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

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

Warsaw, February 2016

Table of content

Unconsolidated income statement..3

Unconsolidated statement of comprehensive income........4

Unconsolidated statement of financial position 5

Unconsolidated statement of changes in equity..................6

Unconsolidated cash flow statement 8

Notes to financial statements...10

1. General information 10
2. Business combination 10
3. Approval of the Financial Statements 10
4. Significant accounting policies 11
5. Risk management 34
6. Custody activity 73
7. Brokerage activity...73
8. Interest income and expense...75
9. Fee and commission income and expense......................76
10. Dividend income...76
11. Result on financial assets and liabilities held for trading76
12. Gains (losses) on disposal...77
13. Administrative expenses..77
14. Depreciation and amortization 78
15. Net other operating income and expenses 78
16. Net impairment losses on financial assets and off-balance sheet commitments....................................79
17. Gains (losses) on subsidiaries and associates..............81
18. Gains (losses) on disposal of property, plant and equipment, and intangible assets 81
19. Income tax..81
20. Earnings per share...85
21. Dividend proposal 85
22. Cash and balances with Central Bank...........................86
23. Loans and advances to banks 87
24. Financial assets and liabilities held for trading 88
25. Derivative financial instruments (held for trading)..........89
26. Loans and advances to customers 94
27. Hedge accounting 95
28. Investment (placement) securities 99
29. Reclassification of securities..101
30. Assets held for sale and discontinued operations 102
31. Investments in subsidiaries..103
32. Investments in associates..105
33. Intangible assets 106
34. Property, plant and equipment.................................109
35. Investment property 111
36. Other assets...112
37. Assets pledged as collateral 112
38. Amounts due to other banks 113
39. Amounts due to customers 114
40. Debt securities issued..114
41. Provisions...115
42. Other liabilities..116
43. Defined benefit plans 116
44. Share -based payment...118
45. Operating and finance leases 122
46. Contingent commitments 123
47. Share capital 128
48. Other capital and reserves, retained earnings and profit for the period 129
49. Additional information to the cash flow statement....130
50. Related party transactions 130
51. Repo and reverse repo transactions........................146
52. Company Social Benefits Fund (‘ZFŚS’)..................147
53. Subsequent events 148

Glossary I

Unconsolidated income statement

(In PLN thousand)

	NOTE	2015	2014
Interest income	8	5 301 459	6 038 827
Interest expense	8	(1 261 836)	(1 704 323)
Net interest income		**4 039 623**	**4 334 504**
Fee and commission income	9	2 142 637	2 329 292
Fee and commission expense	9	(392 122)	(496 804)
Net fee and commission income		**1 750 515**	**1 832 488**
Dividend income	10	**210 609**	**153 548**
Result on financial assets and liabilities held for trading	11	**418 506**	**431 468**
Result on fair value hedge accounting	27	**5 547**	**(17 247)**
Gains (losses) on disposal of:	12	**229 601**	**271 413**
loans and other financial receivables		534	18 579
available for sale financial assets and held to maturity investments		229 551	252 858
financial liabilities		(484)	(24)
Operating income		**6 654 401**	**7 006 174**
Net impairment losses on financial assets and off-balance sheet commitments:	16	**(513 978)**	**(541 369)**
loans and other financial receivables		(495 724)	(553 805)
off-balance sheet commitments		(18 254)	12 436
Net result on financial activity		**6 140 423**	**6 464 805**
Administrative expenses	13	**(3 214 722)**	**(2 920 605)**
personnel expenses		(1 719 090)	(1 730 154)
other administrative expenses		(1 495 632)	(1 190 451)
Depreciation and amortization	14	**(312 220)**	**(308 384)**
Net result on other provisions		**(28 576)**	**(1 381)**
Net other operating income and expenses	15	**142 717**	**34 179**
Operating costs		**(3 412 801)**	**(3 196 191)**
Gains (losses) on subsidiaries and associates	17	**51 827**	**-**
Gains (losses) on disposal of property, plant and equipment, and intangible assets	18	**12 106**	**1 491**
Profit before income tax		**2 791 555**	**3 270 105**
Income tax expense	19	**(501 157)**	**(607 839)**
Net profit for the period		**2 290 398**	**2 662 266**
Earnings per share (in PLN per share)	20		
basic for the period		8.73	10.14
diluted for the period		8.73	10.14

Notes to the financial statements presented on pages 10 – 148 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of comprehensive income

(In PLN thousand)

	NOTE	2015	2014
Net profit		**2 290 398**	**2 662 266**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		(1 169)	(69)
Change in fair value of available-for-sale financial assets		(237 077)	482 126
Change in fair value of cash flow hedges	27	(93 341)	168 109
Tax on items that are or may be reclassified subsequently to profit or loss	19	62 780	(123 545)
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liabilities	43	12 678	(44 212)
Tax on items that will never be reclassified to profit or loss	19	(2 409)	8 400
Other comprehensive income (net of tax)		**(258 538)**	**490 809**
Total comprehensive income		**2 031 860**	**3 153 075**

Notes to the financial statements presented on pages 10 – 148 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of financial position

(In PLN thousand)

	NOTE	31.12.2015	31.12.2014
ASSETS			
Cash and due from Central Bank	22	7 881 598	9 226 249
Bill of exchange eligible for rediscounting at Central Bank		70	165
Loans and advances to banks	23	7 512 226	7 215 362
Financial assets held for trading	24	1 116 993	513 078
Derivative financial instruments (held for trading)	25	3 254 117	4 464 894
Loans and advances to customers	26	118 508 582	111 389 077
Hedging instruments	27	421 640	470 822
Investment (placement) securities	28	20 989 942	24 572 130
1. Available for sale		17 699 881	23 048 190
2. Held to maturity		3 290 061	1 523 940
Assets held for sale	30	45 302	31 952
Investments in subsidiaries	31	1 099 654	857 513
Investments in associates	32	27 552	29 427
Intangible assets	33	611 620	601 673
Property, plant and equipment	34	1 443 757	1 525 593
Investment properties	35	17 317	23 802
Income tax assets		759 559	674 378
1. Current tax assets		75 935	1 881
2. Deferred tax assets	19	683 624	672 497
Other assets	36	2 070 741	2 726 716
TOTAL ASSETS		**165 760 670**	**164 322 831**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to Central Bank	22	914	971
Amounts due to other banks	38	4 553 114	3 129 856
Financial liabilities held for trading	24	611 442	591 311
Derivative financial instruments (held for trading)	25	3 201 798	4 422 292
Amounts due to customers	39	129 256 866	126 381 270
Hedging instruments	27	1 702 759	1 484 428
Debt securities issued	40	1 668 706	2 819 713
Income tax liabilities		-	66 412
1. Current tax liabilities		-	66 412
2. Deferred tax liabilities		-	-
Provisions	41	422 930	436 952
Other liabilities	42	1 547 738	1 602 382
TOTAL LIABILITIES		**142 966 267**	**140 935 587**
Equity			
Share capital	47	262 470	262 470
Other capital and reserves	48	20 241 535	20 462 508
Retained earnings and profit for the period	48	2 290 398	2 662 266
TOTAL EQUITY		**22 794 403**	**23 387 244**
TOTAL LIABILITIES AND EQUITY		**165 760 670**	**164 322 831**

Notes to the financial statements presented on pages 10 – 148 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of changes in equity

(In PLN thousand)

	SHARE CAPITAL	OTHER CAPITAL AND RESERVES							RETAINED EARNINGS AND PROFIT FOR THE PERIOD	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER		
Note	47	48							48	
Equity as at 1.01.2015	**262 470**	**20 462 508**	**9 137 221**	**1 937 850**	**8 612 550**	**540 591**	**1 169**	**233 127**	**2 662 266**	**23 387 244**
Management options	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Options exercised (share issue)	-	-	-	-	-	-	-	-	-	-
Revaluation of management share options	-	-	-	-	-	-	-	-	-	-
Comprehensive income	**-**	**(258 538)**	**-**	**-**	**-**	**(257 369)**	**(1 169)**	**-**	**2 290 398**	**2 031 860**
Remeasurements of the defined benefit liabilities (net of tax)	-	10 269	-	-	-	10 269	-	-	-	10 269
Revaluation of available-for-sale investments (net of tax)	-	(192 032)	-	-	-	(192 032)	-	-	-	(192 032)
Revaluation of hedging financial instruments (net of tax)	-	(75 606)	-	-	-	(75 606)	-	-	-	(75 606)
Foreign currency translation differences	-	(1 169)	-	-	-	-	(1 169)	-	-	(1 169)
Net profit for the period	-	-	-	-	-	-	-	-	2 290 398	2 290 398
Appropriation of retained earnings	**-**	**37 565**	**-**	**37 565**	**-**	**-**	**-**	**-**	**(2 662 266)**	**(2 624 701)**
Dividend paid	-	-	-	-	-	-	-	-	(2 624 701)	(2 624 701)
Profit appropriation	-	37 565	-	37 565	-	-	-	-	(37 565)	-
Equity as at 31.12.2015	**262 470**	**20 241 535**	**9 137 221**	**1 975 415**	**8 612 550**	**283 222**	**-**	**233 127**	**2 290 398**	**22 794 403**

Notes to the financial statements presented on pages 10 – 148 constitute an integral part of the unconsolidated financial statements.

Unconsolidated statement of changes in equity (cont.)

(In PLN thousand)

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

Notes to the financial statements presented on pages 10 – 148 constitute an integral part of the unconsolidated financial statements.

Unconsolidated cash flow statement

(In PLN thousand)

	NOTE	2015	2014
Cash flow from operating activities – indirect method			
Net profit for the period		**2 290 398**	**2 662 266**
Adjustments for:		**(3 668 415)**	**(7 850 295)**
Depreciation and amortization	14	312 220	308 384
(Gains) losses on investing activities		(241 401)	(254 181)
impairment on Investments in subsidiaries	17	24 000	-
Net interest income	8	(4 039 623)	(4 334 504)
Dividend income	10	(210 609)	(153 548)
Interests received		5 132 583	5 992 479
Interests paid		(1 240 360)	(1 702 899)
Income tax		540 832	500 501
Income tax paid		(599 653)	(560 903)
Change in loans and advances to banks		27 031	369 169
Change in financial assets held for trading		(603 074)	(324 682)
Change in derivative financial instruments (assets)		1 210 777	(2 465 548)
Change in loans and advances to customers and bill of exchange eligible for rediscounting at Central Bank		(6 943 355)	(10 816 973)
Change in investment (placement) securities		(818 181)	(1 309 492)
Change in other assets		575 288	(1 078 837)
Change in amounts due to banks		1 423 875	(1 624 042)
Change in financial liabilities held for trading		20 131	281 569
Change in derivative financial instruments (liabilities)		(1 220 494)	2 367 907
Change in amounts due to customers		2 850 037	6 527 021
Change in debt securities issued		1 915	(282)
Change in provisions		(14 022)	45 556
Change in other liabilities		143 668	383 010
Net cash flows from operating activities		**(1 378 017)**	**(5 188 029)**
Cash flow from investing activities			
Investing activity inflows		**269 156 419**	**407 982 722**
Sale of associates	30	75 000	-
Sale of investment securities		268 244 997	407 118 305
Sale of intangible assets and property, plant and equipment		13 600	6 503
Dividend received	10	210 609	153 548
Other investing inflows		612 213	704 366
Investing activity outflows		**(264 989 107)**	**(395 804 957)**
Acquisition of subsidiary	31	(274 334)	(64 400)
Acquisition of investment securities		(264 436 552)	(395 488 961)
Acquisition of intangible assets and property, plant and equipment	33, 34	(278 221)	(251 596)
Net cash flows from investing activities		**4 167 312**	**12 177 765**

Notes to the financial statements presented on pages 10 – 148 constitute an integral part of the unconsolidated financial statements.

Unconsolidated cash flow statement (cont.)

(In PLN thousand)

	NOTE	2015	2014
Cash flows from financing activities			
Financing activity inflows		**3 858 026**	**5 876 940**
Issue of debt securities	40	3 858 026	5 876 940
Financing activity outflows		**(7 632 240)**	**(7 928 366)**
Redemption of debt securities	40	(5 007 539)	(5 314 164)
Dividends and other payments to shareholders		(2 624 701)	(2 614 202)
Net cash flows from financing activities		**(3 774 214)**	**(2 051 426)**
Total net cash flows		**(984 919)**	**4 938 310**
including: effect of exchange rate fluctuations on cash and cash equivalents held		151 526	181 857
Net change in cash and cash equivalents		**(984 919)**	**4 938 310**
Cash and cash equivalents at the beginning of the period		**15 553 341**	**10 615 031**
Cash and cash equivalents at the end of the period	49	**14 568 422**	**15 553 341**

Notes to the financial statements presented on pages 10 – 148 constitute an integral part of the unconsolidated financial statements.

Notes to the financial statements

(In PLN thousand)

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

1. General information

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

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

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

The Bank's statistical REGON number is 000010205.

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

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

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

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

2. Business combination

In 2015 the Bank acquired 100% of the share capital of UniCredit CAIB Poland S.A. (presently Pekao Investment Banking S.A.). The transaction was detailed in the consolidated financial statements of Bank Pekao S.A. Group for the period ended on 31 December 2015.

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

3. Approval of the Financial Statements

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

Notes to the financial statements (cont.)

(In PLN thousand)

4. Significant accounting policies

4.1 Statement of compliance

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

4.2 Basis of preparation of Unconsolidated Financial Statements

General information

The Financial Statements of Bank Pekao S.A. have been prepared for the period from 1 January 2015 to 31 December 2015. Comparable data have been presented for the period from 1 January 2014 to 31 December 2014.

The financial statements have been prepared in Polish zloty, and all amounts are presented in PLN thousand, unless indicated otherwise.

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

Unconsolidated Financial Statements of the Bank have been prepared based on the following valuation methods:

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

The unconsolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations. Changes in published standards and interpretations, which became effective on or after 1 January 2015, had no material impact on the unconsolidated financial statements (Note 4.10).

The financial statements does not take into consideration interpretations and amendments to Standards, pending approval by the European Union or approved by the European Union but came into force or shall come into force after the balance sheet date (Note 4.11 and Note 4.12).

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

IFRS 9 'Financial Instruments'

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

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

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

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

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

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

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

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

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

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

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

The application of a model of the expected loss also requires the use of a much wider range of data compared to the current model. Implementation of the new methodology for the calculation of impairment requires the implementation of appropriate changes in IT systems and processes functioning in the Bank.

The Bank has launched a dedicated program to implement IFRS 9, involving Finance Division, Risk Division, as well as the main Business functions, Organization and Information Communication Technology departments. After a phase of gap analysis and definition of high-level methodological guidelines, the activities are currently in the detailed design phase.

With reference to classification and measurement, the Bank is undertaking a detailed assessment of cash flow characteristics of debt instruments classified at amortized cost under IAS 39, in order to identify assets that, failing the SPPI test, will have to be potentially measured at fair value under IFRS 9. With reference to the ECL approach, the Bank is currently working on assumption to the models, data availability and system and tools design and plans to run detailed impact assessment for IFRS 9 impairment.

Quantitative impacts on financial statements at initial application are to date not available, reflecting the status of the above mentioned activities. The main impacts on the Bank are expected to come from the implementation of the new impairment model, which will result in higher credit loss allowances for loans subject to IBNR assessment. Adjustments to carrying values of financial instruments due to IFRS 9 transition will impact book value of equity as of 1 January 2018.

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

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

4.3 Accounting estimates

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

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

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

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

Impairment of loans and advances to customers

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

Impairment of non-current assets

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

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

Measurement of derivatives and unquoted debt securities available for sale

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

Provisions for defined benefit plans

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

Goodwill

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

(In PLN thousand)

4.4 Foreign currencies

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

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

  The Bank applies as the closing rate the average the National Bank of Poland ('NBP') exchange rate, valid as at the balance sheet date.
- Transactions and balances
  Foreign currency transactions are calculated into the functional currency using the spot exchange rate from the date of the transaction. Gains and losses from foreign currency translation differences resulting from settlements of such transactions and from the statement of financial position valuation of monetary assets and liabilities expressed in foreign currencies are recognized in the income statement.
- Foreign currency translation differences arising from non-monetary items, such as equity instruments classified as financial assets measured at fair value through the profit or loss are recognized together with the changes in the fair value of that item in the income statement.

  Foreign currency translation differences arising from non-monetary items such as equity instruments classified as available for sale financial assets are recognized in the revaluation reserves.
- Bank's Branch in Paris
  The assets and liabilities of the entity are translated into the Polish currency i.e. to the presentation currency as per the closing exchange rate for the balance sheet date. Revenues and expenses in the income statement are recalculated as per average exchange rates calculated on the basis of the exchange rates of the reporting period except for situations where exchange rates fluctuate significantly such that the average exchange rate is not an acceptable approximation of the exchange rate from the transaction date. In such situations revenue and expenses are translated on the basis of the exchange rate from the date of transaction.

  In December 2015 the Bank liquidated the Branch in Paris.

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

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

	31.12.2015	31.12.2014
PLN for EUR 1	-	4.2623

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

	2015	2014
PLN for EUR 1	4.1778	4.1893

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

4.5 Income statement

Interest income and expense

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

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

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

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

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

Fee and commission income and expense

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

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

Income and expense from bancassurance

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

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

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

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

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

Result on financial assets and liabilities held for trading

Result on financial assets and liabilities held for trading include:

- Foreign exchange result

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

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

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

- Income from derivatives and securities held for trading

  The income referred to above includes gains and losses realized on a sale or a change in the fair value of assets and liabilities held for trading.

  The accrued interest and unwinding of a discount or a premium on securities held for trading is presented in the net interest income.

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

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

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

Other operating income/expense

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

4.6 Valuation of financial assets and liabilities, derivative financial instruments

Financial assets

Financial assets are classified into the following categories:

- Financial assets measured at fair value through profit or loss

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

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

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

- Held to maturity

  These are non-derivative financial assets with fixed or determinable payments and fixed maturity, for which the entity has an intent and ability to hold to maturity, other than:

  a) those that the entity upon initial recognition designates as at fair value through profit or loss,
  b) those that the entity designates as available for sale, and
  c) those that meet the definition of loans and receivables.

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

- Loans and receivables

  Loans and receivables are non-derivative financial assets, with fixed or determinable payments, not quoted on active markets, other than:

  a) those that the entity intends to sell immediately or in the near term which are classified as held for trading and those that the entity designates as at fair value through profit or loss upon initial recognition,
  b) those that the Bank designates upon the initial recognition as available for sale, or
  c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

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

- Available for sale

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

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

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

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

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

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

Derivative instruments are recognized or derecognized on transaction dates.

Reclassification of financial assets

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

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

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

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

Impairment of financial assets

Assets measured at amortized cost – loans and advances

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

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

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

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

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

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

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

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

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

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

The amount of the impairment loss is recognized in profit or loss. If, in a subsequent period, the amount of impairment loss decreases, then the previously recognized impairment loss is reversed by adjusting an allowance account. The amount of the reversal is recognized in profit or loss.

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

Financial assets available for sale

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

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

Off-balance sheet commitments

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

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

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

Repo and reverse-repo agreements

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

Fair value hedge accounting principles

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Cash flow hedge accounting principles

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

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

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

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

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

Financial liabilities

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

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

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

De-recognition of financial instruments from the statement of financial position

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

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

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

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

Investments in subsidiaries and associates

Subsidiaries

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

Associates

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

Notes to the financial statements (cont.)

(In PLN thousand)

Recognition and measurement

In the Bank's Financial Statements, the investments in subsidiaries, associates and entities under common control are measured at purchase price. The carrying amount of the investment is tested for impairment according to IAS 36 'Impairment of assets'.

The impairment is recognized in the income statement under 'Gains (losses) from associates and subsidiaries. Dividends constituting an income from the investments are recognized in the income statement at the payment date.

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

Business combinations

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

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

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

Recognition of common control transactions at book value

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

The adopted accounting principles are as follows:

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

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

Intangible assets

Goodwill

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

Notes to the financial statements (cont.)

(In PLN thousand)

Other intangible assets

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

These assets mainly include:

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

Depreciation and amortization

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

a) depreciation rates applied for non-current assets:

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

b) amortization rates for intangible assets:

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

c) depreciation rates for investment properties:

Buildings and structures	1.5% – 10.0%

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

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

Investment properties

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

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

Non-current assets held for sale and discontinued operations

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

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

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

Leases

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

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

Operating leases

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

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

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

Finance leases

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

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

Provisions

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

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

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

Deferred income and accrued expenses (liabilities)

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

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

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

Government grants

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

Notes to the financial statements (cont.)

(In PLN thousand)

The Bank's equity

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

The Bank's equity comprises of the following:

a) share capital – can be increased through the issue of new shares or through an increase of the nominal value of already issued shares. At the General Shareholder's Meeting the share capital can be increased by means of reserve capital or other capital, if it is in accordance with the Bank's Articles of Association and Corporate Code,
b) reserve capital – created out of the annual net profit write-offs to be called in the event of loss, which may occur due to the Bank's operations. Annual write-off should amount to at least 8% of net profit and should be made until the reserve capital reaches 1/3 of share capital value. Share premium formed from agio obtained from the issue of share, reduced by the attributable direct costs incurred with that issue is also a part of reserve capital,
c) revaluation reserve arises from the revaluation of financial instruments classified as available for sale, cash flow hedging derivatives, remeasurements of the defined benefit liabilities and the value of deferred tax for items classified as temporary differences recognized as revaluation reserve. In the statement of financial position revaluation reserve is recognized in net value,
d) exchange rate differences include differences arising from the recalculation of the result of a foreign branch at the weighted average exchange rate at the balance sheet date in relation to the average NBP exchange rate,
e) other reserve capital utilized for the purposes defined in the Articles of Association is created from appropriations of profits,
f) capital components:
   - bonds convertible to shares - includes the fair value of financial instruments issued as part of transactions settled in equity instruments, and
   - provision for purchase of parent entity stocks,
g) general banking risk fund in Bank Pekao S.A. is created in accordance with the Banking Act dated 29 August 1997 with subsequent amendments, from profit after tax,
h) retained earnings from prior periods is created from undistributed result from previous years,
i) net profit/loss, which constitutes of profit/loss for the period. Net profit is after taxation.

Share-based payment

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

4.8 Income tax

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

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

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

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

4.9 Other

Contingent liabilities and commitments

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

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

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

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

Cash and cash equivalents

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

Segment reporting

Information concerning segment reporting of the Group are presented in Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended on 31 December 2015.

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

4.11 New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and adopted by the EU but not yet effective

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

STANDARD/ INTERPRETATION	DESCRIPTION	IMPACT ASSESSMENT
IFRS 9 'Financial Instruments'	New regulations compose a part of changes superseding IAS 39 'Financial Instruments: Recognition and Measurement'. Main changes resulting from the new standard include: • New categorisation of financial assets, • New criteria of assets classification to the group of financial assets measured at amortized cost, • New principles on recognition of changes in fair value measurement of investments in equity instruments, • Elimination of the need to separate embedded derivatives from financial assets. Most requirements of IAS 39 relating to financial liabilities classification and valuation were transferred to IFRS 9 unchanged. The standard was extended by parts concerning principles of measurement at amortized cost as well as principles of hedge accounting application. Date of application: the first financial year beginning after 1 January 2018.	The Bank is currently assessing the impact of the IFRS 9 application on its financial statement, however due to the nature of the Bank, it is expected that these changes will have a significant impact on the Bank's financial instruments valuation and presentation.
IFRS 14 'Regulatory deferral accounts'	The aim of this standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. Date of application: the first financial year beginning after 1 January 2016.	The Bank claims that the new standard will not have a material impact on its financial statements in the period of its first application.
IFRS 15 'Revenue from Contracts with Customers'	The Standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. The core principle of the new Standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. In accordance with new IFRS 15, the revenue is recognized when the control over the goods or services is transferred to the customer. Date of application: the first financial year beginning after 1 January 2018.	The Bank is currently assessing the impact of the IFRS 15 application on its financial statements.
IFRS 16 'Leases'	Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis. Date of application: annual periods beginning on or after 1 January 2019	The Bank is currently assessing the impact of the IFRS 15 application on its financial statements.

Notes to the financial statements (cont.)

(In PLN thousand)

IFRS 10 (amendment) 'Consolidated Financial Statements' and **IAS 28 (amendment)** 'Investments in Associates and Joint Ventures'	The amendments concern the sale or contribution of assets between the investor and the associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. Date of application: the first financial year beginning after 1 January 2016.	The Bank claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
Amendments to IFRS 10 'Consolidated Financial Statements', **IFRS 12** 'Disclosure of interests in other entities' and **IAS 28** 'Invetments in Associates and joint ventures'	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. Date of application: the first financial year beginning after 1 January 2016.	The Bank claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.
IAS 12 (amendment) 'Income Taxes'	The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Date of application: annual periods beginning on or after 1 January 2017.	The Bank is currently analyzing the impact of those changes on the financial statements.
IAS 7 (amendment) 'Statement of Cash Flows' - Disclosure Initiative	The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Date of application: annual periods beginning on or after 1 January 2017.	The Bank claims that the standard's amendments will not have a material impact on its financial statements in the period of its first application.

5. Risk management

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

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

5.1 Organizational structure of risk management

Supervisory Board

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

Management Board

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

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

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

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

Committees

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

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

(In PLN thousand)

5.2 Credit risk

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

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

The Bank established the following portfolio limits:

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

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

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

Rating models utilized in the credit risk management process

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

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

For internal purposes, within the Bank the following rating models are used, developed in accordance with provisions of Regulation (EU) no 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms:

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

The following exposure types are not covered by internal rating models:

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

Rating scale

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

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

The tables below present the loan portfolio quality for exposures encompassed by internal rating models.

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

	31.12.2015	31.12.2014
Loans with no impairment:	**116 049 828**	**108 637 120**
Loans to individuals:	**50 779 433**	**45 801 487**
Covered by internal rating model:	48 496 634	43 613 740
Mortgage loans	40 682 616	36 358 539
Consumer loans	7 814 018	7 255 201
Other, not covered by internal rating model	2 282 799	2 187 747
Loans to corporates:	**65 270 395**	**62 835 633**
Covered by internal rating model:	20 208 561	19 179 987
Clients with income not exceeding EUR 500 million	15 076 822	14 452 814
Clients assessed by central model with income exceeding EUR 500 million	5 131 739	4 727 173
Specialized lending exposures	6 595 869	5 246 697
Debt securities, not covered by internal rating model	12 330 221	10 402 996
Repo transactions, not covered by internal rating model	4 755 472	5 789 064
Other, not covered by internal rating model	21 380 272	22 216 889
Impaired loans	**2 458 823**	**2 752 122**
Total loans and advances to customers (*)	**118 508 651**	**111 389 242**

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

Client/transaction rating and credit risk decision-making level

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

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

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

Validation of rating models

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Bank's exposure to credit risk

The maximum credit risk exposure

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

	31.12.2015	31.12.2014
Due from Central Bank	4 930 181	5 826 906
Loans and advances from banks and from customers (*)	126 020 878	118 604 439
Financial assets held for trading	1 116 993	513 078
Derivative financial instruments (held for trading)	3 254 117	4 464 894
Hedging instruments	421 640	470 822
Investment securities	20 989 942	24 572 130
Other assets (**)	3 154 186	3 573 738
Balance sheet exposure (***)	**159 887 937**	**158 026 007**
Obligations to grant loans	30 556 733	26 930 834
Other contingent liabilities	16 706 417	15 727 886
Off-balance sheet exposure	**47 263 150**	**42 658 720**
Total	**207 151 087**	**200 684 727**

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

Notes to the financial statements (cont.)

(In PLN thousand)

Credit risk mitigation methods

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

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

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

The financial effect of pledged collaterals for exposure portfolio with recognized impairment defined individually amounts to PLN 1 248 241 thousand as at 31 December 2015 (PLN 1 453 471 thousand as at 31 December 2014). The level of required impairment allowances for the portfolio would increase by this amount, if the discounted cash flows from collateral were not taken into account during estimation.

Notes to the financial statements (cont.)

(In PLN thousand)

Offsetting financial assets and financial liabilities

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

The netting agreements concluded by the Bank are:

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

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

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

- derivatives,
- repo and reverse-repo transactions.

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

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

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

31.12.2015	CARRYING AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING RECEIVED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL RECEIVED	
FINANCIAL ASSETS				
Derivatives	3 675 757	(3 007 610)	(295 762)	372 385
TOTAL	**3 675 757**	**(3 007 610)**	**(295 762)**	**372 385**

31.12.2015	CARRYING AMOUNT OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	AMOUNT OF POTENTIAL OFFSETTING		NET AMOUNT
		FINANCIAL INSTRUMENTS (INCLUDING PLEDGED COLLATERAL IN THE FORM OF SECURITIES)	CASH COLLATERAL PLEDGED	
FINANCIAL LIABILITIES				
Derivatives	4 904 557	(3 007 610)	(1 339 417)	557 530
Repo transactions	963 829	(962 346)	-	1 483
TOTAL	**5 868 386**	**(3 969 956)**	**(1 339 417)**	**559 013**

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

31.12.2015	NET CARRYING AMOUNT	ITEM IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT IN STATEMENT OF FINANCIAL POSITION	CARRYING AMOUNT OF TRANSACTIONS NOT IN SCOPE OF OFFSETTING DISCLOSURES	NOTE
FINANCIAL ASSETS					
Derivatives	3 182 088	Derivative financial instruments (held for trading)	3 254 117	72 029	25
	421 640	Hedging instruments	421 640	-	27
FINANCIAL LIABILITIES					
Derivatives	3 112 138	Derivative financial instruments (held for trading)	3 201 798	89 660	25
	1 702 759	Hedging instruments	1 702 759	-	27
Repo transactions	963 829	Amounts due to other banks	4 553 114	3 589 285	38

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

Notes to the financial statements (cont.)

(In PLN thousand)

Overall characteristics of monitoring process

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

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

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

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

Overall characteristics of provisioning model

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

The quality analysis of the Bank's financial assets

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS	
	31.12.2015	**31.12.2014**	**31.12.2015**	**31.12.2014**
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
- not past due	-	-	537 927	602 972
- up to 1 month	-	-	13 046	38 982
- between 1 month and 3 months	-	-	21 496	102 477
- between 3 months and 1 year	-	-	116 917	746 774
- between 1 year and 5 years	9 927	9 160	2 968 023	2 545 244
- above 5 years	-	-	1 334 323	1 075 231
Total gross carrying amount	**9 927**	**9 160**	**4 991 732**	**5 111 680**
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(230 039)	(199 010)
- up to 1 month	-	-	(4 933)	(7 985)
- between 1 month and 3 months	-	-	(4 819)	(58 176)
- between 3 months and 1 year	-	-	(47 727)	(312 789)
- between 1 year and 5 years	(9 927)	(9 160)	(1 711 053)	(1 415 195)
- above 5 years	-	-	(1 156 423)	(887 430)
Total allowance for impairment	**(9 927)**	**(9 160)**	**(3 154 994)**	**(2 880 585)**
Net carrying amount of exposure individually impaired	**-**	**-**	**1 836 738**	**2 231 095**
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
- not past due	-	-	109 908	60 051
- up to 1 month	-	-	41 499	33 784
- between 1 month and 3 months	-	-	44 193	49 713
- between 3 months and 1 year	-	-	292 994	346 647
- between 1 year and 5 years	-	-	1 235 099	1 366 191
- above 5 years	9 800	9 800	943 397	816 259
Total gross carrying amount	**9 800**	**9 800**	**2 667 090**	**2 672 645**
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(37 924)	(32 243)
- up to 1 month	-	-	(10 142)	(16 966)
- between 1 month and 3 months	-	-	(14 292)	(26 065)
- between 3 months and 1 year	-	-	(148 107)	(207 366)
- between 1 year and 5 years	-	-	(948 154)	(1 091 855)
- above 5 years	(9 800)	(9 800)	(886 386)	(777 123)
Total gross carrying amount	**(9 800)**	**(9 800)**	**(2 045 005)**	**(2 151 618)**
Net carrying amount of exposure collectively impaired	**-**	**-**	**622 085**	**521 027**

Notes to the financial statements (cont.)

(In PLN thousand)

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS (*)			
			CORPORATE		RETAIL	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
- not past due	7 512 892	7 215 919	65 381 533	62 883 973	49 339 959	44 315 903
- up to 30 days	-	-	80 827	69 203	1 227 905	1 241 026
- between 30 days and 60 days	-	-	13 781	29 176	170 112	186 926
- above 60 days	-	-	78 993	113 466	187 622	296 500
Total gross carrying amount	**7 512 892**	**7 215 919**	**65 555 134**	**63 095 818**	**50 925 598**	**46 040 355**
IBNR PROVISION						
- not past due	(666)	(557)	(280 953)	(256 434)	(89 579)	(127 781)
- up to 30 days	-	-	(2 473)	(1 690)	(36 702)	(73 635)
- between 30 days and 60 days	-	-	(645)	(1 139)	(11 227)	(22 130)
- above 60 days	-	-	(668)	(922)	(8 657)	(15 322)
Total gross carrying amount	**(666)**	**(557)**	**(284 739)**	**(260 185)**	**(146 165)**	**(238 868)**
Net carrying amount of exposure with no impairment	**7 512 226**	**7 215 362**	**65 270 395**	**62 835 633**	**50 779 433**	**45 801 487**

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

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
IMPAIRED EXPOSURE				
Gross carrying amount	19 727	18 960	7 658 822	7 784 325
Allowance for impairment	(19 727)	(18 960)	(5 199 999)	(5 032 203)
Total net carrying amount	**-**	**-**	**2 458 823**	**2 752 122**
EXPOSURES WITH IMPAIRMENT TRIGGERS FOR WHICH NO IMPAIRMENT HAS BEEN IDENTIFIED				
Gross carrying amount, in this:	-	-	14 868	23 601
Exposure with collateral value included in expected discounted cash flow, in this:	-	-	*14 868*	*23 601*
Past due exposures	-	-	*6 957*	*5 597*
IBNR provision	-	-	(1 138)	(1 676)
Total net carrying amount	**-**	**-**	**13 730**	**21 925**
EXPOSURES WITH NO IMPAIRMENT TRIGGERS				
Gross carrying amount	7 512 892	7 215 919	116 465 864	109 112 572
IBNR provision	(666)	(557)	(429 766)	(497 377)
Total net carrying amount	**7 512 226**	**7 215 362**	**116 036 098**	**108 615 195**

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

RATING	DEBT SECURITIES				
	HELD FOR TRADING	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS (***)	TOTAL
A+ to A-	1 003 007	15 865 408	2 418 961	6 520 122	25 807 498
BBB+ to BBB-	-	251 367	-	-	251 367
no rating	113 986	1 312 168 (*)	871 100 (**)	-	2 297 254
Total	**1 116 993**	**17 428 943**	**3 290 061**	**6 520 122**	**28 356 119**

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

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

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

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

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

RATING	DERIVATIVE INSTRUMENTS						
	TRADING DERIVATIVES			DERIVATIVE HEDGING INSTRUMENTS			TOTAL
	BANKS	OTHET FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	BANKS	OTHET FINANCIAL INSTITUTIONS	NON-FINANCIAL ENTITIES	
AAA	90	-	-	-	-	-	90
AA+ to AA-	126 730	-	-	3 032	-	-	129 762
A+ to A-	1 044 437	272 974	-	64 698	-	749	1 382 858
BBB+ to BBB-	1 003 930	-	503	319 425	-	-	1 323 858
BB+ to BB-	-	-	1 454	-	-	-	1 454
no rating	511 324	52 725	239 950	29 798	3 938	-	837 735
Total	**2 686 511**	**325 699**	**241 907**	**416 953**	**3 938**	**749**	**3 675 757**

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

Forbearance measures

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

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

Share of forborne exposures in the Bank's loan portfolio

	31.12.2015	31.12.2014
LOANS AND ADVANCES TO CUSTOMERS		
Exposures with no impairment, of which:	**116 049 828**	**108 637 120**
forborne exposures	369 929	430 768
Impaired exposures, of which:	**2 458 823**	**2 752 122**
forborne exposures	1 497 252	1 710 511
Total net carrying amount, of which:	**118 508 651**	**111 389 242**
forborne exposures	1 867 181	2 141 279

The quality analysis of forborne exposures

	31.12.2015	31.12.2014
Exposures with no impairment		
Gross carrying amount	383 764	471 267
IBNR provisions	(13 835)	(40 499)
Net carrying amount	**369 929**	**430 768**
Impaired exposures		
Gross carrying amount, of which:	2 912 211	2 858 150
exposures individually impaired	2 702 996	2 717 279
exposures collectively impaired	209 215	140 871
Allowances for impairment, of which:	(1 414 959)	(1 147 639)
exposures individually impaired	(1 320 652)	(1 065 476)
exposures collectively impaired	(94 307)	(82 163)
Net carrying amount	**1 497 252**	**1 710 511**
Total net carrying amount	**1 867 181**	**2 141 279**

The Bank holds the collaterals for forborne exposures amounting to PLN 822 701 thousand as at 31 December 2015 (PLN 1 228 049 thousand as at 31 December 2014).

Notes to the financial statements (cont.)

(In PLN thousand)

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

	31.12.2015	31.12.2014
Gross carrying amount of exposures with no impairment, of which:	**383 764**	**471 267**
- not past due	268 114	342 879
- up to 30 days	81 787	91 987
- between 30 days and 60 days	16 086	22 848
- above 60 days	17 777	13 553
IBNR provisions for exposures with no impairment, of which:	**(13 835)**	**(40 499)**
- not past due	(5 750)	(21 691)
- up to 30 days	(5 103)	(12 077)
- between 30 days and 60 days	(1 444)	(3 793)
- above 60 days	(1 538)	(2 938)
Gross carrying amount of impaired exposures, of which:	**2 912 211**	**2 858 150**
- not past due	577 025	610 881
- up to 1 month	32 642	47 492
- between 1 month and 3 months	27 496	107 409
- between 3 months and 1 year	112 103	651 006
- between 1 year and 5 years	2 117 636	1 434 364
- above 5 years	45 309	6 998
Allowances for impairment, of which:	**(1 414 959)**	**(1 147 639)**
- not past due	(202 974)	(198 862)
- up to 1 month	(9 744)	(12 309)
- between 1 month and 3 months	(7 307)	(63 280)
- between 3 months and 1 year	(39 981)	(225 414)
- between 1 year and 5 years	(1 117 675)	(641 166)
- above 5 years	(37 278)	(6 608)
Total net carrying amount	**1 867 181**	**2 141 279**

Changes in net carrying amount of forborne exposures

	2015	2014
Net carrying amount at the beginning	**2 141 279**	**1 932 336**
Amount of exposures recognized in the period	138 575	709 550
Amount of exposures derecognized in the period	(137 315)	(142 296)
Changes in impairment allowances	(215 813)	(164 031)
Other changes	(59 545)	(194 280)
Net carrying amount at the end	**1 867 181**	**2 141 279**
Interest income	163 945	197 829

Forborne exposures by type of forbearance activity

	31.12.2015	31.12.2014
Modification of terms and conditions	3 100 908	3 137 806
Refinancing	195 067	191 611
Total gross carrying amount	**3 295 975**	**3 329 417**
Impairment allowances	(1 428 794)	(1 188 138)
Total net carrying amount	**1 867 181**	**2 141 279**

Notes to the financial statements (cont.)

(In PLN thousand)

Forborne exposures by product type

	31.12.2015	31.12.2014
Mortgage loans	538 102	464 163
Current accounts	301 434	332 691
Operating loans	890 578	583 040
Investment loans	1 335 790	1 467 691
Purchased debt receivables	1 061	266 330
Other loans and advances	229 010	215 502
Total gross carrying amount	**3 295 975**	**3 329 417**
Impairment allowances	(1 428 794)	(1 188 138)
Total net carrying amount	**1 867 181**	**2 141 279**

Forborne exposures by industrial sectors

	31.12.2015	31.12.2014
Corporations	2 754 897	2 826 612
Manufacturing	703 030	670 068
Construction	615 690	654 406
Real estate activities	451 742	485 099
Professional, scientific and technical activities	521 685	475 414
Accommodation and food service activities	201 675	206 707
Wholesale and retail trade	117 919	150 748
Mining and quarrying	76 346	71 658
Transportation and storage	51 201	51 361
Agriculture, forestry and fishing	2 809	45 055
Other sectors	12 800	16 096
Individuals	541 078	502 805
Total gross carrying amount	**3 295 975**	**3 329 417**
Impairment allowances	(1 428 794)	(1 188 138)
Total net carrying amount	**1 867 181**	**2 141 279**

Forborne exposures by geographical structure

	31.12.2015	31.12.2014
Poland	2 984 333	3 063 666
Ukraine	292 314	254 098
Cyprus	18 503	10 880
Other countries	825	773
Total gross carrying amount	**3 295 975**	**3 329 417**
Impairment allowances	(1 428 794)	(1 188 138)
Total net carrying amount	**1 867 181**	**2 141 279**

(In PLN thousand)

Credit risk concentration

According to the current legislation the total exposure of the 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 the Bank's equity. In 2015 the maximum exposure limits were not exceeded.

a) Breakdown by individual entities:

As at 31.12.2015

EXPOSURE TO 10 LARGERST CLIENTS OF THE BANK	% SHARE OF PORTFOLIO
Client 1	2.0%
Client 2	1.6%
Client 3	1.2%
Client 4	1.2%
Client 5	0.9%
Client 6	0.8%
Client 7	0.8%
Client 8	0.7%
Client 9	0.6%
Client 10	0.6%
Total	**10.4%**

b) Concentration by capital groups:

As at 31.12.2015

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE BANK	% SHARE OF PORTFOLIO
Group 1	5.1%
Group 2	1.9%
Group 3	1.4%
Group 4	1.4%
Group 5	1.3%
Total	**11.1%**

c) Breakdown by industrial sectors:

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

The table below presents the structure of exposures by industrial sectors

SECTOR DESCRIPTION	31.12.2015	31.12.2014
Wholesale and retail trade; repair of motor vehicles	14.0%	13.3%
Financial and insurance activities	12.1%	13.1%
Public administration and defence	11.1%	12.2%
Real estate activities	9.9%	10.0%
Electricity, gas, steam	8.7%	9.2%
Transportation and storage	6.4%	6.1%
Construction	6.0%	4.9%
Mining and quarrying	4.4%	4.0%
Manufacture of metals, metal products and machinery	3.8%	3.7%
Manufacture of beverages and food products	3.6%	2.9%
Manufacture of coke, rafined petroleum products, chemicals and pharmaceutical products	2.9%	2.8%
Information and communication	2.7%	5.0%
Manufacture of rubber, plastic and non-metalic products	1.9%	1.8%
Other manufacturing	4.7%	3.9%
Other sectors	7.8%	7.1%
Total	**100.0%**	**100.0%**

CHF loans to individuals

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

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

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

Gross and net amount of CHF loans to individuals

	31.12.2015	31.12.2014
Gross carrying amount, of which:	**4 345 778**	**4 387 369**
- denominated in CHF	545 898	553 832
- indexed to CHF	3 799 880	3 833 537
Impairment allowances, of which:	**(76 261)**	**(168 233)**
- denominated in CHF	(6 761)	(14 720)
- indexed to CHF	(69 500)	(153 513)
Net carrying amount, of which:	**4 269 517**	**4 219 136**
- denominated in CHF	539 137	539 112
- indexed to CHF	3 730 380	3 680 024

Notes to the financial statements (cont.)

(In PLN thousand)

Quality of CHF loans to individuals

	31.12.2015	31.12.2014
Gross carrying amount of exposures with no impairment, of which:	**4 207 082**	**4 186 602**
- not past due	3 900 096	3 858 855
- up to 30 days	248 348	270 770
- between 30 days and 60 days	35 794	41 936
- above 60 days	22 844	15 041
IBNR provisions for exposures with no impairment, of which:	**(12 045)**	**(31 015)**
- not past due	(4 764)	(12 286)
- up to 30 days	(4 629)	(12 716)
- between 30 days and 60 days	(1 373)	(4 026)
- above 60 days	(1 279)	(1 987)
Gross carrying amount of impaired exposures, of which:	**138 696**	**200 767**
- not past due	21 714	12 024
- up to 1 month	7 802	8 064
- between 1 month and 3 months	9 211	11 839
- between 3 months and 1 year	21 791	23 473
- between 1 year and 5 years	49 798	74 085
- above 5 years	28 380	71 282
Allowances for impairment, of which:	**(64 216)**	**(137 218)**
- not past due	(4 149)	(5 117)
- up to 1 month	(1 432)	(3 362)
- between 1 month and 3 months	(1 764)	(5 150)
- between 3 months and 1 year	(6 013)	(12 011)
- between 1 year and 5 years	(27 878)	(50 475)
- above 5 years	(22 980)	(61 103)
Total net carrying amount	**4 269 517**	**4 219 136**

The average LTV for CHF loans to individuals granted by the Bank amounted as of 31 December 2015 to 55.7%, with an average LTV for the whole portfolio of 66.6%.

(In PLN thousand)

Credit exposures towards Ukraine

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

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

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

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

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

5.3 Market risk

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Market risk of the trading book

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

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

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

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

	31.12.2015	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	54	15	203	1 674
interest rate risk	1 176	676	1 175	2 103
Trading portfolio	1 153	652	1 212	2 096

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

Interest rate risk of the banking book

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

The table below presents the sensitivity levels of the interest income (NII) to interest rate change by 100 b.p. and of economic value of the Bank's equity (EVE) to interest rate change by 200 b.p. for the end of December 2015 and December 2014, assuming perfect elasticity of the Bank's administrated rates to the markets rates changes, accounting for behavioral factors important in the low-interest rate environment, (e.g. for deposits in current accounts in PLN, for which the Bank applies the model adjusting the profile of product's revaluation) and parallel changes in Central Bank's interest rates. The measure includes all factors hedgeable for that Bank. The dynamics of the sensitivity of interest income is driven by the low level of interest rates at the end of 2015 and the potential impact of their further lowering on the interest income of the Bank.

SENSITIVITY IN %	31.12.2015	31.12.2014
NII	(11.22)	(12.33)
EVE	(0.9)	(0.21)

Notes to the financial statements (cont.)

(In PLN thousand)

Currency risk

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

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

	31.12.2015	31.12.2014
Currencies total (*)	1 546	387

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

Currency exposure of the Bank

31.12.2015	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVETIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	17 386 670	16 571 468	11 212 116	11 841 778	185 540
USD	6 282 902	8 284 937	7 084 286	5 116 062	(33 811)
CHF	4 395 108	625 085	3 873 514	7 646 006	(2 469)
GBP	317 523	708 101	622 872	232 423	(129)
CZK	37 732	16 591	183 225	204 259	107
Other currencies	273 982	161 448	73 793	183 113	3 214
TOTAL	**28 693 917**	**26 367 630**	**23 049 806**	**25 223 641**	**152 452**

31.12.2014	BALANCE SHEET OPERATIONS		OFF-BALANCE SHEET OPERATIONS DERIVETIVES		NET POSITION
	ASSETS	LIABILITIES	LONG POSITION	SHORT POSITION	
EUR	17 916 825	14 028 466	11 553 560	15 448 176	(6 257)
USD	7 422 609	7 133 475	8 568 415	8 841 210	16 339
CHF	4 333 885	587 160	3 363 733	7 111 111	(653)
GBP	215 730	611 117	546 896	151 798	(289)
CZK	224 478	35 356	3 109	191 907	324
Other currencies	223 738	97 753	201 698	324 630	3 053
TOTAL	**30 337 265**	**22 493 327**	**24 237 411**	**32 068 832**	**12 517**

The amount of the net long position in EUR (equivalent of PLN 185 540 thousand) as at 31 December 2015 mainly results from the recognition of the fair value valuation of shares in Visa Europe (Note 28) in the amount of EUR 40 866 611 (equivalent of PLN 174 153 thousand). The foreign currency position from the valuation of shares in Visa Europe was closed on January 2016.

Notes to the financial statements (cont.)

(In PLN thousand)

5.4 Liquidity risk

The objective of liquidity risk management is to:

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

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Structure of financial liabilities by contractual maturity

31.12.2015	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	1 630 926	1 064 802	102 628	58 364	1 803 401	4 660 121
Amounts due to customers	96 842 154	12 010 093	18 135 632	2 772 088	47 014	129 806 981
Debt securities issued	336 199	1 026 371	312 056	-	-	1 674 626
Financial liabilities held for trading	-	-	170 729	382 663	58 050	611 442
Total	**98 809 279**	**14 101 266**	**18 721 045**	**3 213 115**	**1 908 465**	**136 753 170**
OFF-BALANCE SHEET COMMITMENTS (**)						
Off-balance sheet commitments Financial liabilities granted	30 670 749	-	-	-	-	30 670 749
Off-balance sheet commitments Guarantees liabilities granted	15 649 822	-	-	-	-	15 649 822
Total	**46 320 571**	**-**	**-**	**-**	**-**	**46 320 571**

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Adjusted liquidity gap

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

Adjusted liquidity gap

31.12.2015	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	37 931 338	6 599 290	26 495 885	47 852 283	46 881 874	165 760 670
Balance sheet liabilities	15 408 998	8 976 969	19 324 880	18 337 767	103 712 056	165 760 670
Off-balance sheet assets/liabilities (net)	(6 851 754)	552 566	1 380 878	2 502 994	1 272 352	(1 142 964)
Periodic gap	**15 670 586**	**(1 825 113)**	**8 551 883**	**32 017 510**	**(55 557 830)**	**(1 142 964)**
Cumulated gap	**-**	**13 845 473**	**22 397 356**	**54 414 866**	**(1 142 964)**	**-**

31.12.2014	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Balance sheet assets	46 612 484	6 281 072	22 150 557	47 403 827	41 874 891	164 322 831
Balance sheet liabilities	33 100 818	9 425 768	15 729 495	28 832 002	77 234 748	164 322 831
Off-balance sheet assets/liabilities (net)	(7 745 225)	(556 616)	3 028 758	2 717 568	1 640 605	(914 910)
Periodic gap	**5 766 441**	**(3 701 312)**	**9 449 820**	**21 289 393**	**(33 719 252)**	**(914 910)**
Cumulated gap	**-**	**2 065 129**	**11 514 949**	**32 804 342**	**(914 910)**	**-**

Off-balance derivative transactions

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

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

- Interest Rate Swaps (IRS),
- Forward Rate Agreements (FRA),
- Foreign currency options and for gold,
- Interest rate options (Cap/Floor),
- Transactions based on equity securities and stock indexes,
- Transactions based on commodities and precious metals.

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

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

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2015	70 648	104 854	151 484	2 007 423	885 750	**3 220 159**
31.12.2014	109 831	66 827	157 414	2 488 669	1 598 823	**4 421 564**

Notes to the financial statements (cont.)

(In PLN thousand)

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2015						
Inflows	16 897 467	6 290 357	7 630 140	8 964 518	3 157 573	**42 940 055**
Outflows	16 902 790	6 249 486	7 698 215	9 738 223	3 477 001	**44 065 715**
31.12.2014						
Inflows	20 531 975	11 645 192	5 339 427	8 365 126	3 000 995	**48 882 715**
outflows	20 517 653	11 635 627	5 451 489	9 091 869	3 084 889	**49 781 527**

5.5 Operational risk

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

Operational risk management is based on internal procedures that are consistent with the law requirements, resolutions, recommendations and guidelines of the supervisor, and the standards of UniCredit Group. Operational risk management includes identification, assessment, monitoring, preventing and reporting.

Identification and assessment of operational risk is based on an analysis of internal factors and external factors that may have a significant impact on the achievement of the objectives of the Bank. The main tools used in identifying and assessing operational risk are: internal operational events, external operational events, key risk indicators, scenario analysis and self-assessment of operational risk.

Monitoring activities are conducted on three levels of control: operational control (all employees), risk management control (Financial and Operational Risk Management Department) and internal audit (Internal Audit Department). Preventing operational risk includes definition of operational risk limits, and the obligation to initiate mitigation actions in case they are exceeded, the system of internal control, business continuity plans and insurance coverage.

Operational risk reporting system enables the assessment of the Bank's exposure to operational risk and the effective management of this risk, and also plays a fundamental role in the process of informing the Supervisory Board, the Management Board and executives of the Bank's exposure to operational risk. It is based in particular on the quarterly reports on operational risk control that include, among others: profile of operational risk, loss limit utilization, analysis of trends in the relevant categories of operational risk, potential losses, information on key indicators of operational risk and operational risk capital requirement.

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

OPERATING EVENTS BY CATEGORIES	2015	2014
Internal frauds	20.58%	36.65%
External frauds	4.78%	24.73%
Employment practices and workplace safety	0.64%	4.66%
Clients, products and business practices Execution, delivery and process management	60.11%	14.77%
Damages to physical assets	4.72%	8.94%
Business disruption and system failures	0.72%	0.61%
Execution, delivery and process management	8.45%	9.64%
Total	**100.00%**	**100.00%**

In 2015, operating losses were dominated by events of category clients, products and business practices, which accounted for 60.11% of total losses (14.77% in 2014). The second category of high losses was internal frauds, representing 20.58% of the total losses (36.65% in 2014), while the third category - execution, delivery and process management accounted for 8.45% of all registered losses (9.64% in 2014).

5.6 Capital management

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Regulatory capital requirements

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

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

As at 31 December 2015 total capital ratio of the Bank amounted at 18.2% (as at 31 December 2014 – 17.1%).

	31.12.2015	31.12.2014
CAPITAL REQUIREMENTS		
Credit and counterparty risk including CVA	8 082 198	8 337 734
Market risk	61 806	195 446
Operational risk	483 369	611 214
Total capital requirement	**8 627 373**	**9 144 394**
OWN FUNDS		
Common Equity Tier 1 capital	19 623 799	19 520 024
Own funds for total capital ratio	**19 623 799**	**19 520 024**
OWN FUNDS REQUIREMENTS		
Common Equity Tier 1 capital ratio (%)	**18.2%**	**17.1%**
Total capital ratio (%)	**18.2%**	**17.1%**

Total Capital Ratio at the end of December 2015 compared with December 2014 increased by 1.1 pp., total capital requirement decreased during this period by 5.7% and own funds increased by 0.5%.

Total capital requirement decreased in 2015 as a result of decrease of capital requirements for all risks.

The strengthening of the Bank'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.

For the purpose of capital requirement calculation the Bank uses:

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

Notes to the financial statements (cont.)

(In PLN thousand)

Own funds

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

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

	31.12.2015	31.12.2014
OWN FUNDS		
Capital	**22 794 403**	**23 387 243**
Component of the capital not included into own funds, in which:	**(2 290 398)**	**(2 662 266)**
Current year net profit	(2 290 398)	(2 662 266)
Regulatory adjustments, in which:	**(880 206)**	**(1 204 953)**
Intangible assets	(545 449)	(535 641)
Cash flow hedges	(36 678)	(112 283)
Unrealised loss from debt and capital instruments available for sale	-	3 279
Unrealised gain from debt and capital instruments available for sale	(266 870)	(525 304)
Additional value adjustments due to prudent calculation	(31 209)	(35 004)
Common Equity Tier 1 capital	**19 623 799**	**19 520 024**
Own funds for total capital ratio	**19 623 799**	**19 520 024**

Components of capital not included into own funds:

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

Regulatory adjustments:

- intangible assets (after deduction of related deferred tax liabilities) decrease Common Equity Tier 1 capital, according to Article 36 of Regulation No 575/2013,
- capital from revaluation reflects fair value of cash flow hedges is not included in any element of own funds, according to Article 33 of Regulation No 575/2013,
- unrealised losses from debt and capital instruments classified as available for sale according to Article 467 of Regulation No 575/2013 and Article 171a. Banking Act, decrease Common Equity Tier 1 capital in 100%,
- unrealised gains from debt and capital instruments classified as available for sale according to Article 468 of Regulation No 575/2013 and Article 171a. Banking Act are included in 40% to Common Equity Tier 1 capital,
- additional value adjustments due to prudent valuation are created for every asset measured at fair value, according to Article 34 of Regulation No 575/2013.

Notes to the financial statements (cont.)

(In PLN thousand)

Internal capital adequacy assessment

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

The Bank takes the following risk types into consideration:

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

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

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

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

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

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

5.7 Fair value of financial assets and liabilities

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2015	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:	**15 837 791**	**6 174 061**	**480 779**	**22 492 631**
Financial assets held for trading	934 688	134 916	47 389	1 116 993
Derivative financial instruments, including:	-	3 253 174	943	3 254 117
- Banks	-	2 686 511	-	2 686 511
- Customers	-	566 663	943	567 606
Hedging instruments, including:	-	421 640	-	421 640
- Banks	-	416 953	-	416 953
- Customers	-	4 687	-	4 687
Securities available for sale	14 903 103	2 364 331	432 447	17 699 881
Liabilities:	**611 442**	**4 904 557**	**-**	**5 515 999**
Financial liabilities held for trading	611 442	-	-	611 442
Derivative financial instruments, including:	-	3 201 798	-	3 201 798
- Banks	-	2 745 250	-	2 745 250
- Customers	-	456 548	-	456 548
Hedging instruments, including:	-	1 702 759	-	1 702 759
- Banks	-	1 702 759	-	1 702 759
- Customers	-	-	-	-

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

2015	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE	DERIVATIVE FINANCIAL INSTRUMENTS (LIABILITIES)
Opening balance	**164 408**	**2 967**	**254 781**	**-**
Increases, including:	11 252 515	1 942	185 543	-
Reclassification	-	1 942	313	-
Acquisition	11 248 756	-	-	-
Derivatives transactions made in 2015	-	-	-	-
Gains on financial instruments	3 759	-	185 230	-
recognized in the income statement	3 759	-	11 077	-
recognized in revaluation reserves	-	-	174 153	-
Decreases, including:	(11 369 534)	(3 966)	(7 877)	-
Reclassification	(57 063)	(2 967)	-	-
Settlement/redemption	(435 186)	(891)	(7 877)	-
Sale	(10 877 110)	-	-	-
Losses on financial instruments	(175)	(108)	-	-
recognized in the income statement	(175)	(108)	-	-
Closing balance	**47 389**	**943**	**432 447**	**-**
Unrealized income from financial instruments held in portfolio at the end of the period, recognized in:	**(63)**	**(108)**	**2 674**	**-**
Income statement:	108	(108)	268	**-**
net interest income	108	-	268	-
result on financial assets and liabilities held for trading	-	(108)	-	-
Other comprehensive income	(171)	-	2 406	-

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

Transfers from Level 2 to 3 takes place if observable valuation parameter is changed to an unobservable one or if a new unobservable parameter is applied, provided the change results in significant impact on the valuation of instrument.

Transfer from Level 3 to Level 2 takes place if unobservable valuation parameter is changed to an observable one, or the impact of unobservable parameter becomes insignificant. The transfers between levels take place on date and at the end of the reporting period.

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

31.12.2015	CARRYING AMOUNT	FAIR VALUE	OF WHICH:		
			LEVEL 1	LEVEL 2	LEVEL 3
ASSETS					
Cash and due from Central Bank	7 881 598	7 881 598	2 951 405	4 930 193	-
Receivables from banks	7 512 226	7 508 581	-	5 360 090	2 148 491
Loans and advances to customers (*)	118 508 652	116 567 135	-	10 936 692	105 630 443
Debt securities held to maturity	3 290 061	3 301 580	2 430 407	871 173	-
Total assets	**137 192 537**	**135 258 894**	**5 381 812**	**22 098 148**	**107 778 934**
LIABILITIES					
Amounts due to Central Bank	914	928	-	-	928
Amounts due to other banks	4 553 114	4 602 708	-	1 182 111	3 420 597
Amounts due to customers	129 256 866	128 894 955	-	4 468 820	124 426 135
Debt securities issued	1 668 706	1 669 266	-	1 669 266	-
Total liabilities	**135 479 600**	**135 167 857**	**-**	**7 320 197**	**127 847 660**

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

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

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

(In PLN thousand)

6. Custody activity

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

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

7. Brokerage activity

Bank Pekao S.A. provides access to a wide range of the capital market services and products offered by the separated organizational unit of the Bank – Dom Maklerski Pekao.

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

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

The activities of Dom Maklerski Pekao conform to the Good Practices Code of Brokerage Firm guaranteeing comprehensive services in accordance with highest ethics standards and is a member of the Chamber of Brokerage Houses.

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

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

	31.12.2015		31.12.2014	
	QUANTITY (PCS)	VALUE	QUANTITY (PCS)	VALUE
CLIENTS' FINANCIAL INSTRUMENTS				
Held on securities accounts	769 593 829	2 331 575	838 209 498	2 466 533
Equity securities and rights to such financial assets	769 236 096	2 256 557	837 768 420	2 364 384
Debt instruments and rights to such financial assets	357 733	75 018	441 078	102 149

Notes to the financial statements (cont.)

(In PLN thousand)

Customers' cash on brokerage accounts

	31.12.2015	31.12.2014
Deposited on cash accounts in brokerage house and paid for securities bought in IPO or on the primary market	248 033	229 624
Other customers' cash	16 279	16 808
Total	**264 312**	**246 432**

Settlements due to unsettled transactions

	31.12.2015	31.12.2014
Receivables from executed transactions	-	28
Liabilities from executed transactions	2 206	-

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

	31.12.2015	31.12.2014
Receivables from clearing fund	1 296	1 326
Receivables from margin deposits	10 785	11 041
Other receivables	63	83
Total receivables	**12 144**	**12 450**
Amounts due to clearing fund	-	-
Amounts due on margin deposits	-	-
Other liabilities	-	116
Total liabilities	**-**	**116**

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

	31.12.2015	31.12.2014
Receivables from compensation fund	367	320
Prepaid expenses - system maintenance payments	85	59
Deferred income - benefits from system	(452)	(379)
Total net balance sheet items concerning participation In the compensation fund	**-**	**-**

Settlements with entities running regulated securities markets and commodity exchanges

	31.12.2015	31.12.2014
Amounts due to Warsaw Stock Exchange	-	76
Total liabilities	**-**	**76**

Notes to the financial statements (cont.)

(In PLN thousand)

8. Interest income and expense

Interest income

	2015	2014
Loans and other receivables from customers	4 259 049	4 815 229
Interbank placements	102 935	144 205
Reverse repo transactions	77 626	97 559
Investment securities	696 343	833 850
Hedging derivatives	150 934	137 056
Financial assets held for trading	14 572	10 928
Total	**5 301 459**	**6 038 827**

Interest income for 2015 includes income from impaired financial assets in the amount of PLN 291 257 thousand (in 2014 PLN 312 691 thousand).

Total amount of interest income for 2015, measured at amortized cost using the effective interest rate method which applies to financial assets not measured at fair value through profit or loss amounted to PLN 3 557 535 thousand (in 2014 PLN 3 902 940 thousand).

Interest expense

	2015	2014
Deposits from customers	(1 105 058)	(1 522 981)
Interbank deposits	(23 442)	(25 571)
Repo transactions	(59 166)	(80 048)
Loans and advances received	(15 306)	(16 788)
Debt securities issued	(58 864)	(58 935)
Total	**(1 261 836)**	**(1 704 323)**

Total amount of interest expense for 2015, measured at amortized cost using the effective interest rate method with reference to financial liabilities, which are not valued at fair value through profit or loss amounted to PLN 1 067 153 thousand (in 2014 PLN 1 420 093 thousand).

Notes to the financial statements (cont.)

(In PLN thousand)

9. Fee and commission income and expense

Fee and commission income

	2015	2014
Accounts maintenance, payment orders and cash transactions	653 242	679 545
Payment cards	693 095	827 460
Loans and advances	412 852	414 168
Investment products sales intermediation	210 178	205 513
Securities operations	13 441	14 931
Custody activity	69 519	63 867
Guarantees, letters of credit and similar transactions	51 656	50 041
Other	38 654	73 767
Total	**2 142 637**	**2 329 292**

Fee and commission expense

	2015	2014
Payment cards	(322 424)	(423 821)
Money orders and transfers	(21 705)	(20 793)
Securities operations and other financial instruments	(11 703)	(18 742)
Custody activity	(13 388)	(12 754)
Acquisition services	(18 000)	(16 186)
Accounts maintenance	(4 250)	(3 314)
Other	(652)	(1 194)
Total	**(392 122)**	**(496 804)**

10. Dividend income

	2015	2014
From subsidiaries	139 119	90 312
From associates	58 429	54 946
From other entities	13 061	8 290
Total	**210 609**	**153 548**

11. Result on financial assets and liabilities held for trading

	2015	2014
Foreign currency exchange result	363 807	358 609
Gains (losses) on derivatives	49 437	65 369
Gains (losses) on securities	5 262	7 490
Total	**418 506**	**431 468**

In 2015, the total change in the fair value of financial instruments valued at fair value through profit or loss, determined with the use of valuation techniques (when no published quotations from active markets are available) amounted to PLN 56 111 thousand (in 2014 PLN 69 193 thousand).

(In PLN thousand)

12. Gains (losses) on disposal

Realized gains

	2015	2014
Loans and other financial receivables	534	18 579
Available for sale financial assets – debt instruments	229 592	243 836
Available for sale financial assets – equity instruments	-	9 100
Debt securities issued	6	6
Total	**230 132**	**271 521**

Realized losses

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

Net realized profit	**229 601**	**271 413**

The change in fair value of financial assets available for sale referred in 2015 directly to equity amounted to PLN 7 526 thousand (decrease), in 2014 PLN 725 884 thousand (increase).

The change in fair value of financial assets, related in 2015 from equity to financial income amounted to PLN 229 551 thousand (profit), in 2014 PLN 243 758 thousand (profit).

13. Administrative expenses

Personnel expenses

	2015	2014
Wages and salaries	(1 448 680)	(1 453 229)
Insurance and other charges related to employees	(264 167)	(263 860)
Share-based payments expense	(6 243)	(13 065)
Total	**(1 719 090)**	**(1 730 154)**

Other administrative expenses

	2015	2014
General expenses	(913 392)	(1 002 683)
Taxes and charges (*)	(57 919)	(35 027)
Bank Guarantee Fund fee (**)	(507 190)	(136 718)
Financial supervision authority fee (KNF)	(17 131)	(16 023)
Total	**(1 495 632)**	**(1 190 451)**

Total administrative expenses	**(3 214 722)**	**(2 920 605)**

(*) In this the amount of PLN 21 986 thousand representing the cost of provision for the contribution to the Borrowers Support Fund.

(**) In this the amount of PLN 234 059 thousand contributed by the Bank to BFG for the purpose of payments of the funds guaranteed to the depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie.

Notes to the financial statements (cont.)

(In PLN thousand)

14. Depreciation and amortization

	2015	2014
Property, plant and equipment	(169 044)	(183 442)
Investment property	(1 022)	(1 152)
Intangible assets	(142 154)	(123 790)
Total	**(312 220)**	**(308 384)**

15. Net other operating income and expenses

Other operating income

	2015	2014
Rental income	24 272	25 209
Miscellaneous income	14 574	16 644
Credit insurance charges	227	21 643
Recovery of debt collection costs	15 960	17 231
Excess payments, repayments	7 860	10 003
Compensation, penalty fees and fines received (including received compensations from damages in relation to fixed assets)	114 760	7 264
Refunding of administrative expenses	5 086	5 658
Income from written-off liabilities	3 812	680
Releases of impairment allowances for litigation and other assets	444	326
Other	4 946	3 071
Total	**191 941**	**107 729**

Other operating expenses

	2015	2014
Credit insurance expense	(10 101)	(26 138)
Reimbursement and deficiencies	(4 076)	(5 515)
Miscellaneous expense	(12 285)	(14 631)
Customers complaints expense	(2 285)	(2 567)
Impairment allowances for litigation and other assets	(6 840)	(9 815)
Costs of litigation and claims	(2 130)	(1 898)
Compensation, penalty fees and fines paid	(503)	(169)
Other	(11 004)	(12 817)
Total	**(49 224)**	**(73 550)**

Net other operating income and expenses	**142 717**	**34 179**

Notes to the financial statements (cont.)

(In PLN thousand)

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

2015	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT(**)
		IMPARIMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPARIMENT CHARGES	OTHER (*)		
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks valued at amortized cost	19 518	684	1 541	-	(409)	(941)	20 393	(275)
Loans and advances to customers valued at amortized cost	5 531 256	1 138 308	99 627	(441 064)	(629 234)	(67 991)	5 630 902	(509 074)
Financial assets available for sale	100	-	-	-	-	-	100	-
Off-balance sheet commitments	105 147	72 665	1 182	-	(54 411)	-	124 583	(18 254)
Total financial assets and off-balance sheet commitments	**5 656 021**	**1 211 657**	**102 350**	**(441 064)**	**(684 054)**	**(68 932)**	**5 775 978**	**(527 603)**
Impairment of other assets								
Investments in subsidiaries and associates	51 476	24 000	-	-	-	(1 571)	73 905	(24 000)
Intangible assets	10 961	-	-	-	-	-	10 961	-
Property, plant and equipment	6 591	610	1 569	(152)	-	(243)	8 375	(610)
Investment properties	2 530	-	-	-	-	-	2 530	-
Other	70 451	6 840	73	(991)	(444)	(2 002)	73 927	(6 396)
Total impairment of other assets	**142 009**	**31 450**	**1 642**	**(1 143)**	**(444)**	**(3 816)**	**169 698**	**(31 006)**
Total	**5 798 030**	**1 243 107**	**103 992**	**(442 207)**	**(684 498)**	**(72 748)**	**5 945 676**	**(558 609)**

(*) Including foreign exchange differences and transfers between positions.
(**) 'Impairment of financial assets and off-balance sheet commitments' includes net impairment in the amount of PLN minus 527 603 thousand and proceeds from recovered bad debt in the amount of PLN 13 625 thousand, the total is PLN minus 513 978 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

2014	OPENING BALANCE	INCREASES			DECREASES			CLOSING BALANCE	IMPACT ON INCOME STATEMENT(**)
		BUSINESS COMBINATIONS	IMPARIMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPARIMENT CHARGES	OTHER (*)		
Impairment of financial assets and off-balance sheet commitments									
Loans and advances to banks valued at amortized cost	25 721	-	610	1 176	-	(7 779)	(210)	19 518	7 169
Loans and advances to customers valued at amortized cost	4 975 164	229 996	1 139 906	41 103	(202 093)	(572 311)	(80 509)	5 531 256	(567 595)
Financial assets available for sale	101	-	-	-	-	-	(1)	100	-
Off-balance sheet commitments	116 874	-	67 469	709	-	(79 905)	-	105 147	12 436
Total financial assets and off-balance sheet commitments	**5 117 860**	**229 996**	**1 207 985**	**42 988**	**(202 093)**	**(659 995)**	**(80 720)**	**5 656 021**	**(547 990)**
Impairment of other assets:									
Investments in subsidiaries and associates	54 482	-	-	-	-	-	(3 006)	51 476	-
Intangible assets	10 961	-	-	-	-	-	-	10 961	-
Property, plant and equipment	6 753	-	-	-	-	-	(162)	6 591	-
Investment properties	3 080	-	-	-	-	-	(550)	2 530	-
Other	63 273	-	9 815	147	(1 124)	(326)	(1 334)	70 451	(9 489)
Total impairment of other assets	**138 549**	**-**	**9 815**	**147**	**(1 124)**	**(326)**	**(5 052)**	**142 009**	**(9 489)**
Total	**5 256 409**	**229 996**	**1 217 800**	**43 135**	**(203 217)**	**(660 321)**	**(85 772)**	**5 798 030**	**(557 479)**

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

Notes to the financial statements (cont.)

(In PLN thousand)

17. Gains (losses) on subsidiaries and associates

	2015	2014
Gain from liquidation of shares in subsidiaries	2 390	-
Gain from disposal of shares in associates	73 437	-
Impairment on investments in subsidiaries	(24 000)	-
Total gains (losses) on subsidiaries and associates	**51 827**	**-**

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

	2015	2014
Gains (losses) on disposal of property, plant and equipment classified as assets held for sale	-	561
Gains (losses) on de-recognition of property, plant and equipment and intangible assets other than classified as assets held for sale	12 106	930
Total gains (losses) on disposal of property plant and equipment and intangible assets	**12 106**	**1 491**

19. Income tax

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

	2015	2014
Profit before income tax	**2 791 555**	**3 270 105**
Tax charge according to applicable tax rate 19%	**530 395**	**621 320**
Permanent differences:	**(29 238)**	**(13 481)**
Non taxable income	(58 891)	(39 941)
Non tax deductible costs	32 417	26 374
Impact of other tax rates applied under a different tax jurisdiction	-	-
Tax relieves not included in the income statement	185	111
Other	(2 949)	(25)
Effective income tax charge on gross profit	**501 157**	**607 839**

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

	2015	2014
INCOME STATEMENT		
Current tax	**(451 913)**	**(717 740)**
Current tax charge in the income statement	(471 567)	(721 668)
Adjustments related to the current tax from previous years	22 400	7 433
Other taxes (e.g. withholding tax, income tax relating to foreign branch)	(2 746)	(3 505)
Deferred tax	**(49 244)**	**109 901**
Occurrence and reversal of temporary differences	(49 244)	109 901
Tax charge in the Bank's income statement	**(501 157)**	**(607 839)**
EQUITY		
Deferred tax	**60 371**	**(115 145)**
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments, used as cash flows hedges	17 735	(31 941)
revaluation of available for sale financial assets – debt securities	84 452	(92 969)
revaluation of available for sale financial assets – equity securities	(39 407)	1 365
Tax on items that are or may be reclassified subsequently to profit or loss	**62 780**	**(123 545)**
Tax charge on items that will never be reclassified to profit or loss	**(2 409)**	**8 400**
revaluation of the defined benefit liabilities	(2 409)	8 400
Total tax charge	**(440 786)**	**(722 984)**

Notes to the financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2015							
	OPENING BALANCE			CHANGES RECOGNIZED IN		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	THE INCOME STATEMENT	IN EQUITY	TOTAL DEFERRED TAX	THE INCOME STATEMENT	IN EQUITY
DEFFERED TAX LIABILITY								
Accrued income – securities	-	-	-	-	-	-	-	-
Accrued income – loans	98 302	98 302	-	22 858	-	121 160	121 160	-
Change in revaluation of financial assets	255 151	109 439	145 712	(93 638)	(62 780)	98 733	15 801	82 932
Accelerated depreciation	123 321	123 321	-	(1 856)	-	121 465	121 465	-
Investment relief	5 475	5 475	-	(661)	-	4 814	4 814	-
Other	88 792	88 792	-	(3 047)	-	85 745	85 745	-
Gross deferred tax liability	**571 041**	**425 329**	**145 712**	**(76 344)**	**(62 780)**	**431 917**	**348 985**	**82 932**
DEFFERED TAX ASSET								
Accrued expenses - securities	96 217	96 217	-	(74 133)	-	22 084	22 084	-
Accrued expenses - deposits and loans	40 395	40 395	-	4 820	-	45 215	45 215	-
Downward revaluation of financial assets	298 267	298 267	-	(44 040)	-	254 227	254 227	-
Income received to be amortized over time from loans and current accounts	155 404	155 404	-	17 807	-	173 211	173 211	-
Loan provisions charges	491 745	491 745	-	(27 454)	-	464 291	464 291	-
Personnel related provisions	100 011	81 105	18 906	10 573	(2 409)	108 175	91 678	16 497
Accruals	20 001	20 001	-	(6 479)	-	13 522	13 522	-
Previous year losses	-	-	-	-	-	-	-	-
Other	41 498	41 498	-	(6 682)	-	34 816	34 816	-
Gross deferred tax asset	**1 243 538**	**1 224 632**	**18 906**	**(125 588)**	**(2 409)**	**1 115 541**	**1 099 044**	**16 497**
Deferred tax charge	**x**	**x**	**x**	**(49 244)**	**60 371**	**x**	**x**	**x**
Net deferred tax assets	**672 497**	**799 303**	**(126 806)**	**x**	**x**	**683 624**	**750 059**	**(66 435)**
Net deferred tax provision	**-**	**-**	**-**	**x**	**x**	**-**	**-**	**-**

Notes to the financial statements (cont.)

(In PLN thousand)

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

(In PLN thousand)

In the opinion of the Bank the deferred tax asset in the amount of PLN 683 624 thousand reported as at 31 December 2015 is sustainable in total amount. The analysis was performed based on the past results of the company and assumed results in the future periods. The analysis assumed the five years' time horizon.

As at 31 December 2015 and 31 December 2014, there were no temporary differences related to investments in subsidiaries and associates, for which deferred tax liability was not created as a result of meeting the conditions of controlling the terms of temporary differences' reversing and being probable that these differences will not reverse in foreseeable future.

As at 31 December 2015 and 31 December 2014, there were no temporary differences, unused tax losses and unused tax relieves which were not included in the deferred tax assets.

20. Earnings per share

Basic earnings per share

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

	2015	2014
Net profit	2 290 398	2 662 266
Weighted average number of ordinary shares in the period	262 470 034	262 470 034
Earnings per share (in PLN per share)	8.73	10.14

Diluted earnings per share

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

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

	2015	2014
Net profit	2 290 398	2 662 266
Weighted average number of ordinary shares in the period	262 470 034	262 470 034
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 470 034	262 470 034
Diluted earnings per share (in PLN per share)	8.73	10.14

21. Dividend proposal

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

22. Cash and balances with Central Bank

CASH AND DUE FROM CENTRAL BANK	31.12.2015	31.12.2014
Cash	2 951 405	3 399 331
Current account at Central Bank	4 930 181	5 826 906
Other	12	12
Total	**7 881 598**	**9 226 249**

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

Cash and balances with Central Bank by currency

31.12.2015	ASSETS	LIABILITIES
PLN	6 900 373	914
EUR	513 012	-
USD	247 073	-
CHF	64 635	-
Other currencies	156 505	-
Total	**7 881 598**	**914**

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

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

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

(In PLN thousand)

23. Loans and advances to banks

Loans and advances to banks by product type

	31.12.2015	31.12.2014
Current accounts	89 548	405 441
Interbank placements	3 461 543	2 979 892
Loans and advances	198 453	202 358
Cash collaterals	1 675 589	1 675 036
Reverse repo transactions	1 757 063	1 930 811
Debt securities	58 509	-
Cash in transit	291 914	41 342
Total gross amount	**7 532 619**	**7 234 880**
Impairment allowances	(20 393)	(19 518)
Total net amount	**7 512 226**	**7 215 362**

Loans and advances to banks by quality

	31.12.2015	31.12.2014
Loans and advances to banks, including:		
non impaired (gross)	7 512 892	7 215 920
impaired (gross)	19 727	18 960
individual impairment allowances	(9 927)	(9 160)
collective impairment allowances (*)	(10 466)	(10 358)
Total	**7 512 226**	**7 215 362**

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

Loans and advances to banks by contractual maturity

	31.12.2015	31.12.2014
Loans and advances to banks, including:		
up to 1 month	6 939 449	6 157 329
between 1 and 3 months	47 126	220 620
between 3 months and 1 year	54 559	456 719
between 1 and 5 years	402 657	367 091
over 5 years	58 510	-
past due	30 318	33 121
Total gross amount	**7 532 619**	**7 234 880**
Impairment allowances	(20 393)	(19 518)
Total net amount	**7 512 226**	**7 215 362**

Loans and advances to banks by currency

	31.12.2015	31.12.2014
PLN	2 808 485	2 713 587
CHF	30 586	3 457
EUR	2 106 776	2 779 959
USD	2 214 880	1 553 786
Other currencies	351 499	164 573
Total	**7 512 226**	**7 215 362**

Changes in the level of impairment allowances in 2015 and 2014 are presented in the Note 16.

Notes to the financial statements (cont.)

(In PLN thousand)

24. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading by product type

	31.12.2015	31.12.2014
FINANCIAL ASSETS		
Debt securities	1 116 993	513 078
Total financial assets	**1 116 993**	**513 078**
FINANCIAL LIABILITIES		
Debt securities	611 442	591 311
Total financial liabilities	**611 442**	**591 311**

Debt securities held for trading

	31.12.2015	31.12.2014
FINANCIAL ASSETS		
Debt securities issued by State Treasury	1 003 007	310 654
T- bills	-	-
T- bonds	1 003 007	310 654
Debt securities issued by banks	37 866	119 312
Debt securities issued by business entities	76 120	83 112
Total financial assets	**1 116 993**	**513 078**
FINANCIAL LIABILITIES		
Debt securities issued by State Treasury	611 442	591 311
T- bonds	611 442	591 311
Total financial liabilities	**611 442**	**591 311**

Debt securities held for trading by maturity

	31.12.2015	31.12.2014
FINANCIAL ASSETS		
Debt securities, including:		
up to 1 month	39 222	26 201
between 1 and 3 months	23 294	13 214
between 3 months and 1 year	358 296	65 729
between 1 and 5 years	163 738	225 685
over 5 years	532 443	182 249
unspecified term	-	-
Total financial assets	**1 116 993**	**513 078**
FINANCIAL LIABILITIES		
Debt securities, including:		
up to 1 month	-	-
between 1 and 3 months	-	-
between 3 months and 1 year	170 729	362 582
between 1 and 5 years	382 663	173 090
over 5 years	58 050	55 639
Total financial liabilities	**611 442**	**591 311**

(In PLN thousand)

Debt securities held for trading by currency

	31.12.2015	31.12.2014
FINANCIAL ASSETS		
PLN	1 102 805	467 819
EUR	10 072	41 876
USD	4 116	3 383
Total financial assets	**1 116 993**	**513 078**
FINANCIAL LIABILITIES		
PLN	611 442	591 311
Total financial liabilities	**611 442**	**591 311**

25. Derivative financial instruments (held for trading)

Derivative financial instruments at the Bank

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

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

Derivative financial instruments embedded in other instruments

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

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

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

All embedded options are immediately closed back-to-back on the interbank market.

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

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

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

Risk involved in financial derivatives

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Fair value of trading derivatives

31.12.2015	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	2 867 014	2 861 412
Forward Rate Agreements (FRA)	960	906
Options	10 129	10 046
Other	3 515	3 278
Foreign currencies and in gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	75 430	99 742
Currency Forward Agreements	80 871	76 304
Currency Swaps (Fx–Swap)	135 068	72 132
Options for currency and for gold	44 658	41 557
Transactions based on equity securities and stock indexes		
Options	8 366	8 366
Other	-	-
Transactions based on commodities and precious metals		
Options	12 120	12 182
Other	15 986	15 873
Total	**3 254 117**	**3 201 798**

31.12.2014	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	3 773 088	3 772 430
Forward Rate Agreements (FRA)	4 558	6 956
Options	13 263	13 076
Other	110	84
Foreign currencies and in gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	52 673	70 612
Currency Forward Agreements	149 692	82 594
Currency Swaps (Fx–Swap)	144 810	146 319
Options for currency and for gold	46 657	52 016
Transactions based on equity securities and stock indexes		
Options	5 387	5 390
Other	-	-
Transactions based on commodities and precious metals		
Options	41	41
Other	274 615	272 774
Total	**4 464 894**	**4 422 292**

Notes to the financial statements (cont.)

(In PLN thousand)

Nominal value of trading derivatives

31.12.2015	CONTRACTUAL MATURITY					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	5 430 113	7 313 716	11 740 420	71 056 336	16 986 683	112 527 268
Forward Rate Agreements (FRA)	2 710 000	1 715 000	2 600 000	-	-	7 025 000
Options	-	-	449 753	4 067 896	-	4 517 649
Other	2 151 627	-	-	-	-	2 151 627
Foreign currencies and in gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) – currency bought	-	-	290 505	2 315 667	1 065 087	3 671 259
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	-	-	277 129	2 345 950	1 062 149	3 685 228
Currency Forward Agreements – currency bought	5 455 618	1 556 316	2 378 828	1 490 042	-	10 880 804
Currency Forward Agreements – currency sold	5 471 784	1 564 270	2 392 129	1 489 816	-	10 917 999
Currency Swaps (Fx-Swap) – currency bought	9 858 049	4 346 841	3 556 983	44 767	-	17 806 640
Currency Swaps (Fx-Swap) – currency sold	9 870 606	4 295 106	3 510 929	43 527	-	17 720 168
Options bought	449 287	437 335	2 339 376	1 921 686	-	5 147 684
Options sold	448 167	437 504	2 335 255	1 921 686	-	5 142 612
Transactions based on equity securities and stock indexes						
Options	83 326	81 857	-	-	-	165 183
Other	-	-	-	-	-	-
Transactions based on commodities and precious metals						
Options	55 650	38 465	180 543	23 048	-	297 706
Other	647	3 652	143 299	20 985	-	168 583
Total	**41 984 874**	**21 790 062**	**32 195 149**	**86 741 406**	**19 113 919**	**201 825 410**

31.12.2014	CONTRACTUAL MATURITY					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	1 147 605	6 245 573	13 829 713	73 743 192	22 198 923	117 165 006
Forward Rate Agreements (FRA)	1 000 000	3 250 000	14 850 000	-	-	19 100 000
Options	-	-	60 849	3 831 712	175 094	4 067 655
Other	290 794	-	-	-	-	290 794
Foreign currencies and in gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) – currency bought	-	-	-	1 440 276	663 859	2 104 135
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	-	-	-	1 445 981	663 859	2 109 840
Currency Forward Agreements – currency bought	4 812 561	4 020 619	2 985 569	1 027 281	-	12 846 030
Currency Forward Agreements – currency sold	4 810 233	3 966 133	2 986 073	1 046 140	-	12 808 579
Currency Swaps (Fx-Swap) – currency bought	12 621 631	5 122 372	881 967	-	-	18 625 970
Currency Swaps (Fx-Swap) – currency sold	12 604 930	5 131 739	877 453	-	-	18 614 122
Options bought	279 014	329 465	248 512	1 848 245	-	2 705 236
Options sold	273 929	332 571	248 814	1 848 245	-	2 703 559
Transactions based on equity securities and stock indexes						
Options	-	-	200 058	165 183	-	365 241
Other	-	-	-	-	-	-
Transactions based on commodities and precious metals						
Options	-	-	-	15 313	-	15 313
Other	435 895	-	-	869 387	-	1 305 282
Total	**38 276 592**	**28 398 472**	**37 169 008**	**87 280 955**	**23 701 735**	**214 826 762**

Notes to the financial statements (cont.)

(In PLN thousand)

26. Loans and advances to customers

Loans and advances to customers by product type

	31.12.2015	31.12.2014
Mortgage loans	47 698 032	39 596 941
Current accounts	11 532 665	11 179 250
Operating loans	17 772 040	16 993 890
Investment loans	17 257 694	20 420 028
Cash loans	9 087 671	7 804 086
Payment cards receivables	873 309	805 592
Purchased debt receivables	1 480 236	2 167 942
Other loans and advances	1 255 462	1 684 709
Debt securities	12 376 949	10 442 561
Reverse repo transactions	4 755 472	5 789 064
Cash in transit	49 954	36 270
Total gross amount	**124 139 484**	**116 920 333**
Impairment allowances	(5 630 902)	(5 531 256)
Total net amount	**118 508 582**	**111 389 077**

Loans and advances to customers by customer type

	31.12.2015	31.12.2014
Corporate	59 414 019	56 719 518
Individuals	53 197 025	48 387 092
Budget entities	11 528 440	11 813 723
Total gross amount	**124 139 484**	**116 920 333**
Impairment allowances	(5 630 902)	(5 531 256)
Total net amount	**118 508 582**	**111 389 077**

Loans and advances to customers by quality

	31.12.2015	31.12.2014
Loans and advances to customers, including:		
non impaired (gross)	116 480 662	109 136 008
impaired (gross)	7 658 822	7 784 325
individual impairment allowances	(3 190 622)	(2 910 754)
collective impairment allowances (*)	(2 440 280)	(2 620 502)
Total	**118 508 582**	**111 389 077**

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

Loans and advances to customers by contractual maturity

	31.12.2015	31.12.2014
Loans and advances to customers, including:		
up to 1 month	19 860 297	20 441 821
between 1 and 3 months	3 869 508	2 979 129
between 3 months and 1 year	12 387 849	10 507 802
between 1 and 5 years	36 801 802	35 817 560
over 5 years	45 400 514	41 329 579
expired	5 819 514	5 844 442
Total gross amount	**124 139 484**	**116 920 333**
Impairment allowances	(5 630 902)	(5 531 256)
Total net amount	**118 508 582**	**111 389 077**

(In PLN thousand)

Loans and advances to customers by currency

	31.12.2015	31.12.2014
PLN	99 449 351	92 735 082
CHF	4 299 881	4 258 319
EUR	11 463 681	11 087 929
USD	3 193 248	3 184 137
Other currencies	102 421	123 610
Total	**118 508 582**	**111 389 077**

Changes in impairment allowances in 2015 and 2014 are presented in the Note 16.

27. Hedge accounting

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

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

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

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

The table below presents the fair values of hedging derivatives

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

The tables below presents nominal values of hedging derivatives

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

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

Notes to the financial statements (cont.)

(In PLN thousand)

28. Investment (placement) securities

	31.12.2015	31.12.2014
Debt securities available for sale (AFS)	17 428 943	22 985 789
Equity securities available for sale (AFS)	270 938	62 401
Debt securities held to maturity (HTM)	3 290 061	1 523 940
Total	**20 989 942**	**24 572 130**

Debt securities available for sale (AFS)

	31.12.2015	31.12.2014
Securities issued by State Treasury	15 865 408	15 886 770
T-bills	-	-
T-bonds	15 865 408	15 886 770
Securities issued by Central Banks	628 454	6 147 781
Securities issued by business entities	251 367	248 985
Securities issued by local governments	683 714	702 253
Total	**17 428 943**	**22 985 789**
including impairment of assets	-	-

Equity securities available for sale (AFS)

	31.12.2015	31.12.2014
Shares	270 938	62 401
Total	**270 938**	**62 401**
including impairment of assets	(100)	(100)

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

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Debt securities held to maturity (HTM)

	31.12.2015	31.12.2014
Securities issued by State Treasury	2 418 961	672 495
T-bills	-	-
T-bonds	2 418 961	672 495
Securities issued by Central Banks	871 100	851 445
Total	**3 290 061**	**1 523 940**
including impairment of assets	-	-

Investment debt securities according to contractual maturity

	31.12.2015	31.12.2014
Debt securities, including:		
up to 1 month	1 499 554	6 999 226
between 1 and 3 months	443 644	-
between 3 months and 1 year	2 657 047	559 261
between 1 and 5 years	10 523 426	13 411 109
over 5 years	5 595 333	3 540 133
Total	**20 719 004**	**24 509 729**

Investment debt securities according to currencies

	31.12.2015	31.12.2014
PLN	17 668 064	20 542 074
EUR	2 635 034	2 027 262
USD	415 906	1 940 393
Total	**20 719 004**	**24 509 729**

Changes in investment (placement) securities

	2015	2014
SECURITIES AVAILABLE FOR SALE (AFS)		
Opening balance	**23 048 190**	**32 956 784**
Increases (purchase)	217 238 305	351 511 479
Decreases (sale and redemption)	(222 977 126)	(362 907 222)
Changes in fair value	(271 780)	609 094
Exchange rate differences	179 854	301 923
Accrued interest	616 697	659 300
Other changes	(134 259)	(83 168)
Closing balance	**17 699 881**	**23 048 190**
DEBT SECURITIES HELD UNTIL MATURITY (HTM)		
Opening balance	**1 523 940**	**1 888 724**
Increases (purchase)	47 198 245	43 977 482
Decreases (sale and redemption)	(45 490 733)	(44 386 249)
Accrued interest	17 704	25 799
Other changes	40 905	18 184
Closing balance	**3 290 061**	**1 523 940**
Total investment (placement) securities	**20 989 942**	**24 572 130**

Notes to the financial statements (cont.)

(In PLN thousand)

29. Reclassification of securities

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

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

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

The tables below present the information on the reclassified financial assets

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

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

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

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

Net interest income on reclassified financial assets

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

Notes to the financial statements (cont.)

(In PLN thousand)

30. Assets held for sale and discontinued operations

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

As at 31 December 2015, non-current assets classified as held for sale included following items classified as held for sale:

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

Assets held for sale:

	31.12.2015	31.12.2014
Property, plant and equipment	22 787	9 437
Other assets	22 515	22 515
Total	**45 302**	**31 952**

In 2015 the Bank sold 3 125 shares of Krajowa Izba Rozliczeniowa S.A. The shares retained by the Bank after the sale are now the component of financial assets.

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

	2015
Sales proceeds	75 000
Carrying amount of disposed shares	(1 563)
Gross result on sale	**73 437**
Income tax expense	(13 953)
Net result on sale	**59 484**

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

ASSETS HELD FOR SALE	2015	2014
Opening balance	**31 952**	**32 587**
Increases, including:	28 598	97
transfer from investments in subsidiaries	27 008	-
transfer from investment properties	-	-
transfer from investments in associates	1 563	-
other changes	27	97
Decreases, including:	(15 248)	(732)
transfer from property, plant and equipment	(13 460)	-
sale of shares in associate	(1 563)	-
disposal	-	(732)
other changes	(225)	-
Closing balance	**45 302**	**31 952**

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

	31.12.2015	31.12.2014
Sales revenues	-	1 293
Net carrying amount of disposed assets (including costs to sell)	-	732
Profit/loss on sale before income tax	**-**	**561**

Notes to the financial statements (cont.)

(In PLN thousand)

31. Investments in subsidiaries

Condensed information about subsidiaries as at 31 December 2015 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT /LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage services	820 642	654 574	131 701	44 210	100.00	56 332
Pekao Investment Banking S.A.	Warsaw	Brokerage services	334 828	77 600	43 373	6 822	100.00	274 334
Pekao Faktoring Sp. z o.o.	Lublin	Factoring	1 138 119	1 077 434	34 671	9 336	100.00	50 268
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Business consulting	52 869	1 296	698	193	100.00	51 380
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension funds management	47 825	2 214	14 714	2 913	65.00	64 126
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	34 531	4 383	39 705	8 033	100,00	4 500
Pekao Leasing Sp. z o.o. (**)	Warsaw	Lease services	3 814 299	3 307 447	153 433	53 904	36,49	84 658
Centrum Kart S.A.	Warsaw	Additional financial services	42 904	10 948	330	591	100,00	17 592
Pekao Bank Hipoteczny S.A.	Warsaw	Banking services	2 187 896	1 876 171	71 688	5 045	100.00	233 823
Pekao Leasing Holding S.A. (in liquidation)	Warsaw	Lease services	277 297	84	1 322	61 436	100.00	230 745
Pekao Property S.A.	Warsaw	Real estate development services	56 696	5 556	16	(179)	100.00	31 374
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	11 999	5 513	14 953	2 720	100.00	522
Total								**1 099 654**

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

Changes in investment into subsidiaries

	2015	2014
Opening balance	**857 513**	**793 113**
Increases, including:	274 334	64 400
acquisition	274 334	64 400
Decreases, including	(32 193)	-
changes of impairment allowances	(24 000)	-
liquidation	(8 193)	-
Closing balance	**1 099 654**	**857 513**

The structure of investments in subsidiaries

	31.12.2015	31.12.2014
Investment in subsidiaries, including:		
banks	233 823	233 823
other financial institutions	782 555	532 221
non-financial institutions	83 276	91 469
Total	**1 099 654**	**857 513**

(In PLN thousand)

32. Investments in associates

Information about associates as at 31 December 2015 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Pioneer Pekao Investment Management S.A.	Warsaw	Assets Management	322 848	40 354	383 019	91 284	49.00	14 995
Dom Inwestycyjny Xelion Sp. z o.o.	Warsaw	Financial intermediation	51 359	30 274	49 490	3 930	50.00	12 557
CPF Management	Tortola, British Virgin Islands	Advisory services– currently does not provide its services	n/a	n/a	n/a	n/a	40.00	-
Polish Banking System S.A. (in liquidation)	Warsaw	Company in liquidation	n/a	n/a	n/a	n/a	48.90	-
PPU Budpress Sp. z o.o. (in liquidation)	Żyrardów	Company in liquidation	n/a	n/a	n/a	n/a	36.20	-
Total								**27 552**

(*) Data available at the date of financial statements.

Information about associates as at 31 December 2014 (*)

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

(*) - Data available at the date of financial statements.

Changes in investment in associates

	2015	2014
Opening balance	**29 427**	**29 427**
Decreases, including	(1 875)	-
sale	(1 563)	-
transfer to Equity securities available for sale (AFS)	(312)	-
Closing balance	**27 552**	**29 427**

The structure of investments in associates

	31.12.2015	31.12.2014
Investment in associates, including:		
banks	-	-
other financial institutions	27 552	29 427
non-financial institutions	-	-
Total	**27 552**	**29 427**

As at 31 December 2015 and 31 December 2014, the Bank did not have the investment in entities under common control.

Notes to the financial statements (cont.)

(In PLN thousand)

33. Intangible assets

	31.12.2015	31.12.2014
Intangible assets, including:	558 985	549 038
research and development expenditures	7 948	10 412
licenses and patents	430 519	417 368
other	11 183	10 845
assets under construction	109 335	110 413
Goodwill	52 635	52 635
Total	**611 620**	**601 673**

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

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

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

The impairment test is performed by comparing the carrying amount of the CGU, including the goodwill, with the recoverable amount of the CGU. The recoverable amount is estimated on the basis of value in use of the CGU. The value in use is the present, estimated value of the future cash flows for the period of 5 years, taking into account the residual value of the CGU. The residual value of the CGU is calculated based on an extrapolation of cash flows projections beyond the forecast period using the growth rate of 2.5%. The forecasts of the future cash flows are based on the assumptions included the Bank's budget for 2016 and financial plan for 2017-2020. To discount the future cash flows, it is applied the discount rate of 7.73%, which includes the risk-free rate and the risk premium. The impairment test performed as at 31 December 2015 showed the surplus of the recoverable amount over the carrying amount of the CGU, and therefore no CGU impairment was recognized.

Notes to the financial statements (cont.)

(In PLN thousand)

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

2015	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
GROSS VALUE					
Opening balance	**89 361**	**2 042 842**	**49 642**	**110 413**	**2 292 258**
Increases, including:	812	150 781	1 678	151 554	304 825
acquisitions	-	-	-	151 554	151 554
business combinations	-	-	-	-	-
other	-	32 935	-	-	32 935
transfer from investments outlays	812	117 846	1 678	-	120 336
Decreases, including:	-	(5 714)	(15)	(152 632)	(158 361)
liquidation	-	(5 668)	(15)	-	(5 683)
other	-	(46)	-	(32 296)	(32 342)
transfer from investments outlays	-	-	-	(120 336)	(120 336)
Closing balance	**90 173**	**2 187 909**	**51 305**	**109 335**	**2 438 722**
ACCUMULATED AMORTIZATION					
Opening balance	**78 949**	**1 625 474**	**27 836**	**-**	**1 732 259**
Amortization	3 276	137 538	1 340	-	142 154
Liquidation	-	(5 581)	(15)	-	(5 596)
Other	-	(41)	-	-	(41)
Closing balance	**82 225**	**1 757 390**	**29 161**	**-**	**1 868 776**
IMPAIRMENT					
Opening balance	**-**	**-**	**10 961**	**-**	**10 961**
Closing balance	**-**	**-**	**10 961**	**-**	**10 961**
NET VALUE					
Opening balance	**10 412**	**417 368**	**10 845**	**110 413**	**549 038**
Closing balance	**7 948**	**430 519**	**11 183**	**109 335**	**558 985**

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

In the period from 1 January to 31 December 2015, the Bank acquired intangible assets in the amount of PLN 151 554 thousand (in 2014 - PLN 122 135 thousand). In the period from 1 January to 31 December 2015 and in 2014 there have been no intangible assets whose title is restricted and pledged as security for liabilities.

Contractual commitments

As at 31 December 2015 the contractual commitments for the acquisition of intangible assets amounted to PLN 47 881 thousand, whereas as at 31 December 2014 - PLN 34 715 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

34. Property, plant and equipment

	31.12.2015	31.12.2014
Non-current assets, including:	1 360 433	1 441 212
land and buildings	1 058 395	1 106 080
machinery and equipment	234 058	250 647
transport vehicles	27 974	40 241
other	40 006	44 244
Non-current assets under construction and prepayments	83 324	84 381
Total	**1 443 757**	**1 525 593**

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

2015	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	NON-CURRENT ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
GROSS VALUE						
Opening balance	**2 264 696**	**1 421 020**	**78 427**	**329 704**	**84 381**	**4 178 228**
Increases, including:	46 315	71 771	1 506	6 971	108 477	235 040
acquisitions	8 495	8 466	408	1 262	108 034	126 665
other	-	161	1 098	15	443	1 717
transfer from non-current assets under construction	37 820	63 144	-	5 694	-	106 658
Decreases, including:	(63 579)	(115 994)	(11 636)	(24 157)	(108 951)	(324 317)
liquidation and sale	(36 623)	(115 781)	(11 636)	(24 142)	(53)	(188 235)
transfer to non-current assets held for sale	(26 956)	(52)	-	-	-	(27 008)
other	-	(161)	-	(15)	(2 240)	(2 416)
transfer from non-current assets under construction	-	-	-	-	(106 658)	(106 658)
Closing balance	**2 247 432**	**1 376 797**	**68 297**	**312 518**	**83 907**	**4 088 951**
ACCUMULATED DEPRECIATION						
Opening balance	**1 156 097**	**1 166 442**	**38 186**	**285 319**	**-**	**2 646 044**
Increases, including:	74 652	87 577	12 631	10 805	-	185 665
depreciation	67 716	78 961	12 223	9 535	-	168 435
other	6 936	8 616	408	1 270	-	17 230
Decreases, including:	(45 565)	(115 101)	(10 494)	(23 730)	-	(194 890)
liquidation and sale	(32 151)	(114 896)	(10 494)	(23 721)	-	(181 262)
transfer to non-current assets held for sale	(13 414)	(46)	-	-	-	(13 460)
other	-	(159)	-	(9)	-	(168)
Closing balance	**1 185 184**	**1 138 918**	**40 323**	**272 394**	**-**	**2 636 819**
IMPAIRMENT						
Opening balance	**2 519**	**3 931**	**-**	**141**	**-**	**6 591**
Increases	1 560	35	-	1	583	2 179
Decreases	(226)	(145)	-	(24)	-	(395)
Closing balance	**3 853**	**3 821**	**-**	**118**	**583**	**8 375**
NET VALUE						
Opening balance	**1 106 080**	**250 647**	**40 241**	**44 244**	**84 381**	**1 525 593**
Closing balance	**1 058 395**	**234 058**	**27 974**	**40 006**	**83 324**	**1 443 757**

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

In the period from 1 January to 31 December 2015 the Bank acquired property, plant and equipment in the amount of PLN 126 665 thousand (in 2014 - PLN 118 678 thousand), while the value of property, plant and equipment sold amounted to PLN 4 688 thousand (in 2014 - PLN 4 097 thousand).

The amount of compensations received from third parties for impairment of loss of property, plant and equipment items recognized in the income statement for 2015 stood at PLN 1 974 thousand (PLN 1 656 thousand in 2014).

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

Contractual commitments

As at 31 December 2015 the contractual commitments for the acquisition of property, plant and equipment amounted to PLN 56 883 thousand, whereas as at 31 December 2014 - PLN 63 077 thousand.

Notes to the financial statements (cont.)

(In PLN thousand)

35. Investment property

The Bank values investment property using the historical cost model.

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

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

	2015	2014
GROSS VALUE		
Opening balance	**47 273**	**50 905**
Increases, including:	324	319
acquisitions	324	319
other	-	-
Decreases, including:	(15 550)	(3 951)
sale of real estate	(15 437)	(3 951)
other	(113)	-
Closing balance	**32 047**	**47 273**
ACCUMULATED DEPRECIATION		
Opening balance	**20 941**	**21 844**
Increases, including:	1 022	1 152
depreciation	1 022	1 152
other	-	-
Decreases, including:	(9 763)	(2 055)
sale of real estate	(9 650)	(2 055)
other	(113)	-
Closing balance	**12 200**	**20 941**
IMPAIRMENT		
Opening balance	**2 530**	**3 080**
Increases, including:	-	-
impairment charges	-	-
Decreases, including:	-	(550)
sale of real estate	-	(550)
Closing balance	**2 530**	**2 530**
NET VALUE		
Opening balance	**23 802**	**25 981**
Closing balance	**17 317**	**23 802**

The fair value of investment property as at 31 December 2015 stood at PLN 24 834 thousand (PLN 35 790 thousand as at 31 December 2014). The fair value of investment property are categorized in Level 3 of the fair value hierarchy. The fair value was measured based on valuations of the property appraisers, having appropriate professional qualifications and recent experience in the location of the properties being valued. The valuations of investment property are based on investment method or profits method, taking into account such unobservable input data as expected rental growth rate, void periods, occupancy rate, discount rate.

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

	2015	2014
Rental revenues from investment properties	2 741	2 989
Direct operating expenses associated with investment properties (including repair and maintenance costs) which generated rental revenues during the reporting period	(623)	(884)
Direct operating expenses associated with investment properties (including repair and maintenance costs) which did not generate rental revenues during the reporting period	-	-

Notes to the financial statements (cont.)

(In PLN thousand)

36. Other assets

	31.12.2015	31.12.2014
Prepaid expenses	28 580	24 484
Perpetual usufruct rights	15 181	15 434
Accrued income	51 191	36 714
Interbank and interbranch settlements	1 770	7 461
Other debtors	165 869	896 330
Card settlements	1 808 150	1 746 293
Total	**2 070 741**	**2 726 716**

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

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

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

37. Assets pledged as collateral

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

TYPE OF TRANSACTION	SECURITY	CARRYING VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGED AS SECURITY FOR LIABILITIES	VALUE OF LIABILITIES SUBJECT TO SECURITY
Repo transactions	bonds	3 394 183	3 152 162	3 388 421
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	703 616	680 000	-
Lombard and technical loan	bonds	4 750 392	4 504 675	-
Other loans	bonds	490 285	481 200	328 076
Coverage of the Gurantee Fund for the Settlement of Stock Exchange Transactions to Central Securities Depository (KDPW)	cash deposit	10 785	10 785	-
Derivatives	bonds	45 708	47 163	24 771

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

The freeze on securities is a consequence of:

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

38. Amounts due to other banks

Amounts due to other banks by product type

	31.12.2015	31.12.2014
Current accounts	1 146 012	678 135
Interbank deposits and other liabilities	582 302	1 006 984
Loans and advances received	1 832 841	1 303 141
Repo transactions	963 829	126 277
Cash in transit	28 130	15 319
Total	**4 553 114**	**3 129 856**

Amounts due to other banks by currency

	31.12.2015	31.12.2014
PLN	1 326 700	1 479 161
CHF	390 085	380 003
EUR	2 776 065	1 192 885
USD	50 428	42 194
Other currencies	9 836	35 613
Total	**4 553 114**	**3 129 856**

Notes to the financial statements (cont.)

(In PLN thousand)

39. Amounts due to customers

Amounts due to customers by entity and product type

	31.12.2015	31.12.2014
Amounts due to corporate, including:	56 164 560	59 490 002
current accounts	29 768 565	24 818 198
term deposits and other liabilities	26 395 995	34 671 804
Amounts due to budget entities, including:	5 610 567	6 210 578
current accounts	4 689 396	5 089 978
term deposits and other liabilities	921 171	1 120 600
Amounts due to individuals, including:	62 844 706	54 771 125
current accounts	33 424 045	29 768 467
term deposits and other liabilities	29 420 661	25 002 658
Repo transactions	4 468 820	5 256 415
Cash in transit	168 213	653 150
Total	**129 256 866**	**126 381 270**

Amounts due to customers by currency

	31.12.2015	31.12.2014
PLN	107 007 345	107 063 874
CHF	233 377	205 924
EUR	13 149 514	11 816 040
USD	8 010 307	6 608 786
Other currencies	856 323	686 646
Total	**129 256 866**	**126 381 270**

40. Debt securities issued

Debt securities issued by type

	31.12.2015	31.12.2014
Certificates of deposit	1 668 706	2 819 713
Total	**1 668 706**	**2 819 713**

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

Debt securities issued by currency

	31.12.2015	31.12.2014
PLN	1 668 706	2 819 713
EUR	-	-
USD	-	-
Total	**1 668 706**	**2 819 713**

Changes in debt securities issued

	2015	2014
Opening balance	**2 819 713**	**2 240 452**
Increase (issuance)	3 858 026	5 876 940
Decrease (redemption)	(4 999 636)	(5 312 326)
Decrease (partial redemption)	(7 903)	(1 838)
Foreign currency exchange differences	-	-
Other	(1 494)	16 485
Closing balance	**1 668 706**	**2 819 713**

Notes to the financial statements (cont.)

(In PLN thousand)

41. Provisions

Changes in provisions in the reporting period

2015	PROVISIONS FOR LITIGATION AND CLAIM	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**32 975**	**265 367**	**105 147**	**33 463**	**436 952**
Provision charges/revaluation	30 402	23 409	72 665	5 809	132 285
Provision utilization	(54 053)	(10 187)	-	(14 333)	(78 573)
Provision releases	(1 826)	-	(54 411)	-	(56 237)
Foreign currency exchange differences	-	-	1 182	-	1 182
Other changes	372	(12 678)	-	(373)	(12 679)
Closing balance	**7 870**	**265 911**	**124 583**	**24 566**	**422 930**
Short term	3 349	20 939	70 503	17	94 808
Long term	4 521	244 972	54 080	24 549	328 122

2014	PROVISIONS FOR LITIGATION AND CLAIM	PROVISIONS FOR DEFINED BENEFIT PLANS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**32 676**	**204 989**	**116 874**	**36 857**	**391 396**
Provision charges/revaluation	3 556	22 442	67 469	12 742	106 209
Provision utilization	(2 859)	(6 462)	-	(13 638)	(22 959)
Provision releases	(2 544)	-	(79 905)	-	(82 449)
Foreign currency exchange differences	-	-	709	134	843
Other changes	2 146	44 398	-	(2 632)	43 912
Closing balance	**32 975**	**265 367**	**105 147**	**33 463**	**436 952**
Short term	5 698	16 967	46 669	940	70 274
Long term	27 277	248 400	58 478	32 523	366 678

Litigation provisions

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

Provisions for defined benefit plans

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

Other provisions

Other provisions include in particular provisions for long term employee benefits.

Notes to the financial statements (cont.)

(In PLN thousand)

42. Other liabilities

	31.12.2015	31.12.2014
Deferred income	119 174	121 351
Provisions for holiday leave	49 987	49 676
Provisions for other employee-related liabilities	227 721	167 408
Provisions for administrative costs	90 002	126 804
Other costs to be paid	156 594 (*)	50 912
Other creditors	196 264	270 268
Interbank and interbranch settlements	515 533	658 461
Card settlements	192 463	157 502
Total	**1 547 738**	**1 602 382**

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

43. Defined benefit plans

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

a) retirement benefits,

b) death-in-service benefits.

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

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

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

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

Reconciliation of the present value of defined benefit plans obligations

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

	2015	2014
Opening balance	**265 367**	**204 989**
Current service cost	16 509	13 258
Interest expense	6 900	9 184
Remeasurements of the defined benefit obligations:	(12 678)	44 212
actuarial gains and losses arising from changes in demographic assumptions	-	(30)
actuarial gains and losses arising from changes in financial assumptions	(9 542)	48 530
actuarial gains and losses arising from experience adjustments	(3 136)	(4 288)
Contributions paid by the employer	(10 187)	(6 276)
Closing balance	**265 911**	**265 367**

Sensitivity analysis

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

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

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

Maturity of defined benefit plans obligations

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

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

(In PLN thousand)

44. Share - based payments

The UniCredit Group incentive programs

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

- The long-term UniCredit Group Incentive Program 2007 in respect to share options. The rights to exercise the option were acquired in 2011. Strike price is EUR 7.094. The option will expire in 2017,
- The long-term UniCredit Group Incentive Program 2008 in respect to share options. The rights to exercise the option were acquired in 2012. Strike price is EUR 4.185. The option will expire in 2018,
- Employee Share Ownership Plan that offers to eligible UniCredit Group employees the possibility to buy UniCredit ordinary shares with the following advantages: granting of free ordinary shares (‘Discount shares’ and ‘Matching Shares’ or rights to ‘Matching Shares’) measures on the basis of the shares purchased by each participant. The granting of free ordinary shares is subordinated to vesting conditions stated in the rules of the Plan.

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

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

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

2015	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	2 173 155	17.84/30.24	-	-
Granted during the year	-	-	-	-
Redeemed during the year	(55 848)	-	-	-
Exercised during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at the period-end	2 117 307	17.83/30.23	-	-
Executable at the period-end	2 117 307	17.83/30.23	-	-

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

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

The tables below present the conditions of Employee Share Ownership Plan in 2015 and 2014.

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

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

The fair value of granted rights to shares under Employee Share Ownership Plan until 31 December 2015 amounted to PLN 1 048 thousand as at 31 December 2015 (PLN 654 thousand as at 31 December 2014).

The remuneration expenses for 2015 relating to the incentive programs granted to the emloyees of the Bank by UniCredit Group amounted to PLN 434 thousand (in 2014 - PLN 322 thousand).

System of Variable Remuneration for the Management Team

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

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

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

Notes to the financial statements (cont.)

(in PLN thousand)

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

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

The carrying amount of liabilities for cash - settled phantom shares amounted to PLN 24 534 thousand as at 31 December 2015 (as at 31 December 2014 – PLN 32 003 thousand).

The total intrinsic value of liabilities for vested rights to phantom shares amounted to PLN 27 417 thousand as at 31 December 2015 (as at 31 December 2014 – PLN 35 642 thousand).

The remuneration expenses for 2015 relating to the system of variable remuneration in the form of phantom shares amounted to PLN 6 312 thousand (in 2014 - PLN 13 796 thousand).

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

	2015	**2014**
Opening balance	199 452	167 904
Granted during the year	68 040	76 013
Redeemed during the year	-	-
Exercised during the year	76 432	44 466
Terminated during the year	-	-
Existing at the period-end	191 060	199 452

The table above does not present the number of shares granted in respect of System 2015. This number will be determined in 2016 after approval of the financial statements for 2015 by the General Shareholder's Meeting. The hypothetical number of shares determined on the basis of the base value of the granted bonus to each of the program participants and arithmetic mean of the Bank's share price on the WSE in December 2015 amounts to 100 088.

(In PLN thousand)

45. Operating and finance leases

Bank as a Lessor

In operating lease of buildings classified as investment properties the Bank acts as a lessor.
The amount of future minimum lease payments expected to be received under non-cancellable operating lease can be summarized as follows:

	31.12.2015	31.12.2014
Up to 1 year	6 433	9 494
Between 1 and 5 years	2 333	13 044
Over 5 years	392	8 684
Total	**9 158**	**31 222**

The amount of the minimum operating lease payments classified as income in 2015 amounted to PLN 22 155 thousand (PLN 23 104 thousand in 2014).

Bank as a Lessee

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

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

	31.12.2015	31.12.2014
Up to 1 year	104 134	109 761
Between 1 and 5 years	223 386	238 727
Over 5 years	97 493	147 709
Total	**425 013**	**496 197**

The amount of the minimum operating lease payments recognized as an expense in 2015 amounted to PLN 176 101 thousand (expense in 2014 amounted to PLN 186 949 thousand).

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

Finance leases

In addition, the Bank as a lessee of cars concludes finance lease contracts with its subsidiary Pekao Leasing Sp. z o.o.

His contract gives the Bank opportunity to buy an asset after termination of lease contract.

The carrying amount of net assets being subject of finance lease contracts as at 31 December 2015 amounted to PLN 27 959 thousand and as at 31 December 2014 amounted to PLN 40 099 thousand.

	31.12.2015	31.12.2014
Gross liabilities on finance leases	44 130	59 745
Unrealized financial costs	(13 955)	(25 909)
Present value of minimum lease payments	**30 175**	**33 836**

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

	31.12.2015	31.12.2014
Up to 1 year	18 338	21 272
Between 1 and 5 years	25 792	38 473
Total	**44 130**	**59 745**

46. Contingent commitments

Litigation

In the entire year of 2015 the total value of the litigation subject in the ongoing court proceedings against the Bank was PLN 1 134 267 thousand (in 2014 it was PLN 1 201 037 thousand).

In 2015 there were no proceedings before the court or state administration bodies related to the receivables or payables of the Bank and its subsidiaries in which the pursued claim value (amount to be paid) is at least 10% of the Bank's equity.

In 2015 still going on was the court litigation against the Bank and Pekao SA Central Brokerage House, brought by private individuals for the payment of damage arising from the purchase of stocks and the financial compensation for the injury resulting from the execution process, in which the value of the litigation subject, as at 31 December 2015, was PLN 206 422 thousand (previously PLN 306 622 thousand).

In the first half of 2015 the sentence dismissing the plaint against defendants was adjudicated. The sentence is not legally binding. The plaintiffs lodged an appeal against the sentence, i.e. its part related to the amount of PLN 206 422 thousand. In the opinion of the Bank appeal is unfounded.

Moreover against the Bank currently are pending the following essential litigations:

- proceedings instigated in the second quarter of 2014 as a result of the plaint brought by a guarantee beneficiary for the payment of PLN 55 996 thousand as the bank guarantee drawing,
- proceedings instigated in 2013 as a result of the plaint brought by a guarantee beneficiary for the payment of PLN 43 760 thousand as the bank guarantee drawing,
- proceedings instigated in the first quarter of 2014 as a result of the plaint brought by guarantee beneficiaries for the payment of PLN 32 750 thousand as the bank guarantee drawing,
- proceedings instigated in the first quarter of 2015 as a result of the plaint brought by guarantee beneficiary for the payment of PLN 29 205 thousand as the bank guarantee drawing.

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

As at 31 December 2015, the Bank created provisions for litigations against the Bank which, according to the legal opinion, are connected with a risk of the funds outflow resulting from the fulfillment of the obligation. The value of the above provisions as at 31 December 2015 is PLN 7 870 thousand (PLN 32 975 thousand as at 31 December 2014).

UOKIK proceedings

On 4 April 2015 the President of the Office of Competition and Consumer Protection ('UOKIK') issued a decision to initiate proceedings regarding Bank Pekao S.A. in relation to suspected application of a practice contradictory to established customs, which may infringe collective interests of consumers involving a provision, contradicting agreements for mortgage loans expressed/ denominated/ indexed in CHF – not to take into account, when calculating the interest rate on these loans, the negative LIBOR value, when this index is higher than the value of the margin specified in the loan agreement.

On 20 August 2015 the Bank submitted a response in which it presented its position on the allegations justifying that the Bank's practice does not infringe collective interests of consumers.

So far the proceedings have not been closed with a final decision of the UOKIK President.

On 30 December 2015 the UOKIK President issued a decision to initiate proceedings regarding practices which may infringe collective interests of consumers, involving notifying the consumers of changes of the agreement terms during the agreement effective period only via Pekao24 electronic banking system, which does not constitute a permanent information carrier as defined in the Payment Services Act of 19 August 2011, which may breach the obligation arising from the Payment Services Act, and involving non-inclusion, in communication addressed to consumers related to a unilateral change of the agreement terms, of important information allowing the consumers to determine whether the proposed changes are acceptable and also involving a unilateral modification of agreement templates when there are no legal grounds for making such modifications, which may be contradictory to established customs.

On 25 January 2016 the Bank submitted its response in which it addressed the presented allegations arguing that the Bank's practice does not infringe collective interests of consumers.

So far the proceedings have not been closed with a final decision of the UOKIK President.

Notes to the financial statements (cont.)

(In PLN thousand)

Financial off–balance commitments granted

Financial commitments granted by entities

	31.12.2015	31.12.2014
Financial commitments to:		
financial entities	1 347 078	1 369 020
non - financial entities	28 475 315	24 714 163
budget entities	848 356	944 954
Total	**30 670 749**	**27 028 137**

Off–balance guarantees issued

Guarantees issued by entities

	31.12.2015	31.12.2014
Liabilities to financial entities, including:	2 965 094	2 405 131
guarantees	2 962 444	2 404 500
confirmed export letters of credit	2 650	631
Liabilities to non-financial entities, including:	12 316 552	13 041 275
guarantees	7 510 268	7 474 912
securities' underwriting guarantees	4 806 284	5 566 363
Liabilities to budget entities, including:	368 176	151 974
guarantees	28 176	13 007
securities' underwriting guarantees	340 000	138 967
Total	**15 649 822**	**15 598 380**

Notes to the financial statements (cont.)

(In PLN thousand)

Securities underwriting

As at 31 December 2015, the following securities programs have been in place, covered by underwriting:

NAME OF ISSUER	TYPE OFSECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT IT SELF	CONTRACT LIFE
Client 1	bonds	1 385 000	23.07.10 - 30.06.20
Client 2	bonds	458 000	21.06.12 - 31.12.17
Client 3	bonds	99 220	06.12.12 - 31.03.16
Client 4	bonds	52 400	28.12.12 - 30.03.16
Client 5	bonds	76 900	28.12.12 - 30.03.16
Client 6	bonds	164 700	01.07.11 - 20.12.17
Client 7	bonds	11 430	20.05.13 - 24.02.16
Client 8	bonds	17 200	14.04.15 - 10.06.16
Client 9	bonds	78 000	14.04.15 - 10.06.16
Client 10	bonds	484 880	22.10.13 - 14.12.16
Client 11	bonds	50 000	22.10.13 - 14.12.16
Client 12	bonds	16 250	27.01.14 - 30.09.16
Client 13	bonds	6 500	15.05.14 - 31.12.16
Client 14	bonds	700	31.05.14 - 31.12.16
Client 15	bonds	157 510	30.06.14 - 31.03.17
Client 16	bonds	61 710	22.07.14 - 31.07.16
Client 17	bonds	6 530	22.07.14 - 31.07.16
Client 18	bonds	100 000	30.07.14 - 30.06.19
Client 19	bonds	830	29.07.14 - 30.06.16
Client 20	bonds	20 450	29.07.14 - 30.09.16
Client 21	bonds	25 000	25.08.14 - 31.08.16
Client 22	bonds	45 770	29.05.14 - 30.04.16
Client 23	bonds	29 050	15.09.14 - 31.12.16
Client 24	bonds	20 000	15.09.14 - 31.12.16
Client 25	bonds	5 600	15.09.14 - 31.12.16
Client 26	bonds	33 790	31.10.14 - 31.03.16
Client 27	bonds	50 000	22.12.14 - 30.06.17
Client 28	bonds	52 135	30.12.14 - 30.06.16
Client 29	bonds	1 378	30.12.14 - 31.03.16
Client 30	bonds	198 780	30.12.14 - 09.03.16
Client 31	bonds	20 500	30.12.14 - 31.12.16
Client 32	bonds	230 000	23.02.15 - 30.06.17
Client 33	bonds	100 000	23.02.15 - 30.11.22
Client 34	bonds	350 000	20.02.15 - 30.04.16
Client 35	bonds	16 000	27.01.15 - 31.12.16
Client 36	bonds	74 000	31.12.15 - 31.12.16
Client 37	bonds	39 000	14.10.15 - 31.12.17
Client 38	bonds	12 500	14.10.15 - 31.12.17
Client 39	bonds	154 955	18.12.15 - 30.09.16
Client 40	bonds	30 000	28.12.15 - 31.12.17
Client 41	bonds	409 616	25.08.14 - 31.12.16

Securities covered by the Bank underwriting are classified as securities with unlimited marketability, unquoted on stock exchanges and not subject to regulated over-the-counter trading.

Notes to the financial statements (cont.)

(In PLN thousand)

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

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

Notes to the financial statements (cont.)

(In PLN thousand)

NAME OF ISSUER	TYPE OFSECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT IT SELF	CONTRACT LIFE
Client 41	bonds	3 580	29.05.14 - 30.04.15
Client 42	bonds	50 000	14.09.14 - 30.06.15
Client 43	bonds	6 500	08.09.14 - 31.12.16
Client 44	bonds	950	09.12.13 - 31.12.15
Client 45	bonds	8 544	03.09.14 - 31.12.15
Client 46	bonds	16 000	09.10.14 - 31.12.15
Client 47	bonds	3 500	09.10.14 - 31.12.15
Client 48	bonds	46 140	31.10.14 - 31.03.16
Client 49	bonds	4 700	28.11.14 - 31.12.15
Client 50	bonds	3 000	15.12.14 - 31.12.15
Client 51	bonds	50 000	22.12.14 - 30.06.17
Client 52	bonds	119 500	30.12.14 - 31.12.15
Client 53	bonds	100 000	30.12.14 - 30.06.16
Client 54	bonds	7 500	30.12.14 - 31.03.16
Client 55	bonds	198 780	30.12.14 - 09.03.16
Client 56	bonds	20 500	30.12.14 - 31.12.16
Client 57	bonds	368 256	25.08.14 - 31.12.16

Securities covered by the Bank underwriting are classified as securities with unlimited marketability, unquoted on stock exchanges and not subject to regulated over-the-counter trading.

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance commitments received

Commitments received by entities

	31.12.2015	31.12.2014
Financial commitments from:	288 808	457 254
financial entities	288 808	457 254
non - financial entities	-	-
budget entities	-	-
Guarantees from:	11 587 585	12 172 352
financial entities	1 074 498	1 321 440
non - financial entities	9 759 234	10 102 000
budget entities	753 853	748 912
Total	**11 876 393**	**12 629 606**

Moreover, the Bank has the ability to obtain financing from National Bank of Poland secured by government securities.

47. Share capital

Shareholding structure

CLASS/ISSUE	TYPE OF SHARES	NUMBER OF SHARES	NOMINAL VALUE OF CLASS/ISSUE	EQUITY COVERAGE	DATE OF REGISTRATION	DIVIDEND RIGHTS (FROM DATE)
A	Common bearer stock	137 650 000	137 650	Fully paid-up	21.12.1997	01.01.1998
B	Common bearer stock	7 690 000	7 690	Fully paid-up	06.10.1998	01.01.1998
C	Common bearer stock	10 630 632	10 631	Fully paid-up	12.12.2000	01.01.2000
D	Common bearer stock	9 777 571	9 777	Fully paid-up	12.12.2000	01.01.2000
E	Common bearer stock	373 644	374	Fully paid-up	29.08.2003	01.01.2003
F	Common bearer stock	621 411	621	Fully paid-up	29.08.2003	19.05.2006 16.05.2007
G	Common bearer stock	603 377	603	Fully paid-up	29.08.2003	15.05.2008
H	Common bearer stock	359 840	360	Fully paid-up	12.08.2004	01.01.2004
I	Common bearer stock	94 763 559	94 764	Fully paid-up	29.11.2007	01.01.2008
Total number of Shares (pcs)		**262 470 034**				
Total share capital in PLN thousand			**262 470**			
Nominal value per share = PLN 1.00						

Change in the number of shares (pcs):

2015	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262 470 034	262 470 034
Closing balance	262 470 034	262 470 034

2014	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262 470 034	262 470 034
Closing balance	262 470 034	262 470 034

Notes to the financial statements (cont.)

(In PLN thousand)

48. Other capital and reserves, retained earnings and profit for the period

The table below presents the structure of the Bank's equity

	31.12.2015	31.12.2014
Reserve capital, including:	9 326 529	9 326 529
issue of shares above face value	9 137 221	9 137 221
other	189 308	189 308
Revaluation reserve, including:	283 222	540 591
remeasurements of the defined benefit liabilities	(86 829)	(99 507)
deferred tax	16 497	18 906
revaluation of financial assets portfolio available for sale	391 205	628 282
deferred tax	(74 328)	(119 373)
revaluation of financial hedging instruments portfolio	45 280	138 621
deferred tax	(8 603)	(26 338)
Foreign currency translation differences	-	1 169
General Banking Risk Fund	1 975 415	1 937 850
Other reserve capital	8 612 550	8 612 550
Bonds convertible into shares- capital component	28 819	28 819
Funds for brokerage activities	15 000	15 000
Total other capital	**20 241 535**	**20 462 508**
Profit (loss) from previous periods	-	-
Net profit for the period	2 290 398	2 662 266
Total retained earnings and profit for the period	**2 290 398**	**2 662 266**
Total	**22 531 933**	**23 124 774**

The net profit of the Bank for 2014 in the amount of PLN 2 662 266 thousand was distributed in the following way: PLN 2 624 701 thousand – to dividend, PLN 37 565 thousand – to General Banking Risk Fund.

From 1982 to 1984 and from 1988 to 1996, the Bank operated in a hyperinflationary economic environment.

IAS 29 'Financial Reporting in Hyperinflationary Economies' requires restatement of each component of owners' equity (except for retained earnings and revaluation surplus) by applying a general price index for the period of hyperinflation. This retrospective application would have resulted in an increase in share capital and other reserves and a decrease in retained earnings in equivalent amounts. This restatement would not have any effect on the total amount of the Bank's equity.

(In PLN thousand)

49. Additional information to the cash flow statement

Cash and cash equivalents

	31.12.2015	31.12.2014
Cash and amounts due from Central Bank	7 881 598	9 226 249
Loans and receivables from banks with maturity up to 3 months	6 686 824	6 327 092
Cash and Cash equivalents presented in the cash flow statement	**14 568 422**	**15 553 341**

Restricted availability cash and cash equivalents as at 31 December 2015 amounted to PLN 4 338 995 thousand (PLN 4 021 406 thousand as at 31 December 2014).

50. Related party transactions

Transactions between the Bank and related parties are typical transactions arising from current operating activities conducted by the Bank. Such transactions mainly include loans, deposits, foreign currency transactions and guarantees.

The credit granting process applicable to the Bank's management and entities related to the Bank

According to the Banking Act, credit transactions with Members of the Banks Management Board and Supervisory Board, persons holding managerial positions at the Bank, with the entities related financially or organizationally therewith, shall be effected according to Regulation adopted by the Supervisory Board of the Bank.

The Regulation provides detailed decision-making procedures, applicable to transactions with such persons and entities, also defining the decision-making levels authorized to take decisions. In particular, the transactions with the Members of the Bank's Management Board or Supervisory Board or with an entity related therewith financially or organizationally, are subject to decisions taken by the Bank's Management Board and Supervisory Board.

Members of the Bank's Management Board and entities related therewith financially or organizationally may take advantage of credit products offered by the Bank on standard terms and conditions of the Bank. In particular, the Bank may not offer more advantageous credit interest rates to such persons or entities.

Credit risk assessment is performed using the methodology applied by the Bank, tailored to the client's segment and type of transaction.

In case of entities related to the Bank, the standard credit procedures are applied, with transaction-related decisions taken exclusively at level of the Bank's Head Office.

Notes to the financial statements (cont.)

(In PLN thousand)

Related party transactions

Related party transactions as at 31 December 2015

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank's parent entity	605 703	-	-	596	1 209	-	1 048
Entities of UniCredit Group excluding of Pekao S.A. Group entities	1 114 848	-	55 861	3 757	1 132 960	653 064	-
Bank Pekao S.A. Group entities							
Subsidiaries							
Pekao Investment Banking S.A.	-	-	-	1	214 494	-	192
Pekao Leasing Sp. z o.o.	2 142 872	-	556	17 307	27 025	4	15 853
Pekao Faktoring Sp. z o.o.	1 032 567	-	-	1	3 348	-	-
Centralny Dom Maklerski Pekao S.A.	1	-	1	433	672 467	-	49
Pekao Fundusz Kapitałowy Sp. z o.o.	-	-	-	6	52 819	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	-	122	44 995	-	-
Centrum Kart S.A.	1	-	-	288	27 742	-	7 223
Pekao Financial Services Sp. z o. o.	-	-	-	4	14 302	-	-
Pekao Bank Hipoteczny S.A.	140 039	58 509	48 115	-	24 975	5 430	34
Pekao Leasing Holding S.A. (in liquidation)	-	-	-	-	83 151	-	-
Pekao Property S.A.	4 137	-	-	1	2 397	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	13	-	-	-	964	-	5 210
FPB – Media Sp. z o. o.	10 352	-	-	-	316	-	-
Associates							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	3	25 262	-	29
Pioneer Pekao Investment Management S.A.	-	-	-	-	162 752	-	23
Pioneer Pekao TFI S.A. (PPIM S.A subsidiary)	-	-	-	13 382	115 116	-	21
Total of Bank Pekao S.A. Group entities	**3 329 982**	**58 509**	**48 672**	**31 548**	**1 472 125**	**5 434**	**28 634**
Key management personnel of the Bank and UniCredit S.p.A.	8 568	-	-	-	22 165	-	-
Total	**5 059 101**	**58 509**	**104 533**	**35 901**	**2 628 459**	**658 498**	**29 682**

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by contractual maturity

31.12.2015	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	8 497	597 206	-	-	-	-	605 703
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	616 160	94 797	482	779	402 630	-	1 114 848
Bank Pekao S.A. Group entities							
Subsidiaries	302 541	56 008	45 668	878 008	1 988 455	59 302	3 329 982
Associates	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	5 999	-	37	186	2 346	8 568
Total	**927 198**	**754 010**	**46 150**	**878 824**	**2 391 271**	**61 648**	**5 059 101**

(*) Current receivables include Nostro account and cash collaterals

Liabilities due to loans and deposits by contractual maturity

31.12.2015	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	1 209	-	-	-	-	-	1 209
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	160 673	8 458	963 829	-	-	-	1 132 960
Bank Pekao S.A. Group entities							
Subsidiaries	801 213	239 584	16 773	94 293	17 132	-	1 168 995
Associates	16 224	92 203	194 703	-	-	-	303 130
Key management personnel of the Bank and UniCredit S.p.A.	4 459	4 007	9 841	3 808	50	-	22 165
Total	**983 778**	**344 252**	**1 185 146**	**98 101**	**17 182**	**-**	**2 628 459**

(*) Current receivables include Loro account and cash collaterals

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currency

31.12.2015	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	243 767	350 936	-	11 000	-	605 703
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	598 100	403 900	7	67 079	45 762	1 114 848
Bank Pekao S.A. Group entities						
Subsidiaries	424 691	15 055	2 390	2 887 845	1	3 329 982
Associates	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	8 568	-	8 568
Total	**1 266 558**	**769 891**	**2 397**	**2 974 492**	**45 763**	**5 059 101**

Liabilities due to loans and deposits by currency

31.12.2015	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	-	-	-	1 209	-	1 209
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	1 010 843	261	-	121 856	-	1 132 960
Bank Pekao S.A. Group entities						
Subsidiaries	27 388	32 718	21 402	1 083 885	3 602	1 168 995
Associates	-	-	-	303 130	-	303 130
Key management personnel of the Bank and UniCredit S.p.A.	7 129	920	-	14 113	3	22 165
Total	**1 045 360**	**33 899**	**21 402**	**1 524 193**	**3 605**	**2 628 459**

Notes to the financial statements (cont.)

(In PLN thousand)

Related party transactions as at 31 December 2014

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
UniCredit S.p.A. – the Bank's parent entity	183 634	-	-	-	15 339	-	654
Entities of UniCredit Group excluding of Pekao S.A. Group entities	1 496 377	-	456 005	4 040	401 444	1 002 599	-
Bank Pekao S.A. Group entities							
Subsidiaries							
Pekao Leasing Sp. z o.o.	1 201 450	-	782	1 123	205 101	-	541
Pekao Faktoring Sp. z o.o.	1 052 341	-	-	16	213 938	-	-
Centralny Dom Maklerski Pekao S.A.	-	-	-	398	984 495	-	56
Pekao Fundusz Kapitałowy Sp. z o.o.	-	-	-	1	46 620	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	-	39	65 366	-	-
Pekao Telecentrum Sp. z o.o. (in liquidation)	-	-	-	-	10 571	-	-
Centrum Kart S.A.	-	-	-	382	30 476	-	5 966
Pekao Financial Services Sp. z o. o.	-	-	-	4	12 883	-	-
Pekao Bank Hipoteczny S.A.	46 135	64 625	16 310	-	16 092	4 717	29
Pekao Leasing Holding S.A.	-	-	-	-	70	-	-
Property Sp. z o.o. (in liquidation)	-	-	-	-	-	-	-
Pekao Property S.A.	11 371	-	-	-	4 819	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	-	-	17	1 079	-	4 304
FPB – Media Sp. z o. o.	11 167	-	-	-	275	-	-
Associates							
Dom Inwestycyjny Xelion Sp. z o.o.	-	-	-	3	22 812	-	36
Pioneer Pekao Investment Management S.A.	-	-	-	-	154 825	-	3
Pioneer Pekao TFI S.A. (PPIM S.A subsidiary)	-	-	-	19 645	144 297	-	9
Krajowa Izba Rozliczeniowa S.A.	-	-	-	-	7 766	-	-
Total of Bank Pekao S.A. Group entities	**2 322 464**	**64 625**	**17 092**	**21 628**	**1 921 485**	**4 717**	**10 944**
Key management personnel of the Bank and UniCredit S.p.A.	6 383	-	-	-	33 273	-	-
Total	**4 008 858**	**64 625**	**473 097**	**25 668**	**2 371 541**	**1 007 316**	**11 598**

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by contractual maturity

31.12.2014	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	4 766	178 868	-	-	-	-	183 634
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	621 730	117 880	43 212	351 608	361 947	-	1 496 377
Bank Pekao S.A. Group entities							
Subsidiaries	286 683	23 356	41 134	898 436	967 349	99 299	2 316 257
Associates	-	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	5 998	-	-	48	337	6 383
Total	**913 179**	**326 102**	**84 346**	**1 250 044**	**1 329 344**	**99 636**	**4 002 651**

(*) Current receivables include Nostro account and cash collaterals

Liabilities due to loans and deposits by contractual maturity

31.12.2014	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1AND 5 YEARS	OVER 5 YEARS	TOTAL
UniCredit S.p.A. – the Bank's parent entity	15 339	-	-	-	-	-	15 339
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	126 309	262 348	-	12 787	-	-	401 444
Bank Pekao S.A. Group entities							
Subsidiaries	787 748	410 352	73 185	18 647	24 394	-	1 314 326
Associates	28 208	102 192	198 800	500	-	-	329 700
Key management personnel of the Bank and UniCredit S.p.A.	15 626	8 679	8 425	443	100	-	33 273
Total	**973 230**	**783 571**	**280 410**	**32 377**	**24 494**	**-**	**2 094 082**

(*) Current receivables include Loro account and cash collaterals

Notes to the financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by currency

31.12.2014	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	3 581	180 053	-	-	-	183 634
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	606 305	714 067	6	142 385	33 614	1 496 377
Bank Pekao S.A. Group entities						
Subsidiaries	405 961	7 179	3 464	1 899 652	1	2 316 257
Associates	-	-	-	-	-	-
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	6 383	-	6 383
Total	**1 015 847**	**901 299**	**3 470**	**2 048 420**	**33 615**	**4 002 651**

Liabilities due to loans and deposits by currency

31.12.2014	EUR	USD	CHF	PLN	OTHER	TOTAL
UniCredit S.p.A. – the Bank's parent entity	-	-	-	15 339	-	15 339
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	37 093	140	-	364 211	-	401 444
Bank Pekao S.A. Group entities						
Subsidiaries	17 469	23 110	4 029	1 267 610	2 108	1 314 326
Associates	-	-	-	329 700	-	329 700
Key management personnel of the Bank and UniCredit S.p.A.	2 894	845	-	22 825	6 709	33 273
Total	**57 456**	**24 095**	**4 029**	**1 999 685**	**8 817**	**2 094 082**

Notes to the financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2015 to 31 December 2015

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	216	(246)	1 689	(3 070)	811	(15 449)
Entities of UniCredit Group excluding of Pekao S.A. Group entities	42 043	(1 664)	6 655	(188)	40 544	(6 514)
Pekao S.A. Group entities						
Subsidiaries						
Pekao Investment Banking S.A.	1	(3 526)	648	-	656	(224)
Centralny Dom Maklerski Pekao S.A.	-	(3 949)	1 470	(16)	3 320	(3 102)
Pekao Leasing Sp. z o.o.	41 219	(8 517)	5 226	(47)	3 894	(160)
Pekao Faktoring Sp. z o.o.	12 207	(12)	363	-	218	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(878)	526	-	6	-
Pekao Fundusz Kapitałowy Sp. z o.o.	-	(698)	6	-	26	-
Centrum Kart S.A.	-	(330)	30	-	1 195	(51 967)
Pekao Financial Services Sp. z o.o.	-	(162)	44	-	41	-
Pekao Bank Hipoteczny S.A.	2 263	(355)	718	-	164	(8 148)
Pekao Leasing Holding S.A. (in liquidation)	-	(556)	8	-	1	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	7	(1)	15	(14 733)	1 672	(34 292)
Pekao Property S.A.	203	(16)	18	-	17	-
FPB - Media Sp .z o.o.	414	(1)	4	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(2 761)	26	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(1 973)	189 262	-	-	-
Dom Inwestycyjny Xelion Sp. z o.o.	-	(361)	64	(11)	169	(1)
Krajowa Izba Rozliczeniowa S.A. (*)	-	(135)	57	-	-	(4 302)
Total of Pekao S.A. Group entities	**56 314**	**(24 231)**	**198 485**	**(14 807)**	**11 379**	**(102 196)**
Key management personnel of the Bank and UniCredit S.p.A.	253	(419)	17	-	-	-
Total	**98 826**	**(26 560)**	**206 846**	**(18 065)**	**52 734**	**(124 159)**

(*) until sale's date 3 125 shares

Notes to the financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2014 to 31 December 2014

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	POSITIVE VALUATION OF DERIVATIVES AND OTHER INCOME	NEGATIVE VALUATION OF DERIVATIVES AND OTHER EXPENSES
UniCredit S.p.A. – the Bank's parent entity	181	(11)	342	(2 742)	1 108	(13 410)
Entities of UniCredit Group excluding of Pekao S.A. Group entities	48 599	(9 800)	6 206	(228)	7 401	(26 722)
Pekao S.A. Group entities						
Subsidiaries						
Centralny Dom Maklerski Pekao S.A.	-	(7 130)	1 525	(701)	2 894	(2 910)
Pekao Leasing Sp. z o.o.	33 498	(6 843)	3 018	(5)	4 538	-
Pekao Faktoring Sp. z o.o.	15 852	(14)	651	-	168	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(1 289)	786	-	6	-
Pekao Fundusz Kapitałowy Sp. z o.o.	-	(1 089)	6	-	12	-
Centrum Kart S.A.	-	(536)	30	-	862	(55 944)
Pekao Telecentrum Sp. z o.o. (in liquidation)	-	(188)	2	-	3	-
Pekao Financial Services Sp. z o.o.	-	(198)	35	-	42	-
Pekao Bank Hipoteczny S.A.	1 914	(842)	699	-	160	(9 766)
Pekao Leasing Holding S.A.	-	(2)	8	-	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	1	(15)	17	(13 489)	1 892	(31 051)
Pekao Property S.A.	286	(79)	13	-	56	-
FPB - Media Sp .z o.o.	412	-	5	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(3 841)	263	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	-	(3 221)	191 850	-	-	(4)
Dom Inwestycyjny Xelion Sp. z o.o.	-	(565)	70	(24)	187	-
Krajowa Izba Rozliczeniowa S.A.	-	(148)	162	-	-	(9 377)
Total of Pekao S.A. Group entities	**51 963**	**(26 000)**	**199 140**	**(14 219)**	**10 820**	**(109 052)**
Key management personnel of the Bank and UniCredit S.p.A.	261	(633)	15	-	-	-
Total	**101 004**	**(36 444)**	**205 703**	**(17 189)**	**19 329**	**(149 184)**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees as at 31 December 2015

NAME OF ENTITY	GRANTED		RECEIVED
	FINANCIAL	GUARANTEES	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	48 223	236 659	14 588
Entities of UniCredit Group excluding of Bank Pekao S.A. Group	179 072	890 343	34 490
Bank Pekao S.A. Group entities			
Subsidiaries			
Pekao Investment Banking S.A.	140	-	-
Pekao Leasing Sp. z o.o.	217 599	1 258 101	-
Pekao Faktoring Sp. z o.o.	67 591	-	-
Centralny Dom Maklerski Pekao S.A.	112	127	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	60	-	-
Centrum Kart S.A.	67	-	-
Pekao Financial Services Sp. z o. o.	45	847	-
Pekao Bank Hipoteczny S.A.	360 673	394 530	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	2 037	-	-
Pekao Property Sp. z o. o.	-	76	-
Associates			
Dom Inwestycyjny Xelion Sp. z o.o.	2 000	-	-
Pioneer Pekao Investment Management S.A.	15	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	52	-	-
Total of Pekao S.A. Group entities	**650 391**	**1 653 681**	**-**
Key management personnel of the Bank and UniCredit S.p.A.	697	-	-
Total	**878 383**	**2 780 683**	**49 078**

As at 31 December 2014, the Bank did not have off-balance sheet financial commitments received from related parties.

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees by contractual maturity

31.12.2015	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – Bank's parent entity	-	-	-	28 223	-	20 000	48 223
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	-	179 072	-	-	179 072
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	360 624	219 674	68 026	-	648 324
Associates	-	-	-	2 007	60	-	2 067
Key management personnel of the Bank and UniCredit S.p.A.	30	515	5	18	129	-	697
Total	**30**	**515**	**360 629**	**428 994**	**68 215**	**20 000**	**878 383**
GUARANTEES ISSUED							
UniCredit S.p.A. – Bank's parent entity	-	2 631	17 719	66 440	83 818	66 051	236 659
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	16 189	98 861	90 053	322 855	362 385	890 343
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	-	1 513	659	1 651 509	1 653 681
Total	**-**	**18 820**	**116 580**	**158 006**	**407 332**	**2 079 945**	**2 780 683**
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	-	-	-	11 300	3 288	-	14 588
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	553	30 406	3 531	-	34 490
Total	**-**	**-**	**553**	**41 706**	**6 819**	**-**	**49 078**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees by currency

31.12.2015	EUR	USD	CHF	PLN	OHTER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – Bank's parent entity	28 223	-	-	20 000	-	48 223
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	77 772	-	-	101 300	-	179 072
Bank Pekao S.A. Group entities						
Subsidiaries	12 246	5 305	-	629 038	1 735	648 324
Associates	-	-	-	2 067	-	2 067
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	697	-	697
Total	**118 241**	**5 305**	**-**	**753 102**	**1 735**	**878 383**
GUARANTEES ISSUED						
UniCredit S.p.A. – Bank's parent entity	10 497	-	-	226 162	-	236 659
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	60 778	-	-	829 565	-	890 343
Bank Pekao S.A. Group entities						
Subsidiaries	1 258 543	-	393 940	1 198	-	1 653 681
Total	**1 329 818**	**-**	**393 940**	**1 056 925**	**-**	**2 780 683**
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	3 288	-	-	11 300	-	14 588
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	8 147	-	-	26 343	-	34 490
Total	**11 435**	**-**	**-**	**37 643**	**-**	**49 078**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees as at 31 December 2014

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEES
UniCredit S.p.A. – the Bank's parent entity	39 009	270 784	-	25 121
Entities of UniCredit Group excluding of Bank Pekao S.A. Group	96 655	557 728	9 885	51 596
Bank Pekao S.A. Group entities				
Subsidiaries				
Pekao Leasing Sp. z o.o.	241 453	1 076 611	-	-
Pekao Faktoring Sp. z o.o.	46 883	-	-	-
Centralny Dom Maklerski Pekao S.A.	114	127	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	60	-	-	-
Centrum Kart S.A.	63	-	-	-
Pekao Financial Services Sp. z o. o.	40	847	-	-
Pekao Bank Hipoteczny S.A.	453 441	355 026	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	3 033	-	-	-
Pekao Property Sp. z o. o.	-	76	-	-
Associates				
Dom Inwestycyjny Xelion Sp. z o.o.	10 030	-	-	-
Pioneer Pekao Investment Management S.A.	15	-	-	-
Pioneer Pekao TFI S.A. (PPIM S.A. subsidiary)	54	-	-	-
Krajowa Izba Rozliczeniowa S.A.	-	500	-	-
Total of Pekao S.A. Group entities	**755 186**	**1 433 187**	**-**	**-**
Key management personnel of the Bank and UniCredit S.p.A.	874	-	-	-
Total	**891 724**	**2 261 699**	**9 885**	**76 717**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees by contractual maturity

31.12.2014	CURRENT	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL COMMITMENTS GRANTED							
UniCredit S.p.A. – Bank's parent entity	-	-	-	39 009	-	-	39 009
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	-	96 464	191	-	96 655
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	-	244 441	500 646	-	745 087
Associates	-	-	-	10 015	84	-	10 099
Key management personnel of the Bank and UniCredit S.p.A.	20	516	5	50	273	10	874
Total	**20**	**516**	**5**	**389 979**	**501 194**	**10**	**891 724**
GUARANTEES ISSUED							
UniCredit S.p.A. – Bank's parent entity	-	-	700	84 875	42 909	142 300	270 784
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	1 214	1 228	44 810	307 825	202 651	557 728
Bank Pekao S.A. Group entities							
Subsidiaries	-	-	-	1 815	110 735	1 320 137	1 432 687
Associates	-	-	-	500	-	-	500
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	-	-	-	-
Total	**-**	**1 214**	**1 928**	**132 000**	**461 469**	**1 665 088**	**2 261 699**
FINANCIAL RECEIVED							
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	9 885	-	-	-	-	-	9 885
Total	**9 885**	**-**	**-**	**-**	**-**	**-**	**9 885**
GUARANTEES RECEIVED							
UniCredit S.p.A. – the Bank's parent entity	-	1 211	725	14 994	6 699	1 492	25 121
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	550	32 986	15 912	2 148	51 596
Total	**-**	**1 211**	**1 275**	**47 980**	**22 611**	**3 640**	**76 717**

Notes to the financial statements (cont.)

(In PLN thousand)

Off-balance sheet financial commitments and guarantees by currency

31.12.2014	EUR	USD	CHF	PLN	OTHER	TOTAL
FINANCIAL COMMITMENTS GRANTED						
UniCredit S.p.A. – Bank's parent entity	39 009	-	-	-	-	39 009
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	35 164	-	-	61 491	-	96 655
Bank Pekao S.A. Group entities						
Subsidiaries	23 869	4 524	-	715 055	1 639	745 087
Associates	-	-	-	10 099	-	10 099
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	874	-	874
Total	**98 042**	**4 524**	**-**	**787 519**	**1 639**	**891 724**
GUARANTEES ISSUED						
UniCredit S.p.A. – Bank's parent entity	9 607	-	-	261 177	-	270 784
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	46 734	-	-	510 994	-	557 728
Bank Pekao S.A. Group entities						
Subsidiaries	966 641	-	354 470	111 576	-	1 432 687
Associates	-	-	-	500	-	500
Key management personnel of the Bank and UniCredit S.p.A.	-	-	-	-	-	-
Total	**1 022 982**	**-**	**354 470**	**884 247**	**-**	**2 261 699**
FINANCIAL RECEIVED						
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	-	-	-	9 885	-	9 885
Total	**-**	**-**	**-**	**9 885**	**-**	**9 885**
GUARANTEES RECEIVED						
UniCredit S.p.A. – the Bank's parent entity	18 130	-	-	6 991	-	25 121
Entities of UniCredit Group excluding of Bank Pekao S.A. Group entities	18 336	-	-	33 260	-	51 596
Total	**36 466**	**-**	**-**	**40 251**	**-**	**76 717**

Notes to the financial statements (cont.)

(In PLN thousand)

Remuneration expenses of the Bank's Management Board and Supervisory Board Members

Short-term employee benefits related to the Management Board of the Bank in 2015 amounted to PLN 17 144 thousand, compared to PLN 15 652 thousand in 2014. Short-term employee benefits included: base salary, bonuses and other benefits due in next 12 months from the balance sheet date.

Long-term benefits related to the Management Board of the Bank amounted to PLN 2 453 thousand in 2015, compared to PLN 2 171 thousand in 2014 and comprised of provisions for deferred bonus payments.

The expenses of 2015 included PLN 3 473 thousand in respect of share-based payments, compared to PLN 7 294 thousand in 2014. The value of share-based payments is a part of Personnel Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of fair value of phantom shares, granted to the Members of the Bank's Management Board.

Remuneration expenses of Supervisory Board of the Bank, comprising short-term employee benefits, amounted to PLN 978 thousand in 2015, compared to PLN 925 thousand in 2014.

The Bank's Management Board and Supervisory Board Members did not receive any remuneration from subsidiaries and associates in 2015 and in 2014.

Notes to the financial statements (cont.)

(In PLN thousand)

51. Repo and reverse repo transactions

The Bank increases its funds through the sale of financial instruments with the repurchase promise granted (repo and sell-buy back) at the same price increased by interest.

Securities composing the balance sheet portfolio of the Bank as well as securities with obligation of resale (reverse repo and buy-sell back transactions) may be a subject to repo and sell-buy back transactions.

Securities composing the balance sheet portfolio of the Bank and treated as repo and sell-buy back transactions are not derecognized from the statement of financial position due to the fact that the Bank holds all benefits and risk deriving from these assets.

	31.12.2015		31.12.2014	
	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RELATED LIABILITIES	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RELATED LIABILITIES
Financial assets available for sale				
up to 1 month	2 359 798	2 357 096	2 861 822	2 862 964
from 1 to 3 months	1 032 882	1 029 821	141 383	141 418
from 3 months to 1 year	1 503	1 504	-	-
Total financial assets available for sale	**3 394 183**	**3 388 421**	**3 003 205**	**3 004 382**
Financial assets purchased under reverse repo and buy-sell back				
up to 1 month	2 050 199	2 044 228	2 380 498	2 378 310
Total financial assets purchased under reverse repo and buy-sell back	**2 050 199**	**2 044 228**	**2 380 498**	**2 378 310**
Total	**5 444 382**	**5 432 649**	**5 383 703**	**5 382 692**

The Bank purchases financial instruments with the obligations of repurchase or resale (reverse-repo and buy-sell back) at the same price increased by interest.

Securities treated as repo and sell-buy back transactions are not derecognized from the statement of financial position due to the fact that the Bank holds all the benefits and the risk deriving from these assets.

	31.12.2015		31.12.2014	
	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGING ASSETS	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGING ASSETS
Loans and advances from banks				
up to 1 month	1 757 063	1 757 459	1 930 811	1 930 148
Total loans and advances from banks	**1 757 063**	**1 757 459**	**1 930 811**	**1 930 148**
Loans and advances from customers				
up to 1 month	4 755 472	4 762 663	5 684 231	5 681 251
from 1 to 3 months	-	-	104 833	104 701
Total loans and advances from customers	**4 755 472**	**4 762 663**	**5 789 064**	**5 785 952**
Total	**6 512 535**	**6 520 122**	**7 719 875**	**7 716 100**

Financial assets which are subject to reverse repo and buy-sell back transactions constitute collateral accepted by the Bank, which the Bank has the right to sell or pledge.

	31.12.2015	31.12.2014
Fair value of assets pledged as collaterals, in this:	6 520 122	7 716 100
Short sale	611 442	591 311
Reverse repo transactions/ buy-sell-back	2 050 199	2 380 498

(In PLN thousand)

52. Company Social Benefits Fund ('ZFŚS')

The Social Benefits Fund Act of 4 March 1994 with subsequent amendments introduced the requirement to create a Company's Social Benefits Fund by all employers employing over 20 employees. The Bank has created the ZFŚS Fund and is making periodic charges to the ZFŚS Fund in amounts required by the Act. The basic aim of the ZFŚS Fund is to subsidize social assistance in benefit of the employees, former employees (pensioners and the retired) and entitled members of their families.

The liabilities of the ZFŚS Fund represent the accumulated value of charges made by the Company towards the ZFŚS Fund decreased by the amount of non-returnable expenditures of the ZFŚS Fund.

In the statement of financial position, the Bank netted the ZFŚS Fund assets against the ZFŚS Fund value, due to the fact that the assets of the ZFŚS Fund do not represent the assets of the Bank. For this reason the amount pertaining to the ZFŚS Fund in the unconsolidated statement of financial position as at 31 December 2015 and 31 December 2014 was nil.

The table below presents the assets according to type and book value, the balance of the Fund and costs related to ZFŚS

	31.12.2015	31.12.2014
Loans granted to employees	43 634	46 474
Cash at ZFŚS account	7 924	3 436
ZFŚS assets	**51 558**	**49 910**
ZFŚS value	**51 558**	**49 910**
	2015	**2014**
Deductions made to ZFŚS during fiscal period	24 268	24 544

(In PLN thousand)

53. Subsequent events

Tax on certain financial institutions

After the balance sheet date the Act of 15 January 2016 on tax on certain financial institutions was announced (Journal of Laws of 2016 Pos. 68). The Act regulates the taxation on assets of certain financial institutions. In the case of the Bank, the taxable amount will be excess of the total assets of more than PLN 4 billion. The law provides for the possibility of reducing the tax base, in the case of the Bank, among others by the value of own funds and the value of assets in the form of Treasury securities as at the last day of the month. The tax will amount to 0.0366% of the tax base per month. The Act comes into force on 1 February 2016.

The amount of tax which will actually be paid will depend on the tax base, which will be determined in the future at the end of each month. The Bank estimates that the monthly tax burden will range between PLN 40 million and PLN 50 million. The amounts paid will not be deductible for the purposes of income tax. The first accounting period for which the Bank will make the calculation and payment of the tax will be February 2016.

Signatures of all Management Board Members

Date	Name/Surname	Position/Function	Signature
08.02.2016	Luigi Lovaglio	President of the Management Board, CEO	
08.02.2016	Diego Biondo	Vice President of the Management Board	
08.02.2016	Andrzej Kopyrski	Vice President of the Management Board	
08.02.2016	Adam Niewiński	Vice President of the Management Board	
08.02.2016	Grzegorz Piwowar	Vice President of the Management Board	
08.02.2016	Stefano Santini	Vice President of the Management Board	
08.02.2016	Marian Ważyński	Vice President of the Management Board	

Glossary

Glossary

IFRS – International Financial Reporting Standards – the standards, interpretations and their structure adopted by the International Accounting Standards Board (IASB.).

IAS – International Accounting Standards – previous name of the standards forming part of the current IFRS.

IFRIC – International Financial Reporting Interpretations Committee – the committee operating under the International Accounting Standards Board publishing interpretations of IFRS.

CIRS – Currency Interest Rate Swap – the transaction exchange of principal amounts and interest payments in different currencies between two counterparties.

IRS – Interest Rate Swap – the agreement between two counterparties, under which the counterparties pay each other (at specified intervals during the contract life) interest on contractual principal of the contract, charged at a different interest rate.

FRA – Forward Rate Agreement – the contract under which two counterparties fix the interest rate that will apply in the future for a specified amount expressed in currency of the transaction for a predetermined period.

CAP – the financial agreement, which limits the risk borne by lender on a variable interest rate, exposed to the potential loss as a result of increase in interest rates. Cap option is a series of call options on interest rates, in which the issuer guarantees the buyer the compensation of the additional interest costs, that the buyer must pay if the interest rate on loan increases above the fixed interest rate.

FLOOR –the financial agreement, which limits the risk of incurring losses resulting from decrease in interest rates by the lender providing the loan at a variable interest rate. Floor option is a series of put options on interest rates, in which the issuer guarantees the interest to be paid on the loan if the interest rate on the loan decreases below the fixed interest rate.

IBNR – Incurred but Not Reported losses.

PD – Probability Default – the parameter used in Internal Ratings-Based Approach which determines the likelihood that the debtor will be unable to meet its obligation. PD is a financial term describing the likelihood of a default over an one year time horizon.

LGD – Loss Given Default – the percentage of loss over the total exposure when bank's counterparty goes to default.

EAD – Exposure at Default.

EL – Expected Loss.

CCF – Credit Conversion Factor.

A-IRB – Advanced Internal Ratings-Based Approach – advanced method where all parameters of risk (PD, LGD, EAD) are estimated by the bank using its own quantitative model for calculating the risk weighted assets (RWA).

VaR – Value at Risk – the risk measure by which the market value of an asset or portfolio may be reduced for a given assumptions, probability and time horizon.

EaR – Earnings at Risk – the maximum decrease of earnings, relative to specific goal, which might occur due to impact of market risk on specific risk factors for the given time horizon and confidence level.

ICAAP – Internal Capital Adequacy Assessment Process – the process of assessing internal capital adequacy.