	**(331 465)**	**(326 679)**
Net result on other provisions		**(28 766)**	**(2 702)**
Net other operating income and expenses	17	**160 996**	**74 336**
Operating costs		**(3 625 827)**	**(3 357 179)**
Gains (losses) on subsidiaries and associates	19	**113 203**	**63 210**
Gains (losses) on disposal of property, plant and equipment and intangible assets	20	**12 373**	**1 797**
Profit before income tax		**2 831 118**	**3 359 689**
Income tax expense	21	**(537 640)**	**(634 573)**
Net profit for the period		**2 293 478**	**2 725 116**
1. Attributable to equity holders of the Bank		2 292 459	2 714 714
2. Attributable to non-controlling interests	51	1 019	10 402
Earnings per share (in PLN per share)			
basic for the period	22	8.73	10.34
diluted for the period	22	8.73	10.34

Notes to the financial statements presented on pages 10 - 151 constitute an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

(In PLN thousand)

	NOTE	2015	2014
Net profit		**2 293 478**	**2 725 116**
1. Attributable to equity holders of the Bank		2 292 459	2 714 714
2. Attributable to non-controlling interests	51	1 019	10 402
Other comprehensive income			
Item that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		(1 169)	(69)
Change in fair value of available-for-sale financial assets		(237 124)	482 066
Change in fair value of cash flow hedges	30	(93 341)	168 109
Tax on items that are or may be reclassified subsequently to profit or loss	21	62 789	(123 534)
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liabilities	45	12 900	(44 338)
Share in remeasurements of the defined benefit liabilities of associates		18	(38)
Tax on items that will never be reclassified to profit or loss	21	(2 451)	8 424
Other comprehensive income (net of tax)		**(258 378)**	**490 620**
Total comprehensive income		**2 035 100**	**3 215 736**
1. Attributable to equity holders of the Bank		2 034 081	3 205 334
2. Attributable to non-controlling interests	51	1 019	10 402

Notes to the financial statements presented on pages 10 – 151 constitute an integral part of the consolidated financial statements.

Consolidated statement of financial position

(In PLN thousand)

	NOTE	31.12.2015	31.12.2014
ASSETS			
Cash and due from Central Bank	24	7 881 607	9 226 254
Bill of exchange eligible for rediscounting at Central Bank		70	165
Loans and advances to banks	25	7 314 724	7 169 872
Financial assets held for trading	26	1 126 792	448 453
Derivative financial instruments (held for trading)	27	3 206 447	4 447 975
Loans and advances to customers	28	118 555 199	111 871 948
Receivables from finance leases	29	3 503 979	3 112 048
Hedging instruments	30	421 640	470 822
Investments (placement) securities	31	21 181 723	24 712 776
1. Available for sale		17 813 299	23 111 208
2. Held to maturity		3 368 424	1 601 568
Assets held for sale	33	45 302	37 102
Investments in associates	34	148 965	184 228
Intangible assets	35	636 717	627 032
Property, plant and equipment	36	1 460 652	1 544 139
Investment properties	37	30 221	35 295
Income tax assets		991 804	879 991
1. Current tax assets		76 600	2 572
2. Deferred tax assets	21	915 204	877 419
Other assets	38	2 279 725	2 856 928
TOTAL ASSETS		**168 785 567**	**167 625 028**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to Central Bank	24	914	971
Amounts due to other banks	40	5 958 449	5 344 702
Financial liabilities held for trading	26	611 442	591 311
Derivative financial instruments (held for trading)	27	3 204 328	4 417 706
Amounts due to customers	41	128 867 691	125 609 000
Hedging instruments	30	1 702 759	1 484 428
Fair value hedge adjustments of hedged items due to interest rate risk		-	-
Debt securities issued	42	2 903 233	3 857 043
Income tax liabilities		6 649	70 257
1. Current tax liabilities		1 713	68 164
2. Deferred tax liabilities	21	4 936	2 093
Provisions	43	425 374	442 456
Other liabilities	44	1 680 535	1 761 422
TOTAL LIABILITIES		**145 361 374**	**143 579 296**
Equity			
Share capital	49	262 470	262 470
Other capital and reserves	50	20 869 976	20 990 344
Retained earnings and profit for the period	50	2 275 783	2 764 875
Total equity attributable to equity holders of the Bank		**23 408 229**	**24 017 689**
Non - controlling interests	51	15 964	28 043
TOTAL EQUITY		**23 424 193**	**24 045 732**
TOTAL LIABILITIES AND EQUITY		**168 785 567**	**167 625 028**

Notes to the financial statements presented on pages 10 - 151 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

(In PLN thousand)

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK											
		OTHER CAPITAL AND RESERVES										
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER	RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON - CONTROLLING INTERESTS	TOTAL EQUITY
Note	49	50							50		51	
Equity as at 1.01.2015	**262 470**	**20 990 344**	**9 137 221**	**1 937 850**	**9 002 629**	**540 806**	**1 169**	**370 669**	**2 764 875**	**24 017 689**	**28 043**	**24 045 732**
Management options	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation of management share options	-	-	-	-	-	-	-	-	-	-	-	-
Comprehensive income	**-**	**(258 378)**	**-**	**-**	**-**	**(257 209)**	**(1 169)**	**-**	**2 292 459**	**2 034 081**	**1 019**	**2 035 100**
Remeasurements of the defined benefit liabilities (net of tax)	-	10 467	-	-	-	10 467	-	-	-	10 467	-	10 467
Revaluation of available-for-sale investments (net of tax)	-	(192 070)	-	-	-	(192 070)	-	-	-	(192 070)	-	(192 070)
Revaluation of hedging financial instruments (net of tax)	-	(75 606)	-	-	-	(75 606)	-	-	-	(75 606)	-	(75 606)
Foreign currency translation differences	-	(1 169)	-	-	-	-	(1 169)	-	-	(1 169)	-	(1 169)
Net profit for the period	-	-	-	-	-	-	-	-	2 292 459	2 292 459	1 019	2 293 478
Appropriation of retained earnings	**-**	**161 860**	**-**	**37 565**	**113 961**	**-**	**-**	**10 334**	**(2 781 551)**	**(2 619 691)**	**(13 098)**	**(2 632 789)**
Dividend paid	-	-	-	-	-	-	-	-	(2 624 701)	(2 624 701)	(8 088)	(2 632 789)
Profit appropriation to other reserves including consolidation adjustments	-	161 860	-	37 565	113 961	-	-	10 334	(156 850)	5 010	(5 010)	-
Other	**-**	**(23 850)**	**-**	**-**	**(23 850)**	**-**	**-**	**-**	**-**	**(23 850)**	**-**	**(23 850)**
Acquisition of Pekao Investment Banking S.A.	-	(23 850)	-	-	(23 850)	-	-	-	-	(23 850)	-	(23 850)
Equity as at 31.12.2015	**262 470**	**20 869 976**	**9 137 221**	**1 975 415**	**9 092 740**	**283 597**	**-**	**381 003**	**2 275 783**	**23 408 229**	**15 964**	**23 424 193**

Notes to the financial statements presented on pages 10 - 151 constitute an integral part of the consolidated financial statements.

Consolidated statement of changes in equity (cont.)

(In PLN thousand)

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK											
		OTHER CAPITAL AND RESERVES										
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER	RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON - CONTROLLING INTERESTS	TOTAL EQUITY
Note	49	50							50		51	
Equity as at 1.01.2014	**262 470**	**20 564 611**	**9 137 221**	**1 937 850**	**9 070 200**	**50 117**	**1 238**	**367 985**	**2 592 802**	**23 419 883**	**94 288**	**23 514 171**
Management options	**-**	**(697)**	**-**	**-**	**-**	**-**	**-**	**(697)**	**-**	**(697)**	**-**	**(697)**
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation of management share options	-	(697)	-	-	-	-	-	(697)	-	(697)	-	(697)
Comprehensive income	**-**	**490 620**	**-**	**-**	**-**	**490 689**	**(69)**	**-**	**2 714 714**	**3 205 334**	**10 402**	**3 215 736**
Remeasurements of the defined benefit liabilities (net of tax)	-	(35 952)	-	-	-	(35 952)	-	-	-	(35 952)	-	(35 952)
Revaluation of available-for-sale investments (net of tax)	-	390 473	-	-	-	390 473	-	-	-	390 473	-	390 473
Revaluation of hedging financial instruments (net of tax)	-	136 168	-	-	-	136 168	-	-	-	136 168	-	136 168
Foreign currency translation differences	-	(69)	-	-	-	-	(69)	-	-	(69)	-	(69)
Net profit for the period	-	-	-	-	-	-	-	-	2 714 714	2 714 714	10 402	2 725 116
Appropriation of retained earnings	**-**	**(71 614)**	**-**	**-**	**(74 995)**	**-**	**-**	**3 381**	**(2 542 641)**	**(2 614 255)**	**(4 823)**	**(2 619 078)**
Dividend paid	-	-	-	-	-	-	-	-	(2 614 202)	(2 614 202)	(4 823)	(2 619 025)
Profit appropriation to other reserves including consolidation adjustments	-	(71 614)	-	-	(74 995)	-	-	3 381	71 561	(53)	-	(53)
Other	**-**	**7 424**	**-**	**-**	**7 424**	**-**	**-**	**-**	**-**	**7 424**	**(71 824)**	**(64 400)**
Acquisition of non-controlling interests	-	7 424	-	-	7 424	-	-	-	-	7 424	(71 824)	(64 400)
Equity as at 31.12.2014	**262 470**	**20 990 344**	**9 137 221**	**1 937 850**	**9 002 629**	**540 806**	**1 169**	**370 669**	**2 764 875**	**24 017 689**	**28 043**	**24 045 732**

Notes to the financial statements presented on pages 10 – 151 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement

(In PLN thousand)

	NOTE	2015	2014
Cash flow from operating activities – indirect method			
Net profit for the period		**2 292 459**	**2 714 714**
Adjustments for:		**(3 592 611)**	**(7 953 110)**
Depreciation and amortization	16	331 465	326 679
Share of profit (loss) of associates		(52 146)	(63 210)
(Gains) losses on investing activities		(241 559)	(255 130)
Net interest income	10	(4 166 570)	(4 461 294)
Dividend income	12	(13 635)	(8 298)
Interests received		5 228 593	6 231 689
Interests paid		(1 266 247)	(1 765 173)
Income tax		550 623	528 404
Income tax paid		(607 365)	(577 671)
Change in loans and advances to banks		174 433	257 414
Change in financial assets held for trading		(677 498)	(261 239)
Change in derivative financial instruments (assets)		1 241 528	(2 451 041)
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank		(6 507 423)	(10 855 537)
Change in receivables from finance leases		(391 931)	(180 800)
Change in investment (placement) securities		(830 115)	(1 313 325)
Change in other assets		819 733	(956 834)
Change in amounts due to banks		615 159	(1 071 167)
Change in financial liabilities held for trading		20 131	281 569
Change in derivative financial instruments (liabilities)		(1 213 378)	2 366 205
Change in amounts due to customers		3 229 320	5 829 409
Change in debt securities issued		91 981	73 855
Change in provisions		(17 082)	48 919
Change in other liabilities		89 372	323 466
Net cash flows from operating activities		**(1 300 152)**	**(5 238 396)**
Cash flow from investing activities			
Investing activity inflows		**269 003 982**	**407 980 528**
Sale of shares in associates	33	75 000	-
Sale of investment securities		268 281 039	407 198 470
Sale of intangible assets and property, plant and equipment		17 120	9 108
Dividend received	12	13 635	8 298
Other investing inflows		617 188	764 652
Investing activity outflows		**(265 080 477)**	**(395 889 319)**
Acquisition of shares in subsidiary, net of cash acquired	2	(274 329)	(64 400)
Acquisition of investment securities	31	(264 510 542)	(395 559 593)
Acquisition of intangible assets and property, plant and equipment	35, 36	(295 606)	(265 326)
Net cash flows from investing activities		**3 923 505**	**12 091 209**

Notes to the financial statements presented on pages 10 - 151 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement (cont.)

(In PLN thousand)

	NOTE	2015	2014
Cash flows from financing activities			
Financing activity inflows		**3 966 098**	**6 015 875**
Issue of debt securities	42	3 966 098	6 015 875
Financing activity outflows		**(7 632 240)**	**(7 928 366)**
Redemption of debt securities	42	(5 007 539)	(5 314 164)
Dividends and other payments to shareholders		(2 624 701)	(2 614 202)
Net cash flows from financing activities		**(3 666 142)**	**(1 912 491)**
Total net cash flows		**(1 042 789)**	**4 940 322**
including: effect of exchange rate fluctuations on cash and cash equivalents held		151 702	183 208
Net change in cash and cash equivalents		**(1 042 789)**	**4 940 322**
Cash and cash equivalents at the beginning of the period		**15 556 184**	**10 615 862**
Cash and cash equivalents at the end of the period	52	**14 513 395**	**15 556 184**

Notes to the financial statements presented on pages 10 - 151 constitute an integral part of the consolidated financial statements.

Notes to the financial statements (cont.)

(In PLN thousand)

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

1. General information

The parent company of the Bank Pekao S.A. Group (the 'Group') is Bank Pekao S.A. (hereinafter referred to the 'the Parent Company', 'the Bank'), with Head Office in Warsaw, at 53/57 Grzybowska Street, 00-950 Warsaw. Bank Pekao S.A. was incorporated on 29 October 1929 in the Commercial Register of the District Court in Warsaw and has been continuously in operation since its incorporation.

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

The Bank's statistical REGON number is 000010205.

Both the Parent Company and the consolidating entities constituting the Capital Group has been estabilished for an indefinite period of time.

Bank Pekao S.A. Capital Group ('Group' or 'Bank Pekao S.A. Group') is part of the UniCredit S.p.A. Group with its seat in Roma, Italy.

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

2. Group structure

The Group consists of Bank Pekao S.A. as the parent entity and the following subsidiaries

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL / VOTING	
			31.12.2015	31.12.2014
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	100.00	100.00
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Leasing Sp. z o.o. (*)	Warsaw	Leasing services	36.49	36.49
Pekao Investment Banking S.A.	Warsaw	Brokerage	100.00	-
Pekao Leasing Holding S.A. (in liquidation), including:	Warsaw	Leasing services	100.00	100.00
Pekao Leasing Sp. z o.o.	*Warsaw*	*Leasing services*	*63.51*	*63.51*
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	100.00	100.00
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension fund management	65.00	65.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	100.00	100.00
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	100.00	100.00
Pekao Property S.A., including:	Warsaw	Real estate development	100.00	100.00
FPB - Media Sp. z o.o.	*Warsaw*	*Real estate development*	*100.00*	*100.00*
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Business consulting	100.00	100.00
Pekao Telecentrum Sp. z o.o. (in liquidation)	Warsaw	Liquidated	-	100.00

(*)The total share of the Group in Pekao Leasing Sp. z o.o. equity is 100.00% (36.49% directly and 63.51% via Pekao Leasing Holding S.A.).

As at 31 December 2015, all of the subsidiaries have been consolidated.

Associates

Bank Pekao S.A. Capital Group has an interest in the following associates

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL / VOTING	
			31.12.2015	31.12.2014
Dom Inwestycyjny Xelion Sp. z o.o. (*)	Warsaw	Financial intermediary	50.00	50.00
Pioneer Pekao Investment Management S.A.	Warsaw	Asset management	49.00	49.00
Pioneer Pekao TFI S.A.	*Warsaw*	*Asset management*	*49.00*	*49.00*
Krajowa Izba Rozliczeniowa S.A. (**)	Warsaw	Clearing house	-	34.44
CPF Management	Tortola, British Virgin Islands	Financial brokerage – not operating	40.00	40.00
Polish Banking System S.A. (in liquidation)	Warsaw	Pending liquidation	48.90	48.90
PPU Budpress Sp. z o.o. (in liquidation)	Żyrardów	Pending liquidation	36.20	36.20

(*)The Group has no control or joint control over the entity due to provisions in the Company's Articles of Association.
(**) The percentage of the Group's ownership rights in share capital/voting is 5.74% as at 31 December 2015. The shares in the Company have been classified as 'Equity securities available for sale'.

As at 31 December 2015, the Group held no shares in entities under common control.

Notes to financial statements (cont.)

(In PLN thousand)

Changes in Group structure

Acquisition of shares in UniCredit CAIB Poland S.A (presently Pekao Investment Banking S.A.)
On 1 January 2015, the Bank acquired 100% of the share capital of UniCredit CAIB Poland S.A. and obtained control over the entity. UniCredit CAIB Poland S.A. specializes in corporate finance, in particular referring to mergers and acquisitions, public and private offering, as well as securities trading on secondary market. As a result of the acquisition, the Group extends the portfolio of services provided to the customers from corporate banking segment. The purchase consideration was PLN 274 334 thousand and consisted of cash in total. After the acquisition by the Bank, the entity changed its name on Pekao Investment Banking S.A.

The acquisition transaction was classified as intragroup transaction and recognized at book value. The Bank recognized the assets and liabilities of the acquired entity at their book values, adjusted exclusively for the purpose of aligning the accounting principles. Pursuant to the transaction, neither goodwill nor badwill was recognized. The result on the transaction was recognized in the equity of the Group.

The above accounting policy is consistent with the policy of UniCredit Group, adopted by the Group and applicable for business combination under common control.

The recognized amounts of identifiable assets acquired and liabilities assumed are presented in the table below

ITEM	
Cash	5
Loans and advances to banks	232 469
Financial assets held for trading	12 981
Debt securities available for sale	640
Intangible assets	730
Property, plant and equipment	4 047
Deferred tax assets	42 831
Other assets	60 715
TOTAL ASSETS	**354 418**
Amounts due to other banks	581
Derivative financial instruments (held for trading)	8 906
Amounts due to customers	64 042
Deferred tax liabilities	177
Provisions	442
Other liabilities	29 786
TOTAL LIABILITIES	**103 934**
TOTAL NET ASSETS	**250 484**

The Group incurred acquisition-related costs of PLN 868 thousand. These costs have been included in ‘Administrative expenses’ in the consolidated income statement.

The interest income and commission income included in the consolidated income statement since 1 January 2015 contributed by Pekao Investment Banking S.A. business was PLN 43 373 thousand. UniCredit CAIB Poland S.A. also contributed net profit of PLN 6 822 thousand for the same period.

Liquidation of Pekao Telecentrum Sp. z o.o. (in liquidation)
On 8 January 2015, the District Court for the City of Warsaw, XIII Commercial Division of the National Court Registry decided on completing the liquidation proceedings of Pekao Telecentrum Sp. z o.o. (in liquidation) and deleting the Entity from the National Court Registry.

Notes to the financial statements (cont.)

(In PLN thousand)

Sale of shares in Krajowa Izba Rozliczeniowa S.A.
On 15 July 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%.

3. Business combination

In 2015 the Bank acquired 100% of the share capital of UniCredit CAIB Poland S.A. (presently Pekao Investment Banking S.A.). The transaction is described in the Note 2.

In 2014 Bank Pekao S.A. took over Spółdzielcza Kasa Oszczędnościowo – Kredytowa im. Mikołaja Kopernika.

4. Approval of the Financial Statements

These Consolidated Financial Statements were approved for publication by the Bank's Management Board on 8 February 2016.

5. Significant accounting policies

5.1 Statement of compliance

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

5.2 Basis of preparation of Consolidated Financial Statements

General information
These Consolidated Financial Statements of the Group, which have been prepared for the period from 1 January to 31 December 2015, contain the financial results of the Bank and of its subsidiaries, comprising the 'Group', as well as the results of associated entities, measured using the equity method.

The financial statements have been prepared in Polish zloty, and all data in the financial statements are presented in PLN thousand (PLN '000), unless indicated otherwise.

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

Consolidated Financial Statements of the Group have been prepared based on the following valuation methods:

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

Notes to the financial statements (cont.)

(In PLN thousand)

The consolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations. Changes in published standards and interpretations, which became effective on or after 1 January 2015, had no material impact on the Group's financial statements (Note 5.11).

The financial statements does not take into consideration interpretations and amendments to Standards, pending approval by the European Union or approved by the European Union but came into force or shall come into force after the balance sheet date (Note 5.12 and Note 5.13).

In the Group's opinion, amendments to Standards and interpretations will not have a significant influence on the consolidated financial statements of the Group, with the exception of IFRS 9 'Financial Instruments'.

IFRS 9 'Financial Instruments'

In July 2014 the IASB has issued IFRS 9 'Financial Instruments', the new accounting standard, mandatorily effective for annual periods beginning on or after 1 January 2018, that will replace IAS 39 'Financial Instruments: Recognition and Measurement'. The endorsement by the European authorities is expected to be completed before its date of first time adoption.

The new standard includes a revised model for classification and measurement of financial asserts, an impairment model for credit allowances based on 'expected loss' and a reformed approach to general hedge accounting.

The new classification and measurement approach for financial assets in IFRS 9 will be based upon:

- the entity's business model for managing the financial assets, or
- the contractual cash flow characteristics of the financial asset (i.e. whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding, hereinafter 'SPPI assets').

Depending on the entity's business model, SPPI assets may be classified as:

- 'held to collect contractual cash flows (measured at amortized costs and subject to the expected loss impairment),
- 'held to collect and sale' (measured at fair value through other comprehensive income and subject to the expected loss impairment),
- held for trading (measured at fair value through profit or loss).

The Bank expects that implementation of the new impairment model based on the expected credit loss (ECL) approach will have an impact on the Bank's financial results, especially with reference to loans and advances to customers and banks, loan commitments, debt securities held to collect' and 'held to collect and sale', financial guarantees and leasing financial assets in scope of the ECL approach. This new approach, designed by the IASB (as requested by the G20) allows for earlier recognition of credit losses than according to 'incurred loss' model in IAS 39, which is instead based on the existence of evidences of impairment.

According to IFRS 9 for the purpose of estimation of ECL the exposures are assigned into one of three stages. The measurement of ECL depends on its credit risk and the extent of a significant increase in credit risk since initial recognition, as follows:

a) '12-month ECL' (Stage 1) – the approach applied to exposures which are non-impaired as of the balance sheet date as long as there is no significant increase in credit risk since initial recognition,
b) 'Lifetime ECL' (Stage 2) – the approach applied to exposures which are non-impaired as of the balance sheet date but for which a significant increase in credit risk has occurred since initial recognition,
c) 'Lifetime ECL' (Stage 3) – the approach applied to all exposures that are impaired as of the balance sheet date.

Assets allocated in Stage 1 and 2 for IFRS 9 are currently measured using the 'incurred but not reported approach' (IBNR'). With the transition to IFRS 9, this IBNR approach used for IAS 39 will be replaced respectively for assets allocated in Stage 1 by the 12-month ECL and for assets allocated in Stage 2 by the lifetime ECL. For assets allocated in Stage 3, which are non-performing under IAS 39, no major conceptual differences exist with the ECL approach of IFRS 9, as triggers for impairment recognition and non-performing loan classification used under IAS 39 will continue to be applied.

Considering the differences in concepts described above for assets which are subject to IBNR (according to IAS 39), the ECL approach is expected to increase the credit loss allowances. The Bank expects that implementation of the new standard will require more-complex model-based calculation with greater predictive ability.

The application of a model of the expected loss also requires the use of a much wider range of data compared to the current model. Implementation of the new methodology for the calculation of impairment requires the implementation of appropriate changes in IT systems and processes functioning in the Bank.
The Bank has launched a dedicated program to implement IFRS 9, involving Finance Division, Risk Division, as well as the main Business functions, Organization and Information Communication Technology departments. After a phase of gap analysis and definition of high-level methodological guidelines, the activities are currently in the detailed design phase.

With reference to classification and measurement, the Bank is undertaking a detailed assessment of cash flow characteristics of debt instruments classified at amortized cost under IAS 39, in order to identify assets that, failing the SPPI test, will have to be potentially measured at fair value under IFRS 9. With reference to the ECL approach, the Bank is currently working on assumption to the models, data availability and system and tools design and plans to run detailed impact assessment for IFRS 9 impairment.
Quantitative impacts on financial statements at initial application are to date not available, reflecting the status of the above mentioned activities. The main impacts on the Bank are expected to come from the implementation of the new impairment model, which will result in higher credit loss allowances for loans subject to IBNR assessment. Adjustments to carrying values of financial instruments due to IFRS 9 transition will impact book value of equity as of 1 January 2018.

The accounting principles as described below have been consistently applied for all the reporting periods.
The principles have been applied consistently by all the Group entities.

5.3 Consolidation

Consolidation principles
The consolidated financial statements of Bank Pekao S.A. Group include the financial data of Bank Pekao S.A. and its subsidiaries as at 31 December 2015. The financial statements of the subsidiaries are prepared at the same reporting date as those of the parent entity, using consistent accounting policies within the Group in all important aspects.

All intra-group balances and transactions, including unrealized gains, have been eliminated. Unrealized losses are also eliminated, unless there is an objective evidence of impairment, which should be recognized in the consolidated financial statements.

Investments in subsidiaries
Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. The subsidiaries are consolidated from the date of obtaining control by the Group until the date when the control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The Group measures any non-controlling interests in the acquire at fair value or at the present ownership instruments' proportionate share in the recognized amounts of the acquire's identifiable net assets. Acquisition-related costs are expenses as incurred (in the income statement under 'Administrative expenses').

Notes to the financial statements (cont.)

(In PLN thousand)

If the business combination is achieved in stages, the acquirer remeasures its previously held equity interests in the acquiree at fair value at the acquisition date (date of obtaining control) and recognizes the resulting gain or loss in the income statement.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

The above policy does not apply to the business combinations under common control.

The changes in a parent entity's ownership interest in a subsidiary that do not result in the parent entity losing control of the subsidiary are accounted for as equity transactions (i.e. transactions with owners of parent entity). The Group recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attributes it to the owners of the parent entity.

When the Group ceases to have control over the subsidiary, any retained interest in that subsidiary is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in the income statement.

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

The acquirer recognizes the assets and liabilities of the acquired entity at their current book value adjusted exclusively for the purpose of aligning the accounting principles. Neither goodwill, nor badwill is recognized.

Any difference between the book value of the net assets acquired and the fair value of the consideration paid is recognized in the Group's equity. In applying this book value method, the comparative periods are not restated.

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

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

Investments in Associates
An associate is an entity over which the Group has significant influence, and that is neither a subsidiary nor a joint venture. The Group usually holds from 20% to 50% of the voting rights in an associate. The equity method is calculated using the financial statements of the associates. The balance sheet dates of the Group and its associates are the same.

On acquisition of the investment, any difference between the cost of the investment and the Group's share in the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

- goodwill relating to an associate is included in the carrying amount of the investment,
- any excess of the Group's share in the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Group's share in the associate's profit or loss in the period in which the investment is acquired.

Notes to the financial statements (cont.)

(In PLN thousand)

The Group recognizes the investments in associates applying the equity method. The investment in associates is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share in net assets of the associate after the date of acquisition, net of any impairment allowances. The Group's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. Distributions received from an associate reduce the carrying amount of the investment.

If the Group's share in the losses of an associate equals or exceeds the Group's share in the associate, the Group ceases to recognize further losses, unless it assumed obligations or made a payment on behalf of the associate.

Unrealized profits or losses from transactions between the Group and associates are eliminated pro rata to the Group's share in the associates.

5.4 Accounting estimates

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

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

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

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

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

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

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

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

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

(In PLN thousand)

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

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

The following table presents the impact on the net impairment losses on financial assets and off-balance sheet commitments of a change in the estimated recovery rates (RR) and estimated probability of default (PD) by 10 percent.

31.12.2015	NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND OFF-BALANCE SHEET COMMITMENTS	
	10 PERCENT INCREASE	10 PERCENT DECREASE
Recovery rates (RR)	110 990	(112 736)
Probability of default (PD)	(43 102)	43 219

31.12.2014	NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND OFF-BALANCE SHEET COMMITMENTS	
	10 PERCENT INCREASE	10 PERCENT DECREASE
Recovery rates (RR)	109 041	(109 246)
Probability of default (PD)	(52 525)	52 860

Impairment of non-current assets

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

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

Measurement of derivatives and unquoted debt securities available for sale

The fair value of non-option derivatives and debt securities available for sale that do not have a quoted market price on an active market is measured using valuation models based on discounted cash flows. Options are valued using option valuation models. Variables used for valuation purposes include, where possible, the data from observable markets. However, the Group also adopts assumptions concerning counterparty's credit risks which affect the valuation of instruments. The adoption of other measurement assumptions may affect the valuation of these financial instruments. The assumptions used for fair value measurement are described in detail in Note 6.7 'Fair value of financial assets and liabilities'.

Provisions for defined benefit plans

The principal actuarial assumptions applied to estimation of provisions for defined benefit plans, as well as the sensitivity analysis were presented in Note 45.

Goodwill

The Group performs an impairment test of goodwill on a yearly basis or more often if impairment triggers occur. The assessment of goodwill impairment requires an estimate of value in use of all cash-generating units to which the goodwill relates. The principal assumptions applied to an impairment test of goodwill were presented in Note 35.

(In PLN thousand)

5.5 Foreign currencies

- Functional and presentation currency
  The financial statements of individual Group entities, including the Bank's Branch in Paris, are presented in their functional currencies, i.e. in the currency of the primary economic environment in which the entity operates. The Consolidated Financial Statements are presented in Polish zloty. Polish zloty is the functional currency and the presentation currency of the Bank. The Group applies as the closing rate the average the National Bank of Poland ('NBP') exchange rate, valid as at the balance sheet date.

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

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

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

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

  In December 2015 the Bank liquidated the Branch in Paris.

Financial statements of the Bank's Branch in Paris are translated into Polish zloty using the following exchange rates:

- to translate statement of financial position items as at 31 December 2014, average exchange rates announced by the NBP on 31 December 2014 have been used

	31.12.2015	31.12.2014
PLN for EUR 1	-	4.2623

- for translation of income statement items for the period from 1 January 2015 until 30 November 2015 and for the period from 1 January 2014 until 31 December 2014, arithmetic average values of exchange rates have been used, announced by the NBP as at the last date of each month during the period from 1 January 2015 until 30 November 2015 and during the period from 1 January 2014 until 31 December 2014, respectively, as follows

	2015	2014
PLN for EUR 1	4.1778	4.1893

The foreign exchange rate differences from the valuation of foreign entities are accounted for as a separate component of equity.
Goodwill arising on acquisition of the entity operating abroad as well as any adjustments of the balance sheet value of assets and liabilities to fair value arising on the acquisition of the entity are treated as assets and liabilities of a foreign entity i.e. they are expressed in the functional currency of the overseas entity and translated at the closing exchange rate as described above.

5.6 Income statement

Interest income and expense

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

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

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

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

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

Fee and commission income and expense

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

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

Income and expense from bancassurance

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

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

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

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

In 2015 the Bank recognized upfront 12% of bancassurance revenue associated with cash loans and 30% of bancassurance revenue associated with mortgage loans. The remaining portion of bancassurance revenue is amortized over the life of the associated loans as part of effective interest rate.

Result on financial assets and liabilities held for trading
Result on financial assets and liabilities held for trading include:

- Foreign exchange result
  The foreign exchange gains (losses) are calculated taking into account the positive and negative foreign currency translation differences, whether realized or unrealized from the daily valuation of assets and liabilities denominated in foreign currencies. The revaluation is perform using the average exchange announced by the NBP on the balance sheet date.
  The foreign exchange result includes the trade margins on foreign exchange transactions with the Group's clients, as well as swap points from derivative transactions, entered into by the Group for the purpose of managing the Group's liquidity in foreign currencies.
  Income from foreign exchange positions includes also foreign currency translation differences from valuation of investments in foreign operations arising on disposal thereof. Until the disposal, foreign currency translation differences from valuation of assets in foreign operations are recognized in 'Other capital and reserves'.
- Income from derivatives and securities held for trading
  The income referred to above includes gains and losses realized on a sale or a change in the fair value of assets and liabilities held for trading.
  The accrued interest and unwinding of a discount or a premium on securities held for trading is presented in the net interest income.

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

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

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

5.7 Valuation of financial assets and liabilities, derivative financial instruments

Financial assets
Financial assets are classified into the following categories:

- Financial assets measured at fair value through profit or loss
  This category comprises two sub-categories: financial assets held for trading and financial assets designated at initial recognition as financial assets measured at fair value through profit or loss.
  Financial assets held for trading include: debt and equity securities, loans and receivables purchased or classified into this category for the purpose of disposal thereof on a short-term basis. The classification also includes derivative instruments (not used as hedging instruments).
  Financial assets classified at the moment of original recognition as financial assets measured at fair value through profit or loss include debt securities acquired by the Group for the purpose of elimination or considerable reduction of inconsistencies in the valuation between these securities and the derivatives, which are economically hedging the interest rate risk of such securities. Otherwise, such securities would have been classified into the available for sale portfolio, with the effect of valuation recognized in revaluation reserves, and valuation of derivatives economically hedging such securities reported in the income statement.

Notes to the financial statements (cont.)

(In PLN thousand)

- Held to maturity

  These are non-derivative financial assets with fixed or determinable payments and fixed maturity, for which the entity has an intent and ability to hold to maturity, other than:
  a) those that the entity upon initial recognition designates as at fair value through profit or loss,
  b) those that the entity designates as available for sale, and
  c) those that meet the definition of loans and receivables.

  Financial assets classified into this category are measured at amortized cost using the effective interest rate method. The recognition of amortized cost with the use of effective interest rate is recognized in interest income.
- Loans and receivables

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

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

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

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

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

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

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

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

Derivative instruments are recognized or derecognized on transaction dates.

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

Impairment of financial assets

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

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

In respect to exposures assessed individually the Group applies the following list of impairment triggers:
- overdue in repayment of principal, interest or credit fees more than 90 days and more than 2 working days in case of exposure towards banks including credit transactions and reverse repo/sell-buy-backs,
- significant financial difficulties of borrower (including loss of job or other events that could impact on ability to repayment in case of individuals). Significant financial difficulties of economic entity mean financial standing that could threaten timely repayment of liabilities towards the Group, especially when incurred losses have consumed equity in 50%, excluding projects where losses have been assumed or where external financial support exists (in form of injections to the equity, granting a loan, warranty/guarantee by related company or other third party, conversion of loan into equity, issuance of shares/bonds),
- restructuring, if it is related with granting an advantage, due to economic or legal reasons resulted from financial difficulties of the borrower, that in other circumstances the Group would not give. The advantage leads to reduction of the Group’s loan exposure, and may include: reduction of the interest rate, temporary interest accruing holidays, cancelling a part or total of the exposures, in this interest or principal,
- lowering by the well-known and accepted rating agency a borrower’s rating or country’s rating – country of domicile or rating of debt securities issued by the borrower by at least 4 notches including modifiers within one year. Decrease in credit rating alone is not an evidence of impairment trigger but could be confirmation of impairment if it is analyzed together with other available information,
- significant worsening of rating or scoring analysis results. It means the decrease in rating by 4 notches in the scale and at the same time move to non-performing category based only on rating criterion, excluding situations of rating deterioration resulted from seasonality of activity and excluding impact of classification in RMT (‘Risk Management Tool’) on rating. Decrease in rating alone is not an evidence of impairment trigger but could be confirmation of impairment if it is analyzed together with other available information,
- the Group has started an execution process or has been informed about execution towards borrower,
- the debt/loan is questioned by the borrower including commencement of legal proceedings,
- the debt/loan has been due as the credit agreement has been terminated,
- the motion for borrower’s bankruptcy has been filled in the court or legal proceedings has been instituted,

- disappearance of active market for given credit exposure resulted from financial difficulties of debtor. This impairment trigger could refer to financial instruments listed on stock exchanges, when due to significant deterioration in financial standing of issuer (eventually bankruptcy), the liquidity of assets trading is so low that reliable price fixing is not possible,
- receivership has been established or debtor has stopped/suspended its activity,
- unknown place of stay and not disclosed assets of the borrower.

In respect to exposures assessed collectively the Group applies the following list of impairment triggers:

- overdue in repayment of principal, interest or credit fees greater or equal to 90 days,
- significant financial difficulties of retail debtor, including loss of job or other events that could impact on ability to repayment,
- unknown place of stay and not disclosed assets of the retail debtor or sole trader.

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

Financial assets available for sale

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

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

Off-balance sheet commitments

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

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

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

Repo and reverse-repo agreements

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Derivative financial instruments and hedge accounting

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

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

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

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

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

The changes in fair value of the derivative financial instruments held for trading are recognized in the income statement.
The Group designates some of its derivative instruments as hedging items in applying hedge accounting. The Group implemented fair value hedge accounting as well as cash flow hedge accounting, under the condition of meeting the criteria of IAS 39 'Financial Instruments: Recognition and Measurement'.

Fair value hedge accounting principles

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

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

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

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

An adjustment for the hedged risk on hedged interest position is amortized in the income statement at the point of ceasing to apply hedge accounting.

(In PLN thousand)

Cash flow hedge accounting principles
Changes in the fair value of the derivative financial instruments indicated as cash flow hedging instruments are recognized:

- directly in the caption 'revaluation reserves' in the part constituting the effective hedge,
- in the income statement in the line 'Result on financial assets and liabilities held for trading' in the part representing ineffective hedge.

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

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

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

Financial liabilities
The Group's financial liabilities are classified to the following categories:

- financial liabilities held for trading, valued at fair value,
- financial liabilities not held for trading, valued at amounts payable, measured at amortized cost using the effective interest rate method.

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

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

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

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

5.8 Valuation of other items in the Group's consolidated statement of financial position

Intangible assets

Goodwill
Goodwill is defined as a surplus of the purchasing price over the fair value of the assets, liabilities and contingent liabilities of the acquired subsidiary, associate or a unit under joint control. Goodwill at initial recognition is carried at purchase price reduced by any accumulated impairment losses. Impairment is determined by estimating the recoverable value of the cash generating unit, to which given goodwill pertains. If the recoverable value of the cash generating unit is lower than the carrying amount an impairment charge is made. Impairment identified in the course of such tests is not subject to subsequent adjustments.

Notes to the financial statements (cont.)

(In PLN thousand)

Goodwill on acquisition of subsidiaries is presented in intangible assets and goodwill on acquisition of associates is presented under the caption 'Investments in associates'.

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

These assets include:
- computer software licenses,
- copyrights,
- costs of completed development works.

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

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

All intangible assets are reviewed on a periodical basis to verify if any significant impairment triggers occurred, which would require performing a test for impairment and a potential impairment charge.

As far as intangible assets with indefinite useful life and those still not put into service are concerned, impairment test is performed on a yearly basis and additionally when impairment triggers are identified.

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

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

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

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

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

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

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

(In PLN thousand)

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

a) depreciation rates applied for non-current assets

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

b) amortization rates for intangible assets

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

c) depreciation rates for investment properties

Buildings and structures	1.5% – 10.0%

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

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

Investment properties

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

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

Non-current assets held for sale and discontinued operations

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

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

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

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

Lease charges from agreements that do not fulfill the criteria for finance lease agreements are recognized as costs in the income statement on a straight line basis over the lease period.

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

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

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

Deferred income and accrued expenses (liabilities)

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

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

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

Government grants

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

Equity of the Group

Equity is comprised of the capital and funds created by the companies of the Group in accordance with the binding legal regulations and the appropriate laws and Articles of Association. Equity also includes retained earnings. Subsidiaries' equity line items, other that share capital, are added to the relevant equity line items of the parent company, in the proportion of the Group's interest.

The equity of the Group includes only those parts of the subsidiaries' equity which were created after the date of purchase of shares or stocks by the parent entity.

The Group equity consists of the following:

a) share capital - applies only to the capital of the Bank as the parent entity and is presented at nominal value specified in the Articles of Association and in the entry in the Enterprises Registry,
b) 'issue premium' - surplus generated during share issues over the nominal value of such issues, remaining after the issue costs are covered. Moreover, this item also includes a change in the value of minority shares, ensuing from an increase of the share of the Parent entity in Bank's share capital. This accounting principle is in accordance with the accounting principles applied by UniCredit Group,
c) the general banking risk fund is established at Bank Pekao S.A. in keeping with the Banking Act dated 29 August 1997 from profit after tax,
d) other reserve capital utilized for the purposes defined in the Statute is created from appropriations of profits,
e) revaluation reserve includes the impact of valuation of financial instruments available for sale, effects of valuation of derivative instruments hedging cash flows, remeasurements of the defined benefit liabilities and the value of deferred tax for items classified as temporary differences, recognized as valuation allowance. In the statement of financial position, the valuation allowance is presented as net value,
f) exchange rate differences include differences arising from valuation of net assets in foreign entities and from the recalculation of the result of a foreign branch at the weighted average exchange rate at the balance sheet date in relation to the average NBP exchange rate,
g) other capital:
    - other supplementary capital, established in keeping with provisions under the Articles of Association of companies from profit appropriations,
    - capital components:
        - bonds convertible to shares - includes the fair value of financial instruments issued as part of transactions settled in equity instruments,
        - provision for purchase of parent entity stocks,
    - brokerage activity fund for stock broking operations, carried out by Bank Pekao S.A.,

- retained earnings from prior periods includes undistributed profit and uncovered losses generated/incurred in prior periods by subsidiaries consolidated full method,
- net profit/loss which constitutes profit/loss presented in the income statement for the relevant period. Net profit is after accounting for income tax.

Non - controlling interests
Non - controlling interests are defined as the equity in a subsidiary not attributable, directly or indirectly, to the Bank.

Share-based payments
Employee participation programs are established by the Group under which key management staff is granted pre-emptive rights to buy shares of the Bank, including phantom shares, and shares of UniCredit S.p.A. (Note 46).

Bank's Pekao S.A. phantom shares-settled share-based payment transaction
The cost of transactions settled with employees in phantom shares is measured by reference to the fair value of the liability as of the balance sheet date.
The fair value of the liability is estimated based upon the Bank's shares price on the (WSE) as of the balance sheet date and expected number of phantom shares to which full rights will be acquired.
The cost of phantom share-based payments is recognized in personnel expenses together with the accompanying increase in the value of liabilities towards employees presented in 'Provisions'.
The accumulated cost recognized for transactions settled in phantom shares for each balance sheet date until the vesting date reflects the extent of elapse of the vesting period and the number of rights to shares the rights to which – in the opinion of the Bank's Management Board for that date based on best available estimates of the number of phantom shares – will be eventually vested.

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

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

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

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

5.9 Income tax

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

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

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

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

(In PLN thousand)

5.10 Other

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

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

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

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

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

5.11 New standards, interpretations and amendments to published standards that have been approved and published by the European Union and are effective on or after 1 January 2015

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IAS 19 (amendment) 'Employee benefits'	The amendment applies to contributions from employees or third parties to defined benefit plans. The aim of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of remuneration. The amendment is effective since 1 February 2015.	The Group claims that the standard's amendment did not have a material impact on its financial statements in the period of its first application.
IFRIC 21 'Levies'	IFRIC 21 is an interpretation of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The interpretation clarifies what is an event giving rise to the obligation to pay a levy.	The impact of the initial application of the Interpretation will depend on the specific levies imposed, applicable at the date of initial application. The Group claims that the standard's amendment did not have a material impact on its financial statements in the period of its first application.
Improvements to IFRS 2010-2012	The annual improvements to IFRS 2010-2012 principally aim to solve inconsistencies and specify vocabulary. The improvements are effective since 1 February 2015.	The Group claims that the improvements did not have a material impact on its financial statements in the period of its first application.
Improvements to IFRS 2011-2013	The annual improvements to IFRS 2011-2013 principally aim to solve inconsistencies and specify vocabulary.	The Group claims that the improvements did not have a material impact on its financial statements in the period of its first application.

Notes to the financial statements (cont.)

(In PLN thousand)

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

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 11 (amendment) 'Joint Arrangements'	The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the standard's amendment will not have a material impact on its financial statements in the period of its first application.
IAS 1 'Presentation of the financial statements'	The amendments clarify that among others an entity should not reduce understandability by aggregating or disaggregating information in a manner that obscures useful information. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the standard's amendments will have an impact on the presentation of the disclosures.
IAS 16 (amendment) 'Property, Plant and Equipment' and IAS **38 (amendment)** 'Intangible Assets'	The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the standards amendments will not have a material impact on its financial statements in the period of its first application.
IAS 16 (amendment) 'Property, Plant and Equipment' and **IAS 41 (amendment)** 'Agriculture'	IAS 41 'Agriculture' currently requires all biological assets related to agricultural activity to be measured at fair value less costs to sell. This is based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement. However, there is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods. At the end of their productive lives they are usually scrapped. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 'Property, Plant and Equipment', because their operation is similar to that of manufacturing. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
IAS 27 (amendment) 'Separate Financial Statements'	The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
Improvements to IFRS 2012-2014	The annual improvements to IFRS 2012-2014 principally aim to solve inconsistencies and specify vocabulary. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the improvements will not have a material impact on its financial statements in the period of its first application.

Notes to the financial statements (cont.)

(In PLN thousand)

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

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 9 'Financial Instruments'	New regulations constitute a part of changes designed to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The main changes, introduced by the new standard, are as follows: • new categorisation of financial assets, • new criteria of assets classification to the group of financial assets measured at amortized cost, • new impairment model – expected credit losses model, • new principles for recognition of changes in fair value measurement of capital investment in financial instruments, • elimination of the necessity to separate embedded derivatives from financial assets. The major part of IAS 39 requirements relating to financial liabilities classification and valuation were transferred to IFRS 9 unchanged. Date of application: the first financial year beginning after 1 January 2018.	The impact assessment of the new standard implementation on Group's financial statements is described in note 5.2 Basis of preparation of Consolidated Financial Statements.
IFRS 14 'Regulatory deferral accounts'	The aim of this standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the new standard will not have a material impact on its financial statements in the period of its first application.
IFRS 15 'Revenue from Contracts with Customers'	The Standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. The core principle of the new Standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. In accordance with new IFRS 15, the revenue is recognized when the control over the goods or services is transferred to the customer. Date of application: the first financial year beginning after 1 January 2018.	The Group is currently assessing the impact of the IFRS 15 application on its financial statements.
IFRS 16 'Leases'	Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis. Date of application: annual periods beginning on or after 1 January 2019	The Group is currently assessing the impact of the IFRS 15 application on its financial statements.
IFRS 10 (amendment) 'Consolidated Financial Statements' and **IAS 28 (amendment)** 'Investments in Associates and Joint Ventures'	The amendments concern the sale or contribution of assets between the investor and the associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.

Notes to the financial statements (cont.)

(In PLN thousand)

STANDARD / INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
Amendments to IFRS 10 'Consolidated Financial Statements', **IFRS 12** 'Disclosure of interests in other entities' and **IAS 28** 'Investments in Associates and Joint Ventures'	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. Date of application: the first financial year beginning after 1 January 2016.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
IAS 12 (amendment) 'Income Taxes'	The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Date of application: annual periods beginning on or after 1 January 2017.	The Group is currently analyzing the impact of those changes on the financial statements.
IAS 7 (amendment) 'Statement of Cash Flows' - Disclosure Initiative	The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Date of application: annual periods beginning on or after 1 January 2017.	The Group claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.

6. Risk management

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

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

6.1 Organizational structure of risk management

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

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

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

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

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

Committees
In performing these tasks, in terms of risk management, the Management Board is supported by committees:
- Assets, Liabilities and Risk Management Committee (ALCO) - in terms of market risk management, liquidity and capital adequacy,
- Liquidity and Market Risk Committee (LMRC) – in terms of liquidity and market risk management, acting as support for Assets, Liabilities and Risk Management Committee,
- Operational Risk Committee – in operational risk management,
- Credit Committee - in making credit decisions within the powers and in the case of the largest transactions in preparing recommendations for the Board of Directors,
- Change Management Committee - in the implementation of new or modification of existing products and processes in business and outside business,
- Safety Committee - in the field of security and business continuity management.

6.2 Credit risk

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

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

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

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

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

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

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

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

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

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

The level of minimum margins for given products or client segments is determined based upon risk analysis, taking into consideration the value of risk parameters assessed and comprising an element of internal rating systems.
The client and transaction rating, as well as other credit risk parameters hold a significant role in the Credit Risk Management Information System. For each rating model, the credit risk reports provide information on the comparison between the realized parameters and the theoretical values for each rating class.

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

For internal purposes, within the Bank the following rating models are used, developed in accordance with provisions of 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:

1) For the private individuals, the Bank uses two separate models applicable for:
   - mortgage loans,
   - consumer loans.
2) For the corporate clients, the Bank uses rating models dividing clients for:
   - clients with income not exceeding EUR 500 million,
   - corporate clients assessed by central model with income exceeding EUR 500 million,
   - specialized lending.

The following exposure types are not covered by internal rating models:
1) retail exposures immaterial in terms of size and perceived risk profile:
   - Eurokonto limits,
   - overdrafts,
   - forced debits,
   - exposures related to credit cards,
   - exposures related to the Building Society (Kasa Mieszkaniowa) unit,
   - other loans.
2) corporate clients immaterial in terms of size and perceived risk profile:
   - exposures to stock exchanges and other financial intermediators,
   - exposures to insurance companies,
   - project financing,
   - purchased receivables,
   - exposures to investment funds,
   - exposures to leasing companies and financial holding companies,
   - other loans.
3) exposures to regional governments and local authorities which are not treated as exposures to central governments, for which the number of significant counterparties is limited.

(In PLN thousand)

Rating scale

The rating scale is determined by the client segment and the exposure type.
The proceeds of assigning a client or an exposure to a given rating class depends on its probability of default (PD parameter).
The tables below present the loan portfolio quality for exposures encompassed by internal rating models.

The distribution of rated portfolio for individual client segment (excluding impaired loans) – mortgage loans

RATING CLASS	RANGE OF PD	31.12.2015		31.12.2014	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.06%	10 532 502	25.9%	9 204 532	25.3%
2	0.06% <= PD < 0.19%	5 936 116	14.6%	5 157 908	14.2%
3	0.19% <= PD < 0.35%	16 303 771	40.1%	14 388 070	39.6%
4	0.35% <= PD < 0.73%	5 213 593	12.8%	4 689 007	12.9%
5	0.73% <= PD < 3.50%	1 393 240	3.4%	1 768 054	4.8%
6	3.50% <= PD < 14.00%	651 234	1.6%	536 705	1.5%
7	14.00% <= PD < 100.00%	652 160	1.6%	614 263	1.7%
Total		**40 682 616**	**100.0%**	**36 358 539**	**100.0%**

The distribution of rated portfolio for individual client segment (excluding impaired loans) – consumer loans

RATING CLASS	RANGE OF PD	31.12.2015		31.12.2014	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.34%	573 469	7.4%	586 362	8.1%
2	0.34% <= PD < 0.80%	805 937	10.3%	785 442	10.8%
3	0.80% <= PD < 1.34%	1 390 763	17.8%	1 380 223	19.0%
4	1.34% <= PD < 2.40%	2 393 959	30.6%	2 071 926	28.6%
5	2.40% <= PD < 4.75%	1 594 636	20.4%	1 388 335	19.1%
6	4.75% <= PD < 14.50%	673 978	8.6%	620 601	8.6%
7	14.50% <= PD < 31.00%	187 224	2.4%	216 987	3.0%
8	31.00% <= PD < 100.00%	194 052	2.5%	205 325	2.8%
Total		**7 814 018**	**100.0%**	**7 255 201**	**100.0%**

Notes to financial statements (cont.)

(In PLN thousand)

The distribution of rated portfolio for corporate client segment (excluding impaired loans) – clients with income not exceeding EUR 500 million

RATING CLASS	RANGE OF PD	31.12.2015		31.12.2014	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.00% <= PD < 0.15%	357 910	2.4%	574 961	4.0%
2	0.15% <= PD < 0.27%	1 887 596	12.5%	1 755 225	12.1%
3	0.27% <= PD < 0.45%	2 348 388	15.6%	2 410 148	16.7%
4	0.45% <= PD < 0.75%	2 304 203	15.3%	2 341 503	16.2%
5	0.75% <= PD < 1.27%	3 136 094	20.8%	1 689 707	11.7%
6	1.27% <= PD < 2.25%	1 935 237	12.8%	1 982 327	13.7%
7	2.25% <= PD < 4.00%	1 043 523	6.9%	782 207	5.4%
8	4.00% <= PD < 8.50%	1 898 162	12.6%	2 720 855	18.8%
9	8.50% <= PD < 100.00%	165 709	1.1%	195 881	1.4%
Total		**15 076 822**	**100.0%**	**14 452 814**	**100.0%**

The distribution of rated portfolio for corporate client segment (excluding impaired loans) – clients assessed by central model with income exceeding EUR 500 million

RATING CLASS	RANGE OF PD	31.12.2015		31.12.2014	
		CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
1	0.0000% <= PD < 0.0011%	-	0.0%	-	0.0%
2	0.0011% <= PD < 0.0031%	-	0.0%	-	0.0%
3	0.0031% <= PD < 0.0069%	-	0.0%	-	0.0%
4	0.0069% <= PD < 0.0124%	-	0.0%	-	0.0%
5	0.0124% <= PD < 0.0223%	-	0.0%	-	0.0%
6	0.0223% <= PD < 0.0395%	-	0.0%	-	0.0%
7	0.0395% <= PD < 0.0691%	1 243 315	24.2%	706 957	14.9%
8	0.0691% <= PD < 0.1208%	645 108	12.6%	784 727	16.6%
9	0.1208% <= PD < 0.2091%	629 490	12.3%	377 371	8.0%
10	0.2091% <= PD < 0.3581%	375 435	7.3%	563 945	11.9%
11	0.3581% <= PD < 0.6132%	81 377	1.6%	210 375	4.5%
12	0.6132% <= PD < 1.0807%	93 303	1.8%	861 246	18.2%
13	1.0807% <= PD < 1.9599%	-	0.0%	-	0.0%
14	1.9599% <= PD < 3.5545%	2 063 695	40.2	-	0.0%
15	3.5545% <= PD < 7.6705%	-	0.0%	1 222 552	25.9%
16	7.6705% <= PD < 19.6959%	16	0.0%	-	0.0%
17	19.6959% <= PD < 100.0000%	-	0.0%	-	0.0%
Total		**5 131 739**	**100.0%**	**4 727 173**	**100.0%**

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

Notes to financial statements (cont.)

(In PLN thousand)

Distribution of the portfolio exposure to specialized lending (excluding impaired loans)

SUPERVISORY CATHEGORY	31.12.2015		31.12.2014	
	CARRYING AMOUNT	%PORTFOLIO	CARRYING AMOUNT	%PORTFOLIO
High	1 647 122	25.0%	878 848	16.7%
Good	4 185 156	63.4%	2 993 883	57.1%
Satisfactory	720 513	10.9%	1 356 873	25.9%
Low	43 078	0.7%	17 093	0.3%
Total	**6 595 869**	**100.0%**	**5 246 697**	**100.0%**

Division of loans and advances to customers for covered and not covered by internal rating models

	31.12.2015	31.12.2014
Loans with no impairment:	**119 349 516**	**112 009 183**
Loans to individuals:	**51 611 229**	**46 602 904**
Covered by internal rating model:	48 496 634	43 613 740
Mortgage loans	40 682 616	36 358 539
Consumer loans	7 814 018	7 255 201
Other, not covered by internal rating model	3 114 595	2 989 164
Loans to corporates:	**67 738 287**	**65 406 279**
Covered by internal rating model:	20 208 561	19 179 987
Clients with income not exceeding EUR 500 million	15 076 822	14 452 814
Clients assessed by central model with income exceeding EUR 500 million	5 131 739	4 727 173
Specialized lending exposures	6 595 869	5 246 697
Debt securities, not covered by internal rating model	12 330 221	10 402 996
Repo transactions, not covered by internal rating model	4 755 472	5 789 064
Other, not covered by internal rating model	23 848 164	24 787 535
Impaired loans	**2 705 410**	**2 968 958**
Total loans and advances to customers (*)	**122 054 926**	**114 978 141**

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

Client/transaction rating and credit risk decision-making level

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

Group's exposure to credit risk

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

	31.12.2015	31.12.2014
Due from Central Bank	4 930 181	5 826 907
Loans and advances from banks and from customers (*)	125 869 993	119 041 985
Receivables from finance leases	3 503 979	3 112 048
Financial assets held for trading	1 126 792	448 453
Derivative financial instruments (held for trading)	3 206 447	4 447 975
Hedging instruments	421 640	470 822
Investment securities	21 181 723	24 712 776
Other assets (**)	2 300 995	2 917 662
Balance sheet exposure (***)	**162 541 750**	**160 978 628**
Obligations to grant loans	30 825 051	27 281 560
Other contingent liabilities	15 130 027	14 338 636
Off-balance sheet exposure	**45 955 078**	**41 620 196**
Total	**208 496 828**	**202 598 824**

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

The financial effect of pledged collaterals for exposure portfolio with recognized impairment defined individually amounts to PLN 1 465 933 thousand as at the 31 December 2015 (1 585 989 thousand as of the 31 December 2014). The level of required impairment allowances for the portfolio would increase by this amount, if the discounted cash flows from collateral were not taken into account during estimation.

Notes to the financial statements (cont.)

(In PLN thousand)

Offsetting financial assets and financial liabilities

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

The netting agreements concluded by the Group are:

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

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

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

- derivatives,
- repo and reverse-repo transactions.

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

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

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

31.12.2015	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	3 628 087	(3 012 327)	(295 762)	319 998
TOTAL	**3 628 087**	**(3 012 327)**	**(295 762)**	**319 998**

31.12.2015	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	4 907 087	(3 012 327)	(1 339 417)	555 343
Repo transactions	963 829	(962 346)	-	1 483
TOTAL	**5 870 916**	**(3 974 673)**	**(1 339 417)**	**556 826**

Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2014	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	4 918 797	(3 860 033)	(239 865)	818 899
Reverse-repo transactions	531 315	(530 528)	(385)	402
TOTAL	**5 450 112**	**(4 390 561)**	**(240 250)**	**819 301**

31.12.2014	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	5 902 134	(3 860 033)	(1 140 883)	901 218
Repo transactions	2 391	(2 391)	-	-
TOTAL	**5 904 525**	**(3 862 424)**	**(1 140 883)**	**901 218**

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

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

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

31.12.2015	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	3 134 367	Derivative financial instruments (held for trading)	3 206 447	72 080	27
	421 640	Hedging instruments	421 640	-	30
FINANCIAL LIABILITIES					
Derivatives	3 106 943	Derivative financial instruments (held for trading)	3 204 328	97 385	27
	1 702 759	Hedging instruments	1 702 759	-	30
Repo transactions	963 829	Amounts due to other banks	5 958 449	4 994 620	40

Notes to the financial statements (cont.)

(In PLN thousand)

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

31.12.2014	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	4 274 548	Derivative financial instruments (held for trading)	4 447 975	173 427	27
	470 822	Hedging instruments	470 822	-	30
Reverse-repo transactions	531 315	Loans and advances to banks	7 169 872	6 638 557	25
FINANCIAL LIABILITIES					
Derivatives	4 323 991	Derivative financial instruments (held for trading)	4 417 706	93 715	27
	1 484 428	Hedging instruments	1 484 428	-	30
Repo transactions	2 391	Amounts due to other banks	5 344 702	5 342 311	40

Overall characteristics of monitoring process

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

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

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

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

Overall characteristics of provisioning model

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

The quality analysis of the Group's financial assets

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
- not past due	-	-	564 430	606 657
- up to 1 month	-	-	37 283	49 537
- between 1 month and 3 months	-	-	22 868	115 710
- between 3 months and 1 year	-	-	158 487	773 426
- between 1 year and 5 years	9 927	9 160	3 079 109	2 690 334
- above 5 years	-	-	1 429 845	1 146 735
Total gross carrying amount	**9 927**	**9 160**	**5 292 022**	**5 382 399**
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(238 852)	(197 636)
- up to 1 month	-	-	(7 530)	(8 787)
- between 1 month and 3 months	-	-	(5 206)	(60 488)
- between 3 months and 1 year	-	-	(52 140)	(317 684)
- between 1 year and 5 years	(9 927)	(9 160)	(1 738 572)	(1 462 240)
- above 5 years	-	-	(1 198 995)	(925 460)
Total allowance for impairment	**(9 927)**	**(9 160)**	**(3 241 295)**	**(2 972 295)**
Net carrying amount of exposure individually impaired	**-**	**-**	**2 050 727**	**2 410 104**
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
- not past due	-	-	120 069	74 332
- up to 1 month	-	-	42 559	34 439
- between 1 month and 3 months	-	-	47 688	51 263
- between 3 months and 1 year	-	-	303 072	366 923
- between 1 year and 5 years	-	-	1 359 720	1 511 446
- above 5 years	9 800	9 800	956 361	816 260
Total gross carrying amount	**9 800**	**9 800**	**2 829 469**	**2 854 663**
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(46 047)	(44 747)
- up to 1 month	-	-	(10 980)	(17 188)
- between 1 month and 3 months	-	-	(17 089)	(26 512)
- between 3 months and 1 year	-	-	(156 199)	(212 986)
- between 1 year and 5 years	-	-	(1 047 727)	(1 217 252)
- above 5 years	(9 800)	(9 800)	(896 744)	(777 124)
Total allowance for impairment	**(9 800)**	**(9 800)**	**(2 174 786)**	**(2 295 809)**
Net carrying amount of exposure collectively impaired	**-**	**-**	**654 683**	**558 854**

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)			
			CORPORATE		RETAIL	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
- not past due	7 319 104	7 176 334	67 677 272	64 973 743	50 112 528	45 042 713
- up to 30 days	-	-	214 225	438 304	1 269 204	1 300 910
- between 30 days and 60 days	-	-	34 541	108 516	183 623	198 014
- above 60 days	-	-	89 848	146 870	194 520	302 346
Total gross carrying amount	**7 319 104**	**7 176 334**	**68 015 886**	**65 667 433**	**51 759 875**	**46 843 983**
IBNR PROVISION						
- not past due	(58)	(442)	(273 574)	(253 479)	(90 586)	(128 724)
- up to 30 days	-	-	(2 652)	(4 326)	(37 046)	(74 108)
- between 30 days and 60 days	-	-	(686)	(2 122)	(11 615)	(22 575)
- above 60 days	-	-	(687)	(1 227)	(9 399)	(15 672)
Total IBNR provision	**(58)**	**(442)**	**(277 599)**	**(261 154)**	**(148 646)**	**(241 079)**
Net carrying amount of exposure with no impairment	**7 319 046**	**7 175 892**	**67 738 287**	**65 406 279**	**51 611 229**	**46 602 904**

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

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
IMPAIRED EXPOSURE				
Gross carrying amount	19 727	18 960	8 121 491	8 237 062
Allowance for impairment	(19 727)	(18 960)	(5 416 081)	(5 268 104)
Total net carrying amount	**-**	**-**	**2 705 410**	**2 968 958**
EXPOSURES WITH IMPAIRMENT TRIGGERS FOR WHICH NO IMPAIRMENT HAS BEEN IDENTIFIED				
Gross carrying amount, in this:		-	78 166	64 755
Exposure with collateral value included in expected discounted cash flow, in this		*-*	*78 166*	*64 755*
Past due exposures		*-*	*31 741*	*25 804*
IBNR provision		-	(1 362)	(1 820)
Total net carrying amount		**-**	**76 804**	**62 935**
EXPOSURES WITH NO IMPAIRMENT TRIGGERS				
Gross carrying amount	7 319 104	7 176 334	119 697 595	112 446 661
IBNR provision	(58)	(442)	(424 883)	(500 413)
Total net carrying amount	**7 319 046**	**7 175 892**	**119 272 712**	**111 946 248**

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

Notes to the financial statements (cont.)

(In PLN thousand)

Classification of exposures to debt securities according to Standard & Poor's ratings as at 31 December 2015

RATING	DEBT SECURITIES				
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS (***)	TOTAL
A+ to A-	1 003 007	15 954 349	2 497 324	6 520 122	25 974 802
BBB+ to BBB-	7 724	251 367	-	-	259 091
no rating	113 986	1 312 168(*)	871 100(**)	-	2 297 254
Total	**1 124 717**	**17 517 884**	**3 368 424**	**6 520 122**	**28 531 147**

(*) including NBP bills in an amount of PLN 628 454 thousand.
(**) including NBP bills in an amount of PLN 871 100 thousand.
(***) Fair value of debt securities purchased in the reverse repo transactions.

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

RATING	DEBT SECURITIES				
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS(***)	TOTAL
AA+ to AA-	-	1 048 585	-	-	1 048 585
A+ to A-	310 653	14 891 849	750 123	7 716 100	23 668 725
BBB+ to BBB-	-	248 985	-	-	248 985
no rating	137 800	6 850 034(*)	851 445(**)	-	7 839 279
Total	**448 453**	**23 039 453**	**1 601 568**	**7 716 100**	**32 805 574**

(*) including NBP bills in an amount of PLN 6 147 781 thousand.
(**) including NBP bills in an amount of PLN 851 445 thousand.
(***) Fair value of debt securities purchased in the reverse repo transactions.

Classification of exposures to derivative financial instruments according to Standard & Poor's ratings as at 31 December 2015

RATING	DERIVATIVES						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			TOTAL
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	90	-	-	-	-	-	90
AA+ to AA-	126 730	-	-	3 032	-	-	129 762
A+ to A-	1 044 437	272 974		64 698	-	749	1 382 858
BBB+ to BBB-	1 003 930	-	503	319 425	-	-	1 323 858
BB+ to BB-	-	-	1 454	-	-	-	1 454
no rating	464 159	52 220	239 950	29 798	3 938	-	790 065
Total	**2 639 346**	**325 194**	**241 907**	**416 953**	**3 938**	**749**	**3 628 087**

Notes to the financial statements (cont.)

(In PLN thousand)

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

RATING	DERIVATIVES						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			TOTAL
	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHER FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	155	-	-	-	-	-	155
AA+ to AA-	165 233	-	-	7 996	-	-	173 229
A+ to A-	2 672 019	275 856	-	415 222	-	-	3 363 097
BBB+ to BBB-	490 530	-	1 129	20 649	-	-	512 308
BB+ to BB-	26 026	-	2 623	-	-	-	28 649
B+ to B-	-	-	103	-	-	-	103
no rating	304 009	201 825	308 467	21 383	5 572	-	841 256
Total	**3 657 972**	**477 681**	**312 322**	**465 250**	**5 572**	**-**	**4 918 797**

Forbearance measures

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

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

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

The classification as forborne exposure shall be discontinued when all the following conditions are met:
- the contract is considered as exposure without impairment triggers,
- a minimum 2 year probation period has passed from the date the forborne exposure was considered as exposure without impairment triggers,
- regular payments of more than an insignificant amount of principal or interest have been made,
- none of the exposures to the debtor is more than 30 days past-due at the end of the probation period of forborne exposure.

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

When the exposure is classified as forborne and at each balance sheet date the Group assesses whether there is any objective evidence that the exposure is impaired. The accounting policies in respect to the evaluation and the provisioning of the forborne exposures generally follow the principles in line with the provisions of IAS 39, i.e. whether there are objective evidences that it has incurred a loss for impairment of loans valued at amortized cost, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet incurred) discounted at the original effective interest rate of the loan.

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

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

Share of forborne exposures in the Group's loan portfolio

	31.12.2015	31.12.2014
LOANS AND ADVANCES TO CUSTOMERS		
Exposures with no impairment, of which:	**119 349 516**	**112 009 183**
forborne exposures	422 649	450 050
Impaired exposures, of which:	**2 705 410**	**2 968 958**
forborne exposures	1 537 735	1 718 075
Total net carrying amount, of which:	**122 054 926**	**114 978 141**
forborne exposures	1 960 384	2 168 125

The quality analysis of forborne exposures

	31.12.2015	31.12.2014
Exposures with no impairment		
Gross carrying amount	437 459	490 667
IBNR provisions	(14 810)	(40 617)
Net carrying amount	**422 649**	**450 050**
Impaired exposures		
Gross carrying amount, of which:	2 957 036	2 866 373
exposures individually impaired	2 745 545	2 725 502
exposures collectively impaired	211 491	140 871
Allowances for impairment, of which:	(1 419 301)	(1 148 298)
exposures individually impaired	(1 323 802)	(1 066 135)
exposures collectively impaired	(95 499)	(82 163)
Net carrying amount	**1 537 735**	**1 718 075**
Total net carrying amount	**1 960 384**	**2 168 125**

The Group holds the collaterals for forborne exposures amounting to PLN 881 711 thousand as at 31 December 2015 (PLN 1 255 658 thousand at 31 December 2014).

Notes to the financial statements (cont.)

(In PLN thousand)

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

	31.12.2015	31.12.2014
Gross carrying amount of exposures with no impairment, of which:	**437 459**	**490 667**
- not past due	285 368	353 409
- up to 30 days	95 039	98 513
- between 30 days and 60 days	27 860	22 848
- above 60 days	29 192	15 897
IBNR provisions for exposures with no impairment, of which:	**(14 810)**	**(40 617)**
- not past due	(5 807)	(21 727)
- up to 30 days	(5 673)	(12 099)
- between 30 days and 60 days	(1 533)	(3 793)
- above 60 days	(1 797)	(2 998)
Gross carrying amount of impaired exposures, of which:	**2 957 036**	**2 866 373**
- not past due	571 632	614 634
- up to 1 month	46 871	47 492
- between 1 month and 3 months	32 999	110 956
- between 3 months and 1 year	131 902	651 006
- between 1 year and 5 years	2 124 721	1 434 933
- above 5 years	48 911	7 352
Allowances for impairment, of which:	**(1 419 301)**	**(1 148 298)**
- not past due	(198 882)	(199 283)
- up to 1 month	(11 312)	(12 309)
- between 1 month and 3 months	(7 510)	(63 454)
- between 3 months and 1 year	(42 355)	(225 414)
- between 1 year and 5 years	(1 120 572)	(641 220)
- above 5 years	(38 670)	(6 618)
Total net carrying amount	**1 960 384**	**2 168 125**

Changes in net carrying amount of forborne exposures

	2015	2014
Net carrying amount at the beginning	**2 168 125**	**1 932 336**
Amount of exposures recognized in the period	229 336	749 272
Amount of exposures derecognized in the period	(152 818)	(155 873)
Changes in impairment allowances	(217 882)	(162 465)
Other changes	(66 377)	(195 145)
Net carrying amount at the end	**1 960 384**	**2 168 125**
Interest income	168 659	198 910

Notes to the financial statements (cont.)

(In PLN thousand)

Forborne exposures by type of forbearance activity

	31.12.2015	31.12.2014
Modification of terms and conditions	3 199 428	3 165 429
Refinancing	195 067	191 611
Total gross carrying amount	**3 394 495**	**3 357 040**
Impairment allowances	(1 434 111)	(1 188 915)
Total net carrying amount	**1 960 384**	**2 168 125**

Forborne exposures by product type

	31.12.2015	31.12.2014
Mortgage loans	578 748	471 910
Current accounts	301 434	332 691
Operating loans	879 129	583 040
Investment loans	1 335 790	1 467 691
Purchased debt receivables	1 061	266 330
Other loans and advances	298 333	235 378
Total gross carrying amount	**3 394 495**	**3 357 040**
Impairment allowances	(1 434 111)	(1 188 915)
Total net carrying amount	**1 960 384**	**2 168 125**

Forborne exposures by industrial sectors

	31.12.2015	31.12.2014
Corporations	2 818 427	2 846 155
Manufacturing	718 779	670 068
Construction	604 287	654 406
Real estate activities	468 815	493 325
Professional, scientific and technical activities	523 922	475 414
Accommodation and food service activities	212 819	217 619
Wholesale and retail trade	128 840	151 153
Mining and quarrying	77 734	71 658
Transportation and storage	63 613	51 361
Agriculture, forestry and fishing	2 816	45 055
Other sectors	16 802	16 096
Individuals	576 068	510 885
Total gross carrying amount	**3 394 495**	**3 357 040**
Impairment allowances	(1 434 111)	(1 188 915)
Total net carrying amount	**1 960 384**	**2 168 125**

Notes to the financial statements (cont.)

(In PLN thousand)

Forborne exposures by geographical structure

	31.12.2015	31.12.2014
Poland	3 082 046	3 091 289
Ukraine	292 314	254 098
Cyprus	18 503	10 880
Other countries	1 632	773
Total gross carrying amount	**3 394 495**	**3 357 040**
Impairment allowances	(1 434 111)	(1 188 915)
Total net carrying amount	**1 960 384**	**2 168 125**

Credit risk concentration

According to the current legislation the total exposure of the Group to the risks associated with the single borrower or a group of borrowers in which entities are related by capital or management may not exceed 25% of the Group's equity. In 2015 the maximum exposure limits were not exceeded.

a) Breakdown by individual entities:

As at 31.12.2015

EXPOSURE TO 10 LARGEST CLIENTS OF THE GROUP	% SHARE OF PORTFOLIO
Client 1	1.5%
Client 2	1.2%
Client 3	1.2%
Client 4	0.9%
Client 5	0.8%
Client 6	0.7%
Client 7	0.7%
Client 8	0.6%
Client 9	0.6%
Client 10	0.6%
Total	**8.8%**

b) Concentration by capital groups:

As at 31.12.2015

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE GROUP	% SHARE OF PORTFOLIO
Group 1	1.8%
Group 2	1.8%
Group 3	1.4%
Group 4	1.4%
Group 5	1.3%
Total	**7.7%**

(In PLN thousand)

c) Breakdown by industrial sectors:

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

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

The table below presents the structure of exposures by industrial sectors

SECTOR DESCRIPTION	31.12.2015	31.12.2014
Wholesale and retail trade; repair of motor vehicles	15.2%	14.2%
Public administration and defence	10.9%	11.9%
Real estate activities	10.5%	10.4%
Electricity, gas, steam	8.6%	9.0%
Financial and insurance activities	7.8%	9.6%
Transportation and storage	7.2%	6.8%
Construction	6.3%	5.1%
Mining and quarrying	4.4%	3.9%
Manufacture of metals, metal products and machinery	4.0%	3.8%
Manufacture of beverages and food products	3.8%	3.1%
Manufacture of coke, rafined petroleum products, chemicals and pharmaceutical products	2.9%	2.8%
Information and communication	2.7%	5.0%
Manufacture of rubber, plastic and non-metalic products	2.1%	1.9%
Other manufacturing	5.2%	4.5%
Other sectors	8.4%	8.0%
Total	**100.0%**	**100.0%**

CHF loans to individuals

Since 2003 Bank Pekao S.A. has not granted CHF loans for individuals. Almost the entire portfolio of CHF loans for individuals was granted before August 2006 by Bank BPH S.A. and then taken over by Bank Pekao S.A. as a result of the merger.

A few concepts of restructuring of CHF mortgage loans for individuals have been proposed recently, including the President's draft of the act on the restoration of the equality of parties of certain loan agreements. The proposed solutions are under discussion and may change significantly. Therefore, at the moment, the Group is not able to reliably estimate the impact of the proposed solutions on the financial statements. However, taking into account the relatively minor share of these loans in the total assets and limited market share, the Group assesses that potentially taken solutions should not materially affect the financial standing of the Group.

Notes to the financial statements (cont.)

(In PLN thousand)

The tables below present the structure and quality of CHF loans for individuals.

Gross and net amount of CHF loans to individuals

	31.12.2015	31.12.2014
Gross carrying amount, of which:	**4 761 295**	**4 798 719**
- denominated in CHF	961 415	965 182
- indexed to CHF	3 799 880	3 833 537
Impairment allowances, of which:	**(78 963)**	**(171 056)**
- denominated in CHF	(9 463)	(17 543)
- indexed to CHF	(69 500)	(153 513)
Net carrying amount, of which:	**4 682 332**	**4 627 663**
- denominated in CHF	951 952	947 639
- indexed to CHF	3 730 380	3 680 024

Quality of CHF loans to individuals

	31.12.2015	31.12.2014
Gross carrying amount of exposures with no impairment, of which:	**4 599 473**	**4 581 528**
- not past due	4 251 469	4 201 472
- up to 30 days	277 566	310 533
- between 30 days and 60 days	41 226	48 231
- above 60 days	29 212	21 292
IBNR provisions for exposures with no impairment, of which:	**(13 479)**	**(32 394)**
- not past due	(5 144)	(12 684)
- up to 30 days	(4 898)	(13 072)
- between 30 days and 60 days	(1 542)	(4 363)
- above 60 days	(1 895)	(2 275)
Gross carrying amount of impaired exposures, of which:	**161 822**	**217 191**
- not past due	25 499	16 838
- up to 1 month	12 076	9 260
- between 1 month and 3 months	9 211	15 503
- between 3 months and 1 year	30 569	26 829
- between 1 year and 5 years	53 721	76 103
- above 5 years	30 746	72 658
Allowances for impairment, of which:	**(65 484)**	**(138 662)**
- not past due	(4 356)	(5 271)
- up to 1 month	(1 507)	(3 447)
- between 1 month and 3 months	(1 764)	(5 445)
- between 3 months and 1 year	(6 250)	(12 232)
- between 1 year and 5 years	(27 927)	(50 495)
- above 5 years	(23 680)	(61 772)
Total net carrying amount	**4 682 332**	**4 627 663**

The average LTV for CHF loans to individuals granted by the Group amounted as of 31 December 2015 to 56.5%, with an average LTV for the whole portfolio of 66.4%.

(In PLN thousand)

Credit exposures towards Ukraine

As at 31 December 2015, the Group carried the level of net balance sheet exposures towards Ukraine amounting to PLN 593 million (0.4% of total Group exposures).

The majority of the mentioned amount refers to intra group exposure in the form of interbank placement which will be repaid up to 2017. The remaining part of exposures refers to two international corporate groups.

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

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

	31.12.2015	31.12.2014
Balance sheet exposure		
Loans and advances to banks	402 630	713 178
Loans and advances to customers	300 551	269 487
Total gross carrying amount	**703 181**	**982 665**
IBNR / Impairment allowances	(110 605)	(20 505)
Total net carrying amount	**592 576**	**962 160**
Off-balance sheet exposure		
Credit lines granted	4 049	4 028
Total gross carrying amount	**4 049**	**4 028**
IBNR	(27)	(14)
Total net carrying amount	**4 022**	**4 014**

6.3 Market risk

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

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

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

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

The main objective of market risk management is to optimize financial results and the influence on the worth of economic capital assuring the implementation of financial goals of the Group, while keeping the exposure to market risk within the risk appetite defined by risk limits approved by the Management Board and the Supervisory Board.

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

(In PLN thousand)

Market risk of the trading book

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

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

The model is subject to continuous, statistical verification by comparing the VaR values to actual and revaluated performance figures. Results of analyses carried out in 2015 and 2014 confirmed the adequacy of the model applied.

The tables below presents the market risk exposure of the trading portfolio of the Group measured by Value at Risk in 2015 and 2014

	31.12.2015	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	54	15	203	1 674
interest rate risk	1 176	676	1 175	2 103
Trading portfolio	1 282	854	1 179	1 880

	31.12.2014	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	44	11	413	2 183
interest rate risk	1 365	936	1 792	3 710
Trading portfolio	1 282	872	1 819	3 772

Interest rate risk of the banking book

In managing the interest rate risk of the banking book the Group aims to hedge the economic value of capital and achieve the planned interest result within the accepted limits. The financial position of the Group in relation to changing interest rates is monitored through the interest rate gap (repricing gap), duration analysis, sensitivity analysis, stress testing and VaR.

The table below presents the sensitivity levels of the interest income (NII) to interest rate change by 100 b.p. and of economic value of the Group's equity (EVE) to interest rate change by 200 b.p. for the end of December 2015 and December 2014, assuming perfect elasticity of the Group's administrated rates to the markets rates changes, taking into account behavioral factors relevant in an environment of low interest rates (i.e current accounts priced in PLN, for which the Group applies the model adjusting the profile of product's revaluation) and parallel changes in Central Bank's interest rates. The measure takes into account factors possible to secure for the Group. Evolution of interest income sensitivity comes from low level of interest rates at the end of 2015 and the potential impact of its further lowering on the interest income of the Group.

SENSITIVITY IN %	31.12.2015	31.12.2014
NII	(11.14)	(12.17)
EVE	(0.77)	(0.32)

Notes to the financial statements (cont.)

(In PLN thousand)

Currency risk

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

The table below presents the Group's foreign currency risk profile measured at Value at Risk

CURRENCY	31.12.2015	31.12.2014
Currencies total (*)	1 538	490

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

Foreign currency position of the Group

31.12.2015	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS-DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	18 890 563	17 929 313	11 066 799	11 841 800	186 249
USD	6 294 671	8 290 240	7 077 654	5 116 063	(33 978)
CHF	4 700 851	606 176	3 221 543	7 319 753	(3 535)
GBP	318 067	708 529	622 872	232 423	(13)
CZK	37 732	16 591	183 225	204 259	107
Other currencies	273 984	161 448	73 793	183 113	3 216
TOTAL	**30 515 868**	**27 712 297**	**22 245 886**	**24 897 411**	**152 046**

31.12.2014	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS-DERIVATIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	19 006 758	15 037 971	11 464 052	15 448 199	(15 360)
USD	7 432 536	7 137 324	8 562 453	8 841 212	16 453
CHF	5 014 483	921 126	3 016 884	7 111 994	(1 753)
GBP	215 835	611 115	546 896	151 798	(182)
CZK	224 478	35 356	3 109	191 907	324
Other currencies	223 738	97 753	201 698	324 630	3 053
TOTAL	**32 117 828**	**23 840 645**	**23 795 092**	**32 069 740**	**2 535**

The amount of the net long position in EUR (equivalent of PLN 185 540 thousand) as at 31 December 2015 mainly results from the recognition of the fair value valuation of shares in Visa Europe (see Note 31) in the amount of EUR 40 866 611 (equivalent of PLN 174 153 thousand). The foreign currency position from the valuation of shares in Visa Europe was closed on January 2016.

(In PLN thousand)

6.4 Liquidity risk

The objective of liquidity risk management is to:

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

The Group has centralized liquidity risk management system covering current liquidity management and first level control performed by the responsible functions, the second level control carried out by a dedicated unit responsible for risk management and independent audit.

Managing the Group's liquidity is carried out in intraday, short-term and long-term horizon. Analyzing of Intraday liquidity concerns flows realized during the day, through a short-term liquidity analysis is understood liquidity measurement system which refers to the time horizon shorter then one year, long-term analysis covers period above one year. Due to the specific tools and techniques used for liquidity risk management, the Group manages current and medium-term liquidity together with short-term liquidity.

The liquidity control is performing as a continuous process of determining and analyzing the levels of various indicators and measures related to intraday, short-term and long-term liquidity. Monitoring frequency is matched to the specific liquidity aspect – e.g. daily for short-term liquidity, monthly for long-term liquidity. Liquidity ratios and measures are subject to a formal limiting process. The limits' utilisation is regularly monitored and presented to the Management of the Bank and subsidiaries. In case of exceeding, escalation process is running as to inform decision-makers and ultimately to restore the liquidity risk exposures to acceptable levels.

Scenario-based stress analyses, conducted on a monthly basis, constitute an integral part of the Group's liquidity monitoring process. Within the scope of these analyses the Group's liquidity is assessed under the conditions of crisis which is caused by financial markets or is caused by internal factors, specific to the Group. In 2015 Bank has made a review of the liquidity stress tests system, defining a new set of scenarios different in terms of duration of liquidity threat, their origination and severity.

Managing the liquidity, the Group pays special attention to the liquidity in foreign currencies through monitoring, limiting and controlling the liquidity individually for each currency, as well as monitoring demand for the current and future currency liquidity and in case of identification of such need the Group hedges using currency swaps. It is also monitored the potential influence on the liquidity of placing required collateral deposits for derivative transaction.

In order to define the principles of contingency liquidity management, Bank introduced, approved by the Management Board, 'Contingency Liquidity Policy', which defines the contingency procedures in the event of crisis situations. This policy involves daily monitoring of the system and specific early-warning indicators for the Bank and the Group as well as three levels of liquidity risk states depending on the level of early-warning indicators, the Bank's, the Group's and market situation. It also defines the sources for covering the expected outflows from the Group. This document sets the procedures for monitoring the liquidity states, emergency action procedures, task forces dedicated for restoring the Group's liquidity and the Management's responsibilities for taking necessary decisions to restore the required liquidity level.

Below are presented basic quantitative information concerning the Group's liquidity at the end of 2015 year in comparison to the end of 2014. They cover the structure of financial liabilities by contractual maturity, adjusted liquidity gap and financial flows from derivative transactions.

Notes to the financial statements (cont.)

(In PLN thousand)

Structure of financial liabilities by contractual maturities

31.12.2015	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	1 606 000	1 066 155	108 638	1 204 022	2 124 172	6 108 987
Amounts due to customers	96 357 303	12 213 137	17 987 883	2 777 981	55 721	129 392 025
Debt securities issued	336 500	1 034 304	409 535	616 862	661 531	3 058 732
Financial liabilities held for trading	-	-	170 729	382 663	58 050	611 442
Total	**98 299 803**	**14 313 596**	**18 676 785**	**4 981 528**	**2 899 474**	**139 171 186**
OFF-BALANCE SHEET COMMITMENTS (**)						
Off- balance sheet commitments Financial liabilities granted	30 935 860	-	-	-	-	30 935 860
Off- balance sheet commitments Guarantees liabilities granted	14 072 827	-	-	-	-	14 072 827
Total	**45 008 687**	**-**	**-**	**-**	**-**	**45 008 687**

31.12.2014	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	2 007 821	233 470	360 834	1 030 528	1 941 187	5 573 840
Amounts due to customers	99 800 692	14 198 585	11 196 512	712 407	50 317	125 958 513
Debt securities issued	79 083	1 211 065	1 453 224	560 727	755 557	4 059 656
Financial liabilities held for trading	-	-	362 582	173 090	55 639	591 311
Total	**101 887 596**	**15 643 120**	**13 373 152**	**2 476 752**	**2 802 700**	**136 183 320**
OFF-BALANCE SHEET COMMITMENTS (**)						
Off- balance sheet commitments Financial liabilities granted	27 376 548	-	-	-	-	27 376 548
Off- balance sheet commitments Guarantees liabilities granted	14 208 684	-	-	-	-	14 208 684
Total	**41 585 232**	**-**	**-**	**-**	**-**	**41 585 232**

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

Adjusted liquidity gap

The adjusted liquidity gaps presented below include, inter alia, the adjustments concerning the stability of core deposits and their maturities, adjustments of flows from granted off-balance sheet commitments arising from financing, guarantees and from assets without contractual repayment schedules. On top of that, included are also the adjusted flows stemming from the security portfolio and flows resulting from earlier repayment of mortgage loans portfolio. These are the main elements differentiating the adjusted gaps from unadjusted ones. Moreover, the gaps are of static nature, i.e. they do not take into consideration the impact of changes of balance sheet and off-balance sheet items volume (i.e. new deposits) as well as the effect of non-equity related cash flows upon the liquidity profile of the Group.

Notes to the financial statements (cont.)

(In PLN thousand)

Adjusted liquidity gap

31.12.2015	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	39 156 141	7 110 676	24 968 630	50 455 851	47 094 269	168 785 567
Balance sheet liabilities	16 049 305	8 827 295	18 770 564	19 999 689	105 138 714	168 785 567
Off-balance sheet assets/liabilities (net)	(6 717 006)	568 926	1 240 893	2 489 137	1 254 323	(1 163 727)
Periodic gap	**16 389 830**	**(1 147 693)**	**7 438 959**	**32 945 299**	**(56 790 122)**	**(1 163 727)**
Cumulated gap		**15 242 137**	**22 681 096**	**55 626 395**	**(1 163 727)**	

31.12.2014	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	47 740 552	6 795 243	21 167 967	49 682 882	42 238 384	167 625 028
Balance sheet liabilities	32 485 830	9 500 072	15 959 804	30 257 051	79 422 271	167 625 028
Off-balance sheet assets/liabilities (net)	(7 860 398)	(608 975)	3 015 181	2 838 710	1 640 604	(974 878)
Periodic gap	**7 394 324**	**(3 313 804)**	**8 223 344**	**22 264 541**	**(35 543 283)**	**(974 878)**
Cumulated gap	**-**	**4 080 520**	**12 303 864**	**34 568 405**	**(974 878)**	**-**

Off-balance derivative transactions

The tables below show the financial flows relating to derivative off balance transactions.

According to Group's policy, off-balance derivative transactions settled in net amounts include:
- Interest Rate Swaps (IRS),
- Forward Rate Agreements (FRA),
- Foreign currency options and for gold,
- Interest rate options (Cap/Floor),
- Transactions based on equity securities and stock indexes,
- Transactions based on commodities and precious metals.

Off-balance derivative transactions settled by the Group in gross amounts include:
- Cross-Currency Interest Rate Swaps (CIRS),
- Foreign currency forward contracts,
- Foreign currency swaps (Fx-Swap),
- Forward contracts based on securities.

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2015	70 648	104 854	151 485	2 007 425	889 219	**3 223 631**
31.12.2014	109 831	66 827	157 420	2 488 681	1 594 385	**4 417 144**

Notes to the financial statements (cont.)

(In PLN thousand)

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2015						
inflows	16 745 976	6 290 357	7 529 685	8 415 940	2 830 603	**41 812 561**
outflows	16 750 719	6 249 486	7 612 854	9 216 680	3 152 969	**42 982 708**
31.12.2014						
inflows	20 372 845	11 645 192	5 339 427	8 072 682	3 000 995	**48 431 141**
outflows	20 369 706	11 635 627	5 451 489	8 811 935	3 084 889	**49 353 646**

6.5 Operational risk

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

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

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

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

The table below presents operational events by categories as defined by the Article 324 of Regulation No. 575/2013:

- internal frauds – losses resulting from acts of intended fraud, misappropriation of property, circumvention of regulations, the laws and internal policies of a company, excluding losses resulting from diversity or discrimination of employees, which concern at least one internal party,
- external frauds – losses being a consequence of acts of defraud, misappropriation of property or circumvention of regulations performed by a third party,
- employment practices and workplace safety – losses due to acts inconsistent with regulations or employment agreements, workplace health and safety agreements, payments from personal injuries claims or losses from discrimination and unequal employee treatment,
- clients, products and business practices – losses arising from failures of meeting professional obligations towards clients due to unintended or negligent acts (including custody requirements and appropriate behavior) or concerning specific features or a design of a product,

(In PLN thousand)

- damages to physical assets – losses due to damage or loss of tangible assets resulting from natural disasters or other events,
- business disruption and system failures – losses stemming from business or system failures,
- execution, delivery and process management – losses resulting from failed transaction settlements or process management and losses from relations with cooperating parties and vendors.

OPERATING EVENTS BY CATEGORIES	2015	2014
Internal frauds	20.50%	36.32%
External frauds	4.70%	24.51%
Employment practices and workplace safety	1.12%	4.62%
Clients, products and business practices	59.15%	14.78%
Damages to physical assets	4.70%	8.88%
Business disruption and system failures	0.71%	0.60%
Execution, delivery and process management	9.12%	10.29%
Total	**100.00%**	**100.00%**

In 2015, operating losses were dominated by events of category clients, products and business practices, which accounted for 59.15% of total losses (14.78% in 2014). The second category of high losses was internal frauds, representing 20.50% of the total losses (36.32% in 2014), while the third category - execution, delivery and process management accounted for 9.12% of all registered losses (10.29% in 2014).

6.6 Capital management

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

Regulatory capital requirements

Capital ratios are the basic measures applied for the measurement of capital adequacy. The minimum Total Capital Ratio required by law cannot be lower than 8% while according to recommendation of European Banking Authority and Polish Financial Supervision Authority (KNF) total capital ratio must be not lower than 12% and Tier 1 capital ratio not lower than 9%. Starting from 2016 the minimum capital ratios recommended by KNF increases to 13.25% in case of Total Capital Ratio and 10.25% in case of Tier I capital ratio.

Calculations of the regulatory capital requirements at both report dates were done based on Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, with further amendments as well as Commission Implementing and Delegated Regulations (EU).

As at 31 December 2015 total capital ratio of the Group amounted at 17.7% (as at 31 December 2014 – 17.3%).

	31.12.2015	31.12.2014
CAPITAL REQUIREMENTS		
Credit and counterparty risk including CVA	8 527 667	8 379 811
Market risk	63 578	192 563
Operational risk	564 787	705 781
Total capital requirement	**9 156 032**	**9 278 155**
OWN FUNDS		
Common Equity Tier 1 capital	20 209 595	20 063 716
Own funds for total capital ratio	**20 209 595**	**20 063 716**
OWN FUNDS REQUIREMENTS		
Common Equity Tier 1 capital ratio (%)	**17.7%**	**17.3%**
Total capital ratio (%)	**17.7%**	**17.3%**

Total Capital Ratio at the end of December 2015 compared with December 2014 increased by 0.4 pp. Total capital requirement decreased during this period by 1.3% and own funds increased by 0.7%.

Total capital requirement decreased in 2015 as a result of decrease of capital requirements for operational risk and market risk offset by the increase of capital requirement for credit and counterparty risk including CVA.

The strengthening of the Group's capital base in 2015 is the effect of different value of unrealised gains and losses from debt and capital instruments classified as available for sale, which can be included in own funds and Bank Pekao S.A. Annual

General Meeting decision on the allocation of the PLN 37.6 million of net profit from 2014 to the Bank's own funds.

Notes to the financial statements (cont.)

(In PLN thousand)

For the purpose of capital requirement calculation the Group uses:
- Standardised Approach for credit risk capital requirement calculation,
- Financial Collateral Comprehensive Method for credit risk mitigation,
- Advanced Measurement Approach for operational risk measurement in case of Bank and Standardised Approach for Bank's subsidiaries,
- Standardised Approach for foreign-exchange risk capital requirement calculation,
- Simplified approach for commodities risk capital requirement calculation,
- Standardised Approach for own funds requirements for credit risk valuation adjustment risk,
- Standardised Approach for specific risk and duration-based calculation for general risk capital requirement calculation.

Own funds

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

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

	31.12.2015	31.12.2014
OWN FUNDS		
Capital	**23 424 195**	**24 045 732**
Different scope of consolidation	**15 827**	**14 052**
Component of the capital not included into own funds, in which:	**(2 292 459)**	**(2 714 714)**
Current year net profit	(2 292 459)	(2 714 714)
Regulatory adjustments, in which:	**(937 968)**	**(1 281 354)**
Intangible assets	(570 310)	(560 804)
Capital from revaluation	(36 678)	(112 283)
Unrealised loss from debt and capital instruments available for sale	-	3 279
Unrealised gain from debt and capital instruments available for sale	(267 137)	(525 676)
Deferred tax assets that rely on future profitability	(16 490)	(22 856)
Additional value adjustments due to prudent calculation	(31 389)	(34 972)
Minority interests	(15 964)	(28 042)
Common Equity Tier 1 capital	**20 209 595**	**20 063 716**
Own funds for total capital ratio	**20 209 595**	**20 063 716**

Components of capital not included into own funds:
- Current year net profit – net profit of current reporting period, verified by statutory auditor responsible for auditing of the Group's accounts reduced by all foreseeable charge and dividend, can be included into Common Equity Tier 1 capital only with the permission of KNF. As at 31 of December 2015, current profit of the Group was not included into Common Equity Tier 1 capital.

Regulatory adjustments:
- intangible assets (after deduction of related deferred tax liabilities) decrease Common Equity Tier 1 capital, according to Article 36 of Regulation No 575/2013,
- capital from revaluation reflects fair value of cash flow hedges is not included in any element of own funds, according to Article 33 of Regulation No 575/2013,
- unrealised losses from debt and capital instruments classified as available for sale according to Article 467 of Regulation No 575/2013 using national options defined in Article 171a. Banking Act, decrease Common Equity Tier 1 capital in 100%,
- unrealised gains from debt and capital instruments classified as available for sale according to Article 468 of Regulation No 575/2013 using national options defined in Article 171a. Banking Act are included in 40% to Common Equity Tier 1 capital,

- deferred tax assets based on future profitability decrease Common Equity Tier 1 capital according to Article 36 of Regulation No 575/2013 only in 40% (Article 469 of Regulation No 575/2013 using national options defined in Article 171a Banking Act),
- additional value adjustments due to prudent valuation are created for every asset measured at fair value, according to Article 34 of Regulation No 575/2013,
- minority interests are deducted from Group's capital because requirements laid down in Regulation No 575/2013 are not meet.

Internal capital adequacy assessment

To assess the internal capital adequacy of the Group, the Bank applies methods designed internally.

The Group takes the following risk types into consideration:

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

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

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

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

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

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

(In PLN thousand)

6.7 Fair value of financial assets and liabilities

Financial instruments that are measured at fair value in the consolidated statement of financial position of the Group

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

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

As of 31 December 2015 and 31 December 2014, the Group classified the financial assets and liabilities measured at fair value into the following hierarchy of three categories based on the valuation method:

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

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

31.12.2015	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	**15 929 590**	**6 134 087**	**504 501**	**22 568 178**
Financial assets held for trading	936 763	142 640	47 389	1 126 792
Derivative financial instruments, including:	28	3 205 476	943	3 206 447
- Banks	-	2 639 346	-	2 639 346
- Customers	28	566 130	943	567 101
Hedging instruments, including:	-	421 640	-	421 640
- Banks	-	416 953	-	416 953
- Customers	-	4 687	-	4 687
Securities available for sale	14 992 799	2 364 331	456 169	17 813 299
Liabilities:	**611 443**	**4 907 086**	**-**	**5 518 529**
Financial liabilities held for trading	611 442	-	-	611 442
Derivative financial instruments, including:	1	3 204 327	-	3 204 328
- Banks	-	2 747 772	-	2 747 772
- Customers	1	456 555	-	456 556
Hedging instruments, including:	-	1 702 759	-	1 702 759
- Banks	-	1 702 759	-	1 702 759
- Customers	-	-	-	-

Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2014	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	**16 308 012**	**11 803 880**	**366 566**	**28 478 458**
Financial assets held for trading	310 653	38 016	99 784	448 453
Derivative financial instruments, including:	-	4 445 008	2 967	4 447 975
- Banks	-	3 654 969	2 967	3 657 936
- Customers	-	790 039	-	790 039
Hedging instruments, including:	-	470 822	-	470 822
- Banks	-	465 249	-	465 249
- Customers	-	5 573	-	5 573
Securities available for sale	15 997 359	6 850 034	263 815	23 111 208
Liabilities:	**591 311**	**5 902 134**	**-**	**6 493 445**
Financial liabilities held for trading	591 311	-	-	591 311
Derivative financial instruments, including:	-	4 417 706	-	4 417 706
- Banks	-	3 687 513	-	3 687 513
- Customers	-	730 193	-	730 193
Hedging instruments, including:	-	1 484 428	-	1 484 428
- Banks	-	1 484 428	-	1 484 428
- Customers	-	-	-	-

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

2015	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE	DERIVATIVE FINANCIAL INSTRUMENTS (LIABILITIES)
Opening balance	**99 784**	**2 967**	**263 815**	**-**
Increases, including:	10 663 874	1 942	200 231	-
Reclassification	-	1 942	313	-
Acquisition	10 661 018	-	-	-
Settlement	-	-	-	-
Gains on financial instruments	2 856	-	199 918	-
recognized in the income statement	2 856	-	11 077	-
recognized in revaluation reserves	-		188 841	
Decreases, including:	(10 716 269)	(3 966)	(7 877)	-
Reclassification	(55 052)	(2 967)	-	-
Settlement / redemption	(435 186)	(891)	(7 877)	-
Sale	(10 225 856)	-	-	-
Loss on financial instruments	(175)	(108)	-	-
recognized in the income statement	(175)	(108)	-	-
Closing balance	**47 389**	**943**	**456 169**	**-**
Unrealized income from financial instruments held in portfolio until end of period, recognized in:	**(63)**	**(108)**	**2 674**	**-**
Income statement:	108	(108)	268	-
net interest income	108	-	268	-
result on financial assets and liabilities held for trading	-	(108)	-	-
Other components income	(171)	-	2 406	-

(In PLN thousand)

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

2014	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE	DERIVATIVE FINANCIAL INSTRUMENTS (LIABILITIES)
Opening balance	**-**	**2 625**	**263 668**	**-**
Increases, including:	13 997 309	4 541	9 979	-
Acquisition	13 996 268	-	-	-
Derivatives transactions made in 2014	-	1 488	-	-
Gains on financial instruments	1 041	3 053	9 979	-
recognized in the income statement	1 041	3 053	9 979	-
Decreases, including:	(13 897 525)	(4 199)	(9 832)	-
Settlement/redemption	(1 432 830)	(4 199)	(9 832)	-
Sale	(12 464 143)	-	-	-
Loss on financial instruments	(552)	-	-	-
recognized in the income statement	(552)	-	-	-
Closing balance	**99 784**	**2 967**	**263 815**	**-**
Unrealized income from financial instruments held in portfolio until end of period, recognized in:	**(343)**	**1 479**	**470**	**-**
Income statement:	117	1 479	292	-
net interest income	117	-	292	-
result on financial assets and liabilities held for trading	-	1 479	-	-
Other components income	(460)	-	178	-

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

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

In the period from 1 January to 31 December 2015, there was a transfer of three government bonds measured at fair value between Level 1 and Level 2.

In the period from 1 January to 31 December 2015, there was a transfer of one interest rate derivative instrument measured at fair value from Level 2 to Level 3.

In the period from 1 January to 31 December 2015, there was a transfer of four corporate bonds and two equity derivative instruments measured at fair value from Level 3 to Level 2.

The impact of estimated parameters on measurement of financial instruments for which the Group applies fair value valuation according to Level 3 as at 31 December 2015 and 31 December 2014 is as follows

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 31.12.2015	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2015	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Corporate debt securities	298 756	Discounted cash flow	Credit spread	0.54% - 1%	526	(1 427)
Interest rate derivatives	943	Discounted cash flow	PD	2.1% - 5.4%	39	(44)
			LGD	40.1% - 54.1%	16	(16)

Notes to the financial statements (cont.)

(In PLN thousand)

FINANCIAL ASSET/LIABILITY	FAIR VALUE AS AT 31.12.2014	VALUATION TECHNIQUE	UNOBSERVABLE FACTOR	ALTERNATIVE FACTOR RANGE (WEIGHTED AVERAGE)	IMPACT ON FAIR VALUE AS AT 31.12.2014	
					POSITIVE SCENARIO	NEGATIVE SCENARIO
Equity derivatives	2 967	Black Scholes Model	Correlation	0% - 1%	263	(581)
Corporate debt securities	348 069	Discounted cash flow	Credit spread	0.53% - 0.95%	4 530	(1 264)

Financial instruments that are not measured at fair value in the consolidated statement of financial position of the Group

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

As of 31 December 2015 and on 31 December 2014, the Group classified the financial assets and liabilities not measured at fair value in the consolidated statement of financial position into the following three categories based on the valuation level:

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

31.12.2015	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	7 881 607	7 881 607	2 951 414	4 930 193	-
Loans and advance to banks	7 314 724	7 311 058	-	5 301 176	2 009 882
Loans and advances to customers (*)	118 555 269	116 567 135	-	10 936 692	105 630 443
Receivables from financial leases	3 503 979	3 568 200	-	-	3 568 200
Debt securities held to maturity	3 368 424	3 380 400	2 509 227	871 173	-
Total assets	**140 624 003**	**138 708 400**	**5 460 641**	**22 039 234**	**111 208 525**
Liabilities					
Amounts due to Central Bank	914	928	-	-	928
Amounts due to other banks	5 958 449	6 002 687	-	1 182 111	4 820 576
Amounts due to customers	128 867 691	128 479 792	-	4 468 820	124 010 972
Debt securities issued	2 903 233	2 959 349	-	2 959 349	-
Total liabilities	**137 730 287**	**137 442 756**	**-**	**8 610 280**	**128 832 476**

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

31.12.2014	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
Assets					
Cash and due from Central Bank	9 226 254	9 226 254	3 399 335	5 826 919	-
Loans and advance to banks	7 169 872	7 197 178	-	5 340 515	1 856 663
Loans and advances to customers (*)	111 872 113	110 749 476	-	7 513 821	103 235 655
Receivables from financial leases	3 112 048	3 165 120	-	-	3 165 120
Debt securities held to maturity	1 601 568	1 616 035	764 589	851 446	-
Total assets	**132 981 855**	**131 954 063**	**4 163 924**	**19 532 701**	**108 257 438**
Liabilities					
Amounts due to Central Bank	971	997	-	-	997
Amounts due to other banks	5 344 702	5 408 323	-	1 126 766	4 281 557
Amounts due to customers	125 609 000	125 249 984		5 257 218	119 992 766
Debt securities issued	3 857 043	3 921 735	-	3 921 735	-
Total liabilities	**134 811 716**	**134 581 039**	**-**	**10 305 719**	**124 275 320**

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

(In PLN thousand)

7. Custody activity

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

As at 31 December 2015 the Bank maintained 12 077 securities accounts (in comparison to 8 812 securities accounts as at 31 December 2014).

8. Brokerage activity

The Group offers a wide range of capital market products and services via specialized Bank's organizational unit – Dom Maklerski Pekao (DM) and by the agency of Centralny Dom Maklerski Pekao S.A. (CDM) and Pekao Investment Banking S.A. (Pekao IB) a subsidiaries of the Bank Pekao S.A.

Dom Maklerski Pekao and Centralny Dom Maklerski Pekao S.A.
Dom Maklerski Pekao is a specialized organizational unit of the Bank designed to sell capital market products. The objective of the entity is to provide the highest quality brokerage services. The comprehensive offer enables investors, especially the individual clients of the Bank to invest in financial instruments traded on the regulated market and on the alternative trading platform organized by the Warsaw Stock Exchange (GPW S.A.) and by the BondSpot (i.e. shares, treasury and corporate bonds, derivatives - futures and options, ETF, certificates, warrants) as well as the instruments traded on the particular foreign markets using any service channel (mobile application, Internet, mobile service, phone, direct contact in the Brokerage Services Spots) after activation of the service. Dom Maklerski Pekao intermediates also in sales of the Structured Certificates of Deposit issued by Bank Pekao S.A., enables investors to acquire instruments in the IPO's and intermediates in transactions on the non-public market. The service for the clients is provided in more than 400 Brokerage Services Spots located in the Bank branches throughout Poland and via remote channels of Pekao24Makler (Internet, mobile service, phone, mobile application) fully integrated with the Bank's electronic banking platform Pekao24.

Centralny Dom Maklerski Pekao S.A. (CDM) is the largest and oldest brokerage firm on the Polish capital market. The aim of CDM is to service investment accounts. The offering enables Clients to invest in inter alia shares, Treasury bonds, corporate bonds, certificates, funds' units, ETF and structured products. CDM grants to clients access to invest on derivatives markets, foreign markets and OTC markets. Clients are served in 69 Consumer Service Spots located mainly in Bank branches throughout Poland, including 13 points dedicated to service for strategic clients and through remote service channels of CDM24 (CDMInternet, TeleCDM, CDM Mobile) enabling connection to electronic banking platform Pekao24.

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

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

Both entities conform to the Good Practices Code of Brokerage Firms guaranteeing comprehensive services in accordance with highest ethics standards and are members of the Chamber of Brokerage Houses. Both DM and CDM actively participate in capital market development in Poland.

Notes to the financial statements (cont.)

(In PLN thousand)

Pekao Investment Banking S.A.
Pekao Investment Banking S.A. operates as a brokerage house supervised by the Financial Supervision Commission, focusing on the service of institutional and corporate clients. The scope of services provided by Pekao IB comprises in particular acceptance and transfer of orders for purchase or sale of financial instruments, execution of these orders on account of the person or entity placing the order, offering of financial instruments, advisory services for enterprises on capital structure, corporate strategy or other matters related to such structure or strategy as well as advisory services and other services relating to mergers, divisions and acquisitions of companies. Pekao IB also performs the market maker's function both on the capital market and on the derivatives market, being one of the most active market makers.

Pekao Investment Banking S.A. is a member of the Warsaw Stock Exchange (GPW S.A.) and a direct participant in the National Depository of Securities (KDPW).

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

	31.12.2015		31.12.2014	
	QUANTITY (pcs)	VALUE	QUANTITY (pcs)	VALUE
CLIENTS' FINANCIAL INSTRUMENTS				
Held on securities accounts	4 085 831 592	28 594 389	3 707 046 151	20 495 143
Equity securities and rights to such financial assets	4 075 825 419	27 191 398	3 699 876 483	18 868 524
Debt instruments and rights to such financial assets	10 006 173	1 402 991	7 169 668	1 626 619
Stored in a form of document	3 767 973 072	16 232 127	1 917 485 196	16 334 391
Equity securities and rights to such financial assets	3 763 773 072	16 074 480	1 917 485 196	16 334 391
Debt instruments and rights to such financial assets	4 200 000	157 647	-	-

Customers' cash on brokerage accounts

	31.12.2015	31.12.2014
Deposited on cash accounts in brokerage house and paid for securities bought in IPO or on the primary market	857 944	857 732
Other customers' cash	45 571	41 558
Total	**903 515**	**899 290**

Settlements due to unsettled transactions

	31.12.2015	31.12.2014
Receivables from executed transactions	-	28
Liabilities from executed transactions	13 201	2 519

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

	31.12.2015	31.12.2014
Receivables from clearing fund	18 727	1 826
Receivables from margin deposits	29 866	21 518
Other receivables	231	161
Total receivables	**48 824**	**23 505**
Amounts due on margin deposits	4 421	-
Other liabilities	331	315
Total liabilities	**4 752**	**315**

Notes to the financial statements (cont.)

(In PLN thousand)

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

	31.12.2015	31.12.2014
Receivables from compensation fund	10 914	9 286
Prepaid expenses - system maintenance fees	1 456	1 192
Deferred income – benefits from system	(12 549)	(10 478)
Total net balance sheet items concerning participation in the compensation fund	**(179)**	**-**

Settlement with entities running regulated securities markets and commodity exchanges

	31.12.2015	31.12.2014
Amounts due to Warsaw Stock Exchange	638	187
Total liabilities	**638**	**187**

9. Operating segments

Data reported in the section steem from the application of the management model (‘Model’) in which the main criterion for segmentation is the classification of customers based on their profile and service model.

Reporting and monitoring of results, for managerial purposes, includes all components of the income statement up to the gross profit level. Therefore, the income from the segment’s activities as well as operating costs related to those activities (including direct and allocated costs in line with the allocation model applied) and other components of income statement are attached to each segment.

The Group settles transactions between segments on an arm’s length basis by applying current market prices. Fund transfers between retail, private, corporate and investment banking segments, and the assets and liabilities management and other area are based on market prices applicable to the funds’ currency and maturity, including liquidity margins.

Operating segments

The operating segments of the Group are as follows:

- Retail banking – all banking activites related to retail customers (excluding private banking customers), small and micro companies with annual turnover not exceeding PLN 20 million, as well as results of the subsidiaries, and shares in net profit of associates accounted for using the equity method, that are assigned to the retail banking activity,
- Private banking – all banking activites related to the most affluent individual customers,
- Corporate and Investment banking – all banking activites related to the medium and large companies, interbank market, debt securities and other instruments, and results of the of the subsidiaries that are assigned to the Corporate and Investment banking activity,
- assets and liabilities management and other – supervision and monitoring of fund transfers, other activities centrally managded as well as the results of subsidiaries and share in net profit of associated accounted for using equity method that are not assigned to other reported segments.

Notes to the financial statements (cont.)

(In PLN thousand)

Operating segments reporting for the period from 1 January to 31 December 2015

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
Total net interest income	**2 424 906**	**25 716**	**1 523 400**	**258 274**	**4 232 296**
Non-interest income	**1 546 543**	**32 382**	**1 113 612**	**133 749**	**2 826 286**
Operating income	**3 971 449**	**58 098**	**2 637 012**	**392 023**	**7 058 582**
Personnel expenses	(1 132 086)	(23 226)	(261 916)	(491 291)	(1 908 519)
Other administrative expenses	(1 232 117)	(24 966)	(347 807)	625 202	(979 688)
Depreciation and amortisation	(170 218)	(1 571)	(23 181)	(136 495)	(331 465)
Operating costs	**(2 534 421)**	**(49 763)**	**(632 904)**	**(2 584)**	**(3 219 672)**
Gross operating profit	**1 437 028**	**8 335**	**2 004 108**	**389 439**	**3 838 910**
Net impairment losses on loans and off-balance sheet commitments	(253 786)	(1 443)	(283 903)	21 574	(517 558)
Net operating profit	**1 183 242**	**6 892**	**1 720 205**	**411 013**	**3 321 352**
Net result on other provisions	(283)	(388)	14	(28 109)	(28 766)
Guarantee funds charges	(106 880)	(796)	(171 234)	(256 043)	(534 953)
Net result on investment activities	(122)	-	386	73 221	73 485
Profit before tax	**1 075 957**	**5 708**	**1 549 371**	**200 082**	**2 831 118**
Income tax expense					(537 640)
Net profit for the period					**2 293 478**
Attributable to equity holders of the Bank					**2 292 459**
Attributable to non-controling interests					1 019
Allocated assets	59 315 400	295 645	97 538 797	(192 927)	156 956 915
Unallocated assets					11 828 652
Total assets					**168 785 567**
Allocated liabilities	71 986 732	8 149 432	63 840 461	(4 505 321)	139 471 304
Unallocated liabilities					29 314 263
Total liabilities					**168 785 567**

Notes to the financial statements (cont.)

(In PLN thousand)

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

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING	ASSETS AND LIABILITIES MANAGEMENT AND OTHER	TOTAL
Total net interest income	**2 419 644**	**26 626**	**1 609 713**	**476 819**	**4 532 802**
Non-interest income	**1 608 295**	**30 423**	**1 090 155**	**84 055**	**2 812 928**
Operating income	**4 027 939**	**57 049**	**2 699 868**	**560 874**	**7 345 730**
Personnel expenses	(1 149 051)	(23 151)	(257 232)	(475 636)	(1 905 070)
Other administrative expenses	(1 310 416)	(26 877)	(336 201)	619 476	(1 054 018)
Depreciation and amortisation	(161 164)	(1 139)	(20 602)	(143 774)	(326 679)
Operating costs	**(2 620 631)**	**(51 167)**	**(614 035)**	**66**	**(3 285 767)**
Gross operating profit	**1 407 308**	**5 882**	**2 085 833**	**560 940**	**4 059 963**
Net impairment losses on loans and off-balance sheet commitments	(220 836)	485	(339 651)	427	(559 575)
Net operating profit	**1 186 472**	**6 367**	**1 746 182**	**561 367**	**3 500 388**
Net result on other provisions	62	329	(2 457)	(636)	(2 702)
Guarantee funds charges	(57 006)	(527)	(82 261)	-	(139 794)
Net result on investment activities	59	-	248	1 490	1 797
Profit before tax	**1 129 587**	**6 169**	**1 661 712**	**562 221**	**3 359 689**
Income tax expense					(634 573)
Net profit for the period					**2 725 116**
Attributable to equity holders of the Bank					**2 714 714**
Attributable to non-controling interests					10 402
Allocated assets	53 901 881	248 788	98 057 381	1 445 195	153 653 245
Unallocated assets					13 971 783
Total assets					**167 625 028**
Allocated liabilities	63 281 223	6 862 826	69 615 463	(3 856 684)	135 902 828
Unallocated liabilities					31 722 200
Total liabilities					**167 625 028**

Reconciliation of operating income for reportable segments

	2015	2014
Total operating income for reportable segments	**7 058 582**	**7 345 730**
Share in gains (losses) from associates	(52 091)	(63 210)
Net other operating income and expenses	(160 996)	(74 336)
Refunding of administrative expenses	3 432	3 252
Operating income	**6 848 927**	**7 211 436**

Geographical segment

The operating activity of Bank Pekao S.A. Group is concentrated in Poland through the network of branches and the subsidiaries.

Notes to the financial statements (cont.)

(In PLN thousand)

10. Interest income and expense

Interest income

	2015	2014
Loans and other receivables from customers	4 410 834	4 997 044
Interbank placements	103 034	144 405
Reverse repo transactions	77 626	97 559
Investment securities	699 863	838 554
Hedging derivatives	150 934	137 056
Financial assets held for trading	14 078	10 672
Total	**5 456 369**	**6 225 290**

Interest income for 2015 includes income from impaired financial assets in the amount of PLN 301 340 thousand (in 2014 PLN 322 458 thousand).

Total amount of interest income for 2015 measured at amortized cost using the effective interest rate method, which applies to financial assets not measured at fair value through profit or loss, amounted to PLN 3 730 968 thousand (in 2014 PLN 4 096 079 thousand).

Interest expense

	2015	2014
Deposits from customers	(1 097 030)	(1 516 221)
Interbank deposits	(23 156)	(24 730)
Repo transactions	(59 001)	(80 005)
Loans and advance received	(19 940)	(48 899)
Debt securities issued	(90 672)	(94 141)
Total	**(1 289 799)**	**(1 763 996)**

Total amount of interest expense for 2015, measured at amortized cost using the effective interest rate method with reference to financial liabilities, which are not valued at fair value through profit or loss amounted to PLN 1 094 924 thousand (in 2014 PLN 1 479 896 thousand).

11. Fee and commission income and expense

Fee and commission income

	2015	2014
Accounts maintenance, payment orders and cash transactions	651 507	677 182
Payment cards	693 067	827 438
Loans and advances	432 269	433 942
Investment products sales intermediation	294 648	281 267
Securities operations	96 794	75 281
Custody activity	69 519	63 867
Pension and investment funds service fees	50 246	53 025
Guarantees, letters of credit and similar transactions	51 050	49 940
Other	49 423	74 339
Total	**2 388 523**	**2 536 281**

Notes to the financial statements (cont.)

(In PLN thousand)

Fee and commission expense

	2015	2014
Payment cards	(322 424)	(423 821)
Money orders and transfers	(21 708)	(20 798)
Securities operations and other financial instruments	(13 840)	(24 599)
Accounts maintenance	(4 275)	(3 346)
Custody activity	(13 388)	(12 754)
Pension funds management charges	(868)	(1 876)
Acquisition services	(3 404)	(2 833)
Other	(3 090)	(2 519)
Total	**(382 997)**	**(492 546)**

12. Dividend income

	2015	2014
Issuers of securities held for trading	530	-
From issuers of securities available for sale	13 105	8 298
Total	**13 635**	**8 298**

13. Result on financial assets and liabilities held for trading

	2015	2014
Foreign currency exchange result	367 908	363 435
Gains (losses) on derivatives	64 206	72 376
Gains (losses) on securities	(4 066)	7 490
Total	**428 048**	**443 301**

In 2015, the total change in the fair value of financial instruments valued at fair value through profit or loss, determined with the use of valuation techniques (when no published quotations from active markets are available) amounted to PLN 64 586 thousand (in 2014 PLN 76 199 thousand).

14. Gains (losses) on disposal

Realized gains

	2015	2014
Loans and other financial receivables	534	18 579
Available for sale financial assets – debt instruments	229 592	244 478
Available for sale financial assets – equity instruments	-	9 100
Debt securities issued	6	6
Total	**230 132**	**272 163**

(In PLN thousand)

Realized losses

	2015	2014
Available for sale financial assets – debt instruments	(41)	(78)
Debt securities issued	(490)	(30)
Total	**(531)**	**(108)**

Net realized profit	**229 601**	**272 055**

The change in fair value of financial assets available for sale transferred in 2015 directly to equity amounted to PLN 7 573 thousand (decrease), in 2014 PLN 726 466 thousand (increase).

The change in fair value of financial assets, transferred in 2015 from equity to financial income amounted to PLN 229 551 thousand (profit), in 2014 PLN 244 400 thousand (profit).

15. Administrative expenses

Personnel expenses

	2015	2014
Wages and salaries	(1 609 253)	(1 603 460)
Insurance and other charges related to employees	(291 849)	(288 542)
Share-based payments expenses	(7 417)	(13 068)
Total	**(1 908 519)**	**(1 905 070)**

Other administrative expenses

	2015	2014
General expenses	(916 571)	(998 148)
Taxes and charges (*)	(74 850)	(44 854)
Bank Guarantee Fund fee (**)	(509 127)	(137 742)
Financial supervision authority fee (KNF)	(17 525)	(16 320)
Total	**(1 518 073)**	**(1 197 064)**

Total administrative expenses	**(3 426 592)**	**(3 102 134)**

(*) In this the amount of PLN 26 469 thousand representing the cost of provision for the contribution to the Borrowers Support Fund.
(**) In this the amount of PLN 234 081 thousand contributed by the Group to BFG for the purpose of payments of the funds guaranteed to the depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie.

16. Depreciation and amortization

	2015	2014
Property, plant and equipment	(180 457)	(194 011)
Investment property	(1 654)	(2 940)
Intangible assets	(149 354)	(129 728)
Total	**(331 465)**	**(326 679)**

Notes to the financial statements (cont.)

(In PLN thousand)

17. Net other operating income and expenses

Other operating income

	2015	2014
Rental income	22 096	23 727
Miscellaneous income	15 504	18 537
Credit insurance charges	227	21 643
Recovery of debt collection costs	16 369	17 533
Excess payments, repayments	9 152	23 617
Compensation, penalty fees and fines received (including received compensations from damages in relation to fixed assets)	116 510	40 140
Revenues from sale of products, goods and services	5 778	7 277
Revenues from leasing activity	15 559	1 285
Refunding of administrative expenses	3 432	3 252
Income from written-off liabilities	4 624	690
Releases of impairment allowances for litigation and other assets	3 093	1 042
Gains on sale of leasing assets for third person and other assets	764	630
Other	7 328	7 027
Total	**220 436**	**166 400**

Other operating expenses

	2015	2014
Costs related to leasing activity	(2 443)	(9 833)
Credit insurance expenses	(10 101)	(26 138)
Reimbursement and deficiencies	(4 021)	(5 527)
Sundry expenses	(14 541)	(17 617)
Cost from sale of products, goods and services	(2 358)	(2 822)
Customers complaints expense	(2 311)	(2 594)
Impairment allowance for litigations and other assets	(9 167)	(12 030)
Costs of litigation and claims	(2 130)	(1 898)
Compensation, penalty fees and fines paid	(644)	(415)
Losses on disposal of leasing assets for third person and other assets	(604)	-
Other	(11 120)	(13 190)
Total	**(59 440)**	**(92 064)**

Net other operating income and expenses	**160 996**	**74 336**

Notes to the financial statements (cont.)

(In PLN thousand)

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

2015	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT(**)
		IMPARIMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPARIMENT CHARGES	OTHER (*)		
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks valued at amortized cost	19 360	684	1 541	-	(870)	(941)	19 774	186
Loans and advances to customers valued at amortized cost	5 582 478	1 156 227	100 138	(445 826)	(646 377)	(68 007)	5 678 633	(509 850)
Receivables from financial leases	187 901	23 834	-	(139)	(19 101)	(28 791)	163 704	(4 733)
Financial assets available for sale	122	-	-	-	-	-	122	-
Off-balance sheet commitments	102 386	71 614	1 182	-	(54 411)	-	120 771	(17 203)
Total financial assets and off-balance sheet commitments	**5 892 247**	**1 252 359**	**102 861**	**(445 965)**	**(720 759)**	**(97 739)**	**5 983 004**	**(531 600)**
Impairment of other assets								
Investments in associates	60	-	-	-	-	-	60	-
Intangible assets	10 961	-	-	-	-	-	10 961	-
Property, plant and equipment	6 667	610	1 569	(152)	-	(243)	8 451	(610)
Investment properties	8 682	-	-	-	-	-	8 682	-
Other	76 532	9 167	626	(3 592)	(3 093)	(1 904)	77 736	(6 074)
Total impairment of other assets	**102 902**	**9 777**	**2 195**	**(3 744)**	**(3 093)**	**(2 147)**	**105 890**	**(6 684)**
Total	**5 995 149**	**1 262 136**	**105 056**	**(449 709)**	**(723 852)**	**(99 886)**	**6 088 894**	**(538 284)**

(*) Including foreign exchange differences and transfers between positions.
(**) 'Impairment of financial assets and off-balance sheet commitments' includes net impairment in the amount of PLN minus 531 600 thousand and proceeds from recovered bad debt in the amount of PLN 14 042 thousand, the total is PLN minus 517 558 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

2014	OPENING BALANCE	INCREASES			DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT(**)
		BUSINESS COMBINATIONS	IMPARIMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPARIMENT CHARGES	OTHER (*)		
Impairment of financial assets and off-balance sheet commitments									
Loans and advances to banks valued at amortized cost	25 721	-	610	1 176	-	(7 937)	(210)	19 360	7 327
Loans and advances to customers valued at amortized cost	5 028 177	229 996	1 159 782	41 212	(207 144)	(586 612)	(82 933)	5 582 478	(573 170)
Receivables from financial leases	175 111	-	30 304	50	(4)	(17 560)	-	187 901	(12 744)
Financial assets available for sale	123	-	-	-	-	-	(1)	122	-
Off-balance sheet commitments	113 932	-	67 469	709	-	(79 724)	-	102 386	12 255
Total financial assets and off-balance sheet commitments	**5 343 064**	**229 996**	**1 258 165**	**43 147**	**(207 148)**	**(691 833)**	**(83 144)**	**5 892 247**	**(566 332)**
Impairment of other assets									
Investments in associates	60	-	-	-	-	-	-	60	-
Intangible assets	10 961	-	-	-	-	-	-	10 961	-
Property, plant and equipment	6 830	-	-	-	(163)	-	-	6 667	-
Investment properties	3 080	-	-	6 152	-	-	(550)	8 682	-
Other	65 544	-	12 030	-	-	(1 042)	-	76 532	(10 988)
Total impairment of other assets	**86 475**	**-**	**12 030**	**6 152**	**(163)**	**(1 042)**	**(550)**	**102 902**	**(10 988)**
Total	**5 429 539**	**229 996**	**1 270 195**	**49 299**	**(207 311)**	**(692 875)**	**(83 694)**	**5 995 149**	**(577 320)**

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

(**) 'Impairment of financial assets and off-balance sheet commitments' includes net impairment in the amount of PLN minus 566 332 thousand and proceeds from recovered bad debt in the amount of PLN 6 757 thousand, the total is PLN minus 559 575 thousand.

(In PLN thousand)

19. Gains (losses) on subsidiaries and associates

Share of profit (losses) from associates

	2015	2014
Share in gains (losses) from associates		
Dom Inwestycyjny Xelion Sp.z.o.o.	1 965	1 452
Pioneer Pekao Investment Management S.A.	44 649	51 795
Krajowa Izba Rozliczeniowa S.A.	5 477	9 963
Total share in gains (losses) from associates	**52 091**	**63 210**
Gains on liquidation of subsidiaries	**55**	**-**
Gains (losses) on disposal of associates	**61 057**	**-**
Total gains (losses) from subsidiaries and associates	**113 203**	**63 210**

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

	2015	2014
Gains (losses) on disposal of property, plant and equipment classified as assets held for sale	-	561
Gains (losses) on de-recognition of property, plant and equipment and intangible assets other than classified as assets held for sale	12 373	1 236
Total gains (losses) on disposal of property plant and equipment and intangible assets	**12 373**	**1 797**

21. Income tax

The below additional information notes present the Group gross profit's.

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

	2015	2014
Profit before income tax	**2 831 118**	**3 359 689**
Tax charge according to applicable tax rate	**537 912**	**638 341**
Permanent differences:	**(272)**	**(3 768)**
Non taxable income	(28 950)	(30 829)
Non tax deductible costs	29 252	29 400
Impact of other tax rates applied under a different tax jurisdiction	-	-
Impact of utilized tax losses	-	-
Tax relieves not included in the income statement	185	111
Other	(759)	(2 450)
Effective income tax charge on gross profit	**537 640**	**634 573**

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

	2015	2014
INCOME STATEMENT		
Current tax	**(469 589)**	**(735 376)**
Current tax charge in the income statement	(489 233)	(739 302)
Adjustments related to the current tax from previous years	22 393	7 433
Other taxes (e.g. withholding tax, income tax relating to foreign branch)	(2 749)	(3 507)
Deferred tax	**(68 051)**	**100 803**
Occurrence and reversal of temporary differences	(68 051)	100 803
Tax charge in the consolidated income statement	**(537 640)**	**(634 573)**
EQUITY		
Deferred tax	**60 338**	**(115 110)**
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments - cash flows hedges	17 735	(31 941)
revaluation of available for sale financial assets – debt securities	84 422	(92 952)
revaluation of available for sale financial assets – equity securities	(39 368)	1 359
Tax on items that are or may be reclassified subsequently to profit or loss	**62 789**	**(123 534)**
Tax charge on items that will never be reclassified to profit or loss	**(2 451)**	**8 424**
revaluation of the defined benefit liabilities	(2 451)	8 424
Total charge	**(477 302)**	**(749 683)**

Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2015									
	OPENING BALANCE			CHANGES RECOGNIZED		CHANGES RESULTING FROM CHANGES IN THE SCOPE OF CONSOLIDATION AND OTHER		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	IN THE INCOME STATEMENT	IN EQUITY	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENTS	IN EQUITY
DEFFERED TAX LIABILITY										
Accrued income – securities	-	-	-	-	-	-	-	-	-	-
Accrued income – loans	104 485	104 485	-	24 055	-	-	-	128 540	128 540	-
Change in revaluation of financial assets	258 875	113 075	145 800	(93 473)	(62 789)	59	118	102 790	19 661	83 129
Accelerated depreciation	125 491	125 491	-	(2 165)	-	-	-	123 326	123 326	-
Investment relief	6 459	6 459	-	(735)	-	-	-	5 724	5 724	-
Other	90 351	90 351	-	(233)	-	-	-	90 118	90 118	-
Gross deferred tax liability	**585 661**	**439 861**	**145 800**	**(72 551)**	**(62 789)**	**59**	**118**	**450 498**	**367 369**	**83 129**
DEFFERED TAX ASSET										
Accrued expenses – securities	97 700	97 700	-	(74 334)	-	-	-	23 366	23 366	-
Accrued expenses – loans and deposits	40 482	40 482	-	4 857	-	-	-	45 339	45 339	-
Downward revaluation of financial assets	298 354	298 354	-	(44 155)	-	2 759	-	256 958	256 958	-
Income received to be amortized over time from loans and current accounts	156 639	156 639	-	17 458	-	-	-	174 097	174 097	-
Loan provision expenses	524 936	524 936	-	(31 608)	-	-	-	493 328	493 328	-
Personnel related provisions	105 139	86 205	18 934	9 942	(2 451)	2 027	-	114 657	98 174	16 483
Accruals	25 331	25 331	-	(5 814)	-	-	-	19 517	19 517	-
Previous year loss	-	-	-	(1 412)	-	11 445	-	10 033	10 033	-
Other	212 406	212 406	-	(15 536)	-	26 601	-	223 471	223 471	-
Gross deferred tax asset	**1 460 987**	**1 442 053**	**18 934**	**(140 602)**	**(2 451)**	**42 832**	**-**	**1 360 766**	**1 344 283**	**16 483**
Deferred tax expenses	**x**	**x**	**x**	**(68 051)**	**60 338**	**42 773**	**(118)**	**x**	**x**	**x**
Net deferred tax assets	**877 419**	**1 004 285**	**(126 866)**	**x**	**x**	**x**	**x**	**915 204**	**981 850**	**(66 646)**
Net deferred tax provision	**2 093**	**2 093**	**x**	**x**	**x**	**x**	**x**	**4 936**	**4 936**	**x**

Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2014									
	OPENING BALANCE			CHANGES RECOGNIZED		CHANGES RESULTING FROM CHANGES IN THE SCOPE OF CONSOLIDATION AND OTHER		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	IN THE INCOME STATEMENT	IN EQUITY	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENTS	IN EQUITY
DEFFERED TAX LIABILITY										
Accrued income – securities	-	-	-	-	-	-	-	-	-	-
Accrued income – loans	79 723	79 723	-	24 279	-	483	-	104 485	104 485	-
Change in revaluation of financial assets	70 017	47 751	22 266	65 258	123 534	66	-	258 875	113 075	145 800
Accelerated depreciation	129 630	129 630	-	(4 458)	-	319	-	125 491	125 491	-
Investment relief	6 867	6 867	-	(408)	-	-	-	6 459	6 459	-
Other	72 837	72 837	-	10 368	-	7 146	-	90 351	90 351	-
Gross deferred tax liability	**359 074**	**336 808**	**22 266**	**95 039**	**123 534**	**8 014**	**-**	**585 661**	**439 861**	**145 800**
DEFFERED TAX ASSET										
Accrued expenses – securities	21 676	21 676	-	76 024	-	-	-	97 700	97 700	-
Accrued expenses – loans and deposits	40 449	40 449	-	(720)	-	753	-	40 482	40 482	-
Downward revaluation of financial assets	195 156	195 156	-	103 198	-	-	-	298 354	298 354	-
Income received to be amortized over time from loans and current accounts	129 979	129 979	-	23 227	-	3 433	-	156 639	156 639	-
Loan provision expenses	533 732	533 732	-	(8 796)	-	-	-	524 936	524 936	-
Personnel related provisions	92 651	82 141	10 510	3 650	8 424	414	-	105 139	86 205	18 934
Accruals	18 045	18 045	-	7 231	-	55	-	25 331	25 331	-
Previous year loss	-	-	-	-	-	-	-	-	-	-
Other	219 443	219 443	-	(7 972)	-	935	-	212 406	212 406	-
Gross deferred tax asset	**1 251 079**	**1 240 621**	**10 510**	**195 842**	**8 424**	**5 590**	**-**	**1 460 987**	**1 442 053**	**18 934**
Deferred tax expenses	**X**	**X**	**X**	**100 803**	**(115 110)**	**(2 424)**	**X**	**X**	**X**	**X**
Net deferred tax assets	**895 320**	**907 076**	**(11 756)**	**X**	**X**	**X**	**X**	**877 419**	**1 004 285**	**(126 866)**
Net deferred tax provision	**3 263**	**3 263**	**X**	**X**	**X**	**X**	**X**	**2 093**	**2 093**	**X**

(In PLN thousand)

In the opinion of the Group the deferred tax asset in the amount of PLN 915 204 thousand reported as at 31 December 2015 is sustainable in total amount. The analysis was performed based on the past results of the Group's companies and assumed results in the future periods. The analysis assumed the five years' time horizon.

As at 31 December 2015, there were temporary differences related to investments in subsidiaries and associates, for which deferred tax liability was not created as a result of meeting the conditions of controlling the terms of temporary differences' reversing and being probable that these differences will not reverse in foreseeable future.

The table below presents the amount of negative temporary differences, unrecognized tax losses, unutilized tax reliefs, in relation to which deferred tax asset was not recognized in the statement of financial position as well as the expiration date of temporary differences.

EXPIRATION YEAR OF TEMPORARY DIFFERENCES	AMOUNT OF DIFFERENCES AS AT 31.12.2015	AMOUNT OF DIFFERENCES AS AT 31.12.2014
2015	-	602
2016	20 753	-
2017	13 193	49
2018	10 150	1 959
2019	8 801	-
2020	888	-
No time limits	26 448	26 448
Total	**80 233**	**29 058**

22. Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing net profit attributable to equity holders of the Group by the weighted average number of the ordinary shares outstanding during the period.

	2015	2014
Net profit	2 292 459	2 714 714
Weighted average number of ordinary shares in the period	262 470 034	262 470 034
Earnings per share (in PLN per share)	8.73	10.34

Diluted earnings per share

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

As at 31 December 2015 there no diluting instruments in the form of convertible bonds in the Group.

	2015	2014
Net profit	2 292 459	2 714 714
Weighted average number of ordinary shares in the period	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	8.73	10.34

Notes to the financial statements (cont.)

(In PLN thousand)

23. Dividend proposal

The Management Board of the Bank has decided to propose to the Ordinary General Meeting of Shareholders a dividend payment for 2015 in the amount of PLN 8.70 per share. Total dividend proposed to be paid amounts to PLN 2 283 489 thousand. The dividend has not been recognized as liabilities and there are no tax consequences for the Bank.

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

24. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	31.12.2015	31.12.2014
Cash	2 951 414	3 399 335
Current account at Central Bank	4 930 181	5 826 907
Other	12	12
Total	**7 881 607**	**9 226 254**

AMOUNTS DUE TO CENTRAL BANK	31.12.2015	31.12.2014
Term deposits	914	971
Total	**914**	**971**

Cash and balances with Central Bank by currencies

31.12.2015	ASSETS	LIABILITIES
PLN	6 900 383	914
EUR	513 012	-
USD	247 073	-
CHF	64 635	-
Other currencies	156 504	-
Total	**7 881 607**	**914**

31.12.2014	ASSETS	LIABILITIES
PLN	7 719 529	971
EUR	834 006	-
USD	246 688	-
CHF	72 104	-
Other currencies	353 927	-
Total	**9 226 254**	**971**

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

As at 31 December 2015 the interest rate of funds held on the mandatory reserve account is at 1.35% (0.9 of NBP reference rate). As at 31 December 2014 the interest rate was at 1.8% (0.9 of rediscount rate for bills of exchange).

Notes to the financial statements (cont.)

(In PLN thousand)

25. Loans and advances to banks

Loans and advances to banks by product type

	31.12.2015	31.12.2014
Current accounts	89 553	1 048 021
Interbank placements	3 461 155	2 337 801
Loans and advances	59 224	156 224
Cash collateral	1 675 589	1 675 036
Reverse repo transactions	1 757 063	1 930 808
Cash in transit	291 914	41 342
Total gross amount	**7 334 498**	**7 189 232**
Impairment allowances	(19 774)	(19 360)
Total net amount	**7 314 724**	**7 169 872**

Loans and advances to banks by quality

	31.12.2015	31.12.2014
Loans and advances to banks, including:		
non impaired (gross)	7 314 771	7 170 272
impaired (gross)	19 727	18 960
individual impairment allowances	(9 927)	(9 160)
collective impairment allowances (*)	(9 847)	(10 200)
Total	**7 314 724**	**7 169 872**

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

Loans and advances to banks by contractual maturities

	31.12.2015	31.12.2014
Loans and advances to banks, including:		
up to 1 month	6 919 511	6 185 886
between 1 and 3 months	11 481	194 601
between 3 months and 1 year	21 852	408 533
between 1 and 5 years	351 334	367 091
over 5 years	2	-
past due	30 318	33 121
Total gross amount	**7 334 498**	**7 189 232**
Impairment allowances	(19 774)	(19 360)
Total net amount	**7 314 724**	**7 169 872**

Notes to the financial statements (cont.)

(In PLN thousand)

Loans and advances to banks by currencies

	31.12.2015	31.12.2014
PLN	2 758 456	2 709 014
CHF	30 586	3 457
EUR	1 959 303	2 739 042
USD	2 214 880	1 553 787
Other currencies	351 499	164 572
Total	**7 314 724**	**7 169 872**

Changes in the level of impairment allowances in 2015 and 2014 are presented in the Note 18.

26. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	31.12.2015	31.12.2014
FINANCIAL ASSETS		
Debt securities	1 124 717	448 453
Equity securities	2 075	-
Total financial assets	**1 126 792**	**448 453**
FINANCIAL LIABILITIES		
Debt securities	611 442	591 311
Total financial liabilities	**611 442**	**591 311**

Debt securities held for trading

	31.12.2015	31.12.2014
FINANCIAL ASSETS		
Debt securities issued by State Treasury	1 003 007	310 653
T- bills	-	-
T- bonds	1 003 007	310 653
Debt securities issued by banks	45 590	54 688
Debt securities issued by business entities	76 120	83 112
Debt securities issued by local governments	-	-
Total financial assets	**1 124 717**	**448 453**
FINANCIAL LIABILITIES		
Debt securities issued by State Treasury	611 442	591 311
T- bonds	611 442	591 311
Total financial liabilities	**611 442**	**591 311**

Equity securities held for trading

31.12.2014	31.12.2015	31.12.2014
Shares	2 075	-
Total	**2 075**	**-**

(In PLN thousand)

Debt securities held for trading by maturity

	31.12.2015	31.12.2014
FINANCIAL ASSETS		
Debt securities, including:		
up to 1 month	39 222	26 201
between 1 and 3 months	23 294	13 214
between 3 months and 1 year	358 297	65 729
between 1 and 5 years	163 737	163 072
over 5 years	532 443	180 237
unspecified term	7 724	-
Total financial assets	**1 124 717**	**448 453**
FINANCIAL LIABILITIES		
Debt securities, including:		
up to 1 month	-	-
between 1 and 3 months	-	-
between 3 months and 1 year	170 729	362 582
between 1 and 5 years	382 663	173 090
over 5 years	58 050	55 639
Total financial liabilities	**611 442**	**591 311**

Debt securities held for trading by currency

	31.12.2015	31.12.2014
FINANCIAL ASSETS		
PLN	1 110 529	403 194
EUR	10 072	41 876
USD	4 116	3 383
Total financial assets	**1 124 717**	**448 453**
FINANCIAL LIABILITIES		
PLN	611 442	591 311
Total financial liabilities	**611 442**	**591 311**

27. Derivative financial instruments (held for trading)

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

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

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

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

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

Barrier option with one barrier is a type of option where exercise of the option depends on the underlying crossing or reaching a given barrier level. A barrier may be reached starting from lower ('UP') or from higher ('DOWN') level of the underlying instrument. 'IN' options start their lives worthless and only become active when a predetermined knock-in barrier price is breached. 'OUT' options start their lives active and become null and void when a certain knock-out barrier price is breached.
Foreign exchange options are priced using the Garman-Kohlhagen valuation model (and in case of barrier and Asian options using the so-called expanded Garman-Kohlhagen model). Parameters of the model based on market quotations of plain-vanilla at-the-money options and market spreads for out-of-the-money and in-the-money options (volatility smile) for standard maturities.

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

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

Currency options embedded in deposits are valued as other currency options.

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

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

Risk involved in financial derivatives
Market risk and credit risk are the basic types of risk, associated with derivatives.

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Fair value of trading derivatives

31.12.2015	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	2 866 458	2 857 159
Forward Rate Agreements (FRA)	960	906
Options	10 129	10 046
Other	3 515	3 278
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	28 626	99 948
Currency Forward Agreements	80 894	76 309
Currency Swaps (Fx–Swap)	134 707	70 979
Options for currency and for gold	44 658	41 557
Transactions based on equity securities and stock indexes		
Options	8 366	8 366
Other	28	7 725
Transactions based on commodities and precious metals		
Options	12 120	12 182
Other	15 986	15 873
Total	**3 206 447**	**3 204 328**

31.12.2014	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	3 772 307	3 768 010
Forward Rate Agreements (FRA)	4 558	6 956
Options	13 263	13 076
Other	110	84
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	37 844	70 612
Currency Forward Agreements	149 724	82 594
Currency Swaps (Fx-Swap)	143 469	146 153
Options for currency and gold	46 657	52 016
Transactions based on equity securities and stock indexes		
Options	5 387	5 390
Other	-	-
Transactions based on commodities and precious metals		
Options	41	41
Other	274 615	272 774
Total	**4 447 975**	**4 417 706**

Notes to the financial statements (cont.)

(In PLN thousand)

Nominal value of trading derivatives

31.12.2015	CONTRACTUAL MATURITY UP TO 1MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Interest rate transactions						
Interest Rate Swaps (IRS)	5 430 113	7 313 716	11 740 420	71 051 076	16 922 760	112 458 085
Forward Rate Agreements (FRA)	2 710 000	1 715 000	2 600 000	-	-	7 025 000
Options	-	-	449 753	4 067 896	-	4 517 649
Other	2 151 319	-	-	-	-	2 151 319
Foreign currency and gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) - currency bought	-	-	190 050	1 767 090	738 117	2 695 257
Cross-Currency Interest Rate Swaps (CIRS) - currency sold	-	-	191 768	1 824 407	738 117	2 754 292
Currency Forward Agreements - currency bought	5 449 992	1 556 316	2 378 828	1 490 042	-	10 875 178
Currency Forward Agreements - currency sold	5 466 131	1 564 270	2 392 129	1 489 816	-	10 912 346
Currency Swaps (Fx-Swap) – currency bought	9 712 492	4 346 841	3 556 983	44 767	-	17 661 083
Currency Swaps (Fx-Swap) – currency sold	9 724 187	4 295 106	3 510 929	43 527	-	17 573 749
Options bought	449 287	437 335	2 339 376	1 921 686	-	5 147 684
Options sold	448 167	437 504	2 335 255	1 921 686	-	5 142 612
Transactions based on equity securities and stock indexes						
Options	83 326	81 857	-	-	-	165 183
Other	-	941	684	-	21 000	22 625
Transactions based on commodities and precious metals						
Options	55 650	38 465	180 543	23 048	-	297 706
Other	647	3 652	143 299	20 985	-	168 583
Total	**41 681 311**	**21 791 003**	**32 010 017**	**85 666 026**	**18 419 994**	**199 568 351**

Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2014	CONTRACTUAL MATURITY					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	1 147 611	6 245 573	13 828 726	73 737 584	22 134 988	117 094 482
Forward Rate Agreements (FRA)	1 000 000	3 250 000	14 850 000	-	-	19 100 000
Options	-	-	60 849	3 831 712	175 094	4 067 655
Other	280 688	-	-	-	-	280 688
Foreign currency and gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) - currency bought	-	-	-	1 147 838	663 859	1 811 697
Cross-Currency Interest Rate Swaps (CIRS) - currency sold	-	-	-	1 166 047	663 859	1 829 906
Currency Forward Agreements - currency bought	4 813 416	4 020 619	2 985 569	1 027 281	-	12 846 885
Currency Forward Agreements - currency sold	4 811 056	3 966 133	2 986 073	1 046 140	-	12 809 402
Currency Swaps (Fx-Swap) – currency bought	12 471 749	5 122 372	881 967	-	-	18 476 088
Currency Swaps (Fx-Swap) – currency sold	12 456 157	5 131 739	877 453	-	-	18 465 349
Options bought	279 014	329 465	248 512	1 848 245	-	2 705 236
Options sold	273 929	332 571	248 814	1 848 245	-	2 703 559
Transactions based on equity securities and stock indexes						
Options	-	-	200 058	165 183	-	365 241
Other	-	-	-	-	-	-
Transactions based on commodities and precious metals						
Options	-	-	-	15 313	-	15 313
Other	435 895	-	-	869 387	-	1 305 282
Total	**37 969 515**	**28 398 472**	**37 168 021**	**86 702 975**	**23 637 800**	**213 876 783**

Notes to the financial statements (cont.)

(In PLN thousand)

28. Loans and advances to customers

Loans and advances to customers by product type

	31.12.2015	31.12.2014
Mortgage loans	49 206 023	40 799 856
Current accounts	11 230 205	10 892 636
Operating loans	15 070 467	15 253 042
Investment loans	17 071 901	20 177 440
Cash loans	9 087 671	7 804 086
Payment cards receivables	873 287	805 590
Purchased debt receivables	2 636 097	3 135 495
Other loans and advances	1 855 173	2 297 484
Debt securities	12 376 949	10 442 561
Reverse repo transactions	4 755 472	5 789 064
Cash in transit	70 587	57 172
Total gross amount	**124 233 832**	**117 454 426**
Impairment allowances	(5 678 633)	(5 582 478)
Total net amount	**118 555 199**	**111 871 948**

Loans and advances to customers by customer type

	31.12.2015	31.12.2014
Corporate	58 541 698	56 324 459
Individuals	54 155 797	49 309 571
Budget entities	11 536 337	11 820 396
Total gross amount	**124 233 832**	**117 454 426**
Impairment allowances	(5 678 633)	(5 582 478)
Total net amount	**118 555 199**	**111 871 948**

Loans and advances to customers by quality

	31.12.2015	31.12.2014
Loans and advances to customers, including:		
non impaired (gross)	116 339 786	109 456 509
impaired (gross)	7 894 046	7 997 917
individual impairment allowances	(3 248 513)	(2 965 669)
collective impairment allowances (*)	(2 430 120)	(2 616 809)
Total	**118 555 199**	**111 871 948**

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

Notes to the financial statements (cont.)

(In PLN thousand)

Loans and advances to customers by contractual maturities

	31.12.2015	31.12.2014
Loans and advances to customers, including:		
up to 1 month	17 494 117	18 925 405
between 1 and 3 months	4 172 392	3 199 478
between 3 months and 1 year	12 542 056	10 576 253
between 1 and 5 years	37 537 504	36 359 689
over 5 years	46 398 538	42 303 745
past due	6 089 225	6 089 856
Total gross amount	**124 233 832**	**117 454 426**
Impairment allowances	(5 678 633)	(5 582 478)
Total net amount	**118 555 199**	**111 871 948**

Loans and advances to customers by currencies

	31.12.2015	31.12.2014
PLN	98 406 507	92 504 616
CHF	4 975 796	4 934 512
EUR	11 871 781	11 122 123
USD	3 198 687	3 187 087
Other currencies	102 428	123 610
Total	**118 555 199**	**111 871 948**

Changes in impairment allowances in 2015 and 2014 are presented in the Note 18.

29. Receivables from finance leases

The Group conducts leasing operations through its subsidiary Pekao Leasing Sp. z o.o.

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

31.12.2015	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASING PAYMENTS
Up to 1 year	1 464 287	1 355 346
Between 1 and 5 years	2 156 562	2 037 787
Over 5 years	284 717	274 550
Total	**3 905 566**	**3 667 683**
Unrealized financial income	(237 883)	
Net leasing investment	**3 667 683**	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	3 667 683	
Impairment allowances	(163 704)	
Balance sheet value	**3 503 979**	

Notes to the financial statements (cont.)

(In PLN thousand)

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

31.12.2014	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASING PAYMENTS
Up to 1 year	1 400 757	1 270 838
Between 1 and 5 years	1 938 819	1 789 065
Over 5 years	276 817	240 046
Total	**3 616 393**	**3 299 949**
Unrealized financial income	(316 444)	
Net leasing investment	**3 299 949**	
Unguaranteed residual values accruing to the benefit of the lessor	-	
Present value of minimum lease payments	3 299 949	
Impairment allowances	(187 901)	
Balance sheet value	**3 112 048**	

The Group is acting as a lessor in finance leases mainly for transport vehicles, machines and equipment.

Moreover, when the Group is a lessee in a finance lease contract among the Group entities, the inter-company transactions relating to the finance lease are eliminated in the consolidated financial statements.

Lease financing receivables from banks by quality

	31.12.2015	31.12.2014
Receivables from financial leases from banks, including:		
non impaired (gross)	4 334	6 062
impaired (gross)	-	-
individual impairment allowances	-	(41)
collective impairment allowances (*)	(11)	(1)
Total	**4 323**	**6 020**

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

Lease financing receivables from customers by quality

	31.12.2015	31.12.2014
Receivables from financial leases from customers, including:		
non impaired (gross)	3 435 904	3 054 742
impaired (gross)	227 445	239 145
individual impairment allowances	(31 556)	(40 506)
collective impairment allowances (*)	(132 137)	(147 353)
Total	**3 499 656**	**3 106 028**

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

Receivables from finance leases by currencies

	31.12.2015	31.12.2014
PLN	2 227 320	2 007 147
CHF	2 390	3 483
EUR	1 270 687	1 096 026
USD	3 582	5 392
Total	**3 503 979**	**3 112 048**

Changes in impairment allowances in 2015 and 2014 are presented in the Note 18.

(In PLN thousand)

30. Hedge accounting

As at 31 December 2015 the Group applies fair value hedge accounting and cash flow hedge accounting.

In the period from 1 January to 31 December 2015 the Group continued to apply the following hedge accounting:

- fair value hedge accounting for fixed coupon debt securities classified as available-for-sale (AFS) hedged with interest rate swap (IRS) transactions – described in point 1 of the table with details of hedging relationships,
- cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions – described in point 2 of the table with details of hedging relationships,
- cash flow hedge accounting for floating-rate financial assets hedged with interest rate swap (IRS) transactions – described in point 3 of the table with details of hedging relationships,
- cash flow hedge accounting for variable portfolio of loans in EUR and USD hedged with Fx-Swap instruments – described in point 4 of the table with details of hedging relationships.

In the period from 1 January to 31 December 2015 the Group designated to the fair value hedge accounting fixed coupon debt securities classified as loans and receivables hedged with interest rate swaps (IRS) – described in point 5 of the table with details of hedging relationships.

The table below presents the fair values of hedging derivatives

31.12.2015	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	5 737	269 817
Cross-currency interest rate swaps (CIRS)	-	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	355 731	-
Cross-currency interest rate swaps (CIRS)	56 840	1 431 956
Fx-Swaps	3 332	986
Total	**421 640**	**1 702 759**

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

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents nominal values of hedging derivatives

31.12.2015	CONTRACTS ACCORDING TO MATURITIES UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Fair value hedge accounting						
Interest rate swaps (IRS)	-	-	-	1 511 172	1 451 033	2 962 205
Cross-currency interest rate swaps (CIRS)	-	-	-	-	-	-
Cash flow hedge accounting						
Interest rate swaps (IRS)	-	-	215 000	3 775 000	-	3 990 000
Cross-currency interest rate swaps (CIRS)	-	-	2 708 866	10 972 969	4 507 339	18 189 174
Fx-Swaps	992 573	777 310	212 988	-	-	1 982 871
Total	**992 573**	**777 310**	**3 136 854**	**16 259 141**	**5 958 372**	**27 124 250**

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

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

	2015	2014
Revaluation reserves (deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge - gross value)	45 280	138 621
Net interest income on hedging derivatives	208 571	179 276
Ineffective portion in changes in fair value of hedging transactions recognized in income statement	795	527

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

	2015	2014
Opening balance	**138 621**	**(29 488)**
Deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge	(93 277)	168 057
Amount of the deferral of fair value changes of hedging instruments of the effective hedge removed from revaluation reserves and presented in net profit or loss	(64)	52
Closing balance	**45 280**	**138 621**

Notes to the financial statements (cont.)

(In PLN thousand)

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

TYPE OF GAINS/LOSSES	2015	2014
Gains/losses from revaluation of hedging instruments to fair value	40 167	(146 149)
Gains/losses from revaluation of hedged item associated with hedged risk to fair value	(34 620)	128 902
Result on fair value hedge accounting	**5 547**	**(17 247)**
Net interest income of hedging derivatives	(57 637)	(42 220)

Detailed description of hedging relationships applied by the Group during the period from 1 January to 31 December 2015

DESCRIPTION OF THE HEDGING RELATIONSHIP	HEDGED ITEM	HEDGING DERIVATIVES	FINANCIAL STATEMENTS PRESENTATION	PERIOD IN WHICH THE CASH FLOWS RELATED TO THE HEDGED ITEMS ARE EXPECTED TO OCCUR
1. Fair value hedge of fixed-coupon debt securities				
The Group hedges a portion of the interest rate risk resulting from the fair value changes of the hedged item related to the volatility of market swap curves with the designated IRS transactions.	The hedged items are fixed coupon debt securities classified as AFS denominated in PLN, EUR and USD.	The hedging derivatives consist of IRS transactions in PLN, EUR and USD (short position in fixed-rate) for which the Group receives floating-rate payments, and pays fixed-rate.	The result of the change in the hedged items' fair value that relates to the hedged risk is presented in the income statement line item 'Result on fair value hedge accounting'. The remaining portion of the change in the hedged items' fair value (resulting from spread between swap yield curve and bond yield curve) is recognized in accordance with the accounting principles applicable to AFS (i.e. in the revaluation reserve in equity). Interest accrued on AFS bonds is presented in the net interest income. Changes in the fair value of hedging derivatives under the fair value hedge accounting are presented in the income statement line item 'Result on fair value hedge accounting'. Interest accrued on the hedging derivatives under the fair value hedge accounting is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 10 May 2027.
2. Cash flow hedge of floating-rate loans and floating-rate deposits				
The Group hedges a portion of the interest rate risk and the foreign currency risk resulting from the volatility of cash flows from floating-rate assets and liabilities with the designated CIRS transactions (basis swap).	Hedged item consists of two separate components, which are cash flows arising from floating-rate assets portfolio and floating-rate liabilities portfolio.	Hedging derivatives consist of a portfolio of CIRS transactions (basis swap), where the Group pays floating-rate currency cash flows, and receives floating-rate PLN/currency cash-flows. CIRS transactions are decomposed into the part hedging the assets portfolio and the part hedging the liabilities portfolio.	The effective portion of the change in fair value of hedging derivatives' is recognized in the revaluation reserve in equity. The ineffective portion of the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading. The interest on CIRS transactions and hedged items is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 15 May 2029.
3. Cash flow hedge of floating-rate loans				
The Group hedges a portion of the interest rate risk related to the volatility of cash flows on floating-rate assets with the designated IRS transactions.	The hedged items consist of the cash flows from floating-rate assets.	The hedging derivatives consist of portfolio of IRS transactions (short position in floating rate – the Group receives fixed payments and pays floating-rate).	The effective portion of the change in fair value of hedging derivatives is recognized in the revaluation reserve in equity. The ineffective portion of change in fair value hedging derivatives is recognized in the result on financial assets and liabilities held for trading. The interest on IRS transactions and hedged items is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 29 April 2020.

(In PLN thousand)

DESCRIPTION OF THE HEDGING RELATIONSHIP	HEDGED ITEM	HEDGING DERIVATIVES	FINANCIAL STATEMENTS PRESENTATION	PERIOD IN WHICH THE CASH FLOWS RELATED TO THE HEDGED ITEMS ARE EXPECTED TO OCCUR
4. Cash flow hedge of floating-rate currency assets hedged with Fx-Swap transactions against the exchange and interest rate risk				
The Group hedges volatility of cash flows constituting floating-rate financial assets (loans in EUR and USD) with Fx-Swap transactions. The currency and interest rate risk is hedged.	Loans with variable interest rate risk, denominated in EUR and USD constitute hedged items.	Fx-Swap transaction portfolio constitutes the hedging position.	The effective portion of the change in fair value of hedging derivatives is recognized in the revaluation reserve in equity. The ineffective portion of the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading. Settled part of the swap points on the hedging instrument is transferred from the revaluation reserve in equity and recognized in interest income. Currency revaluation regarding the first capital exchange on the hedging instrument is transferred from the revaluation reserve in equity and recognized in the foreign currency exchange result.	It is expected that the cash flows related to the hedged items will occur until 4 March 2016.
5. Fair value hedge of fixed-coupon debt securities				
The Group hedges a portion of the interest rate risk resulting from the fair value changes of the hedged item related to the volatility of market swap curves with the designated IRS transactions.	The hedged items are fixed coupon debt securities classified as loans and receivables, denominated in PLN.	The hedging derivatives consist of IRS transactions in PLN (short position in fixed-rate) for which the Group receives floating-rate payments, and pays fixed-rate.	The result of the change in the hedged items' fair value that relates to the hedged risk is presented in the income statement line item 'Result on fair value hedge accounting'. Interest accrued on bonds is presented in the net interest income. Changes in the fair value of hedging derivatives under the fair value hedge accounting are presented in the income statement line item 'Result on fair value hedge accounting'. Interest accrued on the hedging derivatives under the fair value hedge accounting is presented in the net interest income.	It is expected that the cash flows related to the hedged items will occur until 6 October 2022.

31. Investment (placement) securities

	31.12.2015	31.12.2014
Debt securities available for sale (AFS)	17 517 884	23 039 453
Equity securities available for sale (AFS)	295 415	71 755
Debt securities held to maturity (HTM)	3 368 424	1 601 568
Total	**21 181 723**	**24 712 776**

Debt securities available for sale (AFS)

	31.12.2015	31.12.2014
Securities issued by State Treasury	15 954 349	15 940 434
T-bills	-	-
T-bonds	15 954 349	15 940 434
Securities issued by Central Banks	628 454	6 147 781
Securities issued by business entities	251 367	248 985
Securities issued by local governments	683 714	702 253
Total	**17 517 884**	**23 039 453**
including impairment of assets	-	-

Notes to the financial statements (cont.)

(In PLN thousand)

Equity securities available for sale (AFS)

	31.12.2015	31.12.2014
Shares	295 415	71 755
Total	**295 415**	**71 755**
including impairment of assets	(122)	(122)

The amount of equity securities as at 31 December 2015 includes the fair value of share in Visa Europe.

In December 2015, the Bank received information concerning the proposed allocation of settlement of the purchase of Visa Europe Limited (Visa Europe) by Visa Inc., according to which the total share of the Bank in settlement of the transaction is expected to be 54 891 445 EUR, including:

- 40 866 611 EUR in cash and
- 14 024 834 EUR in shares of Visa Inc.,

with the provision that these amounts may be adjusted in connection with the transaction costs or possible claims of members of Visa Europe Limited for their participation in the settlement of the transaction.

The transaction is subject to receipt of applicable regulatory approvals and closing is expected in the second quarter of 2016.

In connection with the transaction, the Bank re-measured its share in Visa Europe to fair value. For this purpose the fair value to be attributed to Visa Europe share includes only the cash component of the settlement amount, i.e. EUR 40 866 611 (PLN 174 153 063 as at 31 December 2015). The valuation was recognized in 'Revaluation reserve'. The Bank does not take into account in the valuation of equity part, because the Bank was not able to reliably measure its value. Terms of the deal provide that upon settlement of the transaction the Bank will receive preferred shares of Visa Inc., which will then be converted into ordinary shares. The conversion of preference shares into ordinary shares will be carried out in the period from the fourth to the twelfth year after closing of the transaction. For this period any transfer of shares by the Bank is subject to restrictions.

In addition, the transaction between Visa Inc. and Visa Europe provides for the deferred payment of 'earn-out' payable in cash after the 16 quarters of the settlement, but its value is not yet possible to be determined. The condition to participate in the earn-out option is participation in Visa for another 4 years from the date of finalization of the transaction.

Debt securities held to maturity (HTM)

	31.12.2015	31.12.2014
Securities issued by State Treasury	2 497 324	750 123
T- bills	-	-
T- bonds	2 497 324	750 123
Securities issued by Central Banks	871 100	851 445
Total	**3 368 424**	**1 601 568**
including impairment of assets	-	-

Investment debt securities according to contractual maturities

	31.12.2015	31.12.2014
Debt securities, including:		
up to 1 month	1 499 554	6 999 226
between 1 and 3 months	443 644	-
between 3 months and 1 year	2 696 342	590 517
between 1 and 5 years	10 646 471	13 506 159
over 5 years	5 600 297	3 545 119
Total	**20 886 308**	**24 641 021**

Notes to the financial statements (cont.)

(In PLN thousand)

Investment debt securities according to currencies

	31.12.2015	31.12.2014
PLN	17 835 368	20 673 366
EUR	2 635 034	2 027 262
USD	415 906	1 940 393
Total	**20 886 308**	**24 641 021**

Changes in investment (placement) securities

	2015	2014
SECURITIES AVAILABLE FOR SALE (AFS)		
Opening balance	**23 111 208**	**33 033 967**
Increases (purchase)	217 273 604	351 556 577
Decreases (sale and redemption)	(222 978 862)	(362 969 923)
Changes in fair value	(257 139)	609 034
Exchange rate differences	179 036	301 923
Accrued interest	618 156	661 684
Other changes	(132 704)	(82 054)
Closing balance	**17 813 299**	**23 111 208**
DEBT SECURITIES HELD UNTIL MATURITY (HTM)		
Opening balance	**1 601 568**	**1 961 770**
Increases (purchase)	47 236 297	44 003 016
Decreases (sale and redemption)	(45 530 013)	(44 409 321)
Accrued interest	21 238	29 188
Other changes	39 334	16 915
Closing balance	**3 368 424**	**1 601 568**
Net total investment (placement) securities	**21 181 723**	**24 712 776**

32. Reclassification of securities

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

In 2015 and 2014, the Group did not reclassify any financial instruments into other categories.

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

The tables below present the information on the reclassified financial assets

	AMOUNT OF RECLASSIFICATION	31.12.2015		31.12.2014	
		CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	1 331 580	68 974	65 191	73 987	69 820
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	602 507	666 725	673 607	672 495	686 090
Total	**1 934 087**	**735 699**	**738 798**	**746 482**	**755 910**

Notes to the financial statements (cont.)

(In PLN thousand)

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

31.12.2015	NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	REVALUATION RESERVE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	-	127
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	(6 713)	-
Total	**(6 713)**	**127**

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

Net interest income on reclassified financial assets

	2015	2014
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	1 998	2 511
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	12 770	15 922
Total	**14 768**	**18 433**

33. Assets and liabilities held for sale

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

As at 31 December 2015, non-current assets classified as held for sale are as follows:

- real estate,
- other property, plant and equipment.

Assets held for sale and liabilities associated with assets held for sale are presented below

	31.12.2015	31.12.2014
ASSETS HELD FOR SALE		
Property, plant and equipment	22 787	14 587
Other assets	22 515	22 515
Total assets	**45 302**	**37 102**

In 2015 the Bank sold 3 125 shares of Krajowa Izba Rozliczeniowa S.A. The shares retained by the Bank after the sale have been measured at fair value and are now the component of financial assets.

Notes to the financial statements (cont.)

(In PLN thousand)

Effect of disposal of shares in Krajowa Izba Rozliczeniowa S.A. recognized in the income statement of the Group

	2015
Sales proceeds	75 000
Fair value of retained shares	15 000
Carrying amount of the investment at the date the equity method was discontinued	(28 943)
Gross result on sale	**61 057**
Income tax expense	(16 744)
Net result on sale	**44 313**

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

ASSETS HELD FOR SALE	2015	2014
Opening balance	**37 102**	**45 864**
Increases including:	51 929	5 247
transfer from property, plant and equipment	27 008	-
transfer from investment properties	-	5 150
transfer from investments in associates	24 119	-
other changes	802	97
Decreases including:	(43 729)	(14 009)
transfer from property, plant and equipment	(13 460)	-
transfer from investment properties	-	(13 277)
sale of shares in associate	(24 119)	-
disposal	(5 879)	(732)
other changes	(271)	-
Stan na koniec okresu	**45 302**	**37 102**

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

	2015	2014
Sales revenues	5 150	1 293
Net carrying amount of disposed assets (including costs to sell)	(5 150)	(732)
Profit/loss on sale before income tax	**-**	**561**

(In PLN thousand)

34. Investments in associates

The below tables present the information about associates that are material to the Group

NAME OF ASSOCIATE	COUNTRY OF INCORPORATION AND PLACE OF BUSINESS	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING		MEASUREMENT METHOD	NATURE OF THE RELATIONSHIP
		31.12.2015	31.12.2014		
Dom Inwestycyjny Xelion Sp. z o.o.	Poland	50.00	50.00	Equity method	The strategic Entity providing affluent customers with services of assets management.
Pioneer Pekao Investment Management S.A.	Poland	49.00	49.00	Equity method	The Entity deals with management of investment funds assets and is of strategic importance for the Group that distributes and supporting such products.
Krajowa Izba Rozliczeniowa S.A.(*)	Poland	-	34.44	Equity method	The Entity provides services in the area of interbank clearings and plays a key role for the Group, providing access to such services.

(*) The percentage of the Group's ownership rights in share capital/voting is 5.74% as at 31 December 2015. The shares in the Company have been classified as 'Equity securities available for sale'.

The summarized financial information of the associates are presented below. Considering Pioneer Pekao Investment Management S.A. and Krajowa Izba Rozliczeniowa S.A., the information derives from the financial statements, which are in the process of auditing by the entities authorizing to audit financial statements. The audit opinions on those financial statements will be expressed after the release date of the consolidated financial statements of Bank Pekao S.A. Group.

	DOM INWESTYCYJNY XELION SP. Z O.O.		PIONEER PEKAO INVESTMENT MANAGEMENT S.A.		KRAJOWA IZBA ROZLICZENIOWA S.A.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015 (*)	31.12.2014
Current assets	48 090	42 537	313 553	333 727	36 370	48 991
Non-current assets	3 269	4 119	9 295	9 247	71 237	73 171
TOTAL ASSETS	**51 359**	**46 656**	**322 848**	**342 974**	**107 607**	**122 162**
Current liabilities	26 361	25 818	35 284	46 038	21 457	22 287
Non-current liabilities	3 913	3 683	5 070	7 171	2 110	2 121
TOTAL LIABILITIES	**30 274**	**29 501**	**40 354**	**53 209**	**23 567**	**24 408**
NET ASSETS	**21 085**	**17 155**	**282 494**	**289 765**	**84 040**	**97 754**

(*) The data as at the date when the equity method was discontinued.

	DOM INWESTYCYJNY XELION SP. Z O.O.		PIONEER PEKAO INVESTMENT MANAGEMENT S.A.		KRAJOWA IZBA ROZLICZENIOWA S.A.	
	2015	2014	2015	2014	2015 (*)	2014
Revenue	56 331	51 818	383 019	389 431	62 039	124 131
Net profit (loss) for the period from continuing operations	3 930	2 905	91 284	106 006	17 031	30 792
Other comprehensive income	-	-	36	(78)	-	-
Total comprehensive income	**3 930**	**2 905**	**91 320**	**105 928**	**17 031**	**30 792**

(*) The data to the date when the equity method was discontinued.

Notes to the financial statements (cont.)

(In PLN thousand)

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

	DOM INWESTYCYJNY XELION SP. Z O.O.		PIONEER PEKAO INVESTMENT MANAGEMENT S.A.		KRAJOWA IZBA ROZLICZENIOWA S.A.		TOTAL	
	2015	2014	2015	2014	2015	2014	2015	2014
Group's interest in net assets at beginning of the year	8 577	7 125	141 985	135 649	33 666	33 228	184 228	176 002
Group's interest in net profit (loss) for the period (*)	1 965	1 452	44 649	51 795	5 477	9 963	52 091	63 210
Group's interest in other comprehensive income	-	-	18	(38)	-	-	18	(38)
Dividend received from associates	-	-	(48 229)	(45 421)	(10 200)	(9 525)	(58 429)	(54 946)
Carrying amount of the investment in Krajowa Izba Rozliczeniowa S.A. at the date the equity method was discontinued	-	-	-	-	(28 943)	-	(28 943)	-
Group's interest in net assets at beginning of the year	10 542	8 577	138 423	141 985	-	33 666	148 965	184 228
Carrying amount of the interests	**10 542**	**8 577**	**138 423**	**141 985**	**-**	**33 666**	**148 965**	**184 228**

(*) Group's interest includes the changes in net profit (loss) for the previous period, that arose after the release date of financial statements of Bank Pekao S.A. Group and before the approval date of financial statements of particular associates.

35. Intangible assets

	31.12.2015	31.12.2014
Intangible assets, including:	581 197	571 512
research and development expenditures	7 948	10 412
licenses and patents	446 987	436 939
other	11 183	10 845
assets under construction	115 079	113 316
Goodwill	55 520	55 520
Total	**636 717**	**627 032**

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

Moreover in the line 'Goodwill' are presented:

- goodwill recognized upon acquisition of Spółdzielcza Kasa Oszczędnościowo – Kredytowa im. Mikołaja Kopernika by Bank Pekao S.A. It is determined the smallest identifiable cash-generating units ('CGU'), to which the goodwill has been allocated in the amount of PLN 960 thousand,
- goodwill recognized upon acquisition of Pekao Leasing i Finanse S.A. (formerly BPH Leasing S.A.) by Pekao Leasing Holding S.A. (ex. BPH PBK Leasing S.A.). It is determined the smallest identifiable cash-generating units ('CGU'), to which the goodwill has been allocated in the amount of PLN 2 885 thousand.

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

Notes to the financial statements (cont.)

(In PLN thousand)

The impairment test is performed by comparing the carrying amount of the CGU, including the goodwill, with the recoverable amount of the CGU. The recoverable amount is estimated on the basis of value in use of the CGU. The value in use is the present, estimated value of the future cash flows for the period of 5 years, taking into account the residual value of the CGU. The residual value of the CGU is calculated based on an extrapolation of cash flows projections beyond the forecast period using the growth rate of 2.5%. The forecasts of the future cash flows are based on the assumptions included the Bank's budget for 2016 and financial plan for 2017-2020. To discount the future cash flows, it is applied the discount rate of 7.73%, which includes the risk-free rate and the risk premium.

The impairment test performed as at 31 December 2015 showed the surplus of the recoverable amount over the carrying amount of the CGU, and therefore no CGU impairment was recognized.

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

2015	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
GROSS VALUE					
Opening balance	**89 362**	**2 132 059**	**49 663**	**113 316**	**2 384 400**
Increases including:	812	157 708	1 677	154 937	315 134
acquisitions	-	2 826	-	154 937	157 763
business combination	-	-	-	-	-
other	-	36 741	-	-	36 741
transfer from investments outlays	812	118 141	1 677	-	120 630
Decreases, including:	-	(10 196)	(14)	(153 174)	(163 384)
liquidation	-	(7 319)	-	-	(7 319)
other	-	(2 877)	(14)	(32 544)	(35 435)
transfer from investments outlays	-	-	-	(120 630)	(120 630)
Closing balance	**90 174**	**2 279 571**	**51 326**	**115 079**	**2 536 150**
ACCUMULATED AMORTIZATION					
Opening balance	**78 950**	**1 695 120**	**27 857**	**-**	**1 801 927**
Amortization	3 276	144 738	1 340	-	149 354
Liquidation	-	(7 228)	(15)	-	(7 243)
Other	-	(46)	-	-	(46)
Closing balance	**82 226**	**1 832 584**	**29 182**	**-**	**1 943 992**
IMPAIRMENT					
Opening balance	**-**	**-**	**10 961**	**-**	**10 961**
Closing balance	**-**	**-**	**10 961**	**-**	**10 961**
NET VALUE					
Opening balance	**10 412**	**436 939**	**10 845**	**113 316**	**571 512**
Closing balance	**7 948**	**446 987**	**11 183**	**115 079**	**581 197**

Notes to the financial statements (cont.)

(In PLN thousand)

2014	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
GROSS VALUE					
Opening balance	**90 484**	**2 034 712**	**38 668**	**111 028**	**2 274 892**
Increases including:	2 367	120 668	11 444	125 013	259 492
acquisitions	-	3 510	-	125 013	128 523
business combination	-	411	4 700	-	5 111
other	737	569	6 569	-	7 875
transfer from investments outlays	1 630	116 178	175	-	117 983
Decreases, including:	(3 489)	(23 321)	(449)	(122 725)	(149 984)
liquidation	(3 489)	(15 844)	(449)	(90)	(19 872)
other	-	(7 477)	-	(4 652)	(12 129)
transfer from investments outlays	-	-	-	(117 983)	(117 983)
Closing balance	**89 362**	**2 132 059**	**49 663**	**113 316**	**2 384 400**
ACCUMULATED AMORTIZATION					
Opening balance	**78 453**	**1 586 795**	**26 672**	**-**	**1 691 920**
Amortization	3 925	124 169	1 634	-	129 728
Liquidation	(3 489)	(15 844)	(449)	-	(19 782)
Other	61	-	-	-	61
Closing balance	**78 950**	**1 695 120**	**27 857**	**-**	**1 801 927**
IMPAIRMENT					
Opening balance	**-**	**-**	**10 961**	**-**	**10 961**
Closing balance	**-**	**-**	**10 961**	**-**	**10 961**
NET VALUE					
Opening balance	**12 031**	**447 917**	**1 035**	**111 028**	**572 011**
Closing balance	**10 412**	**436 939**	**10 845**	**113 316**	**571 512**

In the period from 1 January to 31 December 2015, the Group acquired intangible assets in the amount of PLN 157 763 thousand (in 2014 - PLN 128 523 thousand).

In the period from 1 January to 31 December 2015 and in 2014 there have been no intangible assets whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 31 December 2015 the contractual commitments for the acquisition of intangible assets amounted to PLN 49 487 thousand, whereas as at 31 December 2014 - PLN 35 372 thousand.

36. Property, plant and equipment

	31.12.2015	31.12.2014
Non-current assets, including:	1 376 409	1 458 085
land and buildings	1 055 147	1 103 973
machinery and equipment	245 717	261 076
transport vehicles	34 170	47 301
other	41 375	45 735
Non-current assets under construction and prepayments	84 243	86 054
Total	**1 460 652**	**1 544 139**

Notes to the financial statements (cont.)

(In PLN thousand)

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

2015	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
GROSS VALUE						
Opening balance	**2 303 114**	**1 495 518**	**94 510**	**344 297**	**86 054**	**4 323 493**
Increases, including:	49 589	79 072	7 718	7 385	110 597	254 361
acquisitions	9 541	12 235	4 324	1 611	110 132	137 843
other	2 228	1 053	3 360	77	465	7 183
transfer from non-current assets under construction	37 820	65 784	34	5 697	-	109 335
Decreases, including:	(74 578)	(121 932)	(19 059)	(25 368)	(111 825)	(352 762)
liquidation and sale	(29 005)	(121 719)	(11 692)	(25 335)	(53)	(187 804)
transfer to non-current assets held for sale	(26 956)	(52)	-	-	-	(27 008)
other	(18 617)	(161)	(7 367)	(33)	(2 437)	(28 615)
transfer from non-current assets under construction	-	-	-	-	(109 335)	(109 335)
Closing balance	**2 278 125**	**1 452 658**	**83 169**	**326 314**	**84 826**	**4 225 092**
ACCUMULATED DEPRECIATION						
Opening balance	**1 196 576**	**1 230 481**	**47 209**	**298 421**	**-**	**2 772 687**
Increases, including:	76 894	93 557	15 331	11 297	-	197 079
depreciation	69 957	84 941	14 923	10 026	-	179 847
other	6 937	8 616	408	1 271	-	17 232
Decreases, including: a\\	(54 391)	(120 948)	(13 541)	(24 897)	-	(213 777)
liquidation and sale	(33 002)	(120 742)	(13 533)	(24 883)	-	(192 160)
transfer to non-current assets held for sale	(13 414)	(47)	-	-	-	(13 461)
other	(7 975)	(159)	(8)	(14)	-	(8 156)
Closing balance	**1 219 079**	**1 203 090**	**48 999**	**284 821**	**-**	**2 755 989**
IMPAIRMENT						
Opening balance	**2 565**	**3 961**	**-**	**141**	**-**	**6 667**
Increases	1 560	35	-	1	583	2 179
Decreases	(226)	(145)	-	(24)	-	(395)
Closing balance	**3 899**	**3 851**	**-**	**118**	**583**	**8 451**
NET VALUE						
Opening balance	**1 103 973**	**261 076**	**47 301**	**45 735**	**86 054**	**1 544 139**
Closing balance	**1 055 147**	**245 717**	**34 170**	**41 375**	**84 243**	**1 460 652**

Notes to the financial statements (cont.)

(In PLN thousand)

2014	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
GROSS VALUE						
Opening balance	**2 277 707**	**1 500 970**	**86 167**	**343 302**	**93 006**	**4 301 152**
Increases, including:	44 678	73 992	29 165	17 494	122 356	287 685
acquisitions	75	1 150	3 128	645	121 022	126 020
business combination	3 006	1 261	144	295	5	4 711
other	-	653	25 893	58	1 329	27 933
transfer from non-current assets under construction	41 597	70 928	-	16 496	-	129 021
Decreases, including:	(19 271)	(79 444)	(20 822)	(16 499)	(129 308)	(265 344)
liquidation and sale	(19 271)	(78 787)	(19 938)	(16 465)	-	(134 461)
transfer to non-current assets held for sale	-	(657)	(884)	(34)	-	(1 575)
other	-	-	-	-	(287)	(287)
transfer from non-current assets under construction	-	-	-	-	(129 021)	(129 021)
Closing balance	**2 303 114**	**1 495 518**	**94 510**	**344 297**	**86 054**	**4 323 493**
ACCUMULATED DEPRECIATION						
Opening balance	**1 143 486**	**1 205 363**	**50 168**	**305 669**	**-**	**2 704 686**
Increases, including:	68 106	103 960	13 612	8 949	-	194 627
depreciation	68 106	103 393	13 612	8 900	-	194 011
other	-	567	-	49	-	616
Decreases, including: a\\	(15 016)	(78 842)	(16 571)	(16 197)	-	(126 626)
liquidation and sale	(15 016)	(78 246)	(16 571)	(16 163)	-	(125 996)
transfer to non-current assets held for sale	-	-	-	-	-	-
other	-	(596)	-	(34)	-	(630)
Closing balance	**1 196 576**	**1 230 481**	**47 209**	**298 421**	**-**	**2 772 687**
IMPAIRMENT						
Opening balance	**2 565**	**4 088**	**-**	**177**	**-**	**6 830**
Increases	-	-	-	-	-	-
Decreases	-	(127)	-	(36)	-	(163)
Closing balance	**2 565**	**3 961**	**-**	**141**	**-**	**6 667**
NET VALUE						
Opening balance	**1 131 656**	**291 519**	**35 999**	**37 456**	**93 006**	**1 589 636**
Closing balance	**1 103 973**	**261 076**	**47 301**	**45 735**	**86 054**	**1 544 139**

In the period from 1 January to 31 December 2015 the Group acquired property, plant and equipment in the amount of PLN 137 843 thousand (in 2014 - PLN 126 020 thousand), while the value of property, plant and equipment sold amounted to PLN 7 717 thousand (in 2014 - PLN 6 394 thousand).

The amount of compensations received from third parties for impairment of loss of property, plant and equipment items recognized in the income statement for 2015 stood at PLN 1 995 thousand (PLN 1 661 thousand in 2014).

In 2015 and 2014 there have been no restrictions to legal titles to property, plant and equipment, nor pledges in place as security for liabilities.

Contractual commitments

As at 31 December 2015 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 57 012 thousand, whereas as at 31 December 2014 - PLN 63 077 thousand.

(In PLN thousand)

37. Investment property

The Group values investment property using the historical cost model.

The rights to sell the investment property and the rights to transfer related revenues and profits are not a subject to limitations.

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

	2015	2014
GROSS VALUE		
Opening balance	**71 461**	**56 054**
Increases, including:	10 341	24 508
acquisitions	324	318
transfer from property plant and equipment	10 017	-
transfer from non-current assets held for sale	-	24 190
Decreases, including:	(15 549)	(9 101)
sale of real estate	(15 437)	(3 951)
transfer to non-current assets held for sale	-	(5 150)
other	(112)	-
Closing balance	**66 253**	**71 461**
ACCUMULATED DEPRECIATION		
Opening balance	**27 484**	**21 843**
Increases, including:	9 628	7 697
depreciation for the period	1 654	2 940
transfer from property plant and equipment	7 974	-
other	-	4 757
Decreases, including:	(9 762)	(2 056)
sale of real estate	(9 650)	(2 056)
other	(112)	-
Closing balance	**27 350**	**27 484**
IMPAIRMENT		
Opening balance	**8 682**	**3 080**
Increases, including:	-	6 152
impairment charges	-	6 152
Decreases, including:	-	(550)
sale of real estate	-	(550)
Closing balance	**8 682**	**8 682**
NET VALUE		
Opening balance	**35 295**	**31 131**
Closing balance	**30 221**	**35 295**

The fair value of investment property as at 31 December 2015 stood at PLN 43 889 thousand (PLN 53 435 thousand as at 31 December 2014). The fair value of investment property are categorized in Level 3 of the fair value hierarchy. The fair value was measured based on valuations of the property appraisers, having appropriate professional qualifications and recent experience in the location of the properties being valued. The valuations of investment property are based on investment method or profits method, taking into account such unobservable input data as expected rental growth rate, void periods, occupancy rate, discount rate.

(In PLN thousand)

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

	2015	2014
Rental revenues from investment properties	4 319	5 070
Direct operating expenses associated with investment properties (including repair and maintenance costs) which generated rental revenues during the reporting period	(1 485)	(1 556)
Direct operating expenses associated with investment properties (including repair and maintenance costs) which did not generate rental revenues during the reporting period	(371)	(494)

38. Other assets

	31.12.2015	31.12.2014
Prepaid expenses	112 514	108 060
Perpetual usufruct rights	15 181	15 434
Accrued income	52 595	37 203
Interbank and interbranch settlements	1 770	7 461
Other debtors	289 515	942 477
Card settlements	1 808 150	1 746 293
Total	**2 279 725**	**2 856 928**

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

The item 'Other debtors' includes assets for sale in the amount of PLN 90 thousand as at 31 December 2015 (PLN 7 thousand as at 31 December 2014). Assets for sale represent assets taken over for debts. They are presented in a debt value reduced by impairment charge, calculated as a difference between the amount of debt and fair value of taken over assets (if lower than the amount of debt). In case of surplus between the fair value of taken over asset and the amount of debt, the difference is recognized as a liability to debtor.

The Group disposes of the assets for sale taken over for debts. The period in which the assets should be disposed is 5 years for real estate and 3 years for other assets for sale (the period starts from the date of assets' taken over). When the period expires, the Group reclassifies the carrying value of unsold assets for sales into appropriate category of property, plant and equipment used by the Group.

(In PLN thousand)

39. Assets pledged as collateral

As at 31 December 2015 the Group held the following financial assets pledged as security for liabilities

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transaction	bonds	3 394 183	3 152 162	3 388 421
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	703 818	680 200	-
Lombard and technical loan	bonds	4 750 392	4 504 675	-
Other loans	bonds, leases encumbrances	490 285	481 200	328 076
Issue of mortgage bonds	receivables backed by mortgage, bonds	1 679 460	1 683 864	1 234 528
Coverage of the Gurantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposit	39 296	38 802	-
Derivatives	bonds	45 708	47 163	24 771

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

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transaction	bonds	3 003 206	2 774 855	3 004 383
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	679 338	640 200	-
Lombard and technical loan	bonds	5 338 928	5 008 832	-
Other loans	bonds, leases encumbrances	1 124 328	1 115 790	931 077
Issue of mortgage bonds	receivables backed by mortgage, bonds	1 335 272	1 339 615	1 037 330
Coverage of the Gurantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	bonds, cash deposit	40 698	39 915	-
Derivatives	bonds	47 790	42 160	33 640

The freeze on securities is a consequence of:

- in case of Repo and Sell-buy-back transactions – binding money market standards for such transactions,
- in case of freeze to the benefit of BFG – binding provisions of the Law on Banking Guaranty Fund BFG,
- in case of lombard and technical loans – policy and standards, applied by the National Bank of Poland NBP,
- in case of other loans, deposits and derivatives – terms and conditions of the agreement, entered between Bank Pekao S.A. and its clients,
- in case of issue of mortgage bonds – binding provisions of the Law on Mortgage Bonds and Mortgage Banks,
- in case of freeze to the benefit of KDPW – with the status of the clearing member for brokerage transactions.

(In PLN thousand)

40. Amounts due to other banks

Amounts due to other banks by product type

	31.12.2015	31.12.2014
Current accounts	1 121 885	1 503 821
Interbank deposits and other liabilities	581 301	455 673
Loans and advances received	3 263 303	3 243 612
Repo transactions	963 830	126 277
Cash in transit	28 130	15 319
Total	**5 958 449**	**5 344 702**

Amounts due to other banks by currencies

	31.12.2015	31.12.2014
PLN	1 379 402	2 335 096
CHF	744 746	713 045
EUR	3 774 189	2 218 925
USD	50 277	42 023
Other currencies	9 835	35 613
Total	**5 958 449**	**5 344 702**

41. Amounts due to customers

Amounts due to customers by product type

	31.12.2015	31.12.2014
Amounts due to corporate, including:	55 167 425	58 339 752
current accounts	29 048 523	24 353 752
term deposits and other liabilities	26 118 902	33 986 000
Amounts due to budget entities, including:	5 610 623	6 210 671
current accounts	4 689 452	5 090 071
term deposits and other liabilities	921 171	1 120 600
Amounts due to individuals, including:	63 434 250	55 407 585
current accounts	33 827 209	30 404 771
term deposits and other liabilities	29 607 041	25 002 814
Repo transactions	4 468 820	4 979 370
Cash in transit	186 573	671 622
Total	**128 867 691**	**125 609 000**

Amounts due to customers by currencies

	31.12.2015	31.12.2014
PLN	106 548 096	106 221 889
CHF	234 011	205 950
EUR	13 215 198	11 882 782
USD	8 013 651	6 611 746
Other currencies	856 735	686 633
Total	**128 867 691**	**125 609 000**

Notes to the financial statements (cont.)

(In PLN thousand)

42. Debt securities issued

Debt securities issued by type

	31.12.2015	31.12.2014
Certificates of deposit	1 668 706	2 819 713
Mortgage bonds	1 234 527	1 037 330
Total	**2 903 233**	**3 857 043**

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

Debt securities issued by currencies

	31.12.2015	31.12.2014
PLN	2 592 848	3 679 880
EUR	310 385	177 163
USD	-	-
Total	**2 903 233**	**3 857 043**

Changes in debt securities issued

	2015	2014
Opening balance	**3 857 043**	**3 063 737**
Increase (issuance)	3 966 098	6 015 875
Decrease (redemption)	(4 999 636)	(5 312 326)
Decrease (partial redemption)	(7 903)	(1 838)
Foreign currency exchange differences	(1 053)	2 686
Purchase	(33)	(64 625)
Sale	90 989	136 141
Other	(2 272)	17 393
Closing balance	**2 903 233**	**3 857 043**

43. Provisions

Change in provisions in the reporting period

2015	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**37 873**	**267 991**	**102 386**	**34 206**	**442 456**
Provision charges/revaluation	31 147	23 655	71 614	5 814	132 230
Provision utilization	(56 417)	(10 246)	-	(14 435)	(81 098)
Provision releases	(2 310)	(84)	(54 411)	(76)	(56 881)
Foreign currency exchange differences	-	-	1 182	-	1 182
Other changes	315	(12 458)	-	(372)	(12 515)
Closing balance	**10 608**	**268 858**	**120 771**	**25 137**	**425 374**
Short term	4 113	21 180	67 527	145	92 965
Long term	6 495	247 678	53 244	24 992	332 409

Notes to the financial statements (cont.)

(In PLN thousand)

Change in provisions in the reporting period

2014	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**34 986**	**207 297**	**113 932**	**37 322**	**393 537**
Provision charges/revaluation	5 129	22 657	67 469	13 245	108 500
Provision utilization	(3 053)	(6 487)	-	(13 878)	(23 418)
Provision releases	(2 998)	-	(79 724)	-	(82 722)
Foreign currency exchange differences	-	-	709	134	843
Other changes	3 809	44 524	-	(2 617)	45 716
Closing balance	**37 873**	**267 991**	**102 386**	**34 206**	**442 456**
Short term	9 308	119	45 842	1 242	56 511
Long term	28 565	267 872	56 544	32 964	385 945

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

Provisions for defined benefit plans
Detailed information in respect to provisions for defined benefit plans were presented in Note 45.

Other provisions
Other provisions include in particular provisions for other employee benefits.

44. Other liabilities

	31.12.2015	31.12.2014
Deferred income	120 308	122 764
Provisions for holiday leave	56 983	55 894
Provisions for other employee-related liabilities	255 274	189 982
Provisions for administrative costs	103 348	132 718
Other costs to be paid	162 048(*)	54 099
Other creditors	274 565	389 985
Interbank and interbranch settlements	515 533	658 461
Card settlements	192 476	157 519
Total	**1 680 535**	**1 761 422**

(*) in this PLN 104 122 thousand of provision for future refunds of the part of the remuneration for sale of insurance products linked to loans

Notes to the financial statements (cont.)

(In PLN thousand)

45. Defined benefit plans

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

a) retirement benefits,
b) death-in-service benefits.

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

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

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

The principal actuarial assumptions as at 31 December 2015 are as follows:

- the discount rate at the level of 2.90% (2.60 % as at 31 December 2014),
- the future salary growth rate at the level of 2.50% (2.50 % as at 31 December 2014),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Group,
- the mortality adopted in accordance with Life Expectancy Tables for men and women, published the Central Statistical Office, adequately adjusted on the basis of historical data of the Group.

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

	2015	2014
Opening balance	**267 991**	**207 297**
Current service cost	16 594	13 409
Interest expense	6 978	9 248
Remeasurements of the defined benefit obligations:	(12 900)	44 338
actuarial gains and losses arising from changes in demographic assumptions	(134)	152
actuarial gains and losses arising from changes in financial assumptions	(9 611)	48 648
actuarial gains and losses arising from experience adjustments	(3 155)	(4 462)
Contributions paid by the employer	(10 247)	(6 301)
Business combination	442	-
Closing balance	**268 858**	**267 991**

Notes to the financial statements (cont.)

(In PLN thousand)

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

31.12.2015	DEFINED BENEFIT PLANS OBLIGATIONS	
	1 PERCENT INCREASE	1 PERCENT DECREASE
Discount rate	(28 208)	34 057
Future salary growth rate	34 158	(28 801)

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

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

	31.12.2015	31.12.2014
The weighted average duration of the defined benefit plans obligations (in years)	11.7	12.2

46. Share-based payments

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

- The long-term UniCredit Group Incentive Program 2007 in respect to share options. The rights to exercise the option were acquired in 2011. Strike price is EUR 7.094. The option will expire in 2017,
- The long-term UniCredit Group Incentive Program 2008 in respect to share options. The rights to exercise the option were acquired in 2012. Strike price is EUR 4.185. The option will expire in 2018,
- Employee Share Ownership Plan that offers to eligible UniCredit Group employees the possibility to buy UniCredit ordinary shares with the following advantages: obtaining Free Shares ('Free Shares') granted free of charge based on the number of the Investment shares purchased by each participant. The granting of free ordinary shares depends on the vesting conditions stated in the rules of the Plan.

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

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

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

2015	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	2 345 563	17.84/30.24	-	-
Granted during the year	-	-	-	-
Redeemed during the year	(55 848)	-	-	-
Exercised during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at the period-end	2 289 715	17.83/30.23	-	-
Executable at the period-end	2 289 715	17.83/30.23	-	-

(*)The value of PLN 17.83 relates to the stock options program 2008, whereas the value of PLN 30.23 relates to the stock options program 2007.

Notes to the financial statements (cont.)

(In PLN thousand)

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

2014	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	2 345 563	17.36/29.42	-	-
Granted during the year	-	-	-	-
Redeemed during the year	-	-	-	-
Exercised during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at the period-end	2 345 563	17.84/30.24	-	-
Executable at the period-end	2 345 563	17.84/30.24	-	-

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

The table below presents the conditions of Employee Share Ownership Plan in 2015

	FREE SHARES 1ST ELECTION WINDOW	FREE SHARES 2ND ELECTION WINDOW
Date of Free Shares delivery to Group employees	30 January 2015	31 July 2015
Vesting Period Start-Date	30 January 2015	31 July 2015
Vesting Period End-Date	31 January 2016	31 July 2016
'Free Shares' Fair Value (per unit in EUR)	5.280	6.078

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

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

The fair value of granted rights to shares under Employee Share Ownership Plan until 31 December 2015 amounted to PLN 2 415 thousand as at 31 December 2015 (PLN 654 as at 31 December 2014).

The remuneration expenses for 2015 relating to the incentive programs granted to the emloyees of the Bank by UniCredit Group amounted to PLN 1 608 thousand (in 2014 - PLN 322 thousand).

System of Variable Remuneration for the Management Team

The system of variable remuneration is addressed to Employees defined in the Bank as persons in managerial positions, who are key employees for the fulfillment of the Bank's strategy, risk management and long-term increase of the Bank's income. The aim of the system is to support the execution of the Bank's operational strategy, its risk management and to limit conflict of interests.

Under the system the participant can receive the variable compensation, which is paid out based on a bonus pool approach providing for a comprehensive performance measurement at individual level, level of his/her organizational unit and results of the entire Bank as well as verification of the Participant's compliant behaviour with respect to law provisions and standards adopted by the Bank.

The compensation consists of cash payment and cash-settled share based payment realized in the form of phantom shares as cash equivalent amounting to the value of granted phantom shares.

Notes to the financial statements (cont.)

(In PLN thousand)

During the reporting period ending on 31 December 2015 the Bank had the following share-based payments transactions

	SYSTEM 2011	SYSTEM 2012	SYSTEM 2013	SYSTEM 2014	SYSTEM 2015
Transaction type	Cash-settled share based payments				
Start date of the assessment period	1 January 2011	1 January 2012	1 January 2013	1 January 2014	1 January 2015
Program announcement date	April 2011	April 2012	April 2013	June 2014	July 2015
Program granting date	1 June 2012	12 June 2013	12 June 2014	30 April 2015	Date of General Shareholders Meeting
Number of instruments granted (pcs)	87 901	80 003	76 013	68 040	Will be defined on granting date
Maturity date	31 July 2016	31 July 2017	31 July 2018	31July 2020	31 July 2021
Vesting date for Management Board Members and Executive Vice President	• 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date	• 40% after 2 years from program granting date • 40% after 3 years from program granting date • 20% after 4 years from program granting date	• 40% in the year of program granting (settlement after 2 year retention period) • 40% after 2 years from program granting date (settlement after 1 year retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period)	• 40% in the year of program granting (settlement after 3 year retention period) • 30% after 3 years from program granting date (settlement after 1 year retention period) • 30% after 4 years from program granting date (settlement after 1 year retention period)	• 40% in the year of program granting (settlement after 2 year retention period) • 24% after 2 years from program granting date (settlement after 1 year retention period) • 12% after 3 years from program granting date (settlement after 1 year retention period) • 24% after 4 years from program granting date (settlement after 1 year retention period)
Vesting date for remaining participants	• 50% after 2 years from program granting date • 50% after 3 years from program granting date	• 20% after 1 years from program granting date • 40% after 2 years from program granting date • 40% after 3 years from program granting date	• 20% after 1 year from program granting date • 40% after 2 years from program granting date • 40% after 3 years from program granting date	• 60% in the year of program granting (settlement after 3 year retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period) • 20% after 4 years from program granting date (settlement after 1 year retention period)	• 60% in the year of program granting (settlement after 3 year retention period) • 20% after 3 years from program granting date (settlement after 1 year retention period) • 20% after 4 years from program granting date (settlement after 1 year retention period)
Vesting conditions	Compliance assessment, Continuous employment, Reaching the aim based on financial results of the Bank for a given period				
Program settlement	On the vesting date, the participant will receive a cash payment amounting to the number the possessed phantom shares times the arithmetic mean of the Bank's share prices at the Warsaw Stock Exchange in the calendar month preceding the month of cash-settlement.				

Notes to the financial statements (cont.)

(In PLN thousand)

For the System 2011, 2012, 2013 and 2014 the fair value of the program was estimated based upon the Bank's shares price on the WSE as of the balance sheet date and expected number of phantom shares to which the rights will be acquired.

For the System 2015, as of 31 December 2015 the Bank prepared the program valuation, presuming that the phantom shares were granted on 31 December 2015. This value will be changed at the actual date of granting the program.

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

The carrying amount of liabilities for cash-settled phantom shares amounted to PLN 24 534 thousand as at 31 December 2015 (as at 31 December 2014 – PLN 32 003 thousand).

The total intrinsic value of liabilities for vested rights to phantom shares amounted to PLN 27 417 thousand as at 31 December 2015 (as at 31 December 2014 – PLN 35 642 thousand).

The remuneration expenses for 2015 relating to the system of variable remuneration in the form of phantom shares amounted to PLN 6 312 thousand (in 2014 - PLN 13 796 thousand).

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

	2015	2014
Opening balance	199 452	167 904
Granted during the year	68 040	76 103
Redeemed during the year	-	-
Exercised during the year	76 432	44 466
Terminated during the year	-	-
Existing at the period-end	191 060	199 452

The table above does not present the number of shares granted in respect of System 2015. This number will be determined in 2016 after approval of the financial statements for 2015 by the General Shareholder's Meeting. The hypothetical number of shares determined on the basis of the base value of the granted bonus to each of the program participants and arithmetic mean of the Bank's share price on the WSE in December 2015 amounts to 100 088.

System of Variable Remuneration for the Management Team of the subsidiaries

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

Within the system participant can receive the bonus depending on the performance and results of work of the participant, of the business unit and the company's results in the area of responsibility of the person, taking into account the results of the whole company, as well as verification of the compliance of Participant's behaviour with respect to law provisions and standards adopted by the company.

At least 40 % components of variable renumerations is settled and paid in the time-period of 3 to 5 years since the granting date.

The companies measure the future employees benefits at fair value of accepted liabilities, in accordance with IAS 19 'Employee benefits'. Results of liabilities meassurement at fair value are presented in income statement as personnel expenses.

The carrying amount of liabilities for cash-settled phantom shares amounted to PLN 4 030 thousand as at 31 December 2015 (as at 31 December 2014 – PLN 3 934 thousand).

The remuneration expenses for 2015 relating to the system of variable remuneration in the form of phantom shares amounted to PLN 127 thousand (in 2014 - PLN 907 thousand).

(In PLN thousand)

47. Operating lease

The Group as a Lessor
In operating lease of buildings classified as investment properties the Group acts as a lessor.

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

	31.12.2015	31.12.2014
Up to 1 year	7 334	12 129
Between 1years and 5 years	2 869	15 240
Over 5 years	498	8 893
Total	**10 701**	**36 262**

The amount of the minimum operating lease payments classified as income in 2015 amounted to PLN 19 262 thousand (PLN 20 664 thousand in 2014).

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

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

	31.12.2015	31.12.2014
Up to 1 year	111 591	119 923
Between 1years and 5 years	243 264	261 232
Over 5 years	105 814	160 483
Total	**460 669**	**541 638**

The amount of the minimum operating lease payments recognized as an expense in 2015 amounted to PLN 186 023 thousand (expense in 2014 amounted to PLN 198 670 thousand).

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

48. Contingent commitments

Litigation
In the entire year of 2015 the total value of the litigation subject in the ongoing court proceedings against the Group was PLN 1 142 702 thousand (in 2014 it was PLN 1 205 592 thousand).

In 2015 there were no proceedings before the court or state administration bodies related to the receivables or payables of the Bank and its subsidiaries in which the pursued claim value (amount to be paid) is at least 10% of the Group's equity.

In 2015 still going on was the court litigation against the Group entities, Bank Pekao SA and Pekao SA Central Brokerage House, brought by private individuals for the payment of damage arising from the purchase of stocks and the financial compensation for the injury resulting from the execution process, in which the value of the litigation subject, as at 31 December 2015, was PLN 206 422 thousand (previously PLN 306 622 thousand). In the first half of 2015 the sentence dismissing the plaint against defendants was adjudicated. The sentence is not legally binding. The plaintiffs lodged an appeal against the sentence, i.e. its part related to the amount of PLN 206 422 thousand. In the opinion of the Bank appeal is unfounded.

Notes to the financial statements (cont.)

(In PLN thousand)

Moreover against the Group currently are pending the following essential litigations:

- proceedings instigated in the second quarter of 2014 as a result of the plaint brought by a guarantee beneficiary for the payment of PLN 55 996 thousand as the bank guarantee drawing,
- proceedings instigated in 2013 as a result of the plaint brought by a guarantee beneficiary for the payment of PLN 43 760 thousand as the bank guarantee drawing,
- proceedings instigated in the first quarter of 2014 as a result of the plaint brought by guarantee beneficiaries for the payment of PLN 32 750 thousand as the bank guarantee drawing,
- proceedings instigated in the first quarter of 2015 as a result of the plaint brought by guarantee beneficiary for the payment of PLN 29 205 thousand as the bank guarantee drawing.

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

As at 31 December 2015, the Group created provisions for litigations against the Group entities which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the above provisions as at 31 December 2015 is PLN 10 608 thousand (PLN 37 873 thousand as at 31 December 2014).

UOKIK proceedings

On 4 April 2015 the President of the Office of Competition and Consumer Protection (‘UOKIK’) issued a decision to initiate proceedings regarding Bank Pekao S.A. in relation to suspected application of a practice contradictory to established customs, which may infringe collective interests of consumers involving a provision, contradicting agreements for mortgage loans expressed/ denominated/ indexed in CHF – not to take into account, when calculating the interest rate on these loans, the negative LIBOR value, when this index is higher than the value of the margin specified in the loan agreement.

On 20 August 2015 the Bank submitted a response in which it presented its position on the allegations justifying that the Bank’s practice does not infringe collective interests of consumers.

So far the proceedings have not been closed with a final decision of the UOKIK President.

On 30 December 2015 the UOKIK President issued a decision to initiate proceedings regarding practices which may infringe collective interests of consumers, involving notifying the consumers of changes of the agreement terms during the agreement effective period only via Pekao24 electronic banking system, which does not constitute a permanent information carrier as defined in the Payment Services Act of 19 August 2011, which may breach the obligation arising from the Payment Services Act, and involving non-inclusion, in communication addressed to consumers related to a unilateral change of the agreement terms, of important information allowing the consumers to determine whether the proposed changes are acceptable and also involving a unilateral modification of agreement templates when there are no legal grounds for making such modifications, which may be contradictory to established customs.

On 25 January 2016 the Bank submitted its response in which it addressed the presented allegations arguing that the Bank’s practice does not infringe collective interests of consumers.

So far the proceedings have not been closed with a final decision of the UOKIK President.

Notes to the financial statements (cont.)

(In PLN thousand)

Financial off–balance commitments granted
Financial commitments granted by entities

	31.12.2015	31.12.2014
Financial commitments to:		
financial entities	700 755	626 967
non - financial entities	29 386 749	25 804 627
budget entities	848 356	944 954
Total	**30 935 860**	**27 376 548**

Off–balance guarantees issued
Guarantees issued by entities

	31.12.2015	31.12.2014
Issued to financial entities, including:	1 311 490	1 015 435
guarantees	1 308 840	971 814
sureties	-	42 990
confirmed export letters of credit	2 650	631
Issued to non-financial entities, including:	12 393 161	13 041 275
guarantees	7 510 192	7 474 912
securities' underwriting guarantees	4 806 284	5 566 363
sureties	76 685	-
Issued to budget entities, including:	368 176	151 974
guarantees	28 176	13 007
securities' underwriting guarantees	340 000	138 967
Total	**14 072 827**	**14 208 684**

(In PLN thousand)

Securities underwriting
As at 31 December 2015, the following securities programs have been in place, covered by underwriting

NAME OF ISSUER	TYPE OFSECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT IT SELF	CONTRACT LIFE
Client 1	bonds	1 385 000	23.07.10 - 30.06.20
Client 2	bonds	458 000	21.06.12 - 31.12.17
Client 3	bonds	99 220	06.12.12 - 31.03.16
Client 4	bonds	52 400	28.12.12 - 30.03.16
Client 5	bonds	76 900	28.12.12 - 30.03.16
Client 6	bonds	164 700	01.07.11 - 20.12.17
Client 7	bonds	11 430	20.05.13 - 24.02.16
Client 8	bonds	17 200	14.04.15 - 10.06.16
Client 9	bonds	78 000	14.04.15 - 10.06.16
Client 10	bonds	484 880	22.10.13 - 14.12.16
Client 11	bonds	50 000	22.10.13 - 14.12.16
Client 12	bonds	16 250	27.01.14 - 30.09.16
Client 13	bonds	6 500	15.05.14 - 31.12.16
Client 14	bonds	700	31.05.14 - 31.12.16
Client 15	bonds	157 510	30.06.14 - 31.03.17
Client 16	bonds	61 710	22.07.14 - 31.07.16
Client 17	bonds	6 530	22.07.14 - 31.07.16
Client 18	bonds	100 000	30.07.14 - 30.06.19
Client 19	bonds	830	29.07.14 - 30.06.16
Client 20	bonds	20 450	29.07.14 - 30.09.16
Client 21	bonds	25 000	25.08.14 - 31.08.16
Client 22	bonds	45 770	29.05.14 - 30.04.16
Client 23	bonds	29 050	15.09.14 - 31.12.16
Client 24	bonds	20 000	15.09.14 - 31.12.16
Client 25	bonds	5 600	15.09.14 - 31.12.16
Client 26	bonds	33 790	31.10.14 - 31.03.16
Client 27	bonds	50 000	22.12.14 - 30.06.17
Client 28	bonds	52 135	30.12.14 - 30.06.16
Client 29	bonds	1 378	30.12.14 - 31.03.16
Client 30	bonds	198 780	30.12.14 - 09.03.16
Client 31	bonds	20 500	30.12.14 - 31.12.16
Client 32	bonds	230 000	23.02.15 - 30.06.17
Client 33	bonds	100 000	23.02.15 - 30.11.22
Client 34	bonds	350 000	20.02.15 - 30.04.16
Client 35	bonds	16 000	27.01.15 - 31.12.16
Client 36	bonds	74 000	31.12.15 - 31.12.16
Client 37	bonds	39 000	14.10.15 - 31.12.17
Client 38	bonds	12 500	14.10.15 - 31.12.17
Client 39	bonds	154 955	18.12.15 - 30.09.16
Client 40	bonds	30 000	28.12.15 - 31.12.17
Client 41	bonds	409 616	25.08.14 - 31.12.16

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

NAME OF ISSUER	TYPE OFSECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT IT SELF	CONTRACT LIFE
Client 41	bonds	3 580	29.05.14 - 30.04.15
Client 42	bonds	50 000	14.09.14 - 30.06.15
Client 43	bonds	6 500	08.09.14 - 31.12.16
Client 44	bonds	950	09.12.13 - 31.12.15
Client 45	bonds	8 544	03.09.14 - 31.12.15
Client 46	bonds	16 000	09.10.14 - 31.12.15
Client 47	bonds	3 500	09.10.14 - 31.12.15
Client 48	bonds	46 140	31.10.14 - 31.03.16
Client 49	bonds	4 700	28.11.14 - 31.12.15
Client 50	bonds	3 000	15.12.14 - 31.12.15
Client 51	bonds	50 000	22.12.14 - 30.06.17
Client 52	bonds	119 500	30.12.14 - 31.12.15
Client 53	bonds	100 000	30.12.14 - 30.06.16
Client 54	bonds	7 500	30.12.14 - 31.03.16
Client 55	bonds	198 780	30.12.14 - 09.03.16
Client 56	bonds	20 500	30.12.14 - 31.12.16
Client 57	bonds	368 256	25.08.14 - 31.12.16

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

Off-balance commitments received
Commitments received by entities

	31.12.2015	31.12.2014
Financial commitments from:	285 084	496 467
financial entities	285 084	496 467
non - financial entities	-	-
budget entities	-	-
Guarantees from:	11 674 503	12 175 488
financial entities	1 161 416	1 324 576
non - financial entities	9 759 234	10 102 000
budget entities	753 853	748 912
Total	**11 959 587**	**12 671 955**

Moreover, the Group can to obtain financing from the National Bank of Poland pledged on securities.

Notes to the financial statements (cont.)

(In PLN thousand)

49. Share capital

Shareholding structure

CLASS/ISSUE	TYPE OF SHARES	NUMBER OF SHARES	NOMINAL VALUE OF CLASS/ISSUE	EQUITY COVERAGE	REGISTRATION DATE	DIVIDEND RIGHTS (FROM DATE)
A	Common bearer stock	137 650 000	137 650	fully paid-up	21.12.1997	01.01.1998
B	Common bearer stock	7 690 000	7 690	fully paid-up	06.10.1998	01.01.1998
C	Common bearer stock	10 630 632	10 631	fully paid-up	12.12.2000	01.01.2000
D	Common bearer stock	9 777 571	9 777	fully paid-up	12.12.2000	01.01.2000
E	Common bearer stock	373 644	374	fully paid-up	29.08.2003	01.01.2003
F	Common bearer stock	621 411	621	fully paid-up	29.08.2003	19.05.2006 16.05.2007
G	Common bearer stock	603 377	603	fully paid-up	29.08.2003	15.05.2008
H	Common bearer stock	359 840	360	fully paid-up	12.08.2004	01.01.2004
I	Common bearer stock	94 763 559	94 764	fully paid-up	29.11.2007	01.01.2008
Total number of Shares (pcs)		**262 470 034**				
Total share capital in PLN thousand			**262 470**			
Nominal value per share = PLN 1.00						

Change in the number of shares (pcs)

2015	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262 470 034	262 470 034
Closing balance	262 470 034	262 470 034

2014	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262 470 034	262 470 034
Closing balance	262 470 034	262 470 034

(In PLN thousand)

50. Other capital and reserves, retained earnings and profit for the period

The table below presents the structure of the Group's equity attributable to equity holders of the Bank

	31.12.2015	31.12.2014
Reserve capital, including:	9 474 405	9 464 071
issue of shares above face value	9 137 221	9 137 221
other	337 184	326 850
Revaluation reserve, including:	283 597	540 806
remeasurements of the defined benefit liabilities	(86 777)	(99 699)
deferred tax	16 488	18 943
revaluation of financial assets portfolio available for sale	391 616	628 740
deferred tax	(74 407)	(119 461)
revaluation of financial hedging instruments portfolio	45 280	138 621
deferred tax	(8 603)	(26 338)
Foreign currency translation differences, including:	-	1 169
foreign currency translation differences	-	1 169
deferred tax	-	-
General Banking Risk Fund	1 975 415	1 937 850
Other reserve capital	9 092 740	9 002 629
Bonds convertible into shares- equity component	28 819	28 819
Funds for brokerage activities	15 000	15 000
Total other capital	**20 869 976**	**20 990 344**
Profit (loss) from previous periods, allocated to Bank's shareholders	(16 676)	50 161
Net profit for the period, allocated to Bank's shareholders	2 292 459	2 714 714
Total retained earnings and profit for the period	**2 275 783**	**2 764 875**
Total	**23 145 759**	**23 755 219**

The net profit of the Bank for 2014 in the amount of PLN 2 662 266 thousand was distributed in the following way: PLN 2 624 701 thousand – to dividend, PLN 37 565 thousand – to General Banking Risk Fund.

From 1982 to 1984 and from 1988 to 1996, the Group operated in a hyperinflationary economic environment.

IAS 29 (Financial Reporting in Hyperinflationary Economies) requires restatement of each component of owners' equity (except for retained earnings and revaluation surplus) by applying a general price index for the period of hyperinflation. This retrospective application would have resulted in an increase in share capital and other reserves and a decrease in retained earnings in equivalent amounts. This restatement would not have any effect on the total amount of the Group's equity.

Notes to the financial statements (cont.)

(In PLN thousand)

51. Non - controlling interests

The below table presents the information for each of the subsidiaries that have non-controlling interests that are material to the Group

NAME OF THE SUBSIDIARY	COUNTRY OF INCORPORATION AND PLACE OF BUSINESS	PERCENTAGE SHARE OF NON-CONTROLLING INTERESTS IN SHARE CAPITAL / VOTING RIGHTS		NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		ACCUMULATED NON-CONTROLLING INTERESTS	
		31.12.2015	31.12.2014	2015	2014	31.12.2015	31.12.2014
Pekao Leasing Sp. z o.o.	Poland	-	-	-	4 891	-	4 891
Pekao Leasing Holding S.A.	Poland	-	-	-	119	-	119
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Poland	35.00	35.00	1 019	5 392	15 964	23 033
TOTAL				**1 019**	**10 402**	**15 964**	**28 043**

The summarized financial information of each of the subsidiaries that are material to the Group are presented below

	PEKAO LEASING SP. Z O.O.		PEKAO LEASING HOLDING S.A.		PEKAO PIONEER POWSZECHNE TOWARZYSTWO EMERYTALNE S.A.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Loans and advances to banks	-	169 936	82 931	70	44 995	65 366
Receivables from finance leases	3 530 228	3 145 745	-	-	-	-
Investments (placement) securities	-	-	-	48 190	-	-
Investments in subsidiaries	-	-	194 140	194 140	-	-
Income tax assets	184 080	193 560	3	3	177	546
Other items of assets	99 991	77 093	223	3	2 653	2 352
TOTAL ASSETS	**3 814 299**	**3 586 334**	**277 297**	**242 406**	**47 825**	**68 264**
Amounts due to other banks	3 199 168	2 818 791	-	-	-	-
Amounts due to customers	45 268	50 944	-	-	-	-
Debt securities issued	-	48 190	-	-	-	-
Other items of liabilities	63 011	120 248	84	82	2 214	2 458
TOTAL LIABILITIES	**3 307 447**	**3 038 173**	**84**	**82**	**2 214**	**2 458**

	PEKAO LEASING SP. Z O.O.		PEKAO LEASING HOLDING S.A.		PEKAO PIONEER POWSZECHNE TOWARZYSTWO EMERYTALNE S.A.	
	2015	2014	2015	2014	2015	2014
Revenue	153 496	169 394	61 795	1 399	14 714	18 423
Net profit for the period	53 904	54 585	61 436	995	2 913	15 405
Total comprehensive income	**53 904**	**54 585**	**61 436**	**995**	**2 913**	**15 405**
Dividends paid to non-controlling interests	-	-	-	-	8 088	4 823
Cash flows from operating activities	(350 717)	13 878	(576)	(392)	3 662	16 116
Cash flows from investing activities	(1 966)	(826)	109 985	298	(925)	30 857
Cash flows from financing activities	182 747	156 862	(26 548)	-	(23 108)	(13 781)
Net change in cash and cash equivalents	(169 936)	169 914	82 861	(94)	(20 371)	33 192
Cash and cash equivalents at the beginning of the period	169 936	22	70	164	65 366	32 174
Cash and cash equivalents at the end of the period	-	169 936	82 931	70	44 995	65 366

(In PLN thousand)

52. Additional information to the consolidated cash flow statement

Cash and cash equivalents

	31.12.2015	31.12.2014
Cash and amounts due from Central Bank	7 881 607	9 226 254
Loans and receivables from banks with maturity up to 3 months	6 631 788	6 329 930
Cash and Cash equivalents presented in the cash flow statement	**14 513 395**	**15 556 184**

Restricted availability cash and cash equivalents as at 31 December 2015 amounted to PLN 4 338 995 thousand (PLN 4 021 406 thousand as at 31 December 2014).

53. Related party transactions

Transactions between the Bank and related parties are typical transactions arising from current operating activities conducted by the Bank. Such transactions mainly include loans, deposits, foreign currency transactions and guarantees.

The credit granting process applicable to the Bank's management and entities related to the Bank
According to the Banking Act, credit transactions with Members of the Bank Management Board and Supervisory Board, persons holding managerial positions at the Bank, with the entities related financially or organizationally therewith, shall be effected according to Regulation adopted by the Supervisory Board of the Bank.

The Regulation provides detailed decision-making procedures, applicable to transactions with such persons and entities, also defining the decision-making levels, authorized to take decisions. In particular, transactions with Members of the Bank's Management Board or Supervisory Board or with an entity related therewith financially or organizationally, are subject to decisions taken by the Bank's Management Board and Supervisory Board.

Members of the Bank's Management Board and entities related therewith financially or organizationally may take advantage of credit products offered by the Bank on standard terms and conditions of the Bank. In particular, the Bank may not offer more advantageous credit interest rates to such persons or entities.

Credit risk assessment is performed using the methodology applied by the Bank, tailored to the client's segment and type of transaction.

In case of entities related to the Bank, the standard credit procedures are applied, with transaction-related decisions taken exclusively at level of the Bank's Head Office.

Notes to the financial statements (cont.)

(In PLN thousand)

Related party transactions

Related party transactions as at 31 December 2015

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank's parent entity	605 703	-	-	605	1 209	-	2 415
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	1 114 848	7 724	55 861	4 843	1 507 266	653 064	966
Associates of Bank Pekao S.A Group							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	3	25 262	-	29
Pioneer Pekao Investment Management S.A.	-	-	-	35	162 752	-	23
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	-	-	16 323	115 116	-	21
Total Associates of Bank Pekao S.A. Group	**-**	**-**	**-**	**16 361**	**303 130**	**-**	**73**
Key management personnel of the Bank and UniCredit S.p.A.	8 568	-	-	-	22 180	-	-
Total	**1 729 119**	**7 724**	**55 861**	**21 809**	**1 833 785**	**653 064**	**3 454**

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by contractual maturity

31.12.2015	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	8 497	597 206	-	-	-	-	605 703
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	616 160	94 797	482	779	402 630	-	1 114 848
Associates of Bank Pekao S.A Group	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	5 999	-	37	186	2 346	8 568
Total	**624 657**	**698 002**	**482**	**816**	**402 816**	**2 346**	**1 729 119**

(*) Current receivables includude Nostro accounts and cash collaterals.

Liabilities due to loans and deposits by contractual maturity

31.12.2015	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	1 209	-	-	-	-	-	1 209
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	160 673	8 458	963 829	-	374 306	-	1 507 266
Associates of Bank Pekao S.A Group	16 224	92 203	194 703	-	-	-	303 130
Key management personnel of the Bank and UniCredit S.p.A.	4 474	4 007	9 841	3 808	50	-	22 180
Total	**182 580**	**104 668**	**1 168 373**	**3 808**	**374 356**	**-**	**1 833 785**

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

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currency

31.12.2015	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	243 767	350 936	-	11 000	-	605 703
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	598 100	403 900	7	67 079	45 762	1 114 848
Associates of Bank Pekao S.A Group	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	8 568	-	8 568
Total	**841 867**	**754 836**	**7**	**86 647**	**45 762**	**1 729 119**

Liabilities due to loans and deposits by currency

31.12.2015	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	-	-	-	1 209	-	1 209
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	1 010 843	261	374 306	121 856	-	1 507 266
Associates of Bank Pekao S.A Group	-	-	-	303 130	-	303 130
Key management personnel of the Bank and UniCredit S.p.A.	7 129	920	-	14 128	3	22 180
Total	**1 017 972**	**1 181**	**374 306**	**440 323**	**3**	**1 833 785**

Notes to the financial statements (cont.)

(In PLN thousand)

Related party transactions as at 31 December 2014

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank's parent entity	183 634	-	13	15 339	-	654
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	1 496 697	456 005	4 493	1 048 862	1 002 599	866
Associates of Bank Pekao S.A Group						
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	3	22 812	-	36
Pioneer Pekao Investment Management S.A.	-	-	-	154 825	-	3
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	-	23 067	144 297	-	9
Krajowa Izba Rozliczeniowa S.A.	-	-	-	7 766	-	-
Total Associates of Bank Pekao S.A. Group	**-**	**-**	**23 070**	**329 700**	**-**	**48**
Key management personnel of the Bank and UniCredit S.p.A.	6 385	-	-	33 291	-	-
Total	**1 686 716**	**456 005**	**27 576**	**1 427 192**	**1 002 599**	**1 568**

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by contractual maturity

31.12.2014	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	4 766	178 868	-	-	-	-	183 634
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	621 804	117 883	43 218	351 637	362 155	-	1 496 697
Associates of Bank Pekao S.A Group	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	2	5 998	-	-	48	337	6 385
Total	**626 572**	**302 749**	**43 218**	**351 637**	**362 203**	**337**	**1 686 716**

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

Liabilities due to loans and deposits by contractual maturity

31.12.2014	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	15 339	-	-	-	-	-	15 339
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	126 309	539 530	277	14 061	7 596	361 089	1 048 862
Associates of Bank Pekao S.A Group	28 208	102 192	198 800	500	-	-	329 700
Key management personnel of the Bank and UniCredit S.p.A.	15 644	8 679	8 425	443	100	-	33 291
Total	**185 500**	**650 401**	**207 502**	**15 004**	**7 696**	**361 089**	**1 427 192**

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

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currency

31.12.2014	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	3 581	180 053	-	-	-	183 634
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	606 379	714 067	6	142 632	33 613	1 496 697
Associates of Bank Pekao S.A Group	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	6 385	-	6 385
Total	**609 960**	**894 120**	**6**	**149 017**	**33 613**	**1 686 716**

Liabilities due to loans and deposits by currency

31.12.2014	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	-	-	-	15 339	-	15 339
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	347 597	140	336 914	364 211	-	1 048 862
Associates of Bank Pekao S.A Group	-	-	-	329 700	-	329 700
Key management personnel of the Bank and UniCredit S.p.A.	2 894	845	-	22 843	6 709	33 291
Total	**350 491**	**985**	**336 914**	**732 093**	**6 709**	**1 427 192**

Notes to the financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2015 to 31 December 2015

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	216	(246)	1 689	(3 070)	811	(15 664)
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	42 043	(4 242)	9 388	(1 329)	41 577	(6 896)
Associates of Bank Pekao S.A Group						
Pioneer Pekao Investment Management S.A.	-	(2 761)	357	-	26	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(1 973)	226 313	-	-	-
Dom Inwestycyjny Xelion Sp.z o.o.	-	(361)	64	(117)	314	(1)
Krajowa Izba Rozliczeniowa S.A.(*)	-	(135)	57	-	-	(4 303)
Total Associates of Bank Pekao S.A. Group	**-**	**(5 230)**	**226 791**	**(117)**	**340**	**(4 304)**
Key management personnel of the Bank and UniCredit S.p.A.	253	(419)	17	-	-	-
Total	**42 512**	**(10 137)**	**237 885**	**(4 516)**	**42 728**	**(26 864)**

(*) until sale's date 3 125 shares.

Income and expenses from transactions with related parties for the period from 1 January 2014 to 31 December 2014

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	181	(11)	342	(2 742)	1 108	(13 639)
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	48 602	(15 493)	7 666	(236)	7 874	(26 722)
Associates of Bank Pekao S.A Group						
Pioneer Pekao Investment Management S.A.	-	(3 841)	464	-	27	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(3 221)	229 919	-	-	(8)
Dom Inwestycyjny Xelion Sp.z o.o.	-	(565)	70	(24)	313	-
Krajowa Izba Rozliczeniowa S.A.	-	(148)	162	-	-	(9 380)
Total Associates of Bank Pekao S.A. Group	**-**	**(7 775)**	**230 615**	**(24)**	**340**	**(9 388)**
Key management personnel of the Bank and UniCredit S.p.A.	261	(633)	15	-	-	-
Total	**49 044**	**(23 912)**	**238 638**	**(3 002)**	**9 322**	**(49 749)**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial liabilities and guarantees as at 31 December 2015

NAME OF ENTITY	GRANTED		RECEIVED
	FINANCIAL	GUARANTEES	GUARANTEE
UniCredit S.p.A. – the Bank's parent entity	48 223	236 659	14 588
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	179 072	890 343	34 490
Associates of Bank Pekao S.A Group			
Dom Inwestycyjny Xelion Sp. z o.o.	2 000	-	-
Pioneer Pekao Investment Management S.A.	15	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	52	-	-
Total Associates of Bank Pekao S.A. Group	**2 067**	**-**	**-**
Key management personnel of the Bank and UniCredit S.p.A.	697	-	-
Total	**230 059**	**1 127 002**	**49 078**

As at 31 December 2015, the Group did not have off-balance sheet financial commitments received from related parties.

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees by contractual maturity

31.12.2015	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – the Bank's parent entity	-	-	-	28 223	-	20 000	48 223
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	-	179 072	-	-	179 072
Associates of Bank Pekao S.A Group	-	-	-	2 007	60	-	2 067
Key management personnel of the Bank and UniCredit S.p.A.	30	515	5	18	129	-	697
Total	**30**	**515**	**5**	**209 320**	**189**	**20 000**	**230 059**
GUARANTEES ISSUED							
UniCredit S.p.A. – the Bank's parent entity	-	2 631	17 719	66 440	83 818	66 051	236 659
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	16 189	98 861	90 053	322 855	362 385	890 343
Total	**-**	**18 820**	**116 580**	**156 493**	**406 673**	**428 436**	**1 127 002**
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	-	-	-	11 300	3 288	-	14 588
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	553	30 406	3 531	-	34 490
Total	**-**	**-**	**553**	**41 706**	**6 819**	**-**	**49 078**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees by currency

31.12.2015	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – the Bank's parent entity	28 223	-	-	20 000	-	48 223
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	77 772	-	-	101 300	-	179 072
Associates of Bank Pekao S.A Group	-	-	-	2 067	-	2 067
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	697	-	697
Total	**105 995**	**-**	**-**	**124 064**	**-**	**230 059**
GUARANTEES ISSUED						
UniCredit S.p.A. – the Bank's parent entity	10 497	-	-	226 162	-	236 659
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	60 778	-	-	829 565	-	890 343
Total	**71 275**	**-**	**-**	**1 055 727**	**-**	**1 127 002**
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	3 288	-	-	11 300	-	14 588
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	8 147	-	-	26 343	-	34 490
Total	**11 435**	**-**	**-**	**37 643**	**-**	**49 078**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees as at 31 December 2014

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	39 009	270 784	-	25 121
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	96 655	557 728	9 885	51 596
Associates of Bank Pekao S.A Group				
Dom Inwestycyjny Xelion Sp. z o.o.	10 030	-	-	-
Pioneer Pekao Investment Management S.A.	15	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	54	-	-	-
Krajowa Izba Rozliczeniowa S.A.	-	500	-	-
Total Associates of Bank Pekao S.A. Group	**10 099**	**500**	**-**	**-**
Key management personnel of the Bank and UniCredit S.p.A.	874	-	-	-
Total	**146 637**	**829 012**	**9 885**	**76 717**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees by contractual maturity

31.12.2014	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – the Bank's parent entity	-	-	-	39 009	-	-	39 009
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	-	96 464	191	-	96 655
Associates of Bank Pekao S.A Group	-	-	-	10 015	84	-	10 099
Key management personnel of the Bank and UniCredit S.p.A.	20	516	5	50	273	10	874
Total	**20**	**516**	**5**	**145 538**	**548**	**10**	**146 637**
GUARANTEES ISSUED							
UniCredit S.p.A. – the Bank's parent entity	-	-	700	84 875	42 909	142 300	270 784
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	1 214	1 228	44 810	307 825	202 651	557 728
Associates of Bank Pekao S.A Group	-	-	-	500	-	-	500
Total	**-**	**1 214**	**1 928**	**130 185**	**350 734**	**344 951**	**829 012**
FINANCIAL RECEIVED							
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	9 885	-	-	-	-	-	9 885
Total	**9 885**	**-**	**-**	**-**	**-**	**-**	**9 885**
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	-	1 211	725	14 994	6 699	1 492	25 121
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	550	32 986	15 912	2 148	51 596
Total	**-**	**1 211**	**1 275**	**47 980**	**22 611**	**3 640**	**76 717**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees by currency

31.12.2014	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – the Bank's parent entity	39 009	-	-	-	-	39 009
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	35 164	-	-	61 491	-	96 655
Associates of Bank Pekao S.A Group	-	-	-	10 099	-	10 099
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	874	-	874
Total	**74 173**	**-**	**-**	**72 464**	**-**	**146 637**
GUARANTEES ISSUED						
UniCredit S.p.A. – the Bank's parent entity	9 607	-	-	261 177	-	270 784
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	46 734	-	-	510 994	-	557 728
Associates of Bank Pekao S.A Group	-	-	-	500	-	500
Total	**56 341**	**-**	**-**	**772 671**	**-**	**829 012**
FINANCIAL RECEIVED						
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	-	9 885	-	9 885
Total	**-**	**-**	**-**	**9 885**	**-**	**9 885**
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	18 130	-	-	6 991	-	25 121
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	18 336	-	-	33 260	-	51 596
Total	**36 466**	**-**	**-**	**40 251**	**-**	**76 717**

(In PLN thousand)

Remuneration of Bank's Management Board and Supervisory Board Members
Short-term employee benefits related to the Management Board of the Bank in of 2015 amounted to PLN 17 144 thousand, compared to PLN 15 652 thousand in 2014. Short-term employee benefits included: base salary, bonuses and other benefits due in next 12 months from the balance sheet date.

Long-term benefits related to the Management Board of the Bank amounted to PLN 2 453 thousand in 2015, compared to PLN 2 171 thousand in 2014 and comprised of provisions for deferred bonus payments.

The expenses in 2015 included PLN 3 473 thousand in respect of share-based payments, compared to PLN 7 294 thousand in 2014. The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of fair value of phantom shares, granted to the Members of the Bank's Management Board.

Remuneration expenses of Supervisory Board of the Bank, comprising short-term employee benefits, amounted to PLN 978 thousand in 2015, compared to PLN 925 thousand in 2014.

The Bank's Management Board and Supervisory Board Members did have not received any remuneration from subsidiaries and associates in 2015 and 2014.

Remuneration of Supervisory Boards and Management Boards of subsidiaries
Remuneration expenses of Management Boards of Group's subsidiaries, comprising short-term employee benefits, amounted to PLN 14 427 thousand in 2015, compared to PLN 13 351 thousand in 2014.

Remuneration expenses of Supervisory Boards of Group's subsidiaries, comprising short-term employee benefits, amounted to PLN 183 thousand in 2015, compared to PLN 38 thousand in 2014.

54. Repo and reverse repo transactions

The Group increases its funds by sales transactions with the repurchase promise granted (repo and sell-buy back) at the same price increased by interest.

Securities composing the balance sheet portfolio of the Group as well as securities with obligation of resale (reverse repo and buy-sell back transactions) may be a subject to repo and sell-buy back transactions.

Securities composing the balance sheet portfolio of the Group and treated as repo and sell-buy back transactions are not derecognized from the statement of financial position due to the fact that the Group holds all the benefits and the risk deriving from these assets.

	31.12.2015		31.12.2014	
	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RESPECTIVE LIABILITIES	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RESPECTIVE LIABILITIES
Financial assets available for sale				
up to 1 month	2 359 798	2 357 096	2 585 701	2 585 918
from 1 to 3 months	1 032 882	1 029 821	141 383	141 419
from 3 months to 1 year	1 503	1 504	-	-
Total financial assets available for sale	**3 394 183**	**3 388 421**	**2 727 084**	**2 727 337**
Financial assets purchased under reverse-repo and buy-sell back				
up to 1 month	2 050 199	2 044 228	2 380 498	2 378 310
Total financial assets purchased under reverse-repo and buy-sell back	**2 050 199**	**2 044 228**	**2 380 498**	**2 378 310**
Total	**5 444 382**	**5 432 649**	**5 107 582**	**5 105 647**

The Group purchases financial instruments with the obligations of repurchase or resale (reverse-repo and buy-sell back) at the same price increased by interest.

(In PLN thousand)

Securities treated as reverse-repo and buy-sell back transactions are not disclosed at the statement of financial position due to the fact that the Group do not holds all the advantages of risks and awareness deriving from these assets.

	31.12.2015		31.12.2014	
	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGE ASSETS	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGE ASSETS
Loans and advances from banks				
up to 1 month	1 757 063	1 757 459	1 930 808	1 930 148
Total loans and advances from bank	**1 757 063**	**1 757 459**	**1 930 808**	**1 930 148**
Loans and advances from customers				
up to 1 month	4 755 472	4 762 663	5 684 231	5 681 251
from 1 to 3 months	-	-	104 833	104 701
Total loans and advances from customers	**4 755 472**	**4 762 663**	**5 789 064**	**5 785 952**
Total	**6 512 535**	**6 520 122**	**7 719 872**	**7 716 100**

Financial assets subject to reverse repo and buy-sell back transactions constitute collateral accepted by the Group, which the Group has the right to sell or pledge.

	31.12.2015	31.12.2014
Fair value of assets pledged as collaterals, in this:	6 520 122	7 716 100
Short sale	611 442	591 311
Reverse repo transactions/ buy-sell back	2 050 199	2 380 498

55. Company Social Benefits Fund ('ZFŚS')

The Social Benefits Fund Act of 4 March 1994 with subsequent amendments introduced the requirement to create a Company's Social Benefits Fund by all employers employing over 20 employees. The Bank and Group companies employing at least 20 staff have created the ZFŚS Fund and are making periodic charges to the ZFŚS Fund in amounts required by the Act. The basic aim of the ZFŚS Fund is to subsidize social assistance in benefit of the employees, former employees (pensioners and the retired) and entitled members of their families.

The liabilities of the ZFŚS Fund represent the accumulated value of charges made by the Company towards the ZFŚS Fund decreased by the amount of non-returnable expenditures of the ZFŚS Fund.

In the consolidated statement of financial position, the Group netted the ZFŚS Fund assets against the ZFŚS Funds value, due to the fact that the assets of the ZFŚS Fund do not represent the assets of the Group. For this reason the amount pertaining to the ZFŚS Fund in the consolidated statement of financial position as at 31 December 2015 and 31 December 2014 was zero.

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents the assets according to type and book value, the balance of the Fund and costs related to ZFŚS:

	31.12.2015	31.12.2014
Loans granted to employees	44 030	47 099
Cash at ZFŚS account	8 576	4 045
ZFŚS assets	**52 606**	**51 144**
ZFŚS value	**52 606**	**51 144**
	2015	**2014**
Deductions made to ZFŚS during fiscal period	25 888	25 910

56. Subsequent events

Tax on certain financial institutions

After the balance sheet date the Act of 15 January 2016 on tax on certain financial institutions was announced (Journal of Laws of 2016 Pos. 68). The Act regulates the taxation on assets of certain financial institutions. In the case of the Bank, the taxable amount will be excess of the total assets of more than PLN 4 billion. The law provides for the possibility of reducing the tax base, in the case of the Bank, among others by the value of own funds and the value of assets in the form of Treasury securities as at the last day of the month. The tax will amount to 0.0366% of the tax base per month. The Act comes into force on 1 February 2016.

The amount of tax which will actually be paid will depend on the tax base, which will be determined in the future at the end of each month. The Bank estimates that the monthly tax burden will range between PLN 40 million and PLN 50 million. The amounts paid will not be deductible for the purposes of income tax. The first accounting period for which the Bank will make the calculation and payment of the tax will be February 2016.

Signatures of all Management Board Members

Date	Name/Surname	Position/Function	Signature
08.02.2016	Luigi Lovaglio	President of the Management Board, CEO	
08.02.2016	Diego Biondo	Vice President of the Management Board	
08.02.2016	Andrzej Kopyrski	Vice President of the Management Board	
08.02.2016	Adam Niewiński	Vice President of the Management Board	
08.02.2016	Grzegorz Piwowar	Vice President of the Management Board	
08.02.2016	Stefano Santini	Vice President of the Management Board	
08.02.2016	Marian Ważyński	Vice President of the Management Board	

Glossary

Glossary

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

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

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

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

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

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

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

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

IBNR – Incurred But Not Reported losses.

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

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

EAD – Exposure At Default.

EL – Expected Loss.

CCF – Credit Conversion Factor.

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

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

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

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