

# **Report on the activities of Bank Pekao S.A. Group for the year 2015**



**Warsaw, February 2016**

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

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# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 1 Highlights of Bank Pekao S.A. Group

	2015	2014	2013	2012	2011	2010
<b>INCOME STATEMENT CONTINUED OPERATIONS – SELECTED ITEMS<sup>(*)</sup></b> (in PLN million)						
Operating income	7,059	7,346	7,494	7,790	7,567	7,022
Operating costs	(3,220)	(3,286)	(3,331)	(3,445)	(3,497)	(3,518)
Operating profit	3,839	4,060	4,162	4,345	4,070	3,503
Profit before income tax	2,831	3,360	3,433	3,619	3,519	3,047
Net profit for the period attributable to equity holders of the Bank	2,293	2,715	2,767	2,906	2,842	2,488
Net profit in 2015 excluding one-off charges <sup>(**)</sup>	2,504					
<b>INCOME STATEMENT (IN PLN MILLION) – SELECTED ITEMS</b> (in PLN million)						
Operating income	7,059	7,346	7,565	7,953	7,808	7,340
Operating costs	(3,220)	(3,286)	(3,376)	(3,529)	(3,583)	(3,609)
Operating profit	3,839	4,060	4,189	4,424	4,225	3,731
Profit before income tax	2,831	3,360	3,454	3,664	3,593	3,102
Net profit for the period attributable to equity holders of the Bank	2,293	2,715	2,785	2,943	2,899	2,525
Net profit in 2015 excluding one-off charges <sup>(**)</sup>	2,504					
<b>PROFITABILITY RATIOS</b>						
Return on average equity (ROE)	9.7%	11.5%	12.0%	13.3%	14.2%	13.1%
Net interest margin	2.8%	3.1%	3.4%	3.7%	3.7%	3.5%
Non-interest income / operating income	40.0%	38.3%	39.6%	37.3%	40.6%	43.1%
Cost / income	45.6%	44.7%	44.6%	44.4%	45.9%	49.2%
<b>STATEMENT OF FINANCIAL POSITION – SELECTED ITEMS</b> (in PLN million)						
Total assets	168,786	167,625	158,522	150,755	146,590	134,090
Net loans and advances to customers <sup>(***)</sup>	122,055	114,978	103,937	97,559	95,679	80,840
Amounts due to customers	128,868	125,609	119,797	107,993	108,437	99,807
Debt securities issued	2,903	3,857	3,064	4,759	3,044	1,177
Equity	23,424	24,046	23,514	23,264	21,357	20,257
<b>STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS</b>						
Net loans / total assets	72.3%	68.6%	65.6%	64.7%	65.3%	60.3%
Securities / total assets	13.2%	15.0%	22.2%	19.5%	20.4%	23.4%
Deposits <sup>(****)</sup> / total assets	78.1%	77.2%	77.5%	74.8%	76.0%	75.3%
Net loans / deposits <sup>(****)</sup>	92.6%	88.8%	84.6%	86.5%	85.8%	80.1%
Equity / total assets	13.9%	14.3%	14.8%	15.4%	14.6%	15.1%
Total capital ratio (Basel III) <sup>(*****)</sup>	17.7%	17.3%	18.3%	18.1%	17.0%	17.6%
<b>EMPLOYEES AND NETWORK</b>						
Total number of employees	18,327	18,765	18,916	19,816	20,357	20,783
Number of outlets (Bank Pekao S.A. and PJSC UniCredit Bank)	975	1,034	1,001	1,040	1,051	1,073
Number of ATMs (Bank Pekao S.A. and PJSC UniCredit Bank)	1,759	1,825	1,847	1,919	1,910	1,910

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

(\*\*) One-off charge to the BGF in relation to bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wolomin and one-off contribution to the Borrowers Support Fund.

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

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

(\*\*\*\*\*) The total capital ratio for the period 2012-2015 is calculated in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 in force since January 1, 2014. The total capital ratios (previously capital adequacy ratios) for the period of 2010-2011 were calculated in accordance with the methodology which were in force before January 1, 2014.

Note: Since 2013 in the income statement in a presentation form, to align the presentation to the standards implemented by the major Polish and European banks, gains on disposal of available for sale financial assets and held to maturity investments are reported under trading result (and thus in operating income, operating profit and respective ratios). In order to ensure comparability, data for the period 2010 – 2012 have been restated in comparison to those previously published.

In relation to changes in accounting policy in 2013 (for description refer to the Note 5 to the Consolidated Financial Statement of Bank Pekao S.A. Group for the period ended on December 31, 2014) data for the period 2012-2015 have been presented in accordance with the new rules. Data for earlier periods remain unchanged.

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

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## 2 Summary of Performance

Net profit of Bank Pekao S.A. Group attributable to equity holders for 2015 amounted to PLN 2,292.5 million after the extraordinary one-off charge of PLN 234.0 million to the BGF in relation to bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin (SBRiR in Wołomin) and one-off contribution of PLN 26.5 million to the Borrowers Support Fund.

Net profit of Bank Pekao S.A. Group for 2015 excluding the extraordinary charges described above would amount to PLN 2,503.5 million, lower by PLN 211.2 million, i.e. 7.8% in comparison to 2014 with strong growth of loan and deposit volumes in key strategic areas, further costs optimization and lower cost of risk enabling to offset negative impact of regulatory constraints (i.e. the maximum interest rate on loans, interchange rates reduction, higher BGF cost).

Thanks to the effective commercial activity of the Group in 2015 a significant growth in loan volumes was reported both in the area of retail loans (an increase of 9.5% year on year) as well as in the area of corporate customers' financing (an increase of 3.0% year on year). Such substantial increase in lending was largely financed by higher volumes of retail deposits growing 14.2% year on year.

The strength of the liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 92.6% at the end of December 2015. The return on average capital (ROE), excluding the extraordinary charges described above, at the level of 10.6% was achieved with a strong capital base reflected by TCR at 17.7% (Basel III).

### Main P&L items

In 2015, the Group's operating income amounted to PLN 7,058.6 million, a decrease of PLN 287.1 million, i.e. 3.9% in comparison to 2014 with the following trends:

- total net interest income, dividend income and income from equity investments in 2015 amounted to PLN 4,232.3 million and was lower by PLN 300.5 million, i.e. 6.6% compared to 2014 affected by the reduction of interest rates, in particular the maximum rate applicable to loans,
- the Group's net non-interest income in 2015 amounted to PLN 2,826.3 million, an increase of PLN 13.4 million, i.e. 0.5% in comparison with 2014 thanks to higher net other operating income and expenses supported by compensation under an insurance contract. Net fee and commission income was lower by 1.9% compared to 2014, mainly due to negative impact of interchange rates' reduction.

Thanks to further improvement of operational efficiency the operating costs amounted to PLN 3,219.7 million in 2015. They were lower by PLN 66.0 million, i.e. 2.0% as compared with the previous year.

Guarantee funds charges in 2015, amounted to PLN 274.4 million, an increase of PLN 134.6 million, i.e. 96.3% in comparison with 2014 mainly due to the higher BGF rates introduced in 2015.

In 2015, the Group additionally incurred one-off charges related to the contribution to the BGF for the purpose of payments of the funds guaranteed to the depositors of the bankrupt Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin (SBRiR in Wołomin) and the cost of provision for the obligatory sector-wide contribution to the Borrowers Support Fund in 2015 in total amounting to PLN 260.5 million.

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 517.5 million in 2015, a decrease of PLN 42.1 million, i.e. 7.5% as compared with 2014.

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## Volumes

As at the end of December 2015, the total amounts due to the Group's customers and debt securities issued amounted to PLN 131,770.9 million, an increase of PLN 2,304.9 million, i.e. 1.8% in comparison to the end of December 2014.

- the total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 63,865.3 million at the end of December 2015, an increase of PLN 7,930.7 million, i.e. 14.2% in comparison to the end of December 2014. The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 16,702.5 million at the end of December 2015, a decrease of PLN 412.6 million, i.e. 2.4% in comparison to the end of December 2014.
- the total volume of corporate deposits, repo and sell-buy-back transactions, Certificates of Deposit, Pekao Bank Hipoteczny S.A. covered bonds, interest and other amounted to PLN 67,905.6 million at the end of December 2015, a decrease of PLN 5,625.8 million, i.e. 7.7% as compared to the end of December 2014 following actions aimed at optimization of liabilities structure.

As at the end of December 2015, the volume of total customers' financing amounted to PLN 128,008.6 million, an increase of PLN 6,815.8 million, i.e. 5.6% in comparison to the end of December 2014.

- as at the end of December 2015, the volume of retail loans amounted to PLN 53,944.6 million, an increase of PLN 4,680.6 million, i.e. 9.5% in comparison to the end of December 2014.
- the volume of corporate loans, non-quoted securities, reverse repo transactions and securities issued by non-monetary entities increased by PLN 2,135.2 million, i.e. 3.0% as compared to the end of December 2014 and amounted to PLN 74,064.0 million at the end of December 2015.

As at December 31, 2015, the ratio of impaired receivables to total receivables amounted to 6.3% and was better by 0.5 p.p. in comparison to the end of 2014.

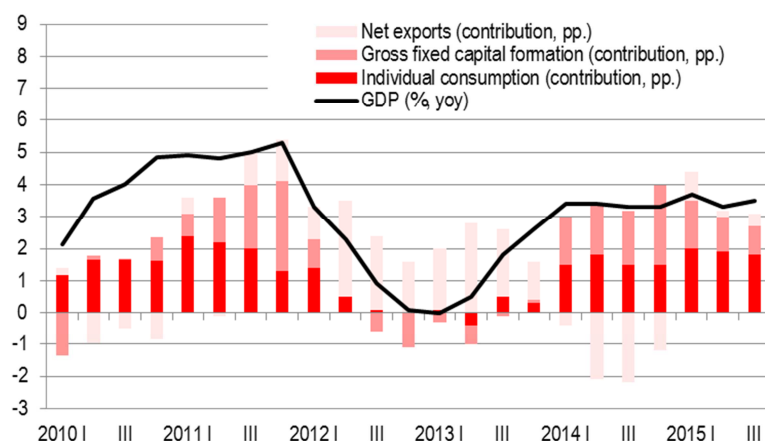
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## 3 External Activity Conditions

### Economic growth

Poland's economic growth in 2015 is estimated at ca. 3.6 % as compared with the GDP growth of 3.3% in 2014. The economy continued recovery that gained firmer ground in the course of 2014 and the annual growth was above 3% in all quarters of last year. Domestic demand remained the main engine of economic growth, however its expansion was slower than in 2014 as a consequence of less dynamic fixed investments growth (6.1% vs 9.8% in 2014). Positive labour market conditions and declining prices during 2015 facilitates further acceleration of households consumption growth – 3.1% from 2.6% in 2014. Economic growth was supported by foreign trade and the positive contribution of net exports to the GDP growth in 2015 amounted to 0.3 p.p. vs. a negative contribution of 1.5 p.p. reported in 2014.

In 2016, the GDP growth is expected to accelerate slightly to ca. 3.7%. The domestic demand will be, among others, supported by the "Family 500+" Program (PLN 500 a month subsidy per child) estimated at PLN 16 billion, what should enable further acceleration of households consumption growth this year. Investments activity will depend on the investment decisions of the enterprise sector and the timing of effective beginning of projects financed with the EU funds within the financial perspective for the years 2014-2020. Increasing uncertainty linked, among others, with signals of deteriorating economic conditions in China, which might potentially negatively impact global growth and the performance of Poland's exports market, will weigh down on economic prospects.



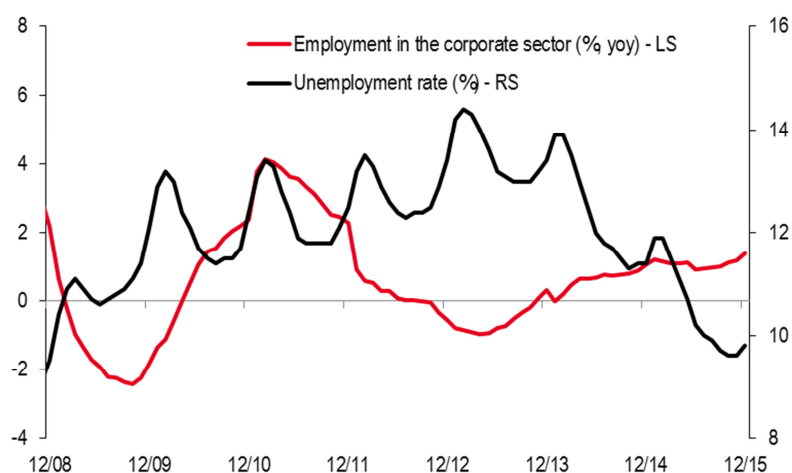
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## Labour market

Average employment in the Polish corporate sector amounted in December 2015 to 5,626 thousand, i.e. by 77 thousand more than in December 2014. The increase in employment in 2015 was a continuation of the trend, which began in mid-2013. In the first half of the year job creation slowed down slightly, but significantly accelerated in the second half of the year. The most number of jobs in 2015 were still, as in the previous year, in the manufacturing sector and trade and services, while job cuts dominated in the construction sector (the fourth consecutive year) and the mining industry (the domestic mining sector remains in a deep crisis).

In 2015, it was observed a continuation of the downward trend in unemployment rate, which in December 2015 was at 9.8% compared to 11.4% in December 2014. It is expected that in 2016 the downward trend will be continued, though at a much slower pace than in the last two years due to the emerging constraints of labour supply.

Wage pressure in the Polish corporate sector in 2015 remained at a moderate level, as in the previous year, which was supported by low inflation expectations of households in the deflationary environment. The average wage in the corporate sector increased in 2015 by 3.5% compared with an increase of 3.8% in the previous year. As a result, wage bill in the corporate sector increased in 2015 in nominal terms by 4.7% vs. 4.4% in 2014, which after adjusting for deflation resulted in an increase in real terms by 5.6% in 2015 compared to 4.5% in 2014.



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## Inflation and monetary policy

According to data of the Central Statistical Office in Poland, the average consumer price inflation in 2015 was -0.9%, while in 2014 it amounted to 0.0%. Consumer price index since February 2013 has been below the lower limit of the range of acceptable deviations from the NBP inflation target, the center of which is defined at 2.5% and the range is from 1.5% to 3.5%. In December 2015 the CPI reached -0.5% year on year.

The biggest impact on the continuing low inflation came from decline in prices of transport, clothing and footwear. Starting from the third quarter of 2014 consumer price index recorded declines year-on-year. In 2015, there was a decline in core inflation (excluding food and energy prices) to 0.3% from 0.6% in 2014. Besides decline in consumer price index in 2015, there was also a decline in prices of sold industrial output. It resulted primarily from a decline in global commodity prices.

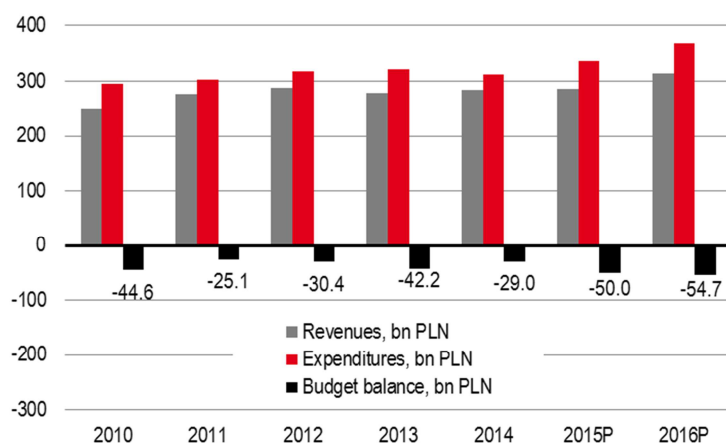
The low level of inflation prompted the Monetary Policy Council in March 2015 to lower the reference rate by 50 basis points to 1.50%, the Lombard rate by 50 basis points to 2.50% and the deposit rate to 0.50%.

In 2016, it should be expected a slight increase in the CPI inflation. It will be mainly the result of higher food prices. In the second half of the year an increasingly important role in shaping inflation will be played by demand factors. However, it is estimated that by the end of 2016 inflation will not return to the NBP inflation target.

## Fiscal policy

The state budget deficit after November 2015 amounted to PLN 36.1 billion i.e. 78.4% of the annual limit envisaged by the 2015 budget act (PLN 46.1 billion) and was lower than PLN 41.3 billion deficit assumed in the budget execution schedule. Despite that, the Polish government decided to amend the 2015 budget in order to avoid expenditure cuts and expand the fiscal space in 2016. The main cause for such a decision was a substantial shortfall of revenues (about PLN 13 billion) from the value added tax (VAT) vs. the level assumed in the budget act and low probability of obtaining proceeds from digital dividend (sale of LTE frequencies worth about PLN 9 billion). In the amended budget act the deficit limit was raised to PLN 50 billion. The draft budget for 2016 envisages the state budget deficit at PLN 54.7 billion.

In 2014, the general government deficit amounted to 3.2% of the GDP (the deficit was revised up to 3.3% of the GDP afterwards). Even though the deficit was above the 3% of the GDP threshold set in the Stability and Growth Pact, on June 19, 2015 the European Council abrogated the excessive deficit procedure imposed on Poland in July 2009. The Council took into account the costs associated with 1999 pension reform, which in the period of January to July was estimated at 0.4% of the GDP. The new fiscal path (higher deficit in 2015, high and based on rather optimistic macroeconomic assumptions deficit planned in 2016) means that the general government deficit will likely remain above 3% of the GDP and the excessive deficit procedure may be imposed on Poland again already in mid-2016. After the changes conducted in February 2014, in the mid 2014 the Polish pension system no longer fulfills conditions of the "systemic pension reform". Therefore the fiscal assessment will no longer take into account the fiscal cost of second pillar functioning as the capital pillar no longer meeting "mandatory" and "broad coverage" conditions.





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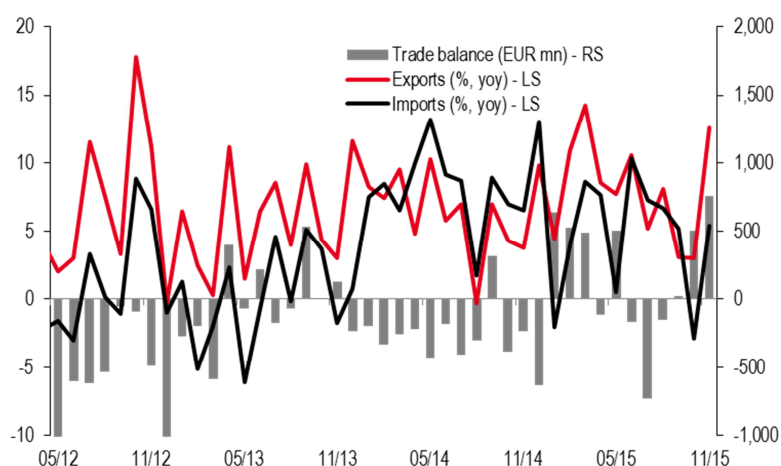
## Foreign sector

The National Bank of Poland data indicate that in the period January-November 2015 the current account deficit amounted to EUR 0.3 billion vs. EUR 7.3 billion in the corresponding period of 2014, which translates into a decrease in 12-month relation to the GDP to 0.3% from 2.0%.

A clearly lower deficit of the current account was primarily a result of improvement of the balance of trade account which in the period January-November 2015 recorded a surplus of EUR 2.3 billion vs. a deficit of EUR 2.6 billion in the corresponding period of 2014. The trade surplus, in turn, resulted from a significant slowdown in imports growth (4.6% year on year vs. 8.0% year on year in 2014), among others, due to weakening of investment growth and a strong decline in oil prices, while simultaneously there was a slight acceleration of exports growth (8.0% year on year vs. 6.2% year on year in 2014). The current account balance improved also thanks to a higher surplus of the services account (EUR 9.0 billion vs. EUR 8.0 billion a year ago) as well as a lower deficit of the primary income account (EUR 11.1 billion vs EUR 12.4 billion in 2014). The deficit on the secondary income account deepened slightly (EUR 0.4 billion vs. EUR 0.3 billion in 2014).

As for the financing side, there was a considerable decrease in foreign direct investment (FDI) - in the period January-November 2015 the FDI inflow was at EUR 7.1 billion vs. EUR 12.8 billion in the same period of 2014. The inflow of portfolio investments also slowed down (to EUR 2.6 billion from EUR 3.5 billion in 2014), which resulted mainly from capital outflows from the stock market (outflow of EUR 0.5 billion vs. inflow of EUR 3.2 billion in 2014), while the domestic debt market recorded a solid inflow of funds (EUR 3.1 billion vs. EUR 0.3 billion in 2014). An important source of financing for the current account deficit was still the inflow of the EU capital transfers, despite the fact that in the period January-November 2015 it declined slightly compared to the corresponding period of 2014 (EUR 7.0 billion vs. EUR 8.1 billion in 2014).

In 2015, moderate increase in the Treasury's foreign debt was recorded. According to the Ministry of Finance, at the end of October 2015 the Treasury' foreign debt amounted to PLN 291.8 billion, which means an increase by ca. PLN 15.0 billion in comparison to December 2014 (by 5.4%). The growth of the Treasury's foreign debt was partially caused by the weakening of the zloty against foreign currencies, in which it is denominated.



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## Capital market

In 2015, financial markets were volatile last year due to growing concerns about the outlook for global economy in the context of continuing declines in commodity prices, first of all oil prices and the continuing risk of consolidating inflation at record low levels. Despite improving situation on the U.S. labor market, that allowed the Federal Reserve to start monetary tightening cycle in December 2015, main stock indices in the U.S. recorded a slight declines year on year. It should be noted however that valuations remained at historically high levels most of the period. Some main indexes in Europe outperformed U.S. equities (German DAX rose by 9.6%, while French CAC grew by 8.5%), meanwhile Japan Nikkei 225 rose by 9.1%. There was increased volatility in China which recorded a deep sell-off after strong rally in the first half of the year. Increasing fears about the outlook for Chinese economy and the impact of the slowdown for global economy influenced highly on increase of the risk aversion at the end of the year.

Investment sentiment on the capital markets caused systematic decrease in share prices of companies listed on the Warsaw Stock Exchange in the second half of the year. As a result the balance was negative for the broad market and the biggest companies. WIG index lost 9.6% and the index of blue chip (WIG20) fell by 19.7%. Whereas the sWIG80 and mWIG40 outperformed main indices and went higher by 9.1% and 2.4% respectively during the year. Investors were selling liquid assets, which resulted in significantly underperformance of large companies. Moderate optimism regarding the economic situation in Poland was unable to neutralize concerns about global outlook and capital outflows from emerging markets due to the Fed's rate hikes. Changes in Polish political map added an extra portion of uncertainty and foreign investors remained more cautious regarding domestic assets.

In 2015, 30 new companies joined the main market and 13 companies left the stock exchange. Capitalization of domestic companies decreased to PLN 516.8 billion from PLN 591.2 billion in 2014. Capitalization of foreign companies decreased by over 14% to PLN 566.1 billion from PLN 661.8 billion. The value of turnover on the stock market amounted to PLN 225.3 billion and was lower than in the previous year (PLN 232.9 billion).

In 2015, investment funds assets increased by ca. 20.0% to a record level of PLN 252.2 billion, of which over PLN 25 billion was a change in December resulting in funds injection to several non-public assets funds. The net inflows amounted to ca. PLN 11.3 billion (excluding rapid changes in case of two Investment Funds in December). The vast majority of funds provided equity, cash and mixed funds. Debt funds noted a withdrawn during this period by ca. PLN 2.4 billion.

It cannot be ruled out that the situation on the Warsaw Stock Exchange will remain extremely volatile in the near future. Persistent investors' concerns about slowing Chinese economy, the scale of interest rate hikes in the USA and consequently the possible capital outflow towards USD nominated assets, may limit an upward potential of the listed companies. On the other hand, markets priced-in the risks of possible adverse scenarios, including, in particular, worse perspectives for banking and energy sectors. Thus expectations of upturn in the stock market are not unfounded, as long as global market sentiment will improve and economic growth in Poland will consolidate at a level above 3.5% year on year.



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## Banking sector

Although in 2015 economic growth remained solid, which contributed among others to improvement of the situation on the labor market, financial results of banks worsened significantly. This was due to a decrease in interest income (a result of another interest rate cut by the MPC) and a significant increase in costs, particularly those associated with the functioning of the deposit guarantee system as well as the cost of risk.

According to the NBP data, the pace of growth of monetary financial institutions assets was moderate, as at the end of December 2015 amounted to 3.6% year on year (compared to 8.1% year on year in 2014). Customer deposits of monetary financial institutions increased in this period by 8.9% year on year (8.1% year on year in 2014) and loans by 7.1% year on year (7.3% year on year in 2014).

In terms of main deposit categories, in 2015 the following developments were noted:<sup>1</sup>

- an increase in household deposits – 9.2% year on year as at the end of 2015 (compared to 8.8% year on year in 2014) resulting mainly from improving financial situation of households and limited propensity to invest in more risky assets (e.g. investment funds units, shares),
- an increase in corporate deposits – 10.4% year on year as at the end of 2015 (9.4% year on year in 2014) resulting from good financial performance of corporates and reduced expenditures for raw materials associated with declining global prices of commodities. The level of corporate deposits was also influenced by flows of funds within international corporations (those flows were related to optimization of financial income as well as investment plans),
- an increase in other deposits – 3.7% year on year as at the end of 2015 (1.3% year on year in 2014).

As at the end of December 2015 household deposits accounted for 64.9% (64.7% as at the end of 2014), corporate deposits accounted for 25.0% (24.7% as at the end of 2014), and other deposits accounted for 10.1% (10.6% as at the end of 2014) of all deposits.

In terms of main receivables categories, in 2015 the following developments were noted:

- an increase in household receivables – 6.6% year on year as at the end of 2015 (5.5% year on year in 2014). Faster pace of growth in this category was mainly due to the stronger Swiss franc (after the release of its exchange rate in January 2015), which led to rising PLN value of loans denominated in that currency,
- increase in corporate receivables – 8.8% year on year as at the end of 2015 (8.7% year on year in 2014) resulting from strong investment activities of corporates,
- an increase in other loans – 4.8% year on year as at the end of 2015 (by 13.5% year on year in 2014) resulting mainly from solid growth in loans to non-monetary financial institutions.

As at the end of December 2015 loans to households accounted for 58.8% (59.0% at the end of 2014), corporate loans accounted for 30.1% (29.7% at the end of 2014) and other loans accounted for 11.1% (11.3% at the end of 2014) of all loans.

In terms of loan portfolio quality, in 2015 the following developments were noted:

- gradual decline in the share of NPLs in the portfolio of corporate loans. As at the end of November 2015, non-performing loans accounted for 10.3% of the portfolio, while as at the end of 2014 they stood at the level of 11.2%. Decrease in share of non-performing loans was visible mainly in loans to large corporates (7.5% in November 2015 vs. 9.0% at the end of 2014). In the SME segment it was much smaller (12.4% in November 2015 vs. 12.7% at the end of 2014),
- stabilization of NPL ratio in case of loans to households – 6.4% in November 2015 compared to 6.5% at the end of 2014. Both, in case of housing loans as well as non-housing loans the rate changes in 2015 were relatively small. For housing loans the ratio did not change vs. December 2014 (3.1%) and for non-housing loans it went down to 11.4% from 11.8% at the end of 2014.

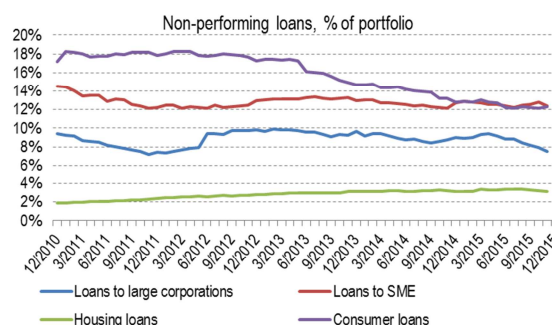
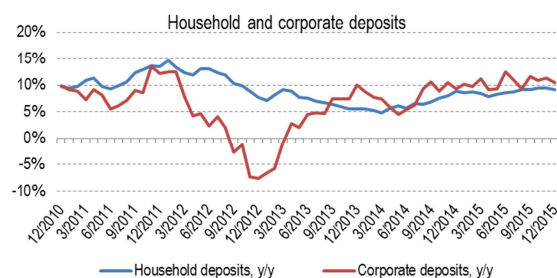
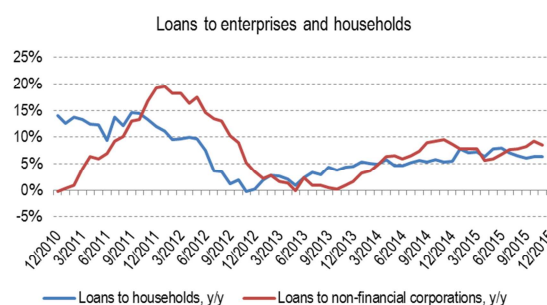
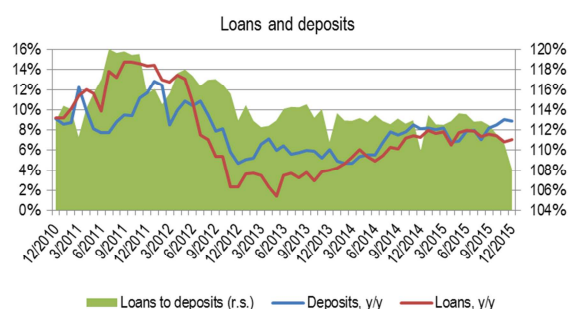
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<sup>1</sup> Segment data for deposits and receivables are based on NBP monetary statistics

# Report on the activities of Bank Pekao S.A. Group for the year 2015

In January-November 2015, decline in banking sector net profit was reported as compared to corresponding period of 2014. According to the NBP data, in that period net profit was equal to PLN 10.8 billion (-29.5% year over year). The strong result deterioration was due to a fall in net interest income (-5.5% year on year), increase in bank operating costs (by 10.8% year on year, mainly a consequence of higher costs associated with the functioning of the Bank Guarantee Fund) and costs related to asset write-downs and provisions (+12.1% year on year).

As far as regulatory environment is concerned important events in 2015 were, among others, establishment of the Borrowers Support Fund (financed by the banks). Also rescue processes of some credit unions and the bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin had tremendous impact on bank results in 2015. The impact was visible in much higher yearly contribution to the Bank Guarantee Fund as well as one-off payment to cover the outlays of insured deposits of SK Bank clients. For the consecutive time it was another reduction of interchange fee rates in the area of cards transactions that negatively impacted on fee and commission income on cards.



# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 4 Important Events and Achievements

### 4.1 Changes within the Group

The composition of Bank Pekao S.A. Group is presented in the Note 2 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December, 2015.

The most significant changes concerning the Group occurred in 2015 are presented below.

#### **Acquisition of the company**

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

#### **Sale of shares in Krajowa Izba Rozliczeniowa S.A.**

On July 15, 2015 the Bank sold 3,125 shares of Krajowa Izba Rozliczeniowa S.A. As a result of the transaction, the Bank's share in the share capital and the votes in the General Meeting of the Company was reduced from 34.44% to 5.74%.

Information on effect of disposal is presented in the Note 33 of the Consolidated Financial Statements of Bank Pekao S.A. for the period ended on December 31, 2015.

#### **Liquidation of the company**

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

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 4.2 Changes in the Statutory Bodies of the Bank

### Supervisory Board

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

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

Composition of the Supervisory Board:

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

### Management Board of the Bank

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

Composition of the Management Board:

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

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

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

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

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

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

Mr. Luigi Lovaglio heads the Management Board, convenes and presides over the Board meetings, presents its stance to other governing bodies of the Bank and in relations with third parties, in particular with the State authorities, and issues internal regulations.

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

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

Mr. Adam Niewiński, Vice President of the Management Board of the Bank supervises the activity of the Private Banking Division.

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

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

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 4.3 Organizational changes

In 2015, there were organizational changes in the Bank.

The network of Corporate Banking and MIB Division was re-organized. In order to better exploit the potential of the market and the geographical coverage, 10 Corporate Banking Macroregions (instead of the current 5) were launched, consisting of Macroregional Corporate Centers and Corporate Centers located in the operation area of the given Macroregion.

During 2015, in the Bank's Head Office were also made changes aimed at, among others, integration of processes in specialized units, better use of resources and improving management, involving the transfer:

- to Central Back Office tasks related to after-sales service of corporate customers,
- to Corporate Sustainability & Events Office tasks related to management of sponsoring, cultural, artistic initiatives and social events and to Brand Management Department tasks related to marketing activities carried out by the business divisions units,
- to Credit Risk Management & Control Department tasks related to the preparation of policies and procedures for risk management, the development of tools and IT systems administration used to manage the risks and risk reporting,
- to Special Credit – Large and Strategic Files Department tasks related to conducting the restructuring of selected credit exposures of the Bank in terms of commercial real estate financing.



# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 4.4 Awards and distinctions

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

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

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

### **Global Finance: Bank Pekao S.A. Best Trade Finance Bank 2015**

Bank Pekao S.A. was awarded with the title of Best Trade Finance Bank 2015 in Poland by Global Finance magazine in the category “Trade and supply chain finance”. The Global Finance experts appreciated the transaction volumes of the Bank, the scope and cover of the rendering services, the level of customer service as well as applied technological solutions and price of offered products and services.

### **Euromoney: Bank Pekao S.A. Best Trade Finance Provider 2015**



Bank Pekao S.A. was awarded with the title “Best Trade Finance Provider 2015” according to the survey organized by EUROMONEY magazine.

Over 2 thousand international companies chose the best solutions in trade finance and banks in which they use trade finance products. In Poland, Bank Pekao S.A. received the most votes which confirms the customers' satisfaction from comprehensive range and quality of transactional banking services and products offered by the Bank.

### **Global Finance: Bank Pekao S.A. Best Sub-Custodian Bank in Poland**

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

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

### **Krajowy Punkt Kontaktowy ds. Instrumentów Finansowych Programów Unii Europejskiej: title „Lider Rynku Instrumentów Finansowych Unii Europejskiej w Polsce”**

During the ceremony organized in December 2015 dedicated to the 10<sup>th</sup> anniversary of launching in Poland EU financial instruments, Bank Pekao S.A. received statuette of „Lider Rynku Instrumentów Finansowych Unii Europejskiej w Polsce” (Leader of the Market in EU Financial Instruments in Poland). Since 2007, the Bank in co-operation with the European Investment Fund implemented several EU guarantee programs addressed primarily to micro and small companies. So far the Bank granted preferential financing in the amount of over PLN 2.5 billion under these programs.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## **Eurobuild Awards 2015: "Financing Provider of the Year" title for Bank Pekao S.A.**



Bank Pekao S.A. was honored for the fifth consecutive time with the title "Financing Provider of the Year, Poland 2015" by jury of competition organized by Eurobuild magazine which is one of the most influential specialized magazine on commercial real estate sector in CEE. Among the winners in their respective categories were also projects financed by the Bank.

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

## **Global Finance: Private Banking of Bank Pekao S.A. as Best Private Banks 2015 in Poland**

Private Banking of Bank Pekao S.A. is on the top of the international ranking conducted by Global Finance magazine in the category the best institution in the country.

The ranking is one of the most comprehensive studies which classifies banks offers for the wealthiest clients. Institutions have been evaluated according to criteria such as market assessment, surveys of independent analysts as well as opinions of customers using solutions offered by banks.

## **The Banker and Professional Wealth Management magazine: "The Best Private Bank in Poland" title for Bank Pekao S.A.**



Bank Pekao S.A. was honored with the title "The Best Private Bank in Poland" granted by prestigious magazine The Banker which belongs to Financial Times group and Professional Wealth Management magazine. International jury appreciated the Bank's innovative product solutions (among others, prestigious multicurrency debit card and dedicated investment products) for the wealthiest customers, high level of customer service, increase in the number of Private Banking customers and increase in value of assets under management.

The Best Private Bank Award is granted since 2009 in 36 categories, thereof in 29 categories presenting the best representatives of different countries where Private Banking services are at a high level and are subjected to high competition.

## **Najwyższa Jakość QI: emblem of Najwyższa Jakość Quality International 2015 for the multi-currency debit card World Elite Debit MasterCard and credit card Pekao World Elite MasterCard**



Bank Pekao S.A. was awarded with the prestigious title of Najwyższa Jakość Quality International 2015 in the category QI PRODUCT for introduction to the offer the multi-currency debit card World Elite Debit MasterCard and credit card Pekao World Elite MasterCard. The Chapter of the Program held under the auspices of the Ministry of Economy, Polish Agency for Enterprise Development and Polish Forum ISO 9000 highly assessed the World Elite Debit MasterCard and honored activities related to the card implementation, as well as promoting the idea of quality in all aspects in the Bank, especially in the field of card products.

Title Najwyższa Jakość Quality International and the Certificate signed by the patrons are confirmation of the highest quality and emblem QI is a measurable value in building a positive image of the company.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## **Warszawska Izba Przedsiębiorców: Bank Pekao S.A. laureatem II Edycji Konkursu „AS”**

Bank Pekao S.A. was the winner of the II Edition of “AS” competition organized by Warszawska Izba Przedsiębiorców for the multi-currency debit card MasterCard Business, which enables execution of transactions in PLN and foreign currencies (EUR, USD, GBP, CHF) without FX conversion thanks to card’s connection with corresponding currency accounts.

The aim of the competition is to build and strengthen relationships between companies, banks and financial institutions in order to promote innovative products and services, which support development and increase in competitiveness of the Polish companies.

## **VIII Central European Electronic Card Conference: application for multicurrency payment card settlements recognized as the best in Poland**



System for multicurrency MasterCard Debit settlements won in the contest for the best in 2015 IT application for servicing card systems in Poland. The competition was one of the events accompanying the VIII Central European Electronic Card Conference, the largest conference dedicated to payment cards in Poland.

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

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

Moreover, contactless mobile payments PeoPay with HCE technology was recognized as the most innovative banking product in the sixth edition of on-line contest “Złoty Bankier” (“Golden Banker”) for the best banking products and services in 2014.

Bank Pekao S.A. is the first bank in Poland and one of the first in Europe offering to its customers HCE mobile payments technology. New technology allows to make payments without necessity to use a specific mobile operator.

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



Bank Pekao S.A. received the title „Business Leader of the Year” at the conference „Contactless Intelligence” in London, dedicated to contactless payments which is one of the most important events in the sector.

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## Bankier.pl: MDM mortgage loan of Bank Pekao S.A. took the first place in the ranking of “Apartment for the Young” (MDM) loans



MDM mortgage loan of the Bank took the first place in the ranking of mortgage loans “Apartment for the Young” in November 2015 conducted by Bankier.pl portal.

Bank Pekao S.A. actively participates in the government program “Apartment for the Young” supporting the persons in acquisition of a new apartment. MDM mortgage loan of Bank Pekao S.A. is the most popular choice of loan on the market. Since April 2015 “Apartment for the Young” loan of Bank Pekao S.A. held top positions in the rankings organized by Bankier.pl portal.

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



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

At the gala ceremony during “Horyzonty Bankowości 2015” the results of the 20<sup>th</sup> anniversary edition of the one of the most prestigious competitions were announced. The position of the bank in each category is determined by objective financial data evaluated by independent analysts.

## CEE Capital Markets Awards: BEST IR DEPARTMENT 2015 Award for Bank Pekao S.A.



Bank Pekao S.A. received BEST IR DEPARTMENT 2015 Award in the 1st edition of international competition CEE Capital Markets Awards. The goals in organizing the competition is to, among others, encourage global investors attention on dynamic economies of the CEE region and highlight top entrepreneurs and managers of publicly-listed companies on CEE capital markets.

The total of 126 nominations were received from, among others, Poland, Romania, Ukraine, Hungary and awards in 18 categories were given to representatives from 83 companies.

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

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## UniCredit Up Award: Bank Pekao S.A. winner in the category Products and Services



Bank Pekao S.A. was the winner of UniCredit Up Award contest in the category Products and Services (UniCredit Real-Life Banking Achievement), which is dedicated to examples of best product solutions offered to customers throughout the UniCredit Group. Multicurrency payment card of Bank Pekao S.A. was awarded.

## Association of Individual Investors: brokerage entities of Bank Pekao S.A. Group best in the ranking organized by Ogólnopolskie Badanie Inwestorów SII 2015

Centralny Dom Maklerski Pekao S.A. (CDM) and Dom Maklerski Pekao (Dom Maklerski) won in the brokerage houses ranking of Ogólnopolskie Badanie Inwestorów (National Investors Survey) organized by Stowarzyszenie Inwestorów Indywidualnych (Association of Individual Investors) and took the first and the second place respectively. CDM received the highest score in the category of direct customer service and professionalism of its employees while Dom Maklerski received the highest score in the category of IT platform.

The aim of the National Investors Survey is to establish individual investor profile and the survey results are crucial for brokerage houses to adjust its offer to customer needs, expectations and preferences when making investment decisions.

Association of Individual Investors is the largest organization of individual investors in Poland, which operates since 1999 and belongs to the European organizations Euroshareholders and Euroinvestors as well as to World Federation of Investors Corporation (WFIC).

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



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

## „Laur Klienta 2015” for Pioneer Pekao TFI



Pioneer Pekao TFI took the first place in the XI edition of nationwide popularity poll "Laur Klienta 2015" in the category „Towarzystwa Funduszy Inwestycyjnych". The award is granted to companies selected in a telephone survey.

Due to the fact that Pioneer Pekao TFI S.A. was a three-time winner in the survey it received also Laur Klienta Grand Prix 2015.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 5 Information for the Investors

### 5.1 The Bank's share capital and share ownership structure

As at December 31, 2015, the share capital of Bank Pekao S.A. amounted to PLN 262,470,034 and remained unchanged until the date of submitting the report. The share capital of the Bank consisted of 262,470,034 shares of the following series:

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

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

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

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

UniCredit S.p.A. has been the Bank's major shareholder since August 1999. As at December 31, 2015, UniCredit S.p.A. held 50.10% share in the Bank's share capital and the same percentage of the total votes at the Bank's General Meeting of Shareholders and the remaining shareholders' 49.90% share. Since none of the remaining shareholders holds more than 5% of the total vote at the Bank's General Meeting of Shareholders, they are not required to disclose information on their holdings in Bank Pekao S.A.'s shares.

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

Polish open-end pension funds (OFE) constitute to the group of financial investors holding significant equity interests in the Bank. Based on their publicly available financial reports, as at December 31, 2015 OFE held in aggregate 13.8% of the Bank's shares.

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

SHAREHOLDER	NUMBER OF SHARES AND VOTES AT GM	% OF SHARE CAPITAL AND TOTAL VOTE AT GM	NUMBER OF SHARES AND VOTES AT GM	% OF SHARE CAPITAL AND TOTAL VOTE AT GM
	DECEMBER 31, 2015		DECEMBER 31, 2014	
Aviva OFE Aviva BZ WBK	10,709,906	4.08%	11,620,872	4.43%
OFE PZU „Złota Jesień”	5,836,563	2.22%	5,641,651	2.05%
ING OFE	4,715,432	1.80%	5,464,868	2.08%
AXA OFE	3,020,824	1.15%	2,873,652	1.09%
OFE MetLife <sup>(*)</sup>	2,801,190	1.07%	3,307,948	1.26%
Aegon OFE	2,103,268	0.80%	1,742,820	0.66%
Allianz Polska OFE <sup>(**)</sup>	1,863,768	0.71%	1,824,961	0.70%
Generali OFE	1,852,089	0.71%	2,212,642	0.84%
Nordea OFE	1,653,909	0.63%	1,685,090	0.64%
PKO BP Bankowy OFE	1,039,288	0.40%	2,199,597	0.84%
OFE Pocztylion	732,676	0.28%	797,022	0.30%
<b>Total</b>	<b>36,328,914</b>	<b>13.84%</b>	<b>39,371,123</b>	<b>15.00%</b>

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

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

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

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

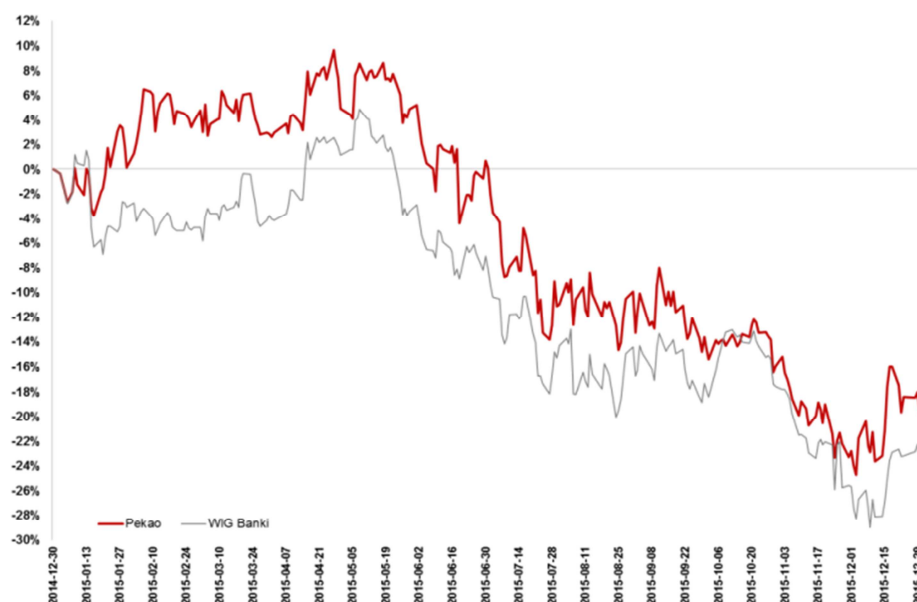
The shares of Bank Pekao S.A. have been listed on the Warsaw Stock Exchange since June 1998 and they are one of the most liquid equities in Poland and Central and Eastern Europe. Since 2000, the Bank maintains Global Depository Receipts (GDR) program. The Bank's GDRs are traded on London Stock Exchange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

The Bank's market capitalization as at December 31, 2015 amounted to PLN 37.7 billion and making the Bank a company with the highest market capitalization on the Warsaw Stock Exchange. Given the high capitalization and liquidity the Bank's shares are a part of many important stock indices maintained by domestic and foreign institutions including Polish blue chips index – WIG20. Since December 19, 2011, the shares of Bank Pekao S.A. are included in the CEERIUS Sustainability Index at Vienna Stock Exchange.

With the average daily turnover volume at the level of 363 thousand and the worth of trading at PLN 15.3 billion in 2015, the share of the Bank's stock in trading on the WSE amounted to 7.49%.

The share price of Bank Pekao S.A. reached PLN 143.5 at the end of December 2015 comparing to PLN 178.7 a year earlier. Share price drop in 2015 was mainly driven by the announcement of introduction of regulatory changes adversely affecting the profitability of the banking sector. Pekao share price dynamic was better than WIGBanks index by 3.8 p.p.

Performance of Bank Pekao S.A.'s shares and WIGBanks Index in year 2015.





# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 5.3 Dividend payment history

In 2015, the Bank paid dividend for 2014 in the amount of PLN 10.00 per share. Dividend yield amounted to 7.0%.

The dividend payments for the years from 2003 to 2014 are presented below:

Date	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Dividend for the year (in PLN million)	748	1,065	1,234	1,504	2,517	-	761	1,785	1,412	2,202	2,614	2,625
Dividend per 1 share (in PLN)	4.50	6.40	7.40	9.00	9.60	-	2.90	6.80	5.38	8.39	9.96	10.00

## 5.4 Investor Relations

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

The Bank's representatives regularly hold a lot of meetings with investors in Poland and abroad, and take part in most of the regional and sector dedicated investors conferences. Financial results of Bank Pekao S.A. Group are presented quarterly at conferences that are simultaneously transmitted via Internet.

The Bank's financial results and its activity are regularly monitored by analysts representing Polish and foreign brokerage entities. In 2015, 25 analysts published reports and recommendations on the Bank.

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

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 5.5 Bank Pekao S.A. financial credibility ratings

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

As at December 31, 2015, Bank Pekao S.A.'s creditworthiness was rated as follows:

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

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

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

On January 15, 2016, Standard and Poor's Ratings Services ("Standard & Poor's") downgraded the ratings Poland to the following levels:

- Long-term rating in foreign currency from A- to BBB+
- Long- and short-term rating in national currency - accordingly to A- and A-2
- Outlook for both the local and foreign currency ratings changed to Negative.

On January 19, 2016 Rating agency Standard & Poor's Ratings Services reviewed and confirmed the ratings of Bank Pekao S.A. at unchanged levels.

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 6 Activity of Bank Pekao S.A. Group

### 6.1 Important factors influencing the Group's activities and results

In 2015, the Group's activity was to a large extent determined by the macroeconomic situation in Poland and abroad as well as by the trends observed in the banking sector.

Polish economy, despite difficult external environment, continued its upward trend. GDP growth rate accelerated to 3.6%, comparing to 3.3% in 2014 amid persistent deflation. Private consumption remained the main driver of growth supported by a high level of investments and a positive contribution of net exports, despite the difficult situation in Ukraine, the Russian embargo on Polish food and a slowdown in China, a major emerging markets economy.

Monetary Policy Council, following the decisions of key central banks easing monetary policy and due to persistent deflation, decided in March to cut rates by 50 bps to a record low level. The reference rate was reduced to 1.5% and the Lombard rate to 2.5% negatively impacting net interest margin and net interest income of the banking sector.

The economic recovery in the historically low interest rates environment fostered lending activity growth. Household lending growth rate accelerated to 6.6% year on year from 5.5% year on year a year ago. The dynamic was partially distorted by the significant appreciation of the Swiss franc. Double-digit growth in the sales of PLN mortgage loans was fostered by low interest rates and systematic improvement of labour market situation. Demand for corporate loans remained high due to the economic recovery, high capacity utilization and investments. Lending growth in small and medium-sized enterprises was supported by the government program COSME, thanks to BGK guarantees. Corporate lending growth was at the similar level as at the previous year's level and amounted to 8.8% year on year.

Household deposits growth accelerated and amounted to 9.2% year on year vs. 8.8% year on year in the previous year. Interest in alternative forms of investing, including investment funds still remained low. The large uncertainty on the capital market due to growing geopolitical risks, falling commodity prices and growing intervention of politicians in some sectors of the economy were neither supportive for stock market indices nor for demand for investment products. Corporate deposits growth was at the level of 10.4% year on year vs. 9.4% year on year in 2014 due to the good financial results of enterprises.

Good situation in economy did not translate into an increase in the banking sector results due to the interest rates cut and additional burdens imposed on the sector. Bank Guarantee Fund rates almost doubled in 2015, increasing to 23.9 bps. In addition the interchange fee was cut to 20-30 bps.

Moreover, due to the setup of Borrowers Support Fund for mortgage borrowers in the stressful situation were obliged to finance the fund in the amount of PLN 600 million. Banks' contribution to the fund depends on their share in the total amount of overdue above 90 days mortgage loans.

Furthermore, due to the bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin, banks paid additional PLN 2 billion to cover payments of guaranteed deposits to the customers of this bank.

In connection with the January Swiss Central Bank decision concerning the release of the franc against the euro, franc strengthened considerably compared to PLN, resulting in deterioration of retail clients with CHF mortgage loans. As a result, the banks with significant CHF mortgage loans portfolios have been obliged to prepare support packages for their customers and to maintain higher capital buffers assigned individually.

The capital requirements for the banking sector were tightened due to the implementation of EU regulations. In November the Financial Supervisory Authority decided to increase the capital buffers. Total capital ratio (TCR) was increased from 12% to 13.25%, while core capital ratio (CT1) from 9% to 10.25.

Competition in the sector remained high, especially in the most attractive areas, translating into additional pressure on margins.

Banks continued investments in innovative solutions and new technologies, including remote channels of contact, especially in Internet and mobile banking as well as mobile payments.

Favourable economic conditions and labour market improvement supported assets quality, improving steadily.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 6.2 Major sources of risk and threats

### Risk management

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

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

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

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

The rules of managing each of the risks are defined in internal procedures and are subject to the assumptions of the credit and investment policies and the Operational Risk Strategy and Policy accepted annually by the Management Board and approved by the Supervisory Board.

Credit, liquidity, market and operational risk reports analyzing details of their development are presented to the Management Board and the Supervisory Board.

The rules and instruments of managing each of the risks are described below. Information on the risk exposure is included in Note 6 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2015.

### Credit risk

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

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

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

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

### Credit risk concentration limits

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## **Sector exposure concentration**

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

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

## **Liquidity and market risks**

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

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

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## **Liquidity risk**

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

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

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

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

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

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## **Market risk**

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

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

In connection with its exposure to market risk, the Group operates a market risk management system, which provides an organizational and methodological procedural framework designed to shape the statement of financial position structure and off-balance-sheet items in agreement with the strategic objectives. The main objective of market risk management is to optimize financial results assuring the implementation of financial goals of the 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.

### **Trading book market risk**

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

The key tool for assessing the market risk of the trading book is the Value at Risk (VaR) model. VaR represents the value of a one-day loss that might be realized with a probability not exceeding 1%. VaR is determined using historical simulation method based on two years observation of dynamics of market risk factors. The model is subject to statistical verification on an ongoing basis, which involves comparing the VaR value with the actual and revaluation results. The analyses for 2015 have confirmed the model's adequacy.

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

### **Banking book interest rate risk**

In managing the banking book interest rate risk, the Group aims to maximize the economic value of capital employed and to 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 (revaluation gap), VaR analysis, simulation analyses and stress testing.

### **Foreign Exchange risk**

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

## **Operational risk**

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

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## **Business risk**

Business risk is defined as adverse, unexpected changes in business volume and/or margins that are not due to credit, market nor operational risks. One of the elements of business risk is strategic risk that is the risk of incurring losses due to decisions or radical changes in the business environment, improper implementation of decisions, lack of response to changes in business environment, such as economic cycle trend shift.

Earnings at Risk concept is used in business risk calculation. This concept enables the calculation of unexpected negative deviation in the realized financial result from the level assumed in the financial plan.

## **Real Estate risk**

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

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

## **Financial investment risk**

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

Financial investment risk is assessed based on Value-at-Risk method.

## **Model risk**

Model risk is defined as the risk of implementing improperly constructed (defined) models, improper use of models or lack of their necessary updates. It is also the risk of inadequate control and monitoring during the model operation.

Model risk covers the risks of: data, assumptions, methodology and model administration.

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

## **Macroeconomic risk**

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

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

## **Reputation risk**

Reputation risk is defined as the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors or regulators. The risk is hard to measure and is subject to qualitative assessment. The Group strives to improve its reputation through continuous development of solid relationship with stakeholders.

## **Leverage risk**

Leverage risk means the risk of excessive increase in credit exposures relative to own funds (Tier 1). In the event of financial crisis accompanied with high volatility of asset prices, big leverage can cause liquidity problems or losses of the. The risk is mitigated by proper, balanced management of assets and liabilities.

## **Bancassurance risk**

Bancassurance risk is defined as the risk resulting from the activity of offering insurance products. It is subject to qualitative assessment and is protected against with potential capital coverage within other risk types (credit and operational risks).



# Report on the activities of Bank Pekao S.A. Group for the year 2015

## **Compliance risk**

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

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

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

Compliance risk management takes place at three separate levels:

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

The responsibility for co-ordination of the Bank's activities in the scope of compliance risk management lies with the Compliance Department. The tasks of the Department include identification, assessment, control and monitoring of compliance risk of the Bank's activity with the law, internal regulations and market standards and presentation of reports in this scope as well as carrying out tasks related to the counteracting of the use of the Bank's activity for purposes of money laundering and terrorism financing.

The Bank uses a dedicated methodology for the compliance risk assessment (CRA) and conducts second level controls, which enable assessment of the selected Bank's processes in terms of effectiveness and compliance with the key regulations concerning the banking business. The assessment of compliance risk and second level controls contribute to improvement of internal control system in the Bank and as a consequence to limitation of the compliance risk related to its activity.

## **6.3 CRR / CRD IV Package**

In 2013 European Parliament accept CRR/CRD IV Package which constitute on following regulations:

- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012
- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC

Regulation 575/2013 entered into force on 1<sup>st</sup> January 2014 while Directive was introduced through Act on macro-prudential supervision over financial system and crisis management in financial system dated 5<sup>th</sup> August 2015. Bank has made necessary changes for calculating capital requirements and the own funds resulting from the introduction of the abovementioned European regulations.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 6.4 Capital adequacy

Capital ratios are the basic measure applied for the measurement of capital adequacy according to Regulation of the European Parliament and of the Council (EU) No 575/2013 of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, (which entered into force since January 1, 2014) together with further amendments as well as Commission Implementing Regulations or Delegated Regulations (EU).

Capital ratios, capital requirements and own funds have been calculated in accordance with the above mentioned Regulation using national options defined in Banking Act, article 171a as well as recommendations of Polish Financial Supervision Authority (KNF). In particular, this applies to the risk weights for claims secured by mortgages and number of ratios regulating method of own funds calculation.

The minimum Total Capital Ratio required by law cannot be lower than 8% while according to recommendation of European Banking Authority (EBA) and KNF total capital ratio must be not lower than 12% and Tier I capital ratio not lower than 9%. Starting from 2016 the minimum capital ratios recommended by KNF increases to 13.25% in case of and 10.25% in case of Tier I capital ratio. At the end of December 2015 the total capital ratio of Pekao Group amounted to 17.7% and was more than twice the minimum value required by the law and significantly higher than the level recommended by the EBA and the KNF.

The table below presents the basic data concerning the Pekao Group capital adequacy as at December 31, 2015 and December 31, 2014 according to regulation which were in force at those dates.

(in PLN thousand)

CAPITAL REQUIREMENT	31.12.2015	31.12.2014
Credit risk	8,202,427	7,937,365
Exceeding large exposure limits	0	0
Market risk	63,578	192,563
Counterparty credit risk including CVA	325,240	442,446
Operational risk	564,787	705,781
<b>Total capital requirement</b>	<b>9,156,032</b>	<b>9,278,155</b>
<b>OWN FUNDS</b>		
Common Equity Tier I Capital	20,209,595	20,063,716
<b>Own funds for total capital ratio</b>	<b>20,209,595</b>	<b>20,063,716</b>
<b>Common Equity Tier I Capital ratio (%)</b>	<b>17.7%</b>	<b>17.3%</b>
<b>Total capital ratio (%)</b>	<b>17.7%</b>	<b>17.3%</b>

Total Capital Ratio at the end of December 2015 compared with December 2014 increased by 0.4 p.p. 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, market risk and counterparty risk partially offset by increase of capital requirement for credit risk.

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.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

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

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

### Distribution channels

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

	31.12.2015	31.12.2014
Total number of outlets	975	1,034
Total number of own ATMs	1,759	1,825

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

As at the end of December 2015, the Bank maintained 5,314.4 thousand PLN-denominated current accounts, 309.9 thousand mortgage loan accounts and 576.0 thousand consumer loan accounts.

(in thousand)

	31.12.2015	31.12.2014
Total number of PLN current accounts <sup>(*)</sup>	5,314.4	5,214.3
of which packages	3,961.1	3,873.8
Number of mortgage loans accounts <sup>(**)</sup>	309.9	287.9
of which PLN mortgage loans accounts	273.8	249.7
Number of consumer loan accounts <sup>(***)</sup>	576.0	593.8

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

(\*\*) Retail customers accounts.

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 6.5.1 Individual clients

In 2015, Bank Pekao S.A. consequently realized the strategy of growth in retail customer segment providing services for individual clients and small and micro enterprises.

The total value of new key loans (Express Loan, mortgage loans) granted to individual clients amounted to ca. PLN 14 billion and was higher by 12% in comparison with 2014.

The value of retail deposits placed in the Bank increased by the amount of PLN 8.0 billion which resulted in an increase in the total balance of retail deposits by 14.7% in comparison with 2014.

Bank Pekao S.A. is one of the leaders in payment services in Poland. In 2015, the Bank strengthened its position in this area issuing to its customers 614 thousand new debit and credit cards ensuring twofold increase in sales in comparison with 2014. In 2015, the Bank's offer was extended by new payment cards with innovative functionalities: multicurrency cards, Flexia credit card with the opportunity to reschedule selected payments and multifunctional electronic student card with the payment function.

In 2015, the number of customers with an access to the mobile banking exceeded 1 million and the number of active customers using mobile banking increased more than twofold. In the area of PeoPay mobile payment system, the Bank was focused on promotion of contactless payments in HCE technology which the Bank introduced in 2014 as the first bank in Poland and one of the first in the world. The second important area of development of PeoPay mobile payments was the extension of acceptance points on e-commerce market where thanks to use of QR codes in the process of transactions authorization, PeoPay became one of the fastest and most convenient payment methods.

In the Bank's offer dedicated to young customers are, among others, such products as packages of Eurokonto Kieszonkowe (Eurokonto Pocket Money), Eurokonto Intro, Eurokonto Mobilne, Mój Skarb account (My Treasure account), student loans, multicurrency card, mobile banking, PeoPay and mortgage loans in the framework of government program "Mieszkanie dla Młodych". In 2015, the Bank conducted two editions of marketing campaign dedicated to person under 30 years of age, promoting individual accounts, cards and PeoPay payments. The Bank focused on local activities, mainly in schools and universities, promoting innovative services and banking products. Within the framework of the Academy of Finance of Bank Pekao S.A., over 1,000 actions were realized throughout Poland. The Academy aims to provide students with the most important rules of the bank day-to-day services, secure management of savings and knowledge of the innovative banking products.

### Savings and investment products

Thanks to a wide range of deposit products and dedicated commercial actions, in 2015 there was noted an increase in deposits volume of retail customers. The most popular among the customers were the Internet deposits (e-lokata) and negotiable deposits.

In 2015, the Bank continued development of the Premium Personal Banking under which the Bank provides to its customers the highest standards of service, opportunity to adjust selected parameters of the offer to the customers individual needs and expectations and assistance of qualified Premium Personal Advisers.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

In 2015, the Bank introduced to its offer new investment funds and structured products which ensures 100% capital protection at the end of investment:

- Strefa Inwestycji Premium – investment-insurance product of TU Allianz which allows acquisition of selected funds managed by Pioneer TFI, TFI Allianz, ING TFI, Union Investment TFI, Schroders, Franklin Templeton Investments and J.P. Morgan Asset Management,
- fund Pioneer Wzrostu i Dochodu Rynku Amerykańskiego – product of a mixed nature of assets, investing in the US stocks and bonds market,
- fund Pioneer Alternatywny - Globalnego Dochodu investing in different assets class on the global market,
- fund Pioneer Alternatywny – Absolutnej Stopy Zwrotu investing in different assets class on the global market in order to achieve a positive return regardless of the economic situation,
- Structured Certificates of Deposit (6 issues) based on volatility of exchange rate of CHF/PLN and EUR/PLN,
- IKE pension program and program of regular savings PAK extended by 10 new Pioneer funds,
- program of regular savings Moja Perspektywa extended by new portfolio - Portfel Globalny consisting of the following funds of Pioneer: Strategii Globalnej, Alternatywny – Globalnego Dochodu, Pieniężny Plus,
- Super Basket program extended by new portfolios Strategii Globalnej and Zrównoważony Azjatycki,
- IKZE program within the Portfel Indywidualny extended by 28 new funds.

## **Lending products**

The Bank offers to its individual clients a wide range of lending products, including first of all PLN mortgage loans and consumer loans Express Loan (Pożyczka Ekspresowa). In 2015, the Bank consequently realized the strategy of strengthening its position on housing and consumer goods financing market.

### ***Mortgage loans***

In 2015, value of PLN mortgage loans granted by the Bank amounted to PLN 7.4 billion and was higher by 10% in comparison with 2014. The Bank's share in new sale of mortgage loans amounted to 19.1% in 2015 vs. 18.2% in 2014.

The Bank is the leader in mortgage loans granting under the government program "Mieszkanie dla Młodych" ("Apartment for the Young") supporting the persons aged up to 35 in acquisition of the first new apartment. In 2015, the Bank's market share in the sale of these loans amounted to 39%.

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

### ***Consumer lending***

In 2015, the value of cash loans granted amounted to PLN 6.5 billion and was higher by 14% in comparison with 2014.

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

In 2015, the Bank introduced new, fast cash loan granting process through the Internet "Klik Gotówka" ("Cash Click") in the Pekao24 system for the selected customers of the Bank. Loan disbursement is automatically processed after approval of agreement in the Pekao24 system. The offer was also extended by the opportunity to buy credit card.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

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

In 2015, the Bank continued marketing activities to promote loans offer through such communication channels as website dedicated to consumer loans, the Pekao24 system, mobile application and conducted promotional campaign on TV.

## **Payment cards**

In 2015, the bank's offer in the area of payment cards for individual customers was extended by multicurrency debit card MasterCard Debit FX and Flexia credit card.

Multicurrency debit card MasterCard Debit FX is the first card on the Polish market with innovative multicurrency functionality that enables execution of transactions in PLN as well as foreign currencies (EUR, USD, GBP, CHF) without FX conversion thanks to card's connection with corresponding currency accounts. Supplementation of offer for multicurrency debit card holders is an offer of foreign currency exchange available in the Pekao24 system.

Flexia card is an innovative solution, that combines the advantages of a credit card with the ability to reschedule selected payments. The customer has opportunity to select transactions that will repay in installments and does not have to decide on repayment in installments at a time of purchase. Such a decision may be taken at any time during settlement period. Repayment may be fixed by the customer in the Pekao24 system as well as through Call Center or in the Bank's outlet.

At the Woodstock Music Festival, Bank Pekao S.A., in co-operation with the Great Orchestra of Christmas Charity, prepared for the consecutive time a payment card with the image of the largest music festival in Poland. During the Festival the Bank promoted non-cash payments providing opportunity to execute payments using payment cards and the PeoPay mobile application.

On the occasion of the 23rd edition of the Pekao Szczecin Open tennis tournament, special and limited edition of debit card was issued to Eurokonto account with the image of the tennis tournament. Additionally, the Bank in co-operation with partners of the Discount Program Galeria Rabatów prepared an offer of special rebates for purchases and services executed with the use of payments card with the image of the tennis tournament.

In 2015, in the framework of cards development, payment card which combines functionality of student and library card with the payment function was introduced to the Bank's offer. The first university with which the Bank signed an agreement on co-operation was Katolicki Uniwersytet Lubelski (The Catholic University of Lublin).

Moreover, the Bank's customers were provided with ability to customize image of credit and debit cards to their individual preferences by selecting card image from several proposals available in the catalogue. It was highly appreciated by the customers, now every second customer uses this opportunity.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## **Brokerage activity**

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

At the end of 2015, the brokerage entities maintained 346.1 thousand investment accounts and offered to its clients an electronic service of investment accounts allowing to buy and sell all instruments listed on the Warsaw Stock Exchange (WSE) and on the BondSpot market via the Internet. At the end of 2015, the Group's brokerage entities serving 181.8 thousand accounts with an active access to services through remote channels.

As of December 31, 2015, the total value of assets deposited on investment accounts run by the Group's retail brokerage entities amounted to PLN 22.4 billion.

In the third quarter of 2015, activities of the Group's brokerage entities were focused on new customers acquisition and development of tools to improve the quality of customer service via remote channels. The Pekao24 mobile application with brokerage module that allows customers of Dom Maklerski to realize orders and transactions as well as to view listings is available for the operational systems of iOS, Android and Windows Phone.

## **Electronic banking for individual clients**

The Pekao24 electronic banking system for individual clients allows to manage funds on accounts through the Internet, mobile application and phone. The Bank's individual clients are provided with the Internet electronic banking system that enables to execute almost all operations available in the Bank's outlet. The mobile application, which is one of the most advanced application on the market, allows to execute majority of operations available in the Internet system and access to additional functionalities such as geo-location of ATMs, branches and rebate points as well as to track market information.

The Pekao24 Internet banking system and mobile application additionally allow the individual clients to manage funds on brokerage accounts held by Dom Maklerski.

In 2015, the Bank introduced in the Internet system and the Pekao24 mobile application the opportunity to conclude a cash loan agreement with credit card and simultaneous loan disbursement on the customer's account immediately after approval of documents ("Klik Gotówka").

Moreover, the Bank introduced in the Pekao24 Internet system the opportunity to sign agreement on foreign currency account, saving account for customer or a child and debit card issuance. The legal representatives of minors were also provided with an access to minors' accounts in the Pekao24 system.

Within the scope of payment service development the Bank offers to its clients convenient and secure system of mobile payments PeoPay that allows, among others, payments execution in all terminals accepting contactless payments in Poland and worldwide, fast online payments, immediate payments to system users on telephone number and cash withdrawal from the Bank's ATMs without payment card.

Since 2015, the customers using the Pekao24 electronic banking system when executing the payments online can realize prompt payments up to PLN 100 without necessity to log on to the Internet banking through the PayU Express service.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

As at the end of December 2015, the number of individual users with an access to the Pekao24 system amounted to 2,899.4 thousand. In the fourth quarter of 2015, 1,576.8 thousand individual users logged in to the electronic banking services.

As at the end of December 2015, the number of individual users with an access to mobile banking amounted to 1,014.6 thousand. In the fourth quarter of 2015, 509.2 thousand of individual users logged in to the mobile service m.pekao24.pl, the Pekao24 mobile banking application or the PeoPay application.

	(in thousand)	
	31.12.2015	31.12.2014
Number of individual users with an access to electronic banking Pekao24 as at the end of period	2,899.4	2,661.2
Number of individual users actively using electronic banking Pekao24 (*)	1,576.8	1,448.4
Number of individual users with an access to mobile banking as at the end of period (**)	1,014.6	595.9
Number of individual users actively using mobile banking (***)	509.2	229.9

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

(\*\*) User actively using at least one of the following mobile solutions: the mobile service m.pekao24.pl, the Pekao24 mobile banking application or the PeoPay application.

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

## Private Banking

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

In 2015, activities in the Private Banking area focused on developing of the Bank's offer as well as on initiatives aiming at attracting new customers and strengthening relations with existing ones. These activities translated into nearly 5% increase in the number of customers and 14% increase in assets under management in comparison to 2014.

The prestigious payment cards offer was further expanded by the World Elite package. Within the framework of product offer modification, the previous credit card Pekao MasterCard World Signia was replaced by the Pekao MasterCard World Elite with a personalized set of services. Prestigious cards offer was extended by multicurrency debit card World Elite Debit MasterCard connected with Eurokonto Prestiż. The World Elite Debit MasterCard is the first card on the Polish as well as European market with innovative multicurrency functionality that enables execution of transactions in PLN and foreign currencies (EUR, USD, GBP, CHF) without FX conversion thanks to card's connection with corresponding currency account. The card provides the attractive package of additional services, including domestic insurance. Both, debit and credit cards are available in unique design with the option to choose black or white plastic. The prestigious payment cards offer and sale supporting actions with the simplified loan granting procedure for selected group of customers contributed to doubling cards sale (increase by 117% as compared to 2014).

In September 2015, the new service of investment advisory was implemented to the offer, which is based on providing individual investment recommendations that take into account the needs and situation of the client. Recommendations can be implemented using a wide range of deposit and investment solutions, available in the Bank and through the Centralny Dom Maklerski Pekao S.A.(CDM). The aim of the service is to adapt the client's investment portfolio to the specific, individually prepared investment profile, called Reference Portfolio. The service of investment advisory ensures a personalized approach to the client, global diversification of investment instruments selection and access to the knowledge of the Bank's experts. The service covers also financial instruments that are not listed on regulated market i.e. units of open-ended investment funds, as well as insurance-investment solutions, including structured products and insurance-investment products.



# Report on the activities of Bank Pekao S.A. Group for the year 2015

Within the framework of investment offer, the clients were offered through CDM Pekao S.A. with certificates of the three closed-end investment funds. Moreover, open-end investment funds offer was expanded by new sub-funds.

In 2015, five subscriptions of structured deposits "Indeks na Zysk" were conducted. Four of them were based on PLN exchange rate vs other currencies. The remaining type of deposit was linked to the European banks stock index, with the expectation that its value would go up within two years. As interest rates were continually going down, Indeks na Zysk deposits proved to be very popular among clients.

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

Moreover, the Private Banking clients were provided with the opportunity to use free-of-charge advice of intergeneration financial and wealth planning expert within the scope of the latest trends in management of private assets. The expert provides a consultancy-advisory service in financial matters which may be helpful in analyzing of the various asset components and factors relevant in succession planning process.

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

Private Banking customers benefited from the opportunity to participate in the events such as Gala Paszporty Polityki, Filharmonica della Scala concert, Łódzkie Spotkania Baletowe, tennis tournament Pekao Szczecin Open, Champions League football tournament and prestigious meeting associated with Forbes magazine announcement of a list of 100 Polish billionaires in 2015.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 6.5.2 Small and micro enterprises (SME)

In 2015, the Bank continued activities focused on strengthening its market position in the area of small and micro enterprises, including also AGRO sector, enrichment and promotion of products offer and acquisition of new customers.

The Bank introduced to its offer new products, among others, Pożyczka Expresowa Biznes (Business Express Loan) for financing expenses related to business activity without the need to indicate the loan purpose as well as working capital loans to finance contracts with extended maturity date up to three years and investment loan for refinancing capital expenditures.

The offer for agri-food sector customers was extended by a new solution giving opportunity to diversify amount of repayment addressed to farmers whose activity is subject to seasonality.

In addition, the loan offer was extended by "Unia" loan due to launching of the first programs financed by EU within the budget for 2014-2020. "Unia" loan is a working capital loan dedicated to customers applying for EU grant.

In the offer of preferential loans (The Agency for Restructuring and Modernisation of Agriculture - ARMA) the Bank started implementation of ARMA preferential loans with subsidized capital and interest for farmers and companies from food processing sector.

In the fourth quarter of 2015, the Bank signed two agreements with Bank Gospodarstwa Krajowego on co-operation regarding loan for technological innovations and portfolio guarantees under the UE program COSME.

In 2015, the Bank's offer was enriched by new Mój Biznes packages. Apart from the standard packages for all groups of customers, specified groups of customers, i.e. farmers and enterprises of agri-food sector, communities and housing associations as well as non-profit organizations were provided with dedicated accounts.

In 2015, the Bank introduced to its offer new payments cards for small and micro enterprises: debit card Visa Business, multicurrency debit card MasterCard Business that enables execution of transactions in PLN and foreign currencies (EUR, USD, GBP, CHF) without FX conversion thanks to card's connection with corresponding currency accounts and credit card Visa Business which allows for modern and flexible execution of payments for goods and services purchased by a company and usage of Pakiet Trwałych Korzyści by credit card holders, i.e. attractive discounts and special offers from the Bank's business partners.

In 2015, the Bank as the first bank in Poland introduced to offer an innovative program of benefits for farmers and their families. It is a unique formula that combines benefits dedicated to farmers, their families, farms and enterprises from agri-food sector. The main products are cards Agrar of Bank Pekao S.A. The customer using Agrar cards are provided with a discount in purchase of plant protection products, fuel, spare parts, maintenance of agricultural machinery and new cars. Debit and credit Agrar MasterCard can be issued to business or individual account.

In 2015, the number of POS terminals with the Internet connection, introduced for sale in the second quarter of 2015, significantly increased. In the second half of 2015, the share of the terminals in new sale accounted for nearly 50% of all devices for payment cards acceptance.

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## Electronic banking for SME clients

SME customers of the Bank use the PekaoBiznes24 system with extensive Internet banking and fully transactional mobile application while the Pekao24 system for entrepreneurs is dedicated to self-employed customers. Both systems are an integral part of Pakiety Mój Biznes (My Business Package).

The business clients accepting payments through the POS terminals are provided by Bank Pekao S.A. with modern mobile solutions PeoPay mPOS. The application is installed in mobile phone and allows to receive payments executed by the customer through PeoPay application.

As at the end of December 2015, 247.6 thousand business users had an access to the electronic banking systems, of which 164.6 thousand were active users. The number of business users with an access to the electronic banking systems increased by 7.0 thousand compared to the end of December 2014.

(in thousand)

	31.12.2015	31.12.2014
Number of business users (SME) with an access to the electronic banking systems as at the end of period	247.6	240.6
Number of business users (SME) actively using electronic banking systems <sup>(*)</sup>	164.6	159.5

<sup>(\*)</sup> User actively using electronic banking is a user who logged in to the systems at least once during the last quarter.

As at the end of December 2015, 17.8 thousand business users had an access to the mobile banking application, of which 10.7 thousand were active users. The number of business users with an access to the mobile banking application increased by 5.1 thousand compared to the end of December 2014.

(in thousand)

	31.12.2015	31.12.2014
Number of business users (SME) with an access to the mobile banking as at the end of period	17.8	12.7
Number of business users (SME) actively using the mobile banking <sup>(*)</sup>	10.7	8.6

<sup>(\*)</sup> User actively using mobile banking is a user who logged in to the system at least once during the last quarter.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 6.5.3 Corporate customers

In 2015, Bank Pekao S.A. maintained leading position on the market of corporate clients financial servicing. The Bank's activities were focused on enriching product offer according to the clients' needs and expectations.

The Bank consistently realizes strategy of financing economic development, actively supporting projects of the Polish companies and corporations. Thanks to the financing of infrastructure and key industries the Bank is the undisputed leader of the entities actively engaging in the development of local communities and improvement the quality of life in Poland.

In 2015, the Bank was a financing entity and partner of many prestigious projects of the largest companies and public sector entities.

The Bank realized also initiatives aiming at sales increasing and strengthening relationships with corporate customers and products offer development and optimization of service processes contributed to the maintaining of leader position in transactional banking.

### Transactional services

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

In 2015, the Bank extended product offer responding to expectations of corporate customers and intensified activities to support clients in the area of secure usage of electronic banking solutions.

In the area of payment cards two new cards were offered to the clients. Multicurrency debit card MasterCard Corporate Debit FX Pekao that enables execution of transactions in PLN and foreign currencies (EUR, USD, GBP, CHF) without FX conversion thanks to card's connection with corresponding currency accounts. The multicurrency card was distinguished in the contest "Najlepszy w 2015 roku system/aplikację/urządzenie IT do obsługi systemów kartowych w Polsce" (2015 Best system/application/IT device for servicing card systems in Poland) during VIII Conference Central European Electronic Card. Credit card MasterCard Corporate Credit Pekao, which in contrast to existing cards with deferred repayment, allows customers to reschedule repayment and make transfers from the credit card.

In addition, the Bank's offer was extended with a new product Open Escrow Housing Account for developers (escrow account). The main feature of this product is to protect the funds of purchasers collected for housing purposes and disbursement in stages in favour of developers in accordance with schedule of investment realization and after control conducted by the Banking Supervisory Inspector.

In 2015, the clients were also provided with opportunity to process foreign transfers in express mode allowing the customers to manage settlements with counterparts flexibly and settle foreign transfers in ten currencies at the value date. Overall the Bank performs transactions in 136 currencies.

In the area of depository and custodial services, in 2015, the Bank's clients assets increased significantly thanks to the acquisition of assets of one of the largest foreign custodial banks. Additionally, in 2015, the Bank started to process netting, i.e. settlement of customer transactions in an aggregate form, ensuring simplified settlement process.

### Trade finance

In the area of trade finance, Bank, as in previous years, maintained high market position.

Within the scope of trade finance, thanks to implementation of new models of chain supply with entire control of debtors over invoices, the Bank strengthened its position of supporting partner for customers' counterparties. In 2015, the number of invoices in the eFinancing service increased by over 6% in comparison to 2014 and the Bank's market share within the scope debt financing reached the level of 20%. The Bank started the unification process of the service model for eFinancing and Kredyt Zaliczka to improve process of transactions monitoring and increase security of debt financing portfolio.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

Full range of trade finance products offered by the Bank are also available in electronic banking system PekaoBiznes24. In 2015, the number of transactions ordered through electronic channels for import L/Cs, for the consecutive time exceeded 90%. Customers eagerly use dedicated trade finance modules on the PekaoBiznes24 platform such as PekaoTrade and Gwarancje OnLine which contributes to significant reduction of operational risk and acceleration of transaction process.

## **International transactional banking**

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

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

## **Electronic banking**

The electronic banking system PekaoBiznes24 that offers a wide range of services, the highest standards of security and flexibility in management of user access is dedicated to large companies, corporations and local government units.

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

- PekaoBiznes24 Mobile application, which allows the use of wide range of functionalities of the system, in particular processing of all types of payments via mobile phones and other mobile devices,
- new variants for processing transactions for standing orders and automatic settlements that allow flexible management of deadline and frequency of payment orders,
- opportunity to use SEPA XML format of import orders which is particularly significant for international clients. XML format complies with ISO 20022 and starting from October 1, 2016 will be compulsory according to implementation of "SEPA END DATA" regulation.

The Bank enables remote management of users privileges and electronic banking services. In 2015, over 97% applications were processed fully automatically that confirms active usage of this solution by the customers.

In 2015, it increased the number and volume of both incoming and outgoing foreign payments, in particular SEPA transfers increased by 30% as compared to 2014 which confirms the increasing popularity of this type of settlement and the attractiveness of the Bank's offer in respect of efficient settlements, convenient cut-off times and the functionality of electronic banking system.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## **Investment banking, structured financing and commercial real estates**

In 2015, the Bank actively supported the Polish economy in all of its sectors through financing development of key enterprises on the market. The Bank participated, among others, in the following projects:

- financing of development one of the most dynamic retail chain, amount of financing accounted for PLN 1.3 billion,
- financing of nationwide retail chain, amount of financing accounted for over PLN 500 million,
- co-operation in financing of a leading company from energy sector, syndicated loan, in which the Bank's share accounted for PLN 500 million,
- financing of modernization and development of a company from transportation sector, the amount of loan accounted for PLN 350 million,
- financing of one of the leading company from fuel industry, amount of financing accounted for PLN 300 million,
- financing of a company from fashion segment, amount of financing accounted for over PLN 200 million,
- financing of investment associated with foreign expansion of Polish company, the amount of loan accounted for PLN 120 million,
- syndicated financing of wind farm, the Bank's share accounted for nearly PLN 90 million,
- financing of investment of leading developer, the amount of loan accounted for nearly PLN 70 million,
- financing of innovative concept of shopping centers, amount of financing accounted for EUR 14 million.

## **Financial markets and commercial debt instruments**

The Bank extended its offer of hedging products by Commodity Hedge, i.e. transactions that enable the customers to reduce the risk of changes in commodity prices, e.g. petrol, gas, metal or agricultural products. In 2015, the Bank as active participant on OTC market began co-operation with LCH Clearnet clearing house allowing the Bank to settle this type of transactions through so called central counterparty. The Bank was not only one of the first banks on the Polish market which started to settle the interest rate derivatives transactions through new KDPW\_CCP clearing house but participated also in the project of its creation co-operating in development of functioning standards of the clearing house.

The Bank adjusted also internal regulations to the Volcker Rule (part Dodd-Frank Act) act regarding transactions with US related entities.

In the area of commercial debt securities issues, the Bank conducted, among others, the following issues of the medium term bonds:

- 5-year bonds for the total amount of PLN 1 billion for one of the leading group operating in energy sector in Poland,
- 5-year covered bonds for the amount of PLN 300 million for a company, which is a leading hotel operator in Poland and the region,
- 5-year bonds for the amount of PLN 200 million for entity belonging to the international capital group that offers consumer loans,
- 5-year bonds for the amount of PLN 100 million for listed company operating in housing contractor sector,
- 7-year bonds with fixed rate for the total amount of PLN 125 million for domestic stock exchange of financial instruments,
- 5-year bonds for the amount of PLN 100 million for one of the largest wholesale distributors of pharmacies in Poland.

The value of middle term bonds issued through the Bank and traded amounted to ca. PLN 14 billion as at the end of 2014. In addition, the Bank signed 19 new agreement on debt securities issues for local government units for the amount of nearly PLN 376 million.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## **Comprehensive services for the public finance sector**

In 2015, the Bank consequently continued strategy of maintaining a leader position of local budget infrastructure financing projects and the leading bank financing the Polish local budgets. In 2015, the total volume of new transactions financing local budget infrastructure projects, budget of the Polish cities and voivodeships as well as local utility companies amounted to over PLN 2 billion.

The Bank provide financing for 8 Polish airports, including development of infrastructure of the largest airport in a form of bonds issuance for the amount of PLN 600 million and development one of the largest local domestic airports that confirms strong position on the market of airport infrastructure financing in Poland. The Bank successfully completed significant transactions of structured financing relating to waste utilization (PLN 300 million) and regional and local public transport of the largest cities in Poland (PLN 400 million). Moreover, the Bank financed the technological and industrial parks, academic infrastructure and infrastructure for stimulation and development of IT society.

As in previous years, the Bank granted loans and organized bonds issues for financing local budgets in Poland (total amount of PLN 660 million) and conducted current servicing for the Polish largest cities and 5 voivodeships.

## **Co-operation with international and domestic financial institutions**

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

At the end of 2015, the Bank maintained 68 nostro accounts in 28 countries and 49 banks. The Bank kept 292 loro accounts and current accounts for foreign and domestic financial entities, including 219 loro accounts for 207 foreign customers (banks and other financial institutions) in 48 countries and 41 current accounts for 39 foreign financial institutions.

The Bank intermediates in execution of transactions for customers of other domestic banks, keeping 32 loro accounts for 11 Polish banks and maintaining 6 nostro foreign currency accounts in 1 Polish bank used for clearing of securities transactions and other custodial operations.

The Bank renders also services for the Polish banks and branches of foreign banks in Poland related to purchase and sale of foreign and domestic currencies.

In 2015, the Bank enhanced product offer for correspondent banking customers and clearing services for the banks holding loro accounts.

According to requirements of Basel III, the Bank implemented modification for formatting MT910 messages (Confirmation of Credit) which allow customers effective reporting of transactions and liquidity management.

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

## **Financing projects co-financed from EU funds for the years 2014 - 2020**

In 2015, the Bank's offer were extended by "Unia" loan and loan for technological innovation. These products allow to finance projects co-financed by EU funds within the budget for 2014-2020.

"Unia" loan is financing all types of EU projects while loan for technological innovation is the Bank's proposal addressed to customers implementing innovative technologies and launching production of new or significantly improved products, processes and services based on these technologies.

Thanks to commitment in co-operation with international financial institutions and product offer adjustment to EU funds under budget for 2014 – 2020 Bank Pekao S.A. is one of the leaders in financing enterprises using EU funds.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 6.6 Major areas of activities of the Group's subsidiaries

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

Dom Maklerski Pekao (Dom Maklerski), Centralny Dom Maklerski Pekao S.A. (CDM) and associated entity Dom Inwestycyjny Xelion Sp. z o.o. (Xelion) are specialized entities rendering brokerage services within the Group, which provide retail customers with a wide range of products and services on the capital markets. For detailed description of the brokerage activity refer to the point 6.5.1.

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

### 6.6.1 Banking activity

#### ***Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny***

In 2015, Pekao Bank Hipoteczny, as a specialized mortgage bank, continued to pursue its strategy focused on the creation of a secure loans portfolio, strived to maintain competitive position on the market of commercial properties, as well as loans for purchase, construction, refurbishment or modernization of housing loans to individuals.

At the end of 2015, net value of loans portfolio of Pekao Bank Hipoteczny amounted to PLN 2,063.5 million, an increase by PLN 316.3 million, i.e. 18.1% in comparison to 2014. Loans granted to corporates and local governments represent 56.0% and loans granted to individual clients represent 44.0% of loan portfolio structure.

In 2015, within the framework of a strategy focused on co-operation with Bank Pekao S.A., the volume of new commercial real estate loans accounted for 81.5% of total loan sales.

In 2015, within the second Program of Covered Bonds to bearer, bank successfully conducted two public issuances of covered bonds denominated in foreign currency. The total value of liabilities due to covered bonds amounted to PLN 1,293.0 million as at December 31, 2015.

### 6.6.2 Assets management

#### ***Pioneer Pekao Investment Management S.A. – PPIM***

As at December 31, 2015, the net asset value of investment funds of Pioneer Pekao TFI S.A. (a company managed by Pioneer Pekao Investment Management S.A. in which the Bank holds a 49% share), amounted to PLN 16,702.5 million, a decrease of PLN 412.6 million, i.e. 2.4% as compared to the end of 2014 due to difficult situation on the capital markets.

#### ***Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. - Pekao Pioneer PTE***

Pekao Pioneer PTE activity is the management of an open-end pension fund (Pekao OFE), in which pension contributions are pooled and invested with the aim of their distribution to unit holders after they reach retirement age and voluntary pension fund (Pekao DFE) which allows collecting of additional funds with a number of advantages of this form of saving.

As at the end of 2015, the value of the pension fund's net assets was PLN 2,046.5 million and Pekao OFE held 1.5% share in the market of open-end pension funds, i.e. on the similar level in comparison to 2014.



# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 6.6.3 Leasing activity

### ***Pekao Leasing Sp. z o.o. – Pekao Leasing***

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

In 2015, the Company concluded 9,636 new agreements. The value of leased assets increased in comparison to 2014 by 8.7% and amounted to PLN 2,023.8 million, of which 61.6% were vehicles, 32.9% - plant and equipment, 0.3% - real estates and 5.2% - others.

Under the program of co-operation between Pekao Leasing and Bank Pekao S.A. in the area of sale, the value of assets leased via the Bank's branches amounted to PLN 1,366.7 million, i.e. 67.5% sales of the Company and increased by 11.4% in comparison to 2014.

## 6.6.4 Factoring activity

### ***Pekao Faktoring Sp. z o.o. - Pekao Faktoring***

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

The Company is ranked the fourth on the Polish factoring market, with 10.8% of market share.

## 6.6.5 Transactional advisory

### ***Pekao Investment Banking S.A. - PIB***

Pekao Investment Banking S.A. operates as brokerage house, focusing on institutional and corporate clients service. The scope of services provided by PIB include in particular receiving and transferring financial instruments to buy or sell orders, execution of these orders on the account of orders provider, offering financial instruments, advisory for corporates within capital structure, corporate strategy or other issues related to such structure or strategy. PIB offers also advisory and other services related to mergers, demergers and corporates acquisition.

PIB acts also as animator both on equities as well as on derivative instruments market, being one of the most active animators. As at the end of 2015, PIB was the animator for 25 companies.

In 2015, PIB acted as an entity offering shares of three entities on the WSE and acted as the entity offering retail bonds issued by a leading developer of commercial real estate in Poland (three series of bonds were issued and introduced to trading on the regulated market). PIB successfully provided its advisory in processes of sale of the companies (including, among others, from financial sector in CEE) and mergers of companies (among others in energy and services sectors).

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 6.6.6 Other financial services

### **Centrum Bankowości Bezpośredniej Sp. z o.o. – CBB**

Centrum Bankowości Bezpośredniej Sp. z o.o. offers services of a financial intermediary, as well as comprehensive services through alternative channels of communication for clients from non-banking sector.

CBB supports the Bank Pekao S.A., as a major customer, in the use of online banking, cards and call center products. The company in its operations serves customers through alternative channels of communication, including, above all, by phone and mailing (both traditional way and electronic). The main channel of communication are the phone calls - in 2015 CBB handled 12.7 million calls (an increase of 6% compared to 2014).

The company runs with the Bank a number of projects aimed at developing communication with customers of Bank Pekao using mobile banking.

### **Pekao Financial Services Sp. o.o. – PFS**

Pekao Financial Services Sp. z o.o. outsourcing services to financial institutions in the field of operational solutions and technology, use of fund participants, as well as independent distribution of the funds. Operational and technological solutions are focused on providing customers with services of the highest quality and safety.

PFS being the Transfer Agent, specialises in registers of participants in mutual and pension funds.

Among the clients served by the PFS there are companies with established market position. At the end of December 2015, the company maintained its leading position in the funds OFE using the services of external Transfer Agent.

### **Centrum Kart S.A. - CK S.A.**

The Company renders comprehensive services that include, among others, maintenance of payment card management systems, authorization of transactions and card personalization.

In 2015, CK S.A. continued realization of important IT projects allowing the extension of a range of products offered by Bank Pekao S.A.

The main projects realized in 2015 included implementation of multicurrency payment cards and payment cards with personalized image as well as extension of DCC service for all service provider.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 6.7 Investing in human capital

### **Human Capital as a key asset**

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

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

In 2015, these priorities were accompanied by a particular emphasis on promoting preferential values of corporate culture shared across the Bank and UniCredit Group.

### **Training and professional development**

The Bank creates learning opportunities and provides access to various forms of training for its employees.

Training programs include classroom training, on-the-job training, electronic training, coaching and system of Virtual Class which provides training at a distance in a form of remote webinars. In the year 2015, the Bank continued also structured rotation program allowing for direct exchange of professional knowledge between experts.

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

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

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

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

### ***Expanding of professional skills of the Bank's employees***

The Bank expanded also a number of training projects aimed at reinforcement of risk culture and training regarding introduction of new priority products according to business strategy. Additionally in the year 2015 training activities were concentrated on support of key business projects reinforcing sales and acquisition competencies of employees as well as areas of specialist competencies such as: SME, Taxes and Derivatives.

In 2015, the Bank delivered (both in form of class room and e-learning/virtual sessions) more than 580 thousand of training hours attended by over 16 thousand of employees (approx. 98% of all employed persons) which confirms efficient implementation of required regulations and customer care by the Bank.

### **Development programs and initiatives**

In 2015, development programs and initiatives were provided for the Bank employees, aimed at providing support in long-term of carrier planning.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## **Development processes**

One of priorities of development programs in the Bank is identification, review, verification and development of current and future leaders of the Bank.

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

- Executive Development Plan (EDP) - annual appraisal process of managers as well as planning and realization of development activities. In 2015, 606 persons took part in the EDP,
- Talent Management Review (TMR) - annual process of the potential and performance assessment, used to manage and develop Talents in the Bank and UniCredit Group, which was attended by 152 people, identified as part of the recruitment process, addressed to all employees of the Bank,
- key outcomes of the EDP and the TMR processes are succession plans which are crucial for ensuring continuous employment on strategic positions, continuity of long-term projects and minimizing operational risk. The Bank designed succession plans for 99,5% key positions,
- Annual Employee Appraisal System – process of evaluation of the Bank's employees which comprises appraisal of competencies, potential, personal development planning and business goals appraisal. In 2015, 14,879 employees took part in the process.

Furthermore, the Bank offers the following development:

- Assessment Centre/Development Centre session, survey of individual performance style and communication and 180/360 Feedback - diagnostic tools for identification of strengths and development areas of the employees,
- Mentoring and Coaching – dedicated for selected employees to give them broader business perspectives and an opportunity to gain new experience,
- international development programs realized at the level of UniCredit Group (UniQuest, UniFuture and MBA in banking area),
- Career Navigator tool supporting career development planning of the Bank's employees.

## **Internship and trainee programs**

One of the yearly aim of the Bank is to obtain a certain number of graduates of the best universities in Poland, offering them career development within the organization: the network of branches and units of the Head Office of the Bank. To implement the above mentioned programs are described below:

- UniChallenge – a two year-long internship program, addressed to talented last-year MA students and graduates. The UniChallenge Program is used to spot high-potential candidates for employees,
- the apprenticeship programs addressed to students. The apprenticeship possibility is offered for 2 weeks to 3 months in order to give participants an opportunity to gain experience in different areas of banking, in all of the Bank's units.

## **Increasing engagement of employees**

Project: Team Climate - process done within Teams which aims at increasing engagement of employees through implementing actions that improve the work atmosphere. In 2015 years 2,224 employees from 53 organizational units participated in the project.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## **Compensation policy**

On July 31, 2015, the Supervisory Board of Bank Pekao S.A. approved the Compensation Policy of the Bank (hereinafter referred to as "Policy"), reflecting the mission and values of the Bank's approach to remuneration systems, which:

- defines basics of remuneration, structure management, corporate and organizational processes,
- confirms compliance requirements of the adopted remuneration system with generally binding law,
- defines the rules for monitoring of market practices and the approach to remuneration systems, which ensure sustainability of the Bank.

General framework of the Policy is aimed at providing consistency of components and strategy of remuneration by maintaining compliance with risk management and long-term strategies.

The main rule of the Policy is to guarantee competitive level remunerations and their efficiency, correctness in scope of acting and obtained results as well as transparency and internal justice. In 2015, the Policy was amended by provisions concerning ensuring equal treatment in scope of remuneration and company benefits as well as the provision concerning transparency of individual evaluation parameters was defined more precisely.

The compensation strategy has been developed in line with the business standards and values underlying the Bank's mission and reflected in the Policy provisions as well as it constitutes the basis for enhancing and protecting the Bank's reputation and creating long term value for all the Stakeholders. The Policy applied by the Bank includes provisions included to the Compensation Policy of the parent entity.

Moreover, the Policy presents provisions regarding variable compensation elements of persons in key managerial positions of the Bank. The currently binding Policy for 2015 includes provisions concerning variable compensation components of persons in key managerial positions based on the concept of the bonus pool. It is aimed at reinforcement of relation between the amount of variable part of remuneration and realization of long-term value increase for shareholders and company stability. The conducted internal audit concerning implementation of the Policy provisions regarding variable compensation elements confirmed execution of the above assumptions of the Policy at satisfactory level.

Additionally, Assessment report of functioning of the Policy in the Bank, according to the provisions of the Supervisory Board of Bank Polska Kasa Opieki S.A. Regulation will be prepared for the General Meeting of Shareholders.

Information regarding remuneration value of each Member of the Management Board is presented in in the section of Management Board and Supervisory Board remuneration.

## **Incentive systems**

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

Executive Variable Compensation System is dedicated to people holding managerial positions, who have significant influence on the risk profile of the Bank. The aim of the System is to support the execution of the Bank's strategy and to mitigate excessive risk conflicts of interest. Participant covered by the System may receive a variable compensation based on a concept of bonus pool approach providing for a comprehensive performance measurement at individual level, level of his/her organizational unit and results of the entire Bank, including assessment of the Participant's compliant behaviour with respect to law provisions and standards adopted by the Bank. In accordance with the System parameters, for reinforcement of care for long-term welfare of the Bank, at least 50% of variable remuneration is provided in phantom shares based on the value of the Bank shares and at least 40% of the bonus is deferrable and paid after the end of the evaluation period it is payable for. In case of the Management Board Members, deferral refers to 60% of the variable remuneration component. Variable remuneration payable for a particular year, is paid within 6 years.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

MBO system covers employees employed under the management contract and refers in particular to the positions in the front-office sales and to the managerial positions, which play a significant role in achieving the Bank's commercial goals. The employees covered by the MBO system receive individual goals resulting from the adopted financial plan for a given year and key objectives of the Bank; the annual bonus value is conditioned by completion level of those tasks.

A system based on the provisions of the Corporate Collective Labour Agreement (CCLA) applies to all employees who are not subject to other systems. According to the provisions of the CCLA the basis of the system is a quarterly bonus which is discretionary and depends on evaluation of employee's performance, the level of commitment and achieved results of the Bank in a given year as well as an incentive bonus, which is granted for outstanding work achievements.

### **Retention Plans**

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

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

### **Additional benefits for employees**

Within the scope of remuneration system the Bank's employees are offered non-wage benefits allowing fair treatment and consistency of remuneration system. In 2015, Employee Share Ownership Plan (ESOP) was continued, under which Bank offers to all employees the opportunity to invest in the shares of UniCredit S.p.A under at favourable conditions by obtaining Free Shares measured on the basis of the Investment Shares purchased by each Participant.

Moreover, the Bank provides its employees with additional medical care in domestic network of private medical clinic.

### **Suitability Assessment Policy**

Bank adopted of The Policy of the Suitability Assessment of the proposed and appointed Management Board's Members, Supervisory Board's Members and Key Function Holders at Bank Polska Kasa Opieki Spółka Akcyjna. In 2015 Bank assessed the suitability of the candidates for function of Member of the Supervisory Board and Member of the Management Board including an assessment of their qualifications, reputation, and additional criteria for management according to mentioned policy. The suitability assessment is performed by the Supervisory Board of the Bank with the support of the Nomination and Remuneration Committee.

### **Diversity policy**

The Management Board of Bank Polska Kasa Opieki Spółka Akcyjna on 22 December 2015 adopted by resolution "Diversity policy in reference to Supervisory Board Members, Management Board Members and Key Function Holders in the Bank, which defines the strategy of the Bank in scope of diversity management, including diversity in reference to appointment, the Supervisory Board Members, Management Board Members and Key Function Holders in the Bank.

The purpose of diversity strategy of the Bank is to provide high quality of tasks execution by its governing bodies, through selection of qualified people to hold function in the Supervisory Board, the Management Board and Key Function Holders in the Bank, using as the first objective criteria and taking into account the benefits of diversity in scope of knowledge, skills and work experience, as well as educational background, geographical origin and nationality, gender and age.

An integral element of Diversity policy is the Gender Equality policy of the Bank, which provides Bank's employees career opportunities, success and performance evaluation based on individual merit, regardless of gender.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## **Corporate values**

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

The foundation of this "System of Values" is the work of Integrity Charter Ombudsmen who are independent, experienced, retired managers to whom the employees may report behaviours which clash with the corporate values. The Ombudsmen use the available tools (meetings, notices) when they undertake measures to restore respect for the corporate values in relations among employees wherever they have been disrupted. Their work directly supports the Bank's internal communication and defines certain standards of conduct and communication patterns for all the employees to follow. In 2015, the Integrity Charter Ombudsmen held 28 meetings with people working at the Bank in order to familiarize them with the "System of Values" and with the Ombudsmen's service. Apart from these, the Ombudsmen also held meetings with individual employees and they spoke by telephone indicates the ability to solve problems independently.

## **Relations with Trade Union Organisations**

The co-operation between the Bank and the trade unions in the fields of consultation, negotiation, and agreements was carried out in 2015 according to the rules and procedures defined by the Labour Law and with respect to the interest of the parties and the principles of social dialogue. There were 11 meetings between the Bank and the Unions in that period.

## **Relations with the Works Council**

The four-year term of Bank Pekao S.A.'s Works Council ended in May 2015. To meet the requirements specified in the Worker Information and Consultation Act of April 7, 2006, the Bank has elected its Works Council for the new term 2015-2019. Being a representative of the employees, the Council is eligible for getting information and for consulting them. The Council held several meetings with the Bank's representatives during 2015 to discuss the related questions indicated by the law. Co-operation with the Works Council progressed with respect to the mutual rights of the parties involved.

## **Workforce in number**

As at the end of December 2015, the Group employed 18,327 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,765 employees as at the end of 2014.

As at the end of December 2015, the Bank employed 16,387 employees as compared to 16,914 employees as at the end of 2014. The average age of the employees was 46 years, 64.1% of the employees are university graduates (63.2% in 2014), women represent 79.7% of the total workforce.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 6.8 Sponsorship and charity policy

Basic objectives of Bank Pekao S.A.'s sponsoring activity are: making the Bank and its products popular, creating positive connotations between a given event and the Bank, creating and strengthening a positive opinion on the Bank and its products. The Bank's policy in that scope is regulated by internal regulations – the current Directive of the Bank's President adopted on 6 February 2015. The Directive specifies the rules, course and competences related to granting donations and sponsoring by Bank Pekao S.A.

The Bank withdraws from activity based on single donations and reactive responding to requests for support, in favor of long-term social commitment based on partnership with selected organizations, having significance for a given society and uniting the widest possible number of members of the society.

Before making a donation or concluding a sponsoring agreement, the Bank performs due diligence risk assessment, in accordance with the anti-corruption regulations operating in the Bank.

Upon selecting initiatives, the Bank applies the following criteria:

- initiative should be significant for a given community and refer to the highest possible number of members of the community. If a given initiative is addressed to a limited circle, it should involve local leaders in opinion, decision-makers, regional media and thus influence local public opinion,
- organizer of a given initiative should be an institution/entity/organization, credible in the Bank's view, with significant influence on a given community,
- the Bank's support of a given initiative should have long-term, positive influence on the Bank's image,
- initiative should assume the possibility of exposing the Bank's brand and logo and direct participation of representatives of the Bank and the employees as co-organizers and participants or guests,
- the Bank does not grant donations to any political parties or sponsor their activity.

In its charity and sponsoring activity, the Bank supports selected organizations and institutions that execute various projects in the scope of the following areas: high culture, environmental protection, with special consideration for the protection of Polish bisons, sport, responsible development of the economy, supporting small consumer groups, useful innovations, propagating ethics in business activity, local and regional initiatives, significant from the point of view of development and support of local communities, aiding children in need.



# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 7 Statement of Financial Position and Financial Results

Consolidated income statement containing cumulated items for the period from 1 January to 31 December, 2015 and 2014 respectively is presented in the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2015.

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

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

The balance sheet of Bank Pekao S.A. determines the amount of total assets in balance sheet and the structure of the assets and liabilities of the Group. As at the end of December 2015, the total assets of Bank Pekao S.A. constitutes 98.2% of the total assets of the whole Group.

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

ASSETS	31.12.2015		31.12.2014		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	7,881.6	4.7%	9,226.3	5.5%	(14.6%)
Loans and advances to banks <sup>(*)</sup>	7,319.0	4.3%	7,175.9	4.3%	2.0%
Loans and advances to customers <sup>(**)</sup>	122,054.9	72.3%	114,978.1	68.6%	6.2%
Securities <sup>(***)</sup>	22,308.5	13.2%	25,161.2	15.0%	(11.3%)
Investments in associates	149.0	0.1%	184.2	0.1%	(19.1%)
Property, plant and equipment and intangible assets	2,097.4	1.3%	2,171.2	1.3%	(3.4%)
Other assets	6,975.2	4.1%	8,728.1	5.2%	(20.1%)
<b>Total assets</b>	<b>168,785.6</b>	<b>100.0%</b>	<b>167,625.0</b>	<b>100.0%</b>	<b>0.7%</b>

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

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

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

EQUITY AND LIABILITIES	31.12.2015		31.12.2014		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	0.9	0.0%	1.0	0.0%	(10.0%)
Amounts due to other banks	5,958.4	3.5%	5,344.7	3.2%	11.5%
Amounts due to customers	128,867.7	76.4%	125,609.0	74.9%	2.6%
Debt securities issued	2,903.2	1.7%	3,857.0	2.3%	(24.7%)
Other liabilities	7,631.2	4.5%	8,767.6	5.3%	(13.0%)
Total equity, including non-controlling interests	23,424.2	13.9%	24,045.7	14.3%	(2.6%)
<b>Total equity and liabilities</b>	<b>168,785.6</b>	<b>100.0%</b>	<b>167,625.0</b>	<b>100.0%</b>	<b>0.7%</b>

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 7.1.1 Assets

### Changes in the structure of assets

Loans and advances to customers and securities represent items of the largest value under assets. As at the end of 2015, they accounted for 72.3% and 13.2% of the total assets respectively in comparison with 68.6% and 15.0% respectively as at the end of 2014.

### Cash and due from Central Bank

(in PLN million)

	31.12.2015	31.12.2014	CHANGE
<b>Cash and due from Central Bank, including:</b>	<b>7,881.6</b>	<b>9,226.3</b>	<b>(14.6%)</b>
Cash	2,951.4	3,399.3	(13.2%)
Current account at Central Bank	4,930.0	5,826.8	(15.4%)
Other	0.2	0.2	0.0%

### Customers' Financing

#### Customer structure of loans and advances

(in PLN million)

	31.12.2015	31.12.2014	CHANGE
<b>Loans and advances at nominal value</b>	<b>127,116.3</b>	<b>120,293.6</b>	<b>5.7%</b>
Loans <sup>(1)</sup>	110,026.2	104,108.3	5.7%
Retail	53,944.6	49,264.0	9.5%
Corporate	56,081.6	54,844.3	2.3%
Non-quoted securities	12,336.9	10,399.6	18.6%
Reverse repo transactions	4,753.2	5,785.7	(17.8%)
Other <sup>(2)</sup>	536.8	347.7	54.4%
Nominal value adjustment	244.1	107.2	> 100%
<b>Impairment losses</b>	<b>(5,842.3)</b>	<b>(5,770.4)</b>	<b>1.2%</b>
<b>Total net receivables</b>	<b>122,054.9</b>	<b>114,978.1</b>	<b>6.2%</b>
Securities issued by non-monetary entities <sup>(3)</sup>	892.3	899.2	(0.8%)
<b>Total customers' financing<sup>(4)</sup></b>	<b>128,008.6</b>	<b>121,192.8</b>	<b>5.6%</b>

<sup>(1)</sup> Including debt securities eligible for rediscounting at Central Bank and net investments in financial leases to customers.

<sup>(2)</sup> Including interest and receivables in transit.

<sup>(3)</sup> Securities issued by non-monetary entities being loans equivalents.

<sup>(4)</sup> Total customers' financing includes loans and advances at nominal value and securities issued by non-monetary entities.

As at the end of December 2015, the volume of total customers' financing amounted to PLN 128,008.6 million, an increase of PLN 6,815.8 million, i.e. 5.6% in comparison to the end of December 2014.

As at the end of December 2015, the volume of retail loans amounted to PLN 53,944.6 million, an increase of PLN 4,680.6 million, i.e. 9.5% in comparison to the end of December 2014.

The volume of corporate loans, non-quoted securities, reverse repo transactions and securities issued by non-monetary entities increased by PLN 2,135.2 million, i.e. 3.0% as compared to the end of December 2014 and amounted to PLN 74,064.0 million at the end of December 2015.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## Receivables and impairment losses

(in PLN million)

	31.12.2015	31.12.2014	CHANGE
<b>Gross receivables<sup>(1)</sup></b>	<b>127,431.0</b>	<b>120,458.0</b>	<b>5.8%</b>
Not impaired	119,459.0	112,255.8	6.4%
Impaired	7,972.0	8,202.2	(2.8%)
Impairment losses	(5,842.3)	(5,770.4)	1.2%
Interest	466.2	290.5	60.5%
<b>Total net receivables</b>	<b>122,054.9</b>	<b>114,978.1</b>	<b>6.2%</b>

<sup>(1)</sup> Including debt securities eligible for rediscounting at Central Bank, net investments in financial leases to customers, non-quoted securities, reverse repo and buy-sell-back transactions.

As at December 31, 2015, the ratio of impaired receivables to total receivables amounted to 6.3% and was better by 0.5 p.p. in comparison to the end of 2014.

Impairment losses as at the end of December 31, 2015 amounted to PLN 5,842.3 million.

## Loans and advances to customers by currency<sup>(1)</sup>

	31.12.2015		31.12.2014		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	105,732.7	82.7%	99,594.0	82.5%	6.2%
Denominated in foreign currencies <sup>(2)</sup>	22,164.5	17.3%	21,154.5	17.5%	4.8%
<b>Total</b>	<b>127,897.2</b>	<b>100.0%</b>	<b>120,748.5</b>	<b>100.0%</b>	<b>5.9%</b>
Impairment losses	(5,842.3)	x	(5,770.4)	x	1.2%
<b>Total net</b>	<b>122,054.9</b>	<b>x</b>	<b>114,978.1</b>	<b>x</b>	<b>6.2%</b>

<sup>(1)</sup> Including interest and receivables in transit.

<sup>(2)</sup> Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in the Polish zloty; as at the end of December 2015, their share was 82.7%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (61.1%), CHF (22.9%) and USD (15.6%).

## Loans and advances to customers by contractual maturities<sup>(1)</sup>

	31.12.2015		31.12.2014		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	17,404.5	13.6%	18,848.8	15.6%	(7.7%)
1 to 3 months	4,363.2	3.4%	3,368.6	2.8%	29.5%
3 months to 1 year	13,375.8	10.5%	11,347.1	9.4%	17.9%
1 to 5 years	39,562.3	30.9%	38,136.7	31.6%	3.7%
Over 5 years	52,654.6	41.2%	48,699.6	40.3%	8.1%
Other	536.8	0.4%	347.7	0.3%	54.4%
<b>Total</b>	<b>127,897.2</b>	<b>100.0%</b>	<b>120,748.5</b>	<b>100.0%</b>	<b>5.9%</b>
Impairment losses	(5,842.3)	x	(5,770.4)	x	1.2%
<b>Total net</b>	<b>122,054.9</b>	<b>x</b>	<b>114,978.1</b>	<b>x</b>	<b>6.2%</b>

<sup>(1)</sup> Including interest and receivables in transit.

Loans and advances with maturity over 5 years represents 41.2% of total loans and advances (mainly attributed to mortgage loans and receivables for which the maturity date already passed).

Information on loan concentration is included in the Note 28 and 29 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on December 31, 2015.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 7.1.2 Liabilities

### Changes in the structure of liabilities

Amounts due to customers were the main item under the Group's liabilities and equity. As at the end of 2015, amounts due to customers and debt securities issued totaled PLN 131,770.9 million, and their share in the total assets was 78.1%, compared with 77.2% as at the end of 2014. The share of total shareholder's equity in the total assets was 13.9% as at the end of 2015, compared with 14.3% as at the end of 2014.

### External sources of financing

(in PLN million)

	31.12.2015	31.12.2014	CHANGE
Amounts due to Central Bank	0.9	1.0	(10.0%)
Amounts due to other banks	5,958.4	5,344.7	11.5%
Amounts due to customers	128,867.7	125,609.0	2.6%
Debt securities issued	2,903.2	3,857.0	(24.7%)
<b>Total external sources of financing</b>	<b>137,730.2</b>	<b>134,811.7</b>	<b>2.2%</b>

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

As at the end of 2015, the geographical structure of deposits acquired through the Bank's domestic branches was as follows:

REGION	% OF TOTAL DEPOSITS
Warszawski	41.5%
Mazowiecki	11.0%
Małopolski	9.2%
Południowo-Wschodni	9.0%
Centralny	9.0%
Zachodni	4.7%
Wielkopolski	4.4%
Dolnośląski	3.8%
Śląski	3.7%
Pomorski	3.7%
<b>Total</b>	<b>100.0%</b>

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## Total customer savings

(in PLN million)

	31.12.2015	31.12.2014	CHANGE
<b>Corporate deposits</b>	<b>60,738.8</b>	<b>64,490.7</b>	<b>(5.8%)</b>
Non-financial entities	47,225.8	49,142.8	(3.9%)
Non-banking financial entities	7,903.2	9,138.8	(13.5%)
Budget entities	5,609.8	6,209.1	(9.7%)
<b>Retail deposits</b>	<b>63,254.4</b>	<b>55,275.7</b>	<b>14.4%</b>
<b>Repo and sell-buy-back transactions</b>	<b>4,467.8</b>	<b>4,976.3</b>	<b>(10.2%)</b>
Other <sup>(1)</sup>	406.7	866.3	(53.1%)
<b>Amounts due to customers</b>	<b>128,867.7</b>	<b>125,609.0</b>	<b>2.6%</b>
<b>Debt securities issued, of which</b>	<b>2,903.2</b>	<b>3,857.0</b>	<b>(24.7%)</b>
Structured Certificates of Deposit (SCD)	257.7	203.7	26.5%
Certificates of Deposit	1,393.1	2,594.7	(46.3%)
Pekao Bank Hipoteczny S.A. covered bonds	1,227.4	1,029.3	19.2%
Interest	25.0	29.3	(14.7%)
<b>Amounts due to customers and debt securities issued, total</b>	<b>131,770.9</b>	<b>129,466.0</b>	<b>1.8%</b>
<b>Investment funds of Pioneer Pekao TFI</b>	<b>16,702.5</b>	<b>17,115.1</b>	<b>(2.4%)</b>
Bond and money market funds	11,366.4	11,162.0	1.8%
Balanced funds	2,780.5	3,163.9	(12.1%)
Equity funds	2,555.6	2,789.2	(8.4%)
including distributed through the Group's network	16,363.6	16,669.7	(1.8%)

<sup>(1)</sup> Other item includes interest and funds in transit.

As at the end of December 2015, the total amounts due to the Group's customers and debt securities issued amounted to PLN 131,770.9 million, an increase of PLN 2,304.9 million, i.e. 1.8% in comparison to the end of December 2014.

The total volume of retail customers deposits, Structured Certificates of Deposit and other amounted to PLN 63,865.3 million at the end of December 2015, an increase of PLN 7,930.7 million, i.e. 14.2% in comparison to the end of December 2014. The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 16,702.5 million at the end of December 2015, a decrease of PLN 412.6 million, i.e. 2.4% in comparison to the end of December 2014.

The total volume of corporate deposits, repo and sell-buy-back transactions, Certificates of Deposit, Pekao Bank Hipoteczny S.A. covered bonds, interest and other amounted to PLN 67,905.6 million at the end of December 2015, a decrease of PLN 5,625.8 million, i.e. 7.7% as compared to the end of December 2014 following actions aimed at optimization of liabilities structure.

## Amounts due to customers by currency<sup>(1)</sup>

	31.12.2015		31.12.2014		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Denominated in PLN	106,548.1	82.7%	106,221.9	84.6%	0.3%
Denominated in foreign currencies	22,319.6	17.3%	19,387.1	15.4%	15.1%
<b>Total</b>	<b>128,867.7</b>	<b>100.0%</b>	<b>125,609.0</b>	<b>100.0%</b>	<b>2.6%</b>

<sup>(1)</sup> Including interest and amounts due in transit.

The bulk of the amounts due to customers are denominated in the Polish currency and its share as at the end of December 2015 amounted to 82.7%. The majority of amounts due to customers denominated in foreign currencies were in EUR (59.2%) and USD (35.9%).

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## Amounts due to customers by contractual maturities

	31.12.2015		31.12.2014		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current accounts and overnight deposits	67,564.5	52.6%	59,847.4	48.0%	12.9%
Term deposits	60,896.5	47.4%	64,895.3	52.0%	(6.2%)
<b>Total deposits</b>	<b>128,461.0</b>	<b>100.0%</b>	<b>124,742.7</b>	<b>100.0%</b>	<b>3.0%</b>
Interest accrued	220.1	x	194.6	x	13.1%
Funds in transit	186.6	x	671.7	x	(72.2%)
<b>Total</b>	<b>128,867.7</b>	<b>x</b>	<b>125,609.0</b>	<b>x</b>	<b>2.6%</b>

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

(in PLN million)

	31.12.2015	31.12.2014	CHANGE
Contingent liabilities granted and received	56,968.3	54,257.2	5.0%
Liabilities granted:	45,008.7	41,585.2	8.2%
financial	30,935.9	27,376.5	13.0%
guarantees	14,072.8	14,208.7	(1.0%)
Liabilities received:	11,959.6	12,672.0	(5.6%)
financial	285.1	496.5	(42.6%)
guarantees	11,674.5	12,175.5	(4.1%)
Derivative financial instruments	226,692.6	251,602.9	(9.9%)
interest rate transactions	133,104.3	147,004.1	(9.5%)
transactions in foreign currency and in gold	92,934.2	102,912.9	(9.7%)
transactions based on commodities and equity securities	654.1	1,685.9	(61.2%)
<b>Total off-balance sheet items</b>	<b>283,660.9</b>	<b>305,860.1</b>	<b>(7.3%)</b>

More detailed information on off-balance-sheet items is included in the Notes 27 and 48 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2015.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 7.2 The structure of the net profit

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

(in PLN million)

	2015	2014	CHANGE
<b>Net profit of Bank Pekao S.A.</b>	<b>2,290.4</b>	<b>2,662.3</b>	<b>(14.0%)</b>
<b>Entities consolidated under full method</b>			
Pekao Leasing Holding S.A. w likwidacji <sup>(*)</sup>	61.4	1.0	> 100%
Pekao Leasing Sp. z o.o.	53.9	54.6	(1.3%)
Centralny Dom Maklerski Pekao S.A.	44.2	42.4	4.2%
Pekao Faktoring Sp. z o.o.	9.3	8.2	13.4%
Pekao Financial Services Sp. z o.o.	8.0	7.2	11.1%
Pekao Investment Banking <sup>(**)</sup>	6.8	-	x
Pekao Bank Hipoteczny S.A.	5.0	10.0	(50.0%)
Pekao Pioneer PTE S.A.	2.9	15.4	(81.2%)
Centrum Bankowości Bezpośredniej Sp. z o.o.	2.7	2.4	12.5%
Centrum Kart S.A.	0.6	2.6	(76.9%)
FPB "Media" Sp. z o.o.	0.2	(0.1)	x
Pekao Fundusz Kapitałowy Sp. z o.o.	0.2	0.3	(33.3%)
Pekao Property S.A. <sup>(***)</sup>	(0.2)	(0.9)	(77.8%)
Pekao Telecentrum Sp. z o.o. w likwidacji <sup>(****)</sup>	-	0.1	x
<b>Entities valued under the equity method</b>			
Pioneer Pekao Investment Management S.A.	44.6	51.8	(13.9%)
Krajowa Izba Rozliczeniowa S.A. <sup>(*****)</sup>	5.5	10.0	(45.0%)
Dom Inwestycyjny Xelion sp. z o.o.	2.0	1.5	33.3%
<b>Exclusions and consolidation adjustments<sup>(*****)</sup></b>	<b>(245.0)</b>	<b>(154.1)</b>	<b>59.0%</b>
<b>Net profit of the Group attributable to equity holders of the Bank</b>	<b>2,292.5</b>	<b>2,714.7</b>	<b>(15.6%)</b>

Note: Net profit of Bank Pekao S.A. and net profit of Pekao Bank Hipoteczny S.A. in 2015 include extraordinary one-off charge to the BGF in relation to bankruptcy of SBRIK in Wołomin and one-off contribution to the Borrowers Support Fund

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

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

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

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

(\*\*\*\*\*) Krajowa Izba Rozliczeniowa S.A. was consolidated till June 30, 2015. On July 15, 2015 the Bank sold 3,125 shares of Krajowa Izba Rozliczeniowa S.A. As a result of the transaction, the Bank's share in the share capital and the votes in the General Meeting of the Company was reduced from 34.44% to 5.74%.

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## The results of Bank Pekao S.A.

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

(in PLN million)

	2015	2014	CHANGE
Net interest income	4,039.6	4,334.5	(6.8%)
Dividend income	210.6	153.6	37.1%
Total net interest income and dividend income	4,250.2	4,488.1	(5.3%)
Net non-interest income	2,541.8	2,546.6	(0.2%)
<b>Operating income</b>	<b>6,792.0</b>	<b>7,034.7</b>	<b>(3.5%)</b>
<b>Operating costs</b>	<b>(2,992.6)</b>	<b>(3,086.6)</b>	<b>(3.0%)</b>
<b>Gross operating profit</b>	<b>3,799.4</b>	<b>3,948.1</b>	<b>(3.8%)</b>
Net impairment losses on loans and off-balance sheet commitments	(514.0)	(541.4)	(5.1%)
<b>Net operating profit</b>	<b>3,285.4</b>	<b>3,406.7</b>	<b>(3.6%)</b>
Net result on other provisions	(28.6)	(1.4)	> 100%
Guarantee funds charges	(273.1)	(136.7)	99.8%
One-off charges related to bankruptcy of SBRiR in Wolomin and Borrowers Support Fund	(256.0)	-	x
Net result on investment activities	63.9	1.5	> 100%
<b>Profit before tax</b>	<b>2,791.6</b>	<b>3,270.1</b>	<b>(14.6%)</b>
<b>Net profit for the period</b>	<b>2,290.4</b>	<b>2,662.3</b>	<b>(14.0%)</b>
<b>Net profit excluding one-off charges in 2015 related to bankruptcy of SBRiR in Wolomin and Borrowers Support Fund</b>	<b>2,497.8</b>	<b>2,662.3</b>	<b>(6.2%)</b>

Net profit of Bank Pekao S.A. for 2015 amounted to PLN 2,290.4 million after the extraordinary one-off charge of PLN 234.0 million to the BGF in relation to bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wolomin (SBRiR in Wolomin) and one-off contribution of PLN 22.0 million to the Borrowers Support Fund.

Net profit of Bank Pekao S.A. for 2015 excluding the extraordinary charges described above would amount to PLN 2,497.8 million, lower by PLN 164.5 million, i.e. 6.2% in comparison to 2014 with strong growth of loan and deposit volumes in key strategic areas, further costs optimization and lower cost of risk enabling to offset negative impact of regulatory constraints (i.e. the maximum interest rate on loans, interchange rates reduction, higher BGF cost).

The main Bank's financial information are as follows:

	31.12.2015	31.12.2014	CHANGE
Total gross loans in PLN million <sup>(*)</sup>	106,326.0	100,330.6	6.0%
Impaired receivables to total receivables in %	6.1%	6.6%	(0.5) p.p.
Total deposits in PLN million <sup>(*)</sup>	124,400.3	120,279.7	3.4%
Repo and sell-buy-back transactions in PLN million	4,467.8	5,253.4	(15.0%)
Structured Certificates of Deposit in PLN million	257.7	203.7	26.5%
Certificates of Deposit in PLN million	1,393.1	2,594.7	(46.3%)
Total assets in PLN million	165,784.7	164,322.8	0.9%
Investment funds distributed through the Bank's network in PLN million	15,388.9	15,660.9	(1.7%)
TCR (Basel III) in %	18.2%	17.1%	1.1 p.p.

(\*) The nominal value.

The volume of gross loans of the Bank's clients as at the end of December 2015 amounted to PLN 106,326.0 million, increased by PLN 5,995.4 million, i.e. 6.0% as compared to the end of December 2014. At the end of December 2015, the total volume of retail loans amounted to PLN 53,024.7 million and volume of corporate loans amounted to PLN 53,301.3 million.



# Report on the activities of Bank Pekao S.A. Group for the year 2015

The total amounts due to the Bank's customers (including customer deposits, repo and sell-buy-back transactions, Structured Certificates of Deposit, Certificates of Deposit) amounted to PLN 130,518.9 million and increased by PLN 2,187.4 million, i.e. 1.7% compared to the end of December 2014.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. and distributed by the Bank's network decreased by PLN 272.0 million, i.e. 1.7% as compared to the end of December 2014.

## Results of the Bank's major related entities

### ***Pekao Leasing Sp. z o.o. – Pekao Leasing***

In 2015, Pekao Leasing reported a net profit of **PLN 53.9 million** compared with PLN 54.6 million in 2014. The result for the company's core business has been developed thanks to the increase in leased assets (+8.7% compared to 2014), improving the quality of the leasing portfolio and cost optimisation.

### ***Pioneer Pekao Investment Management S.A. – PPIM***

In 2015, consolidated net profit of PPIM amounted to PLN 91.1 million compared with PLN 105.7 million in 2014. The Bank's share in the company's profit was **PLN 44.6 million**. The result of 2015 were negatively affected by less favorable conditions on capital markets and by changing customer preferences in terms of the level of acceptable risk (transfer toward a more secured funds).

### ***Centralny Dom Maklerski Pekao S.A. – CDM***

In 2015, net profit of CDM amounted to **PLN 44.2 million** compared with PLN 42.4 million profit earned in 2014. Company worked out the better results due to higher turnover on the WSE and increased revenues on mutual funds sales.

### ***Pekao Faktoring Sp. z o.o. – Pekao Faktoring***

In 2015, Pekao Faktoring reported a net profit of **PLN 9.3 million** compared with PLN 8.2 million in 2014. Improvement of the results was generated due to higher volumes of factoring transactions i.e. 15% year on year.

### ***Pekao Financial Services Sp. z o.o. – PFS***

PFS made a net profit in the amount of **PLN 8.0 million** in 2015, in comparison to a profit of PLN 7.2 million in 2014. The increase of the profit was thanks to introduction of optimisation both the revenue (diversification of the customer portfolio) and on the side of operating costs.

### ***Pekao Investment Banking S.A. – PIB***

In 2015, PIB reported net profit of **PLN 6.8 million**. The entity's results are consolidated since January 1, 2015, i.e. since the acquisition date.

### ***Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny***

In 2015, Pekao Bank Hipoteczny reported a net profit of **PLN 5.0 million** compared with PLN 10.0 million in 2014, being under negative impact of external factors, mainly lower interest rates, higher charges to the BGF (including contribution to the BGF for the purpose of payments of the funds guaranteed to the depositors of the bankrupt Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin) and the cost of provision for the obligatory sector-wide contribution to the Borrowers Support Fund.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 7.3 The consolidated income statement – presentation form

Net profit of Bank Pekao S.A. Group attributable to equity holders for 2015 amounted to PLN 2,292.5 million after the extraordinary one-off charge of PLN 234.0 million to the BGF in relation to bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wolomin (SBRiR in Wolomin) and one-off contribution of PLN 26.5 million to the Borrowers Support Fund.

Net profit of Bank Pekao S.A. Group for 2015 excluding the extraordinary charges described above would amount to PLN 2,503.5 million, lower by PLN 211.2 million, i.e. 7.8% in comparison to 2014 with strong growth of loan and deposit volumes in key strategic areas, further costs optimization and lower cost of risk enabling to offset negative impact of regulatory constraints (i.e. the maximum interest rate on loans, interchange rates reduction, higher BGF cost).

Thanks to the effective commercial activity of the Group in 2015 a significant growth in loan volumes was reported both in the area of retail loans (an increase of 9.5% year on year) as well as in the area of corporate customers' financing (an increase of 3.0% year on year). Such substantial increase in lending was largely financed by higher volumes of retail deposits growing 14.2% year on year.

The strength of the liquidity structure of Bank Pekao S.A. Group is reflected by net loans to deposits ratio at 92.6% at the end of December 2015. The return on average capital (ROE), excluding the extraordinary charges described above, at the level of 10.6% was achieved with a strong capital base reflected by TCR at 17.7% (Basel III).

### The consolidated income statement – presentation form

(in PLN million)

	2015	2014	CHANGE
Net interest income	4,166.6	4,461.3	(6.6%)
Dividend income and income from equity investments	65.7	71.5	(8.1%)
<b>Total net interest income, dividend income and other income from equity investments</b>	<b>4,232.3</b>	<b>4,532.8</b>	<b>(6.6%)</b>
Net fee and commission income	2,005.5	2,043.7	(1.9%)
Trading result	662.7	679.5	(2.5%)
Net other operating income and expenses	158.1	89.7	76.3%
<b>Net non-interest income</b>	<b>2,826.3</b>	<b>2,812.9</b>	<b>0.5%</b>
<b>Operating income</b>	<b>7,058.6</b>	<b>7,345.7</b>	<b>(3.9%)</b>
<b>Operating costs</b>	<b>(3,219.7)</b>	<b>(3,285.7)</b>	<b>(2.0%)</b>
<b>Gross operating profit</b>	<b>3,838.9</b>	<b>4,060.0</b>	<b>(5.4%)</b>
Net impairment losses on loans and off-balance sheet commitments	(517.5)	(559.6)	(7.5%)
<b>Net operating profit</b>	<b>3,321.4</b>	<b>3,500.4</b>	<b>(5.1%)</b>
Net result on other provisions	(28.8)	(2.7)	> 100%
Guarantee funds charges	(274.4)	(139.8)	96.3%
One-off charges related to bankruptcy of SBRiR in Wolomin and Borrowers Support Fund	(260.5)	-	x
Net result on investment activities	73.4	1.8	> 100%
<b>Profit before tax</b>	<b>2,831.1</b>	<b>3,359.7</b>	<b>(15.7%)</b>
Income tax expense	(537.6)	(634.6)	(15.3%)
<b>Net profit</b>	<b>2,293.5</b>	<b>2,725.1</b>	<b>(15.8%)</b>
<b>Attributable to equity holders of the Bank</b>	<b>2,292.5</b>	<b>2,714.7</b>	<b>(15.6%)</b>
Attributable to non-controlling interest	1.0	10.4	(90.4%)
<b>Net profit attributable to equity holders of the Bank excluding one-off charges in 2015 related to bankruptcy of SBRiR in Wolomin and Borrowers Support Fund</b>	<b>2,503.5</b>	<b>2,714.7</b>	<b>(7.8%)</b>

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## Operating income

In 2015, the Group's operating income amounted to PLN 7,058.6 million, a decrease of PLN 287.1 million, i.e. 3.9% in comparison to 2014 mainly due to lower total net interest income, dividend income and income from equity investment.

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

(in PLN million)

	2015	2014	CHANGE
Interest income	5,456.4	6,225.3	(12.4%)
Interest expense	(1,289.8)	(1,764.0)	(26.9%)
<b>Net interest income</b>	<b>4,166.6</b>	<b>4,461.3</b>	<b>(6.6%)</b>
Dividend income	13.6	8.3	63.9%
Income from equity investments	52.1	63.2	(17.6%)
<b>Total net interest income, dividend income and income from equity investments</b>	<b>4,232.3</b>	<b>4,532.8</b>	<b>(6.6%)</b>

Total net interest income, dividend income and income from equity investments in 2015 amounted to PLN 4,232.3 million and was lower by PLN 300.5 million, i.e. 6.6% compared to 2014 affected by the reduction of interest rates, in particular the maximum rate applicable to loans. In 2015, average WIBOR 3M rate stood at the level of 1.7% and was lower by 0.8 p.p. than in 2014, while the NBP Lombard rate stood at the level of 2.5% at the end of December 2015 as compared to 3.0% in December 2014.

## Net non-interest income

(in PLN million)

	2015	2014	CHANGE
Fee and commission income	2,388.5	2,536.2	(5.8%)
Fee and commission expense	(383.0)	(492.5)	(22.2%)
<b>Net fee and commission income</b>	<b>2,005.5</b>	<b>2,043.7</b>	<b>(1.9%)</b>
Trading result	662.7	679.5	(2.5%)
of which gains on disposal of AFS assets	229.6	253.5	(9.4%)
Net other operating income and expense	158.1	89.7	76.3%
<b>Net non-interest income</b>	<b>2,826.3</b>	<b>2,812.9</b>	<b>0.5%</b>

The Group's net non-interest income in 2015 amounted to PLN 2,826.3 million, an increase of PLN 13.4 million, i.e. 0.5% in comparison with 2014 thanks to higher net other operating income and expenses supported by compensation under an insurance contract.

The Group's net fee and commission income in 2015 amounted to PLN 2,005.5 million and was lower by PLN 38.2 million, i.e. 1.9% in comparison with 2014 mainly due to negative impact of interchange rates' reduction on fee and commission income on cards.

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

(in PLN million)

	2015	2014	CHANGE
<b>Net fee and commission income</b>	<b>2,005.5</b>	<b>2,043.7</b>	<b>(1.9%)</b>
on loans	486.2	486.0	0.0%
on cards	370.7	403.6	(8.2%)
on mutual funds	298.0	295.4	0.9%
other	850.6	858.7	(0.9%)

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## Operating costs

Thanks to further improvement of operational efficiency the operating costs amounted to PLN 3,219.7 million in 2015. They were lower by PLN 66.0 million, i.e. 2.0% as compared with the previous year.

(in PLN million)

	2015	2014	CHANGE
Personnel expenses	(1,908.5)	(1,905.1)	0.2%
Other administrative expenses	(979.7)	(1,054.0)	(7.0%)
Depreciation and amortization	(331.5)	(326.6)	1.5%
<b>Operating costs</b>	<b>(3,219.7)</b>	<b>(3,285.7)</b>	<b>(2.0%)</b>

In 2015, cost / income ratio amounted to 45.6% in comparison with 44.7% in 2014.

As at the end of December, 2015, the Group employed 18,327 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 18,765 employees as at the end of 2014. The number of the Group's employees as at the end of December includes data of Pekao Investment Banking S.A. (f. UniCredit CAIB Poland S.A.) taken over by the Bank on January 1, 2015 under acquisition of 100% of the share capital.

As at the end of December 2015, the Bank employed 16,387 employees as compared to 16,914 employees as at the end of 2014.

## Guarantee funds charges

Guarantee funds charges in 2015, amounted to PLN 274.4 million, an increase of PLN 134.6 million, i.e. 96.3% in comparison with 2014 mainly due to the higher BGF rates introduced in 2015.

## One-off charges related to bankruptcy of SBRiR in Wołomin and Borrowers Support Fund

In 2015, the Group additionally incurred one-off charges related to the contribution to the BGF for the purpose of payments of the funds guaranteed to the depositors of the bankrupt Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin (SBRiR in Wołomin) and the cost of provision for the obligatory sector-wide contribution to the Borrowers Support Fund in 2015 in total amounting to PLN 260.5 million.

## Net impairment losses

(in PLN million)

	2015	2014	CHANGE
Impairment losses on loans	(500.3)	(571.8)	(12.5%)
Impairment losses on off-balance sheet commitments	(17.2)	12.2	x
<b>Total</b>	<b>(517.5)</b>	<b>(559.6)</b>	<b>(7.5%)</b>

The Group's net impairment losses on loans and off-balance sheet commitments amounted to PLN 517.5 million in 2015, a decrease of PLN 42.1 million, i.e. 7.5% as compared with 2014.

## Provisions, deferred tax assets and liabilities

(in PLN million)

	31.12.2015	31.12.2014	CHANGE
<b>Total provisions</b>	<b>425.4</b>	<b>442.5</b>	<b>(3.9%)</b>
of which:			
provisions for off-balance sheet commitments	120.8	102.4	18.0%
provisions for liabilities to employees	293.4	301.5	(2.7%)
other provisions	11.2	38.6	(71.0%)
<b>Deferred tax liabilities</b>	<b>4.9</b>	<b>2.1</b>	<b>&gt; 100%</b>
<b>Deferred tax assets</b>	<b>915.2</b>	<b>877.4</b>	<b>4.3%</b>

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 7.4 Quarterly Income Statement

### 7.4.1 Consolidated income statement – long form

Consolidated income statement for 2015 - Provided for comparability purposes.

(in PLN thousand)

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Interest income	1,369,470	1,365,004	1,323,599	1,398,296
Interest expense	(308,959)	(317,370)	(308,104)	(355,366)
<b>Net interest income</b>	<b>1,060,511</b>	<b>1,047,634</b>	<b>1,015,495</b>	<b>1,042,930</b>
Fee and commission income	582,260	606,051	616,307	583,905
Fee and commission expense	(78,351)	(98,251)	(103,057)	(103,338)
<b>Net fee and commission income</b>	<b>503,909</b>	<b>507,800</b>	<b>513,250</b>	<b>480,567</b>
<b>Dividend income</b>	<b>1</b>	<b>297</b>	<b>13,336</b>	<b>1</b>
<b>Result on financial assets and liabilities held for trading</b>	<b>124,074</b>	<b>103,916</b>	<b>94,931</b>	<b>105,127</b>
<b>Result on fair value hedge accounting</b>	<b>529</b>	<b>(223)</b>	<b>3,007</b>	<b>2,234</b>
<b>Net result on other financial instruments at fair value through profit and loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Gains (losses) on disposal of:</b>	<b>58,476</b>	<b>16,162</b>	<b>2,019</b>	<b>152,944</b>
loans and other financial receivables	132	-	58	344
available for sale financial assets and held to maturity investments	58,486	16,350	2,089	152,626
financial liabilities	(142)	(188)	(128)	(26)
<b>Operating income</b>	<b>1,747,500</b>	<b>1,675,586</b>	<b>1,642,038</b>	<b>1,783,803</b>
<b>Net impairment losses on financial assets and off-balance sheet commitments:</b>	<b>(120,277)</b>	<b>(130,067)</b>	<b>(130,082)</b>	<b>(137,132)</b>
loans and other financial receivables	(117,113)	(147,171)	(89,181)	(146,890)
off-balance sheet commitments	(3,164)	17,104	(40,901)	9,758
<b>Net result on financial activity</b>	<b>1,627,223</b>	<b>1,545,519</b>	<b>1,511,956</b>	<b>1,646,671</b>
<b>Administrative expenses</b>	<b>(1,043,824)</b>	<b>(795,962)</b>	<b>(797,373)</b>	<b>(789,433)</b>
personnel expenses	(471,865)	(484,565)	(480,167)	(471,922)
other administrative expenses <sup>(*)</sup>	(571,959)	(311,397)	(317,206)	(317,511)
<b>Depreciation and amortization</b>	<b>(84,808)</b>	<b>(81,888)</b>	<b>(83,031)</b>	<b>(81,738)</b>
<b>Net result on other provisions</b>	<b>1,587</b>	<b>(3,714)</b>	<b>(767)</b>	<b>(25,872)</b>
<b>Net other operating income and expenses</b>	<b>10,635</b>	<b>22,843</b>	<b>117,895</b>	<b>9,623</b>
<b>Operating costs</b>	<b>(1,116,410)</b>	<b>(858,721)</b>	<b>(763,276)</b>	<b>(887,420)</b>
<b>Gains (losses) on subsidiaries and associates</b>	<b>10,622</b>	<b>72,426</b>	<b>14,599</b>	<b>15,556</b>
<b>Gains (losses) on disposal of property, plant and equipment, and intangible assets</b>	<b>11,171</b>	<b>628</b>	<b>(54)</b>	<b>628</b>
<b>Profit before income tax</b>	<b>532,606</b>	<b>759,852</b>	<b>763,225</b>	<b>775,435</b>
Income tax expense	(93,960)	(149,008)	(143,806)	(150,866)
<b>Net profit for the period</b>	<b>438,646</b>	<b>610,844</b>	<b>619,419</b>	<b>624,569</b>
<b>Attributable to equity holders of the Bank</b>	<b>438,364</b>	<b>610,469</b>	<b>619,209</b>	<b>624,417</b>
Attributable to non-controlling interest	282	375	210	152

<sup>(\*)</sup> Including extraordinary one-off charge to the BGF in relation to bankruptcy of SBRIR in Wolomin, one-off contribution to the Borrowers Support Fund and guarantee funds charges.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## Consolidated income statement for 2014 - Provided for comparability purposes.

(in PLN thousand)

	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Interest income	1,474,974	1,594,530	1,584,757	1,571,029
Interest expense	(417,603)	(460,586)	(444,851)	(440,956)
<b>Net interest income</b>	<b>1,057,371</b>	<b>1,133,944</b>	<b>1,139,906</b>	<b>1,130,073</b>
Fee and commission income	627,346	612,307	664,663	631,965
Fee and commission expense	(127,696)	(107,285)	(138,499)	(119,066)
<b>Net fee and commission income</b>	<b>499,650</b>	<b>505,022</b>	<b>526,164</b>	<b>512,899</b>
Dividend income	-	109	8,189	-
<b>Result on financial assets and liabilities held for trading</b>	<b>121,579</b>	<b>105,102</b>	<b>111,177</b>	<b>105,443</b>
<b>Result on fair value hedge accounting</b>	<b>(1,532)</b>	<b>(1,598)</b>	<b>(3,392)</b>	<b>(10,725)</b>
<b>Net result on other financial instruments at fair value through profit and loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Gains (losses) on disposal of:</b>	<b>141,531</b>	<b>94,620</b>	<b>35,490</b>	<b>414</b>
loans and other financial receivables	17,495	-	670	414
available for sale financial assets and held to maturity investments	124,045	94,618	34,820	17
financial liabilities	(9)	2	-	(17)
<b>Operating income</b>	<b>1,818,599</b>	<b>1,837,199</b>	<b>1,817,534</b>	<b>1,738,104</b>
<b>Net impairment losses on financial assets and off-balance sheet commitments:</b>	<b>(135,213)</b>	<b>(134,194)</b>	<b>(142,666)</b>	<b>(147,502)</b>
loans and other financial receivables	(118,373)	(173,182)	(131,271)	(149,004)
off-balance sheet commitments	(16,840)	38,988	(11,395)	1,502
<b>Net result on financial activity</b>	<b>1,683,386</b>	<b>1,703,005</b>	<b>1,674,868</b>	<b>1,590,602</b>
<b>Administrative expenses</b>	<b>(762,962)</b>	<b>(778,424)</b>	<b>(784,046)</b>	<b>(776,702)</b>
personnel expenses	(469,718)	(479,962)	(484,010)	(471,380)
other administrative expenses <sup>(*)</sup>	(293,244)	(298,462)	(300,036)	(305,322)
<b>Depreciation and amortization</b>	<b>(81,422)</b>	<b>(82,263)</b>	<b>(81,049)</b>	<b>(81,945)</b>
<b>Net result on other provisions</b>	<b>349</b>	<b>99</b>	<b>(1,962)</b>	<b>(1,188)</b>
<b>Net other operating income and expenses</b>	<b>5,085</b>	<b>12,677</b>	<b>22,337</b>	<b>34,237</b>
<b>Operating costs</b>	<b>(838,950)</b>	<b>(847,911)</b>	<b>(844,720)</b>	<b>(825,598)</b>
<b>Gains (losses) on subsidiaries and associates</b>	<b>13,197</b>	<b>15,320</b>	<b>15,411</b>	<b>19,282</b>
<b>Gains (losses) on disposal of property, plant and equipment, and intangible assets</b>	<b>2,218</b>	<b>122</b>	<b>(210)</b>	<b>(333)</b>
<b>Profit before income tax</b>	<b>859,851</b>	<b>870,536</b>	<b>845,349</b>	<b>783,953</b>
Income tax expense	(168,316)	(165,454)	(154,786)	(146,017)
<b>Net profit for the period</b>	<b>691,535</b>	<b>705,082</b>	<b>690,563</b>	<b>637,936</b>
<b>Attributable to equity holders of the Bank</b>	<b>691,023</b>	<b>704,370</b>	<b>685,077</b>	<b>634,244</b>
Attributable to non-controlling interest	512	712	5,486	3,692

(\*) Including guarantee funds charges.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 7.4.2 Consolidated statement of comprehensive income

### Consolidated statement of comprehensive income for 2015

(in PLN thousand)

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
<b>Net profit</b>	<b>438,646</b>	<b>610,844</b>	<b>619,419</b>	<b>624,569</b>
<b>Attributable to equity holders of the Bank</b>	<b>438,364</b>	<b>610,469</b>	<b>619,209</b>	<b>624,417</b>
Attributable to non-controlling interest	282	375	210	152
<b>Other comprehensive income</b>				
<b>Items that are or may be reclassified subsequently to profit or loss:</b>				
Foreign currency translation differences	(1,146)	(10)	(19)	6
Change in fair value of available-for-sale financial assets	98,833	191,550	(441,980)	(85,527)
Change in fair value of cash flow hedges	41,738	(26,197)	(52,662)	(56,220)
Income tax expense on other comprehensive income	(26,708)	(31,417)	93,982	26,932
<b>Items that will never be reclassified to profit or loss:</b>				
Re-measurements of the defined benefit liabilities	12,900	-	-	-
Share in re-measurements of the defined benefit liabilities of associates	18	-	-	-
Tax on items that will never be reclassified to profit or loss	(2,451)	-	-	-
<b>Other comprehensive income (net)</b>	<b>123,184</b>	<b>133,926</b>	<b>(400,679)</b>	<b>(114,809)</b>
<b>Total comprehensive income</b>	<b>561,830</b>	<b>744,770</b>	<b>218,740</b>	<b>509,760</b>
<b>Attributable to equity holders of the Bank</b>	<b>561,548</b>	<b>744,395</b>	<b>218,530</b>	<b>509,608</b>
Attributable to non-controlling interest	282	375	210	152

Note: Net profit includes extraordinary one-off charge to the BGF in relation to bankruptcy of SBRiR in Wolomin and one-off contribution to the Borrowers Support Fund

### Consolidated statement of comprehensive income for 2014

(in PLN thousand)

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 7.4.3 Consolidated income statement – presentation form

### Consolidated income statement for 2015

(in PLN thousand)

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net interest income	1,060,511	1,047,634	1,015,495	1,042,930
Dividend income and income from equity investments	10,623	11,666	27,935	15,502
<b>Total net interest income, dividend income and other income from equity investments</b>	<b>1,071,134</b>	<b>1,059,300</b>	<b>1,043,430</b>	<b>1,058,432</b>
Net fee and commission income	503,909	507,800	513,250	480,567
Trading result	182,947	119,855	99,899	259,961
Net other operating income and expenses	9,784	21,814	117,369	9,131
<b>Net non-interest income</b>	<b>696,640</b>	<b>649,469</b>	<b>730,518</b>	<b>749,659</b>
<b>Operating income</b>	<b>1,767,774</b>	<b>1,708,769</b>	<b>1,773,948</b>	<b>1,808,091</b>
<b>Operating costs</b>	<b>(798,613)</b>	<b>(808,475)</b>	<b>(811,221)</b>	<b>(801,363)</b>
<b>Gross operating profit</b>	<b>969,161</b>	<b>900,294</b>	<b>962,727</b>	<b>1,006,728</b>
Net impairment losses on loans and off-balance sheet commitments	(120,277)	(130,067)	(130,082)	(137,132)
<b>Net operating profit</b>	<b>848,884</b>	<b>770,227</b>	<b>832,645</b>	<b>869,596</b>
Net result on other provisions	1,587	(3,714)	(767)	(25,872)
Guarantee funds charges	(68,487)	(68,346)	(68,599)	(68,972)
One-off charges related to bankruptcy of SBRiR in Wolomin and Borrowers Support Fund	(260,549)	-	-	-
Net result on investment activities	11,171	61,685	(54)	683
<b>Profit before income tax</b>	<b>532,606</b>	<b>759,852</b>	<b>763,225</b>	<b>775,435</b>
Income tax expense	(93,960)	(149,008)	(143,806)	(150,866)
<b>Net profit for the period</b>	<b>438,646</b>	<b>610,844</b>	<b>619,419</b>	<b>624,569</b>
<b>Attributable to equity holders of the Bank</b>	<b>438,364</b>	<b>610,469</b>	<b>619,209</b>	<b>624,417</b>
Attributable to non-controlling interest	282	375	210	152
<b>Net profit attributable to equity holders of the Bank excluding one-off charges related to bankruptcy of SBRiR in Wolomin and Borrowers Support Fund</b>	<b>649,409</b>	<b>610,469</b>	<b>619,209</b>	<b>624,417</b>



# Report on the activities of Bank Pekao S.A. Group for the year 2015

## Consolidated income statement for 2014

(in PLN thousand)

	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net interest income	1,057,371	1,133,944	1,139,906	1,130,073
Dividend income and income from equity investments	13,197	15,429	23,600	19,282
<b>Total net interest income, dividend income and other income from equity investments</b>	<b>1,070,568</b>	<b>1,149,373</b>	<b>1,163,506</b>	<b>1,149,355</b>
Net fee and commission income	499,650	505,022	526,164	512,899
Trading result	244,083	198,124	142,605	94,718
Net other operating income and expenses	21,664	12,148	22,995	32,856
<b>Net non-interest income</b>	<b>765,397</b>	<b>715,294</b>	<b>691,764</b>	<b>640,473</b>
<b>Operating income</b>	<b>1,835,965</b>	<b>1,864,667</b>	<b>1,855,270</b>	<b>1,789,828</b>
<b>Operating costs</b>	<b>(809,644)</b>	<b>(825,416)</b>	<b>(830,660)</b>	<b>(820,047)</b>
<b>Gross operating profit</b>	<b>1,026,321</b>	<b>1,039,251</b>	<b>1,024,610</b>	<b>969,781</b>
Net impairment losses on loans and off-balance sheet commitments	(135,213)	(134,194)	(142,666)	(147,502)
<b>Net operating profit</b>	<b>891,108</b>	<b>905,057</b>	<b>881,944</b>	<b>822,279</b>
Net result on other provisions	349	99	(1,962)	(1,188)
Guarantee funds charges	(33,824)	(34,742)	(34,423)	(36,805)
One-off charges related to bankruptcy of SBRiR in Wolomin and Borrowers Support Fund	-	-	-	-
Net result on investment activities	2,218	122	(210)	(333)
<b>Profit before income tax</b>	<b>859,851</b>	<b>870,536</b>	<b>845,349</b>	<b>783,953</b>
Income tax expense	(168,316)	(165,454)	(154,786)	(146,017)
<b>Net profit for the period</b>	<b>691,535</b>	<b>705,082</b>	<b>690,563</b>	<b>637,936</b>
<b>Attributable to equity holders of the Bank</b>	<b>691,023</b>	<b>704,370</b>	<b>685,077</b>	<b>634,244</b>
Attributable to non-controlling interest	512	712	5,486	3,692

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 7.4.4 Reconciliation of income statement – presentation form and long form

### Consolidated income statement for 2015

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	2015	COMMENTS
Net interest income		<u>4,166,570</u>	
Dividend income and income from equity investments		<u>65,726</u>	
	Dividend income	13,635	
	Gains (losses) on subsidiaries and associates	52,091	
<b>Total net interest income, dividend income and other income from equity investments</b>		<b>4,232,296</b>	
Net fee and commission income	Net fee and commission income	<u>2,005,526</u>	
Trading result		<u>662,662</u>	
	Result on financial assets and liabilities held for trading	428,048	
	Result on fair value hedge accounting	5,547	
	Net result on other financial instruments at fair value through profit and loss	-	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	229,551	
	(Gains) losses on disposal of financial liabilities	(484)	
Net other operating income and expenses		<u>158,098</u>	
	Net other operating income and expenses	160,996	
	less - Refunding of administrative expenses	(3,432) /1	
	Gains (losses) on disposal of loans and other financial receivables	534	
<b>Net non-interest income</b>		<b>2,826,286</b>	
<b>Operating income</b>		<b>7,058,582</b>	
Operating costs		<u>(3,219,672)</u>	
	Personnel expenses	(1,908,519)	
	Other administrative expenses	(1,518,073)	
	less –Guarantee funds charges	274,404	
	less – One-off charges related to bankruptcy of SBRiR in Wolomin and Borrowers Support Fund	260,549	
	Refunding of administrative expenses	3,432 /1	
	Depreciation and amortization	(331,465)	
<b>Gross operating profit</b>		<b>3,838,910</b>	
Net impairment losses on loans and off-balance sheet commitments		<u>(517,558)</u>	
	Net impairment losses on loans	(500,355)	
	Net impairment provision for off-balance sheet commitments	(17,203)	
<b>Net operating profit</b>		<b>3,321,352</b>	
Net result on other provisions	Net result on other provisions	<u>(28,766)</u>	
Guarantee funds charges	Guarantee funds charges	(274,404)	
One-off charges related to bankruptcy of SBRiR in Wolomin and Borrowers Support Fund	One-off charges related to bankruptcy of SBRiR in Wolomin and Borrowers Support Fund	(260,549)	
Net result on investment activities		<u>73,485</u>	
	Gains ( losses) on disposal of property, plant and equipment and intangible assets.	12,373	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	61,112	
<b>Profit before income tax</b>		<b>2,831,118</b>	
Income tax expense	Income tax expense	<u>(537,640)</u>	
<b>Net profit for the period</b>	<b>Net profit for the period</b>	<b>2,293,478</b>	
<b>Attributable to equity holders of the Bank</b>	<b>Attributable to equity holders of the Bank</b>	<b>2,292,459</b>	
Attributable to non-controlling interest	Attributable to non-controlling interest	1,019	

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## Consolidated income statement for 2014

(in PLN thousand)

INCOME STATEMENT – PRESENTATION FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO PRESENTATION FORM	2014	COMMENTS
Net interest income		4,461,294	
Dividend income and income from equity investments		71,508	
	Dividend income	8,298	
	Gains (losses) on subsidiaries and associates	63,210	
<b>Total net interest income, dividend income and other income from equity investments</b>		<b>4,532,802</b>	
Net fee and commission income	Net fee and commission income	2,043,735	
Trading result		679,530	
	Result on financial assets and liabilities held for trading	443,301	
	Result on fair value hedge accounting	(17,247)	
	Net result on other financial instruments at fair value through profit and loss	-	
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	253,500	
	(Gains) losses on disposal of financial liabilities	(24)	
Net other operating income and expenses		89,663	
	Net other operating income and expenses	74,336	
	less - Refunding of administrative expenses	(3,252)	/1
	Gains (losses) on disposal of loans and other financial receivables	18,579	
<b>Net non-interest income</b>		<b>2,812,928</b>	
<b>Operating income</b>		<b>7,345,730</b>	
Operating costs		(3,285,767)	
	Personnel expenses	(1,905,070)	
	Other administrative expenses	(1,197,064)	
	less – Guarantee funds charges	139,794	
	Refunding of administrative expenses	3,252	/1
	Depreciation and amortization	(326,679)	
<b>Gross operating profit</b>		<b>4,059,963</b>	
Net impairment losses on loans and off-balance sheet commitments		(559,575)	
	Net impairment losses on loans	(571,830)	
	Net impairment provision for off-balance sheet commitments	12,255	
<b>Net operating profit</b>		<b>3,500,388</b>	
Net result on other provisions	Net result on other provisions	(2,702)	
Guarantee funds charges	Guarantee funds charges	(139,794)	
Net result on investment activities		1,797	
	(Gains) losses on disposal of property, plant and equipment and intangible assets.	1,797	
	Impairment losses on subsidiaries and associates	-	
	Gains (losses) on disposal of subsidiaries and associates	-	
<b>Profit before income tax</b>		<b>3,359,689</b>	
Income tax expense	Income tax expense	(634,573)	
<b>Net profit for the period</b>	<b>Net profit for the period</b>	<b>2,725,116</b>	
<b>Attributable to equity holders of the Bank</b>	<b>Attributable to equity holders of the Bank</b>	<b>2,714,714</b>	
Attributable to non-controlling interest	Attributable to non-controlling interest	10,402	

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 8 Other Information

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

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

### Management Board remuneration

The amount of remuneration or benefits (in cash, payments in kind or in any form) paid or due to the Management Board Members in 2015<sup>(\*)</sup>.

Fix remuneration

(in PLN thousand)

	BASE SALARY FOR 2015
Luigi Lovaglio	4,176
Diego Biondo	1,255
Andrzej Kopyrski	1,326
Adam Niewiński	560
Grzegorz Piwowar	1,286
Stefano Santini	672
Marian Ważyński	880

Variable remuneration

(in PLN thousand)

VARIABLE REMUNERATION PAID FOR	2011	2012	2013	2014
Luigi Lovaglio	749	0	1,685	1,498
Diego Biondo	117	0	229	213
Andrzej Kopyrski	197	0	359	287
Adam Niewiński	0	0	0	0
Grzegorz Piwowar	219	0	390	378
Stefano Santini	0	0	107	85
Marian Ważyński	86	0	159	143

Variable remuneration paid to the Management Board Members also includes remuneration in phantom shares calculated base on the average share price: PLN 188.73 for the period from 30 March, 2015 to 29 April, 2015.

VARIABLE REMUNERATION PAID – PHANTOM SHARES	2011 NUMBER OF SHARES	2012 NUMBER OF SHARES
Luigi Lovaglio	11,221	9,387
Diego Biondo	1,920	1,460
Andrzej Kopyrski	2,830	2,196
Adam Niewiński	0	0
Grzegorz Piwowar	3,138	2,130
Stefano Santini	0	0
Marian Ważyński	1,226	1,071

Due portion of Members of the Management Board variable remuneration in phantom shares is 29,500 shares. The value of this portion of the variable remuneration will depend on the Bank's share price at the settlement date.

Additional payments related to secondment package in 2015 for Management Board Members: Mr. Luigi Lovaglio PLN 1,244 thousand, Mr. Diego Biondo PLN 815 thousand, Mr. Stefano Santini PLN 443 thousand.

(\*) the remuneration for expats is presented in pln rate valid for compensation payout on monthly basis

# Report on the activities of Bank Pekao S.A. Group for the year 2015

Other payments related to benefits received in 2015 for Management Board Members: Mr. Luigi Lovaglio PLN 137 thousand, Mr. Diego Biondo PLN 1 thousand, Mr. Andrzej Kopyrski PLN 112 thousand, Mr. Adam Niewiński PLN 52 thousand, Mr. Grzegorz Piwowar PLN 112 thousand, Mr. Stefano Santini PLN 1 thousand, Mr. Marian Ważyński PLN 32 thousand.

In 2015, the Management Board Members did not receive nor are due any compensation from subsidiaries and associated entities.

## Supervisory Board remuneration

The amount of remuneration or benefits (in cash, payments in kind or in any form) paid or due to the Supervisory Board Members in 2015:

(in PLN thousand)

	TOTAL	NOTES
Jerzy Woźnicki	246	
Roberto Nicastro	43	Receive remuneration from 01.10.2015
Leszek Pawłowicz	227	
Alessandro Decio	-	Did not receive remuneration according to the Group's policy
Laura Penna	-	Did not receive remuneration according to the Group's policy
Wioletta Rosołowska	135	
Doris Tomanek	-	Did not receive remuneration according to the Group's policy
Dariusz Filar (from May 1, 2015)	125	
Katarzyna Majchrzak (from May 1, 2015)	89	
Paweł Dangel (until April 30, 2015)	68	
Małgorzata Adamkiewicz (until April 30, 2015)	46	

In 2015, the Supervisory Board Members did not receive nor are due any compensation from subsidiaries and associated entities.

## The Incentive Programs

As at December 31, 2015, the following long-term incentive programs are realized in Bank Pekao S.A. Group:

- the Long-term UniCredit Group Incentive Program 2007 – in terms of the options 33 employees of Bank Pekao S.A. Group have been covered by the program, including 4 Members of the Management Board. The options expire in 2017,
- the Long-term UniCredit Group Incentive Program 2008 - in terms of the options 51 employees of Bank Pekao S.A. Group have been covered by the program, including 4 Members of the Management Board. The options expire in 2018.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

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

According to information available to the Bank as at December 31, 2015, the Members of the Bank's management and supervisory bodies held 73,535 shares of Bank Pekao S.A. with face value of PLN 73,535. The number of the Bank's shares held by the Members of the Bank's management and supervisory bodies and its face value remained unchanged as the date of submitting of this report.

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

	AS AT THE DATE OF SUBMITTING THE REPORT		
	FOR THE YEAR 2015	FOR THE THIRD QUARTER OF 2015	FOR THE YEAR 2014
Luigi Lovaglio	64,035	64,035	64,035
Diego Biondo	9,500	9,500	9,500
<b>Total</b>	<b>73,535</b>	<b>73,535</b>	<b>73,535</b>

Moreover, as at December 31, 2015 UniCredit S.p.A. shares were held by: Mr. Luigi Lovaglio – 66,668 shares without nominal value, Mr. Diego Biondo – 4,824 shares without nominal value, Mr. Alessandro Decio – 151,471 shares without nominal value, Mr. Andrzej Kopyrski – 1,152 shares without nominal value, Mr. Roberto Nicastro – 245,364 shares without nominal value, Ms. Laura Penna – 5,747 shares without nominal value, Mr. Grzegorz Piwowar – 1,733 shares without nominal value, Mr. Stefano Santini – 7,029 shares without nominal value and Mr. Marian Ważyński – 827 shares without nominal value.

## Information regarding contracts for post termination benefits

Employment agreements provide payment of compensation amounting to 18 times the value of the monthly base remuneration of the following Members of the Management Board of the Bank: Mr. Andrzej Kopyrski – Vice-president of the Management Board, Mr. Grzegorz Piwowar - Vice-president of the Management Board, Mr. Marian Ważyński - Vice-president of the Management Board, however, in case of Mr. Adam Niewiński - Vice-president of the Management Board, the employment contract provides payment of compensation amounting to 12 times of the monthly base remuneration for the last month. Payment of the compensation follows among others in the event of tenure expiration without appointment for the next tenure or dismissing from the function.

The above mentioned provisions do not apply in case of dismissal for reasons stipulated in art. 52 or art. 53 of the Labour Code or in case of among others failure to adequately execute responsibilities or infringement of the Bank Statute, resolutions of the Management Board and the Supervisory Board.

Moreover, the abovementioned Members of the Management Board have concluded non-competition agreements with the Bank, which define the rights and obligations of agreement parties in the scope covered by non-competition agreements during and after the employment period.

Employment contracts of the remaining Management Board Members do not provide compensations of this kind.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## Agreements with companies entitled to auditing of financial reports

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

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

(in PLN thousand)

	2015	2014
Fee for the audit of annual financial statements	3,351	3,397
Fee for other attestation services, including review of financial statements	1,827	1,454

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

## Average interest rates in Bank Pekao S.A. in December 2015

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

PLN retail deposits	0.9% p.a.
PLN corporate clients deposits	1.0% p.a.

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

Total retail loans	4.3% p.a.
Mortgage	3.3% p.a.
Consumption	8.6% p.a.
Other	5.5% p.a.
Corporate loans	3.3% p.a.

## Number and value of titles of execution and value of collaterals

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

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

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

For corporate clients, the total value of the collateral for impaired transactions as at December 31, 2015 amounted to PLN 2,381.3 million. In 2015, 265 titles of execution were issued on behalf of the Bank in the total amount of PLN 75,5 million.

For retail clients, the total value of the collateral for impaired transactions as at December 31, 2015 amounted to PLN 524.0 million. In 2015, 8,331 titles of execution were issued on behalf of the Bank in the total amount of PLN 168.6 million.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## **Pending litigations**

In 2015, the number of the legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of the Group's liabilities was 741 with the total value amounting to PLN 1,142.7 million. The number of legal proceedings in respect of receivables was 14,638 with the total value of PLN 1,305.8 million.

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

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

## **Related party transactions**

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

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

## **Information on significant agreements**

In 2015, there have been no significant agreements concluded by the Bank.

## **Information on derivative financial instruments and hedge accounting**

Information on derivative financial instruments and hedge accounting is included in the Note 27 and 30 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2015.

## **Accounting principles adopted in the preparation of the report**

Accounting principles adopted in the preparation of the report are described in the Note 5 to the Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2015.

## **Issuance, redemption and repayment of debt securities**

### ***Structured Certificates of Deposit***

Structured Certificates of Deposit are investment products for the Bank's clients that form an alternative to traditional banks' deposits. The total value of the Bank's liabilities relating to these products amounted to PLN 257.7 million (principal value) as at the end of December 2015. There are 8 issues of Structured Certificates of Deposit open in PLN with the maturity date in 2016.

### ***Certificates of Deposit***

Certificates of Deposit are investment products denominated in PLN that guarantee 100% protection of invested funds also in case of termination before redemption date. The total value of the Bank's liabilities under these products amounted to PLN 1,393.1 million (principal value) as at the end of December 2015. There are 16 issues of Certificates of Deposit, and the maturity date up to 3 months accounts for 83.3%, up to 6 months accounts for 10.3% and up to 1 year accounts for 6.4% of its total value.

### ***Pekao Bank Hipoteczny S.A. covered bonds***

The total value of liabilities due to covered bonds amounted to PLN 1,293.0 million as at December 31, 2015. The liabilities under covered bonds with maturity date up to 1 year account for 6.4%, with maturity date from 1 up to 3 years account for 14.9%, with maturity date from 3 up to 5 years account for 24.8% and with maturity date from 5 up to 10 years account for 53.9% of the total nominal value.



# Report on the activities of Bank Pekao S.A. Group for the year 2015

## **The Bank's share in acquisition of Visa Europe Ltd. by Visa Inc.**

Under an agreement signed between Visa Europe and Visa Inc. from November 2, 2015, Visa Europe will be taken over by Visa Inc. Bank Pekao S.A. as a member of Visa Europe is among the beneficiaries of this transaction.

As a consequence, it is estimated that Bank Pekao S.A. will receive ca. EUR 14 million in shares of Visa Inc. and ca. EUR 41 million in cash. These amounts are subject to change due to transaction costs and possibility of appeal by Visa members. The transaction is expected to be completed in the second quarter of 2016. Additionally, in 2020, the Bank will receive deferred payment in cash, which amount cannot be estimated currently.

## **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 February 1, 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.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 9 Prospects for Development

### 9.1 Factors which will affect the results of the Group

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

The forecasts regarding economic growth are favorable; it is expected that the GDP accelerates from 3.6% in 2015 to 3.7% in 2016. It will be supported both by strong private consumption as well as by investments. Private consumption will be supported by very good situation in the labor market, where high demand for labor will push wages up, and that in turn will increase private consumption. An additional boost will come from government program "Family 500+", which will mean a transfer of ca. PLN16 billion to households.

A gradual increase of inflation is expected. Forecasted CPI index reaches 1.5% year on year in end of 2016, from -0.5% year on year in end of 2015. Return to higher inflation may take longer if commodities' prices on international markets continued their falls. Low price of crude oil poses risk for the economy of Russia, and consequences of potential problems there could include weakening of the zloty. Impact on real economy in Poland would be small, as trade links with this country were significantly lowered in the aftermath of sanctions on Russia.

Steps taken by the new Cabinet increased level of uncertainty among foreign investors, which may translate into weaker zloty. However, weaker zloty would boost economic growth, via higher margins of exporters, and probably also via higher exports volumes.

Tax and regulatory environment will have the greatest impact on the business and the banks' earnings in 2016. According to the draft law on tax on certain financial institutions, from February 2016 banks will pay the so-called bank levy. Its size will be calculated based on assets (net of selected items). Also new, higher capital requirements will have significant impact on the operations of banks in 2016. Some banks will also have to assure extra capital buffers, which are set individually. The activities and results of banks in 2016 will be also affected by the burden related to the functioning of the Bank Guarantee Fund. In addition to pre-defined yearly contributions an ad-hoc need, as it did in 2015, for financing of the Fund may arise.

In relation to the above mentioned changes it should be expected that in 2016 some banks will have limited capacity to expand their assets. In some segments of the market this may lead to lower market competition. Higher operating costs of banks will also lead to higher prices of the banking products.

In 2016 a slowdown in growth of deposits is expected. In case of household deposits this will be associated with a greater propensity to consume (due to a stable situation on the labor market and historically low interest rates). In case of corporate deposits a slowdown will be a consequence of limited interest of banks in this type of funding in connection with the bank levy (which will translate into slower growth in assets, thus lower financing needs) and lower attractiveness for banks from the point of view of liquidity requirements.

Due to base effects caused by the appreciation of the Swiss franc in 2015, in 2016 it should be expected a significant slowdown in the growth rate of loans to households. Higher capital requirements and resulting from that limited ability of some banks to engage resources into long-term receivables (mortgage loans) will act in the same direction. Due to smaller competition and changes in regulatory environment it can be expected an increase in credit margins, particularly in those market segments where interest rates are not capped by the regulation. Due to the above-mentioned changes in regulatory environment also in the case of corporate loans slower growth in volumes and higher margins are likely.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

In 2016, monetary policy will be among important factors influencing bank results. Due to the fact that new members of the Monetary Policy Council will be elected this year, the policy may be less predictable. It cannot be ruled out another rate cut with negative consequences for the banks' interest income.

Lately a few concepts of restructuring of CHF mortgage loans for individuals have appeared, 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 Bank is not able to reliably estimate the impact of the proposed solutions on the results of the banking sector. However, taking into account the relatively minor share of these loans in the total assets (almost entirely acquired as a result of the merger of the spun-off part of Bank BPH S.A. in 2007), the Bank assesses that potentially taken solutions should not materially affect the financial standing of the Group.

A buyout of Visa Europe by Visa Inc. may have positive impact on the results of some banks (and thus of the whole sector) in 2016.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 9.2 Directions of the activities and business priorities

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

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

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

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

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

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## Directions of the activities and business priorities for the year 2016

The Bank's activities will be conducted in accordance with the guidelines outlined in the development plan for 2014-2020. Favourable macroeconomic scenario and strong Bank's fundamentals support the continuation of determined directions, despite growing regulatory pressure, and introduction of additional banking sector financial burdens.

In 2016, the Bank's priority will remain further business development and reinforcement of market position in selected areas while maintaining the highest standards of risk management, effective margin management and further operational efficiency improvement, keeping the liquidity and capital position at safe levels, while striving to ensure sustainable and attractive dividends. The Bank will aim to gradual improvement of business profitability by improving the structure and the level of achieved incomes as well as by further cost efficiency enhancement.

Continuation of expected high economic growth at 3.7% should allow to maintain the demand for loans at a relatively high level. Nevertheless, taking into account the effects of significant banking sector burdens implementation, we assume slowdown in lending growth to 3% in the sector. The Bank thanks to its competitive advantages i.a. strong capital position aims to continue its strategy of increasing lending activity and strengthening its market position in strategic areas that provide the largest value creation potential.

The Bank's goal is to build the position of the most recognizable bank in Poland thanks to the professionalism and value creation for the customer. The Bank's activities will be focused on increasing customer satisfaction with provided services through meeting the customer's needs, constant improvement of service quality and delivering the best on the market solutions that enable our clients to reach their financial goals.

In the individual customer segment, the Bank will continue to sell consumer loans and mortgage loans denominated in PLN leveraging on long-term experience in selling these products and proved business model focused on effective and efficient adaptation of the offer to the clients' needs, while maintaining ethical principles in lending and reasonable risk level. In order to adopt best our offer to the changing clients' preferences, the Bank will continue to upgrade CRM system and multi-module analytical tools and algorithms while developing sales of products via remote channels and automating processes. Thinking about the future of our clients we intend to continue the development of product offer proposing the best and proven savings and insurance solutions, building long-term relationships with the clients and managing the client's life cycle.

In the business customer segment, the Bank's focus is to reinforce its leading position in the corporate lending, transactional banking services as well as organisation and servicing of corporate bonds issuance. The Bank, leveraging on its experience, aims to support the clients in utilizing 2014-2020 EU funds assigned for building a modern and competitive economy. In addition the Bank will continue the development of cooperation with customers from the agri-food sector.

In order to ensure the highest service quality for corporate as well as small and micro enterprises (SME) the Bank will continue working on the best adoption of its business model to the changing clients' requirements by strengthening local teams, their competences and mobility of advisors, while ensuring comprehensive offer and providing innovative financial solutions.

The Bank will continue acquisition of new clients consistently working on the number of customers increase in all segments. Investments in innovative products and solutions will be one of the elements that increase the attractiveness of the Bank's offer and allow to increase the number of customers served. The Bank will continue the development of remote distribution channels (multichannels / omnichannel), including Internet and mobile banking exploring innovative solutions available on the market, allowing the customer to use the banking services on multiple devices i.a. computer, mobile / smartphone, tablet. Providing ready-made solutions, tailored to the needs of given customer through the remote channels, without branch visit, making life of our customers easier, remains one of our key objectives. We intend to further develop PeoPay system enabling mobile payments and acceptance of mobile payments focusing on increasing the number of active users and transaction volumes.

The Bank will continue the activities aimed at improving operational efficiency focusing on processes optimisation, gradual adjustment of the distribution channels structure to the evolving customer needs and simplification of the organizational model.

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## 10 Representations of the Bank's Management Board

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

- Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2015 and comparative figures have been prepared in accordance with the binding accounting policies and that they reflect in a true, fair and clear manner Bank Pekao S.A. Group financial position and their results,
- Report on the activities of Bank Pekao S.A. Group for the year 2015 provides the true picture of Bank Pekao S.A. Group development, achievements and situation, including the main threats and risks.

The Management Board of Bank Pekao S.A. declares that the registered audit company performing the review of Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2015 has been selected in line with the binding legal regulations. The company and the registered auditors performing the review meet the requirements indispensable for issuing an objective and independent report on the annual consolidated financial statement, in line with the binding provisions of the law and professional standards.

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## 11 Statement of Bank Polska Kasa Opieki Spółka Akcyjna on application of Corporate Governance Standards in 2015

According to the ordinance of Minister of Finance dated February 19, 2009 *on current and periodic information published by issuers of securities and the conditions for recognition as equivalent the information required by the laws of a non-member state*<sup>1</sup>, Bank Polska Kasa Opieki Spółka Akcyjna (the “Bank”) states that it falls within the following set of corporate governance rules, including standards that issuer applies voluntarily and corporate governance practices used by issuer beyond the requirements of national law.<sup>2</sup>

General corporate governance rules i.e. a system of regulations and procedures defining guidelines for the activities of the Bank’s governing bodies, including their relations with entities interested in the Bank’s activities (stakeholders) result from laws regulations, especially from the Commercial Companies Code and the Banking Law, capital market regulations, as well as the rules laid down in: Code of Best Practice for WSE Listed Companies, Code of Banking Ethics of Polish Bank Association and Corporate Governance Rules for the Supervised Institutions issued by the Financial Supervision Authority on July 22, 2014.

In 2015, the Bank applied corporate governance rules laid down in the Code of Best Practice for WSE Listed Companies<sup>3</sup> set by WSE Board’s Resolution No. 19/1307/2012 of November 21, 2012 excluding Rules I.12 and IV.10 point 2 regarding enabling the shareholders to participate in a General Meeting using electronic communication.

In the announcement on convening the Ordinary General Meeting of Bank Polska Kasa Opieki Spółka Akcyjna published in the current report 5/2015 on March 30, 2015 the Bank informed that: “Considering the fact that the Shareholding of the Bank is characterized by a large number of shareholders, geographical and linguistic diversity, which means that for the Bank to meet the requirements necessary to identify the shareholders correctly and to ensure the appropriate level of security of electronic communication it would be necessary to provide on the Bank’s side highly advanced technical solutions which currently the Bank is not in possession of, in accordance with Art. 406<sup>5</sup> § 2 of the Commercial Companies Code and § 8a sec. 2 of the Statute of the Bank, the Management Board of the Bank resolved not to allow participation with the use of electronic communication means in the Ordinary General Meeting of the Bank for the year 2014.”

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

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

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<sup>1</sup> Journal of Laws 2014.133 unified text

<sup>2</sup> Par. 91.5.4.a and b of the ordinance of the Minister of Finance of February 19, 2009

<sup>3</sup> The document is publicly available on the WSE website: [http://www.gpw.pl/dobre\\_praktyki\\_spolek\\_regulacje](http://www.gpw.pl/dobre_praktyki_spolek_regulacje)

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

As of January 1, 2015 the Bank applies Corporate Governance Rules for the Supervised Institutions issued by the Financial Supervision Authority on July 22, 2014<sup>5</sup> with the exclusion of chapter 9 of the Rules related to asset management at the client's risk, in view of the fact that the Bank does not pursue any activity in this area, § 49 section 4 and § 52 section 2 of the Rules in view of the fact that there is an audit unit and a compliance unit functioning in the Bank, and § 45 section 2 of the Rules in terms of risk assessment concerning failure to achieve the objectives of the internal control system due to ongoing adjustment works. Moreover, taking into account the lack of possibility for the Bank to ensure the technical conditions necessary to identify the shareholders correctly and to ensure the appropriate level of security of electronic communication during the Ordinary General Meeting of the Bank for 2014, in particular during the process of voting at the General Meeting, the Management Board of Bank Pekao S.A. has resolved not to allow participation in this General Meeting with the use of electronic communication means and at the same time has decided to not apply § 8 section 4 of Corporate Governance Rules for the Supervised Institutions.

Information about not applying the above mentioned rule was published by the Bank on the website, in accordance with Corporate Governance Rules for the Supervised Institutions.

Furthermore, the Bank applies corporate governance rules resulting from UniCredit Group Integrity Charter<sup>6</sup> as requirements beyond requirements under national law.

On December 22, 2015 the Management Board of the Bank by Resolution No. 497/XII/ adopted to follow the "Best Practice for GPW Listed Companies 2016"<sup>7</sup> issued by the Warsaw Stock Exchange (GPW) by Resolution No 26/1413/2015 of the GPW Supervisory Board of October 13, 2015. As of January 1, 2016 the Bank applies all the recommendations and detailed provisions included in "Best Practice for GPW Listed Companies 2016".

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

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

## **1) The description of key features of the Bank's internal control and risk management systems related to the preparation of financial statements and consolidated financial statements<sup>8</sup>**

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

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

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

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

The accounting books are reconciled against reporting databases.

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

<sup>6</sup> The document is publicly available on Bank Pekao S.A. website: [http://www.pekao.com.pl/o\\_banku/misja/#tab2](http://www.pekao.com.pl/o_banku/misja/#tab2)

<sup>7</sup> The document is publicly available on GPW S.A. website : <http://www.gpw.pl/2296>

<sup>8</sup> Par. 91.5.4.c of the ordinance of the Minister of Finance of February 19, 2009



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

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

## 2) Identification of shareholders owning directly or indirectly a significant block of shares together with identification of number of shares owned by those shareholders, percentage of shareholders share in share capital, number and percentage of votes at the Bank's General Meeting resulting from owned shares<sup>9</sup>

UniCredit S.p.A. has been the Bank's major shareholder since August 1999. As at December 31, 2015, UniCredit S.p.A. held 50.10% share in the Bank's share capital and the same percentage of the total votes at the Bank's General Meeting of Shareholders. The remaining shareholders held 49.90% share in the Bank's share capital and the same percentage of the total votes at the Bank's General Meeting of Shareholders.

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

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

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

## 3) Identification of holders of any securities with special control rights with description of those rights<sup>10</sup>

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

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

## 4) Identification of any restrictions of voting rights, such as restriction of voting rights of holders of given number or percentage of votes, temporary restrictions of voting or provisions according to which, with co-operation of a company, rights resulting from securities are separated from the fact of holding those securities<sup>11</sup>

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

## 5) Identification of any restrictions of ownership transfer of securities issued by the Bank<sup>12</sup>

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

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

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

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

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

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## 6) Description of rules governing appointment and dismissal of Members of managerial bodies and their rights, in particular right to decide whether to issue or repurchase shares<sup>13</sup>

### Management Board

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

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

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

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

Members of the Management Board shall have rights under the generally applicable law.

According to the Bank's Statute they have no right to decide whether to issue or purchase shares.

## 7) Description of rules governing amendment of the Statute of the Bank<sup>14</sup>

Amendment of the Bank's Statute and drafting its consolidated text requires adoption by way of resolution of the Bank's General Shareholders Meeting as well as registering the amendment in the National Court Register. Procedure of the General Shareholders Meeting of the Bank<sup>15</sup> defines detailed rules of conducting the Bank's General Shareholders Meetings and adopting resolutions. The Bank's General Shareholders Meetings resolutions concerning the amendments of the Bank's Statute are being adopted by the three-quarter majority, whereas according to the Bank's Status the Bank's General Shareholders Meeting is entitled to adopting resolutions only if at least 50% of shares plus one share is represented. Moreover, as stated in Par. 34.2 of the Banking Act, any amendment of the Statute of the Bank shall require the authorization of the Polish Financial Supervision Authority where such amendment relates to:

- the company name,
- the bank's registered office, objects and scope of activity taking into consideration activities defined in par. 69.2.1-7 of the Act on Trading in Financial Instruments of July 29, 2005 that the bank intends to perform according to Par. 70.2 of this Act,

<sup>13</sup> Par. 91.5.4.h of the ordinance of the Minister of Finance of February 19, 2009

<sup>14</sup> Par. 91.5.4.i of the ordinance of the Minister of Finance of February 19, 2009

<sup>15</sup> Adopted by virtue of the Resolution of the General Shareholders Meeting No. 19 of April 8, 2003

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- the management bodies and their competences, including particularly the competences of the members of the management board appointed with acceptance by the Polish Financial Supervision Authority and in compliance with the decision making standards, the basic organizational structure of the bank, the procedures applicable to making legally binding statements regarding property rights and obligations, the procedures for issuing internal regulations and the procedure for making decisions concerning the undertaking of commitments or disposal of assets whose total value with regard to a single entity exceeds 5% of the bank's own funds,
- the principles of functioning of the internal control system,
- the own funds and financial management principles,
- voting preference or limitation attached to shares at a bank.

**8) Functioning of the General Shareholders Meeting and its key powers, as well as description of the rights of shareholders and the manner of exercising these rights, in particular rules resulting from Rules of Procedure for the General Shareholders Meeting, unless these rules result directly from generally applicable law<sup>16</sup>**

The operation of the Bank's General Shareholders Meeting is governed by the Rules of Procedure for the Bank's General Shareholders Meeting, adopted by way of Resolution No. 19 of April 8, 2003, amended by way of Resolution No. 41 of May 5, 2009 and Resolution No. 41 of June 1, 2012 which defines detailed rules of conducting General Shareholders Meetings and adopting resolutions. The Rules of Procedure are available to the public on the Bank's website<sup>17</sup>.

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

- to review and approve the report on the Bank's operations and the Bank's financial statements for the previous financial year,
- to adopt a resolution on profit distribution or coverage of loss,
- to review and approve the report on the activities of the Supervisory Board,
- to grant discharge to Members of the Supervisory Board and Management Board in respect of their duties,
- to review and approve the report on the Group's operations and the Group's financial statements,
- to set the dividend record date and dividend payment date,
- to dispose of or lease a business or its organized part, and to encumber it with limited property rights,
- to amend the Bank's Statute and to draft its consolidated text,
- to increase or decrease the Bank's share capital,
- to issue convertible bonds, bonds with pre-emptive rights to acquire shares, and subscription warrants,
- to retire shares and to define the terms of retirement,
- to decide on the Bank's merger, demerger or liquidation,
- to create and release special accounts,
- to appoint and remove from office Members of the Supervisory Board,
- to define the remuneration rules for Members of the Supervisory Board,

<sup>16</sup> Par. 91.5.4.j of the ordinance of the Minister of Finance of February 19, 2009

<sup>17</sup> [http://www.pekao.com.pl/informacje\\_dla\\_inwestorow/walne-zgromadzenia-banku/](http://www.pekao.com.pl/informacje_dla_inwestorow/walne-zgromadzenia-banku/)

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- to conclude an agreement with a subsidiary which provides for the management of the subsidiary or for the transfer of profit by the subsidiary,
- to appoint the entity authorized to examine financial statements and review the financial statements,
- to deal with other matters falling within the scope of the Bank's activities which are submitted to the Bank's General Shareholders Meeting.

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

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

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

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

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

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

The full documentation which is to be presented to the Bank's General Meeting, together with the drafts of resolutions and information concerning the Bank's General Meeting are made available to persons entitled to participate in the Bank's General Meeting on the Bank's website and in paper form which is available in the Bank's Headquarters, Warsaw, Żwirki i Wigury Street 31. Information in this respect is covered by announcement about convening the General Meeting, in accordance with Art. 402<sup>2</sup> of Code of Commercial Companies.

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

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

- the right of shareholders holding at least a half of the share capital or at least a half of the votes to convene Extraordinary Meeting of Shareholders. In this case, the shareholders elect the chairman of the Bank's General Meeting,
- the right of shareholders holding at least the twentieth of share capital to demand that specific issues be placed on the agenda of the next Bank's General Shareholders Meeting. The demand should include the justification and the project of resolution's project concerning proposed issue and should be submitted to the Management Board no later than 21 days prior to the Meeting date. The Management Board is obliged to announce changes in the Meeting agenda introduced because of shareholder's demand as fast as possible and no later than 18 days prior to the Meeting date. The Announcement takes place according to the way proper for General Meeting convocation,
- the right of shareholders holding at least the twentieth of share capital to submit via electronic communication media projects of resolutions concerning issues introduced to the Bank's General Meeting agenda or issues, which are supposed to be introduced to the Meeting agenda before the date of holding the Bank's General Meeting. The Bank instantly announces projects of resolutions on the Bank's website,
- the right of every shareholder to submit projects of resolutions concerning issues introduced to the Meeting's agenda,
- the right of shareholders to participate in the Bank's General Shareholders Meeting personally or by proxy,
- the right of shareholders holding a tenth of the share capital represented at the Bank's General Shareholders Meeting to demand that the attendance list of the Bank's General Shareholders Meeting be checked by a committee appointed for that purpose and composed of at least three persons, including one person appointed by the parties making the demand,
- the right according to which the Bank's General Shareholders Meeting is not allowed to adopt a resolution to remove an item from the agenda or not to consider an issue which was placed on the agenda upon request of shareholders unless the shareholders express their consent to the same,
- the right according to which the Bank's General Shareholders Meeting may not be adjourned deliberately to obstruct the exercise of the shareholders rights,
- the right of each individual participant of the Bank's General Shareholders Meeting to nominate one or more candidates for membership on the Bank's Supervisory Board,
- the right of shareholders holding at least a fifth of the share capital to demand block voting on the appointment of the Supervisory Board; a relevant request should be submitted to the Management Board in writing at such time as to enable its placement on the agenda of the Bank's General Shareholders Meeting,
- the right to inspect the book of minutes and to receive copies of resolutions authenticated by the Management Board,
- the right according to which the Chairperson of the Bank's General Shareholders Meeting is obliged to ensure that the rights of minority shareholders are respected,
- the right of shareholders who raise an objection against a resolution to justify the objection in a concise manner.

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

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

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

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

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

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

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

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

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

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

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## 9) Composition of the Bank's managerial, supervisory or administrative bodies and its committees, and its changes that occurred during last financial year as well as rules of procedure<sup>18</sup>

### Management Board

As at January 1, 2015 the Management Board of the Bank was composed of the following persons:

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

With the effect of April 30, 2015 the Supervisory Board of the Bank appointed Mr. Adam Niewiński as Vice President of the Management Board for the current joint term of the Management Board of the Bank.

As at December 31, 2015 the Management Board was composed of the following persons.

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

The Management Board of the Bank acts according to the Bank's Statute and the Rules of procedure adopted by virtue of its Resolution No. 480/XII/2014 of December 22, 2014. The previously binding Resolution of the Management Board No. 101/VI/03 of June 3, 2003 expired. The Rules of procedure shall in particular define the matters which require joint consideration by the Management Board, as well as the procedure for adopting a resolution in writing. The Rules of Procedure of the Management Board are available on the Bank's website<sup>19</sup>. The Members of the Management Board shall coordinate and supervise the activity of the Bank pursuant to the binding division of competence adopted by the Management Board and approved by the Supervisory Board.

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

<sup>18</sup> Par. 91.5.4.k of the ordinance of the Minister of Finance of February 19, 2009

<sup>19</sup> [http://www.pekao.com.pl/o\\_banku/wladze\\_Banku/](http://www.pekao.com.pl/o_banku/wladze_Banku/)

# Report on the activities of Bank Pekao S.A. Group for the year 2015

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

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

## **Supervisory Board**

As at January 1, 2015 the Supervisory Board of the Bank was composed of the following persons:

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

As of the end of April 30, 2015 Ms. Małgorzata Adamkiewicz and Mr. Paweł Dangel resigned from their positions as Members of the Supervisory Board of the Bank. The Ordinary General Meeting of Shareholders of the Bank on April 30, 2015 appointed Mr. Dariusz Filar and Ms. Katarzyna Majchrzak as Members of the Supervisory Board of the Bank for the current joint term of the Management Board of the Bank, With the effect of May 1, 2015.

As at December 31, 2015 the Supervisory Board was composed of the following persons.

Jerzy Woźnicki	Chairman of the Supervisory Board,
Roberto Nicastro	Deputy Chairman of the Supervisory Board,
Leszek Pawłowicz	Deputy Chairman of the Supervisory Board,
Alessandro Decio	Secretary of the Supervisory Board,
Dariusz Filar	Member of the Supervisory Board,
Katarzyna Majchrzak	Member of the Supervisory Board,
Laura Stefania Penna	Member of the Supervisory Board,
Wioletta Rosołowska	Member of the Supervisory Board,
Doris Tomanek	Member of the Supervisory Board.



# Report on the activities of Bank Pekao S.A. Group for the year 2015

The Supervisory Board acts on the basis of the Rules of procedure adopted by virtue of its Resolution No. 10/15 of February 6, 2015. Previously binding Resolution No. 2/01 of the Supervisory Board of January 26, 2001 as amended is no longer valid. The Rules of procedure of the Supervisory Board are available on the Bank's website<sup>20</sup>.

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

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

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

The Supervisory Board set up dedicated committees which deal with specific areas of the Bank's operations, including the Audit Committee, the Nomination and Remuneration Committee and the Financial Committee and Risk Committee (set up on December 18, 2015). Reports of the committees set up by the Supervisory Board are stored at the Bank's Head Office and made available by the President's Office to the shareholders at the request. Annual reports of committees are annexed to and published with the Supervisory Board statement.

## Audit Committee

As at January 1, 2015 the Audit Committee was composed of the following persons:

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

Due to resignation of Mr. Paweł Dangel from the position of Member of the Supervisory Board, the Supervisory Board on the sitting on June 8, 2015 appointed Mr. Dariusz Filar as a Member of Audit Committee and conferred to him function of the President of the Committee for the period until the end of current term of the Supervisory Board.

<sup>20</sup> [http://www.pekao.com.pl/o\\_banku/wladze\\_Banku/#tab2](http://www.pekao.com.pl/o_banku/wladze_Banku/#tab2)

# Report on the activities of Bank Pekao S.A. Group for the year 2015

The composition of the Audit Committee as at December 31, 2015 was composed of the following persons.

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

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

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

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

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

## Nomination and Remuneration Committee

As at January 1, 2015, in the Bank operated the Remuneration Committee, which was composed of the following persons:

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

On February 6, 2015 the Supervisory Board adopted the Rules of Procedure of the Supervisory Board of the Bank, which included among others, change of the name of the Remuneration Committee to Nomination and Remuneration Committee as well as modified its competence. The Committee operates on the basis of the abovementioned Rules as well as Rules of Procedure of the Nomination and Remuneration Committee, which was adopted on April 27, 2015.

The composition of the Nomination and Remuneration Committee, as above, did not change till December 31, 2015.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

The aim of the Committee is to support the Supervisory Board in performing its duties by, among others:

- a) submission of recommendations regarding conditions of agreements that regulate employment relationship or other legal relationship between Members of the Management Board and the Bank, including the amount of remuneration to be paid to Members of the Management Board, and regarding approval of the policy on variable components of the remuneration for persons holding managerial positions in the Bank according to separate regulations and in order to submit recommendations to the General Shareholders Meeting regarding the remuneration to be paid to Members of the Supervisory Board,
- b) preparation of recommendations regarding fulfillment of suitability requirements for the purpose of appointment of Members of the Management Board and the Supervisory Board,
- c) Preparation of report for the General Shareholders Meeting regarding assessment of functioning of the remuneration policy in the Bank.

## Financial Committee

As at January 1, 2015, the Financial Committee was composed of the following persons:

Alessandro Decio,  
Roberto Nicastro,  
Laura Stefania Penna.

The composition of the Financial Committee did not change till December 31, 2015.

The Financial Committee operates on the basis of the Supervisory Board's resolution. Its role is to exercise supervision over the implementation of the Bank's financial objectives. Members of the Committee have the right to use services of advisers.

## Risk Committee

On December 18, 2015 the Supervisory Board of the Bank set up Risk Committee and adopted "Rules of Procedure of the Risk Committee". Mission of the Committee is to support the Supervisory Board in fulfillment of its obligations concerning supervision over risk management system and assessment of the adequacy and effectiveness of the said system.

# Report on the activities of Bank Pekao S.A. Group for the year 2015

## Signatures of all Members of the Bank's Management Board

08.02.2016	Luigi Lovaglio	President of the Management Board, CEO	
Date	Name/Surname	Position/Function	Signature
08.02.2016	Diego Biondo	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
08.02.2016	Andrzej Kopyrski	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
08.02.2016	Adam Niewiński	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
08.02.2016	Grzegorz Piwowar	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
08.02.2016	Stefano Santini	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
08.02.2016	Marian Ważyński	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature