



Bank Polski

# The PKO Bank Polski SA Group Directors' Report for the first half of 2014

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## 1. SELECTED FINANCIAL DATA

Due to changes in accounting policies on recognition of income and expenses collected from bancassurance introduced in 2013, the financial data for the year 2013 has been restated and brought to comparability. The accounting policies and calculation methods applied in condensed interim consolidated financial statements are consistent with those, which were applied in the annual consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2013.

Table 1. *Selected financial data of the PKO Bank Polski SA Group*

	1H 2014	1H 2013 restated	Change 1H 2014/1H 2013
Net profit	1 658.1 PLN million	1 539.2 PLN million	7.7% (y/y)
Result on business activities*	5 498.6 PLN million	5 005.9 PLN million	9.8% (y/y)
Net interest income	3 678.9 PLN million	3 380.5 PLN million	8.8% (y/y)
Net commission income	1 489.0 PLN million	1 434.4 PLN million	3.8% (y/y)
Administrative expenses	(2 468.5) PLN million	(2 225.5) PLN million	10.9% (y/y)
Net impairment allowance and write-downs	(971.1) PLN million	(866.9) PLN million	12.0% (y/y)
C/I	43.4 %	43.1 %	0.3 pp.
ROE NET	13.4 %	13.8 %	(0.4) pp.
ROA NET	1.6 %	1.7 %	(0.1) pp.

\* Result on business activities defined as operating profit before administrative expenses and net impairment allowance and write-downs.

The net profit of the PKO Bank Polski SA Group generated in the first half of this year amounted to PLN 1 658.1 million, which represents an increase of PLN 118.9 million compared with the corresponding period of the prior year. The achieved profit was determined by:

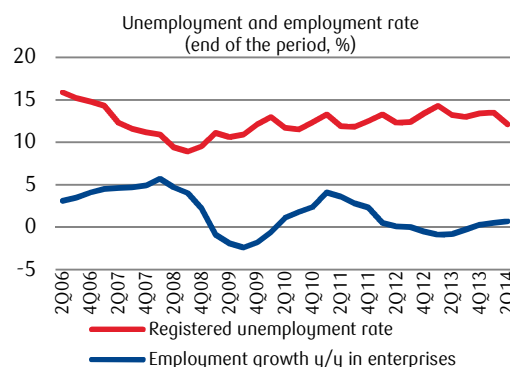
- improvement in the result on business activities of the PKO Bank Polski SA Group, which amounted to PLN 5 498.6 million (+PLN 492.6 million y/y), mainly due to an increase in net interest income of PLN 298.4 million y/y,
- increase of administrative expenses in annual terms of 10.9%,
- deterioration in the net impairment allowance and write-downs (- PLN 104.2 million y/y), mainly as a result of the less favourable outcome for off-balance sheet liabilities and intangible assets,
- effective structure of the statement of financial position – an increase in amounts due to customers, amounts due to banks and amounts due from issue of securities and subordinated liabilities totalling PLN 40.3 billion y/y enabled a dynamic increase in business activities. The loan to deposit ratio as at the end of the first half of 2014 amounted to 103.9%, and the ratio of loans to stable sources of funding amounted to 87.4%.

## 2. EXTERNAL ENVIRONMENT AFFECTING THE OPERATIONS AND RESULTS OF THE PKO BANK POLSKI SA GROUP

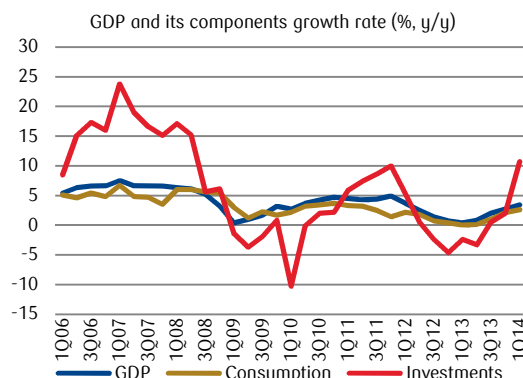
### 2.1 Macroeconomic environment

In the first half of 2014:

- the revival of the national economy was continued – annual growth of GDP sustained in the area of 3.2%-3.4% (in comparison to 2.7% in the fourth quarter of 2014), along with strong domestic demand (of consumption and investments). Polish export did not abate – the collapse of export to Russia and Ukraine was amply offset by increase in export to other markets,
- the situation on the labour market has improved – the registered unemployment rate decreased to 12.1% at the end of June (preliminary data of the Ministry of Labour and Social Policy) compared to 13.5% at the end of the first quarter of 2014, which constitutes a deepening decline as compared with the corresponding period of the previous year, thus not only a seasonal improvement on the labour market. The annual growth rate in salaries and wages in the enterprise sector reached 4.0% in the second quarter of 2014 compared to 4.1% in the first quarter of 2014, and the growth rate of employee pensions and disability benefits slowed down slightly to an average of 3.8% y/y in April-May 2014 compared to 4.4% in the first quarter of 2014,



- the inflationary pressure was suppressed – the CPI inflation amounted to 0.3% y/y in June 2014, compared to 0.7% y/y in March, accompanied by a slightly increasing contribution of fuel prices and stable core inflation. The overall decrease in inflation resulted from very strong decline in dynamics of food prices,
- there were no changes in monetary policy – in line with expectations, in the second quarter of 2014 there were no changes in monetary policy, but the strong decrease in inflation caused an increase in the likelihood of resumption of reductions in NBP interest rates.



## 2.2 The situation of the Polish banking sector

In the first half of 2014 financial result of banking sector was realised in the conditions of slight revival of national economy and maintaining historically low interest rates. The net profit of the banking sector amounted to PLN 8.7 billion at the end of June 2014 and was 6.3% higher than in the previous year. The change in the net profit was affected by:

- an increase in result on business activities (by 4.1% y/y), due to a strong increase in net interest income (by 14.7% y/y), along with a decrease in net fee and commission income (by 0.2% y/y) and decrease in result on other business activities (by ca. 22% y/y),
- an increase in administrative expenses (by 1.1% y/y),
- an increase in net impairment allowance (by 11.5% y/y).

There was a slight deterioration in operational efficiency of the banking sector: at the end of June 2014 C/I ratio increased to 52.2% compared to 51.8% in the corresponding period of 2013.

In the first half of 2014 an increase in impaired loans was insignificant (by 1.1%) and related to non-performing household loans, including non-performing housing loans (by 2.9%). At the end of June 2014, the ratio of total non-performing loans amounted to 8.3%, including corporate loans of 10.9%, housing loans of 3.1%, and consumer loans of 14.1%.

At the end of June 2014, the total assets of the banking sector amounted to PLN 1.493 trillion and were higher by 6.2% than as at the end of 2013. In the first half of 2014 the situation on the loan and deposit market was mainly affected by revival in banks' lending activity and growth in deposits.

In the first half of 2014, total loans increased by PLN 36.4 billion and their growth rate accelerated to 4.3% y/y compared to 3.8% y/y as at the end of 2013. After adjusting for changes in exchange rates, the total loans growth rate was higher and amounted ca. 6.1% y/y.

In the first half of 2014 revival in the corporate loans market was recorded. Their value increased by ca. PLN 16.6 billion, and a growth rate y/y increased to 4.5% from 1.8% as at the end of 2013. Approximately 68% of the corporate loans' growth was accounted for loans granted to large enterprises. The situation on the corporate loans market was a result of an improvement in the economic situation and increase in investment activity of companies, that have proceeded to the realisation of investments after their deposition due to the uncertainty of the economic situation. The lending activity addressed to small and medium enterprises was supported by continued government programme 'Portfelowa Linia Gwarancyjna de minimis'.

In the first half of 2014 the value of housing loans increased by PLN 8.2 billion, but the growth rate decreased y/y to 3.1% from 4.5% as at the end of 2013. It was an effect of exchange rate changes - after adjusting for changes in exchange rates the growth rate of these loans was stable and was 6.8% y/y. The increase in demand caused by lower interest rates and benefits from the 'Mieszkanie dla Młodych' programme had a positive impact on sales of housing loans.

At the end of the first half of 2014, a slight increase in the value of consumer loans portfolio was recorded compared to the end of 2013. The consumer loans growth rate increased to 5.2% y/y from 2.3% y/y as at the end of 2013. The situation in this market segment was determined primarily by easing the lending policy, growing consumption and low level of interest rates.

In the first half of 2014 the increase in the value of total deposits was slightly higher than loans; it was also higher by more than 63% than recorded in the corresponding period of 2013. The total deposits increased by ca. PLN 46 billion and their growth rate increased to 7.5% y/y from 5.6% y/y as at the end of 2013. The main source of the total deposit growth was a seasonal increase in the deposits of central and local government institutions sector by ca. PLN 38 billion. The increase in the households' deposits by approximately PLN 20 billion and a decrease in the corporate deposits by ca. PLN 8 billion and non-monetary financial institutions deposits were recorded. The increase in deposits was affected by an improving situation on the labour market, uncertainty on the stock market and low interest rates level.

At the end of the first half of 2014, the gap between loans and deposits amounted to PLN 44.4 billion; the ratio between loans and deposits was 104.8%.

## 2.3 The situation in the Polish non-banking sector

### Investment fund market

In the first half of 2014, a slowdown in the domestic investment funds market has occurred, which was a result of low valuation of investment fund units accompanied by a stable inflow of total net funds. Volatile situation on the stock market at the WSE in Warsaw had a negative effect on the situation on the investment fund market. The WIG index increased by 1.3% in the first half of 2014 compared with a 14.6% increase in the second half of 2013.

Despite that in the first half of 2014 the value of domestic investment funds' assets increased by approx. PLN 15 billion up to PLN 202.7 billion, their increment was 30% lower than in the second half of 2013 (+PLN 21 billion). This was a result of new funds net inflow (PLN 10 billion compared with PLN 11 billion in the second half of 2013) accompanied by a small increase in assets due to valuation (PLN 3.6 billion compared with PLN 9.8 billion in the second half of 2013). In terms of total funds net inflow, the net inflow of Individuals' funds decreased (-23%).

In the first half of 2014, the highest net inflow was recorded for non-public asset funds (+PLN 5.4 billion) as well as declared safe cash and monetary funds (+PLN 2.4 billion) and debt funds (+PLN 2.1 billion). Funds inflow to share funds has decreased significantly and constituted 7% of the inflow in the second half of 2013.

The situation on the funds market affected the banks' deposit base level, the structure of households' savings, non-interest income of banks participating in the distribution of investment fund units as well as the financial situation of investment fund companies.

#### *The market of open pension funds*

In the first half of 2014, the assets of open pension funds (OPFs) decreased by 49.1% to PLN 152.2 billion. The reduction of open pension funds market was mainly due to statutory changes in the pension system. In February 2014 open pension funds transferred to the Social Insurance Institution (ZUS) 51.5% of their assets, and the rate transferred to OPFs was reduced from 3.1% to 2.92% of gross remuneration of the insured. In the first half of 2014, the situation of the open pension funds market was also influenced by: weak situation on the WSE (the WIG index increased by ca. 1% compared with 14.6% increase in the second half of 2013) and statutory changes in investment policy (including prohibition on funds placement in treasury bonds). The improvement on the labour market had a positive impact on the funds market development (decrease in unemployment and increase of personal disposable income). In the first half of 2014, the number of OPF participants increased by 302 thousand up to 16.7 million which constituted 64% of the increase during 2013. As at the end of the first half of 2014 foreign shares in the portfolio of OPF increased up to PLN 7.4 billion compared with PLN 4.2 billion as at the end of 2013.

The weighted average rate of return realised by open pension funds in the first half of 2014 increased by 0.9% compared with a 7.9% increase in the second half of 2013.

#### *The lease market*

In the first half of 2014 a dynamic increase of the lease market was recorded. The value of assets financed by lease firms increased in the first half of 2014 by 31.8% y/y up to PLN 21.1 billion (compared with an increase of 5.6% in the first half of 2013). Leasing of vehicles had the greatest positive effect on the lease market development (an increase in value of financed assets of 46.8% y/y up to PLN 13.3 billion). Significant growth was also recorded in lease of machinery and equipment (23.7% y/y). The structure of the market was still dominated by lease of movable properties constituting 97.9% (94.4% as at the end of the first half of 2013). In the first half of 2014 the lease market operated within the environment of improving economic situation and tax changes, including the VAT write-off from heavy truck type-approval cars purchase.

#### *The factoring market*

In the first half of 2014, the factoring market recorded a high growth rate. The turnover of 20 factoring firms that belong to the Polish Factors Association increased by 17.3% y/y (to PLN 51.7 billion), which was the result of an increased demand for factoring services. In the first half of 2014 the number of customers of factoring companies increased by 2.4% to 5.6 thousand people.

The concentration of the factoring market remained high – at the end of the first half of 2014, about 55% of the market belonged to the four largest firms.

## 2.4 The situation on the financial market

#### *Interest rate market*

In the first half of 2014 the MPC maintained the interest rates at an unchanged level, at the same time informing that such policy will be continued at least until the end of the third quarter of 2014. Stabilisation of the monetary policy resulted in a stable 3M WIBOR rate. However despite no changes in interest rates, market expectations regarding to the future MPC monetary policy have radically changed in the second quarter of 2014. At the end of June, the FRA market discounted the 3M WIBOR rate decrease of almost 40 b.p. in 2014, whereas yet in March it assumed no cuts in interest rates. Such strong change in market expectations was mainly due to overestimation of inflation dynamics. At the end of 2013 economists expected that in 2014 an average annual CPI growth will be above the lower limit of the NBP inflation target (1.5%), whereas the actual price increase dynamics decreased in the vicinity of nil. Expectations that the ECB will decide on supporting the economy through standard and non-standard monetary instruments were growing in the market since the beginning of the year. Ultimately the central bank decreased the refinancing rate by 10 b.p. down to 0.15% and the deposit rate by 10 b.p. down to -0.10%, decided on withdrawal of the SMP sterilisation as well as announced the conduct of TLTRO (EUR 400 billion) and ABS purchases.

Weaker macroeconomic data, ECB's June decision and additionally the increase of geopolitical risk connected with the crisis in Ukraine as well as increasing uncertainty in the Middle East resulted in a strong decline of treasury bonds yields in the global market. For example, quotations of the 10-year German bonds decreased even by 69 b.p. down to 1.25%. The above mentioned factors also caused Polish bonds to decrease in yields, which ended the first half of 2014 at levels significantly lower than those at the end of 2013. As regards the 2-year segment, the quotations declined to 2.50% (decrease by 53 b.p.), the 5-year down to 3.04% (decrease by 61 b.p.), and the 10-year down to 3.51% (decrease by 84 b.p.).

#### *Foreign exchange market*

The first half was characterised by a high volatility both on EUR/USD and EUR/PLN market. Although the EUR/USD exchange rate started the year in the area of 1.37 and ended the half year period at similar levels, it achieved the areas of both 1.40 and 1.35 throughout that period.

An analogous situation took place in respect of the EUR/PLN exchange rate, which started the year in the area of 4.15 and closed in June at similar levels, however it achieved the areas of both 4.26 and 4.09 throughout the period. Speculations concerning the perspectives and impacts of conclusion of the third round of the quantitative easing (QE3) by the Fed as well as possible perspectives of further monetary policy easing by the ECB (i.e. speculations regarding decrease of refinancing and deposit rates, possible quantitative easing) were the main determinant of the trend on the EUR/USD market in the first half. The beginning of the year on the Eurodollar market was dominated by rising financial market nervousness as regards probable impacts of continuance on the third round of quantitative easing phasing out process, commenced by the Fed in December 2013. As a result, the EUR/USD exchange rate declined to the area of 1.35 in January, however a series of worse data from USA in subsequent periods, mainly due to difficult weather conditions in the winter months, stimulated the speculations that the QE3 will last a little longer, which enabled the Eurodollar to make up for its recent losses, or even temporarily increase to the area of 1.40. The improvement on macroeconomic indicators in USA reduced the financial markets anxiety about the impacts of concluding the QE3 in subsequent months, whereas the intensifying deflationary processes in the Eurozone stimulated speculations on necessity of further monetary policy easing by the ECB. The decision made at the end of the first half of this year on cutting the deposit rate below 0%, ceasing the SMP sterilisation programme and launching a series of T-LTRO programmes

targeted at supporting the real economy starting from the end of September, brought the EUR/USD exchange rate closer to the area of 1.37. Speculations concerning the impact of Fed's withdrawal from the QE3, perspectives of further monetary policy easing by the ECB and NBP were the main determinants of the trend on the EUR/PLN market. Speculations regarding consequences of the geopolitical tensions in Ukraine for the Polish economy as well as anxiety about global economic slowdown of emerging markets driven by gradual slowdown of the Chinese economy were additional influential factors. The beginning of the year in the Eurozloty market was mainly determined by fears about Fed's gradual withdrawal from the QE3 and its impact on emerging markets financial condition. This resulted in a strong weakening of the zloty from 4.15 to 4.26 at the end of January. Gradual soothing of market fears in line with improvement on macroeconomic indicators in USA enabled to appreciate the zloty up to the output levels from the beginning of the year. Intensification of geopolitical tension in Ukraine caused the polish zloty again to depreciate down to the area of 4.25 in March, whereas partial soothing of the situation in Ukraine in April enabled zloty to return under the level of 4.20. On the other hand, intensifying deflationary processes in the Eurozone as well as the discussion on necessity of further monetary policy easing by the ECB, enabled zloty to appreciate up to the area of 4.09 in mid-June. Slowdown in China and strong decrease of inflation in Poland stimulated speculations on the necessity of potential interest rates decreases in Poland, which effect was the depreciation of zloty against euro down to output levels before the ECB Governing Council meeting (4.16).

#### *Stock market*

Moderate economic revival in an expansionary monetary policy environment was the dominant cause shaping up the situation on Polish and foreign stock markets in the first half of 2014. Such combination of factors usually constitutes a very favourable background for investments in shares, but ambitious valuations of companies after the 2012-2013 boom in connection with anxieties about the impacts of normalisation of the monetary policy in USA induced investors to be more cautious. In addition, the increase in geopolitical tensions held investors back from more resolute purchases. The escalation of conflicts in Ukraine, Iraq and Gaza emerged in the foreground. The GDP growth accelerated significantly compared to the previous year (3.4% y/y in the second quarter), not causing inflation rebound at the same time. Inflation maintaining deeply below the NBP target and the perspective of deflation in the summer months induced speculations on consecutive interest rates decreases, which caused the yields on debt securities to decline, increasing the attractiveness of shares relatively to bonds. Despite such favourable conditions the WIG index increased in the first half of this year only by 1%. The main reason was that the improvement in economic situation has not been reflected in companies' earnings yet, which according to analysts' forecasts will barely rise this year (after taking into account one-off factors). It is worth to notice that in the first half of this year world financial markets, including stock exchanges, remained very calm. The volatility fell to levels that were not seen since a long time.

## 2.5 The Ukrainian banking sector

The actions and results of the PKO Bank Polski SA Group in the first half of 2014 were impacted by the following macroeconomic factors in Ukraine where subsidiaries of PKO Bank Polski SA operate. The most important factors include:

- economic growth collapse (GDP decrease of 1.1% y/y in the first quarter of 2014 and of 4.7% y/y in the second quarter of 2014 – initial estimate of the State Statistics Service of Ukraine), caused by political and social crisis,
- acceleration of increase in prices (up to 9.9% y/y on average in the second quarter from 1.7% y/y in the first quarter), along with a very significant depreciation of hryvnia (42.6% between the end of December 2013 and half of 2014), increase in regulated prices, particularly alcoholic beverages, gas, energy and transportation, as well as food, healthcare and housing equipment,
- decrease in nominal wages dynamics (on average down to 5.6% y/y in the period from January to June 2014 compared with an average of 8.0% y/y in 2013), which accompanied by an increasing inflation rate led to a decline in real wages in April, May and June,
- a rapid decline in trade (export of 6.7% y/y and import of 17.3% y/y in the first half of 2014), decreasing therefore the negative balance of trade and current account deficit,
- granting a loan in the amount of USD 17.01 billion by the IMF on 27 March 2014 (approved by the IMF Board of Governors on 30 April) as well as a loan from the members of the consortium under the leadership of the IMF (the entire package is estimated at approx. USD 40 billion), which execution was conditioned under implementation of economic reforms by the government,
- decrease in value of foreign currency reserves was continued since the beginning of the year (down to USD 14.23 billion at the end of April) – this trend has been reversed alongside with the release of first tranches of the IMF consortium loan (at the end of June foreign currency reserves amounted to USD 17.1 billion),
- floating of the exchange rate of hryvnia against dollar (on 7 February of this year), as a consequence of which a rapid depreciation to the level of 12.71 UAH/USD as at 11 April of this year from 8.24 UAH/USD as at 1 January of this year has occurred; in May and in June the exchange rate of hryvnia has stabilised, amounting to 11.75 UAH/USD as at 30 June of this year, the average exchange rate of hryvnia against dollar on the banking market amounted to 10.47 UAH/USD in the first half of 2014,
- increase of interest rates corridor by 3 pp. (on 14 April the NBU discount rate was raised from 6.5% up to 9.5%) as well as continuance on the purchase of treasury securities by the NBU (increase of the total market volume from 59.4% at the end of December up to 62.3% at the end of June).

According to the data of the National Bank of Ukraine, as at the end of June of this year 174 banks conducted business activities in Ukraine, six less compared to the end of 2013. In the first half of 2014, the share of the foreign capital in equities of banks acting in Ukraine dropped. As at the end of June 2014 it amounted to 32.3% compared to 34.0% as at the end of December 2013 and 38.0% in June 2013.

In June 2014, the value of assets of Ukrainian banks increased to UAH 1 307.0 billion, compared to UAH 1 278.1 billion at the end of December 2013. In the first half of 2014 the increase in the value of the loan portfolio to UAH 997.6 billion from UAH 913.2 billion in December 2013 was noted. The annual dynamics of the value of the loan portfolio in the January-June period of this year amounted to 19.6% y/y on average (compared to on average 7.1% y/y in the period July-December 2013). The increase in the value of loans in the banking sector compared with the end of 2013, was related mainly to an increase in the volume of foreign currency loans resulting from depreciation of hryvnia (increase of UAH 128.4 billion compared to the end of December 2013). The volume of loans in hryvnia in that time decreased by UAH 44.0 billion. As a result, the share of foreign currency loans in total loans increased to 44.0% from 34% at the end of 2013. The loan portfolio for residents increased by UAH 70.9 billion and the loan portfolio for non-residents increased by UAH 13.5 billion (from the level of UAH 2.4 billion at the end of December 2013). Among residents, the largest impact on the increase in the value of loans granted in the first six months of 2014 was still exerted by non-financial enterprises (+UAH 55.7 billion compared to the end of December 2013) and households (+UAH 11.6 billion compared to the end of December 2013). Loans to financial enterprises sector increased in that period by UAH 3.5 billion, and the indebtedness of the public finance sector in respect of loans from the banking sector increased by UAH 0.1 billion.



In the period of January-June 2014 deposit base of banking sector in Ukraine decreased by UAH 14.6 billion. The annual dynamics of the deposit value in banks in Ukraine reached 5.4% y/y at the end of June (compared to 16.3% at the end of December). The main source of the decrease in deposits was the household segment, where the deposit base decreased by UAH 14.1 billion in the period under discussion of 2014. While the deposits denominated in UAH decreased by UAH 31.6 billion and deposits in foreign currencies increased by UAH 17.3 billion. Deposits of the public non-financial enterprises increased by UAH 5.3 billion.

The Loan-To-Deposit ratio (L/D) in the banking sector in Ukraine increased to the level of 1.45 at the end of June compared to 1.30 in December 2013 and 1.29 in June 2013.

The value of equity of the banking sector in Ukraine amounted to UAH 178.4 billion at the end of June 2014 (13.7% of the total assets of the banks, a decrease from 15.1% in December 2013). After the period of drop in 2013, the value of non-performing loans increased to UAH 98.3 billion at the end of June. This means a growth in non-performing loans to 19.9% of the total value of loans compared to 7.7% at the end of 2013 (according to IMF methodology the share of impaired loans in total loans amounted to 12.9% in the fourth quarter of 2013 and 13.3 in the first quarter of 2014). At the end of June 2014 the ROA ratio of the Ukrainian banking sector was positive and amounted to 0.19%, growing from 0.12% as at the end of 2013, and the ROE ratio increased in the same period from 0.81% to 1.37%.

## 2.6 Regulatory environment

In the first half of 2014, there were significant changes in the regulatory environment of the banking sector and financial non-banking sector in Poland and the banking sector in Ukraine (where the subsidiaries of PKO Bank Polski SA operate).

The financial and organisational situation of the PKO Bank Polski SA Group in that period was affected i.a. by the following:

- the 2010 amendment to the Act as of 27 August 2009 on Public Finance (Journal of Laws of 2009 No. 157 item 1240 with subsequent amendments), introducing new policies for local authorities in respect of incurring liabilities as from 1 January 2014 (impact on demand for bank loans),
- the 2010 amendment to the Act on Goods and Services Tax (Journal of Laws of 2011 No. 247 item 1652), enabling 100% of VAT on the lease of delivery vans to be deducted within the transition period from 1 January to 31 March 2014 (impact on the amount of leased assets),
- the Act concerning changes in the policies for disbursement of pensions from funds accumulated in OPFs (Journal of Laws of 2013 item 1717), introducing as from 1 February 2014 i.a. the following changes: lowering the ratio of pension contributions transferred to OPFs from 3.1% to 2.92%, lowering the maximum ratio used for calculating the fees collected by open pension management companies from 3.3% to 1.75%, imposing an obligation to transfer 51.5% of the assets of pension funds to the Social Insurance Institution (ZUS), and changing the investment policies for OPFs (impact on the value of open funds' assets portfolio),
- the Amendment of 2013 to the Act on the Bank Guarantee Fund (Journal of Laws No. 1012), introducing additional charges for banks in the form of a prudential fee towards the stabilisation fund (impact on banks' operating costs),
- the Act on State aid for the purchase of the first apartment by young people (Journal of Laws item 1304) launching in 2014 the new programme of subsidies for mortgage loans 'Mieszkanie dla Młodych' (impact on banks' lending activities),
- Resolution of the Monetary Policy Council No. 11/2013 as of July 2013 (Official Journal of the NBP of 2013 item 15) introducing the historically low level of basic interest rates, including reference rate 2.5%, interest rate on refinancing loans secured with a pledge on securities of 4.0%, the interest rate of fixed-term deposits placed by banks with the National Bank of Poland of 1.0% and the rediscount rate for bills of exchange accepted from banks for rediscounting by the National Bank of Poland of 2.75% (impact on bank's net interest income),
- Resolution of the PFSA No. 7/2013 on Recommendation D concerning management of IT areas and the security of the IT environment (Official Journal of the PFSA of 2013 item 6), obliging banks to adjust to new regulation until the end of 2014 (impact on banks' operating costs),
- Resolution of the PFSA No. 148/2013 on Recommendation S concerning management of mortgage-secured loan exposures (Official Journal of the PFSA of 2013 item 23), that introduces stricter requirements for borrowers from 1 January 2014 (impact on the level of lending activity),
- Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR) effective from 1 January 2014, inclusive of transition periods (Official Journal of the European Union L176/1), introducing, i.a., increased capital requirements, including more stringent policies for calculating basic and supplementary funds, a Core Tier 1 ratio limit, a leverage ratio, and new capital and liquidity requirements,
- Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (European Market Infrastructure Regulation - EMIR), introducing as from 12 February 2014 an obligation to report derivative transactions to trade repositories (Official Journal of the European Union OJ L201/1).

The new legal solutions implemented in Ukraine also had an impact on the operations of the PKO Bank Polski SA Group:

- the Act No. 453 of 14 November 2013 concerning amendments to the tax law of Ukraine introducing a 20% VAT rate as from 1 January 2014;
- Resolutions Nos.: 49/2014, 104/2014, 172/2014, 245/2014, 271/2014, 328/2014 of NBU changing i.a. policies for banks conducting foreign currency transactions on the interbank market, setting up a mandatory reserve for funds obtained from non-residents and settlements with customers in this regard;
- Resolutions Nos.: 86/2014 and 91/2014 of NBU concerning the monetary market, liquidity management, minimum amount of mandatory reserves;
- Resolution No 180/2014 of NBU determining the principles on setting the UAH exchange rate;
- Resolution No 182/2014 of NBU concerning adjustment of open currency position limits to international standards;
- Resolutions Nos.: 212/2014 and 334/2014 of NBU determining the interest on refinancing loan at the level of 2-fold of the discount rate (since 15 April 2014) and 1.5-fold of the discount rate (since 5 June 2014).

Regulations that will have an impact on financial results of banks in Poland during subsequent quarters:

- statutory decrease of the interchange fee since 1 July 2014 (decline in non-interest income and banks search for new sources of income);
- implementation until the end of 2014 of principles resulting from the Recommendation U, concerning best practices in the area of bancassurance (change of business model, modifications in central IT systems of banks and insurance companies, renegotiation of banks' agreements with insurance companies, re-modelling of internal procedures);
- implementation of regulations resulting from the Recommendation S (Resolution of the PFSA No. 148/2013) prevailing since July 2014 and introducing restrictions on granting mortgage loans (granting loans for a period not longer than 25 years, principles on granting loans denominated in foreign currencies);
- adjustment of operations to the CRR Regulation requirements.

### 3. FINANCIAL RESULTS<sup>1</sup>

#### 3.1 The PKO Bank Polski SA Group

##### *Key financial indicators*

The results achieved by the PKO Bank Polski SA Group in the first half of 2014 enabled the key financial efficiency indicators to achieve the levels shown in the table below.

Table 2. *Key financial indicators of the PKO Bank Polski SA Group*

	30.06.2014	30.06.2013 restated	Change (pp.)
ROA net* (net profit/average total assets)	1.6%	1.7%	- 0.1
ROE net* (net profit/average total equity)	13.4%	13.8%	- 0.4
C/I* (cost to income ratio annualised)	43.4%	43.1%	0.3
Interest margin* (net interest income/average interest-bearing assets)	3.6%	4.2%	- 0.6
The share of impaired loans**	7.2%	9.1%	- 1.9
The coverage ratio of impaired loans***	55.7%	51.2%	4.5

\* Income statement items used in calculating indicators capture the period of the last four quarters (annual recognition), while the statement of financial position items capture the average of the last five quarterly values of the respective assets and liabilities.

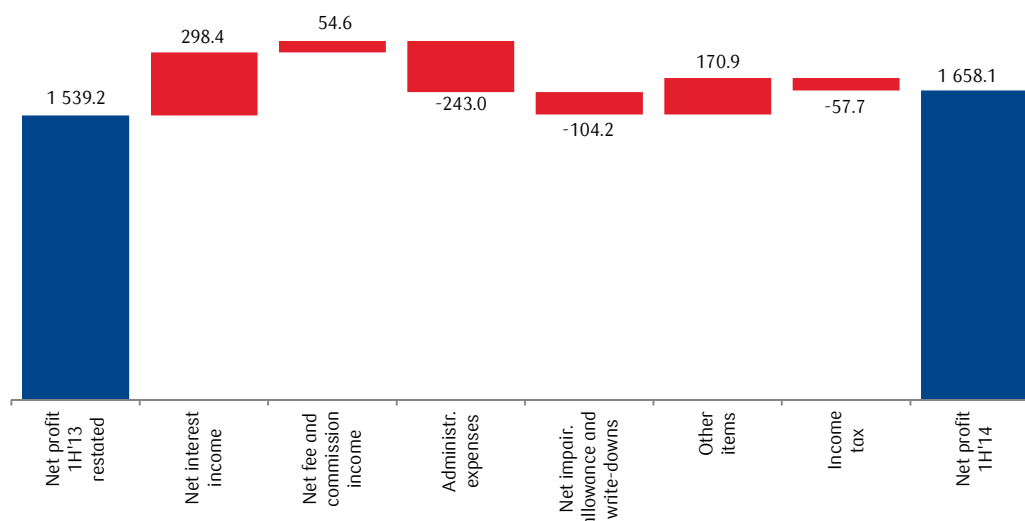
\*\* Calculated by dividing the gross carrying amount of impaired loans and advances to customers by the gross carrying amount of loans and advances to customers.

\*\*\* Calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying amount of impaired loans and advances to customers.

##### *Consolidated income statement*

The consolidated net profit of the PKO Bank Polski SA Group generated in the first half of this year amounted to PLN 1 658.1 million which represents an increase of PLN 118.9 million (+7.7%) compared with the corresponding period of 2013.

Chart 1. *Movements in income statement items of the PKO Bank Polski SA Group (in PLN million)*



<sup>1</sup> Any differences in the total balances, shares and dynamics in this chapter arise from roundings to PLN million and roundings of percentage shares in structures to one decimal place.



In the income statement of the PKO Bank Polski SA Group for the first half of 2014, the sum of revenue items was PLN 5 498.6 million and was PLN 492.6 million, i.e. 9.8% higher than in the corresponding period of 2013. The main consolidated income statement items were as follows:

Table 3. *Movements in income statement of the PKO Bank Polski SA Group (in PLN million)*

	01.01- 30.06.2014	01.01- 30.06.2013 restated	Change (in PLN million)	Change (in %)
Interest and similar income	5 244.6	5 700.0	(455.4)	-8.0%
Interest expense and similar charges	(1 565.8)	(2 319.5)	753.8	-32.5%
<b>Net interest income</b>	<b>3 678.9</b>	<b>3 380.5</b>	<b>298.4</b>	<b>8.8%</b>
Fee and commission income	2 044.7	1 844.7	199.9	10.8%
Fee and commission expense	(555.6)	(410.3)	(145.3)	35.4%
<b>Net fee and commission income</b>	<b>1 489.0</b>	<b>1 434.4</b>	<b>54.6</b>	<b>3.8%</b>
Dividend income	6.1	5.3	0.8	15.0%
Net income from financial instruments measured at fair value	53.0	3.3	49.7	16.1x
Gains less losses from investment securities	38.5	61.4	(22.8)	-37.2%
Net foreign exchange gains (losses)	135.4	74.9	60.5	80.7%
Net other operating income and expense	97.6	46.1	51.5	2.1x
Net impairment allowance and write-downs	(971.1)	(866.9)	(104.2)	12.0%
Administrative expenses	(2 468.5)	(2 225.5)	(243.0)	10.9%
<b>Operating profit</b>	<b>2 058.9</b>	<b>1 913.5</b>	<b>145.4</b>	<b>7.6%</b>
Share of profit (loss) of associates and jointly controlled entities	7.3	(14.7)	22.0	x
<b>Profit before income tax</b>	<b>2 066.2</b>	<b>1 898.9</b>	<b>167.4</b>	<b>8.8%</b>
Income tax expense	(417.6)	(359.9)	(57.7)	16.0%
Net profit (including non-controlling shareholders)	1 648.6	1 538.9	109.7	7.1%
Profit (loss) attributable to non-controlling shareholders	(9.5)	(0.3)	(9.2)	34.7x
<b>Net profit attributable to equity holders of the parent company</b>	<b>1 658.1</b>	<b>1 539.2</b>	<b>118.9</b>	<b>7.7%</b>

#### **Net interest income**

Net interest income generated in the first half of 2014 was PLN 298.4 million higher than in the similar period of the prior year, mainly as a result of a PLN 753.8 million decrease in interest expense and similar charges, mainly due to adaptation of the price conditions of deposit offer to a drop in market interest rates as well as due to decrease in interest and similar income by PLN 455.4 million, determined by the fall in market interest rates.

Table 4. *Interest income and expense of the PKO Bank Polski SA Group (in PLN million)*

	01.01- 30.06.2014	Structure 1H 2014	01.01- 30.06.2013 restated	Structure 1H 2013	Change 1H 2014/ 1H 2013
<b>Interest income and similar income, of which:</b>	<b>5 244.6</b>	<b>100.0%</b>	<b>5 700.0</b>	<b>100.0%</b>	<b>-8.0%</b>
Loans and advances to customers	4 470.0	85.2%	4 749.6	83.3%	-5.9%
Securities	517.0	9.9%	582.7	10.2%	-11.3%
Derivative hedging instruments	171.1	3.3%	270.3	4.7%	-36.7%
Placements with banks	72.8	1.4%	94.9	1.7%	-23.3%
Loans to banks	11.2	0.2%	1.0	0.0%	11.4x
Other	2.6	0.0%	1.5	0.0%	68.7%
<b>Interest expense and similar charges, of which:</b>	<b>(1 565.8)</b>	<b>100.0%</b>	<b>(2 319.5)</b>	<b>100.0%</b>	<b>-32.5%</b>
Amounts due to customers	(1 264.6)	80.8%	(2 026.8)	87.4%	-37.6%
Own debt securities in issue	(248.3)	15.9%	(245.3)	10.6%	1.2%
Loans from banks	(26.7)	1.7%	(14.7)	0.6%	81.4%
Premium on debt securities available for sale	(14.9)	1.0%	(16.6)	0.7%	-10.3%
Deposits from banks	(5.6)	0.4%	(9.2)	0.4%	-39.0%
Other expense*	(5.7)	0.4%	(7.0)	0.3%	-18.3%
<b>Net interest income</b>	<b>3 678.9</b>	<b>x</b>	<b>3 380.5</b>	<b>x</b>	<b>8.8%</b>

\*Including: costs from financial assets held for trading and financial assets designated upon initial recognition at fair value through profit and loss.

In the first half of 2014, interest income and similar charges amounted to PLN 5 244.6 million and in comparison with the corresponding period of 2013 was 8.0% lower, mainly as a result of a decrease in:

- income from loans and advances to customers (-)5.9% y/y – mainly as a result of the drop in PLN interest rates, which for WIBOR 1M and 3M rates on an annual basis amounted to 0.17 pp. and 0.05 pp. respectively,

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- income from derivative hedging instruments (-)36.7% y/y, resulting from narrowing the spread between the PLN and foreign currency rates as a result of the drop in the WIBOR market rates and the drop in the average volume of CIRS transactions covered by hedge accounting,
- income from securities (-)11.3% y/y as a result of a drop in their average interest rates, with an increase in the average volume of the securities portfolio.

In the same period the dynamics of interest expense was on the level of (-)32.5% y/y, mainly as a result of:

- a decrease in the costs of amounts due to customers (-37.6% y/y), resulting from lower average interest rates on deposits due to a drop in market interest rates and adaptation of price offer of deposit products,
- an increase in costs of own debt securities in issue (+1.2% y/y), which was related to an increase in liabilities in respect of bond issue on foreign financial markets and an increase in cost of loans received from banks (+ 81.4% y/y) associated with the financing received from Nordea Bank AB.

Interest margin dropped by ca. 0.6 pp. y/y to 3.6% as at the end of the first half of 2014, as a result of a stabilisation in annualised net interest income, accompanied by an increase in average interest-bearing assets of 11.2% y/y (mainly the portfolio of loans and advances to customers).

## Net fee and commission income

Net fee and commission income generated in the first half of 2014 was PLN 54.6 million higher than in the corresponding period of the prior year, mainly as a result of a PLN 199.9 million increase in commission income, accompanied by a PLN 145.3 million increase in commission expense.

Table 5. Fee and commission income and expense of the PKO Bank Polski SA Group (in PLN million)

	01.01- 30.06.2014	Structure 1H 2014	01.01- 30.06.2013 restated	Structure 1H 2013	Change 1H 2014 / 1H 2013
<b>Fee and commission income, of which:</b>	<b>2 044.7</b>	<b>100.0%</b>	<b>1 844.7</b>	<b>100.0%</b>	<b>10.8%</b>
Payment cards	714.9	35.0%	589.0	31.9%	21.4%
Maintenance of bank accounts	465.2	22.8%	430.9	23.4%	8.0%
Loan insurance	138.6	6.8%	132.1	7.2%	4.9%
Loans and advances granted	285.0	13.9%	298.5	16.2%	-4.5%
Maintenance of investment and open pension funds (including management fees)	201.8	9.9%	183.0	9.9%	10.2%
Cash transactions	57.2	2.8%	63.7	3.5%	-10.2%
Securities transactions	44.3	2.2%	35.5	1.9%	25.1%
Servicing foreign mass transactions	31.6	1.5%	25.0	1.4%	26.5%
Performing the function of the Treasury bonds issue agent	11.5	0.6%	11.3	0.6%	2.2%
Sale and distribution of court fee stamps	2.5	0.1%	3.9	0.2%	-36.2%
Insurance activities	21.8	1.1%	-	0.0%	x
Other*	70.1	3.4%	71.9	3.9%	-2.5%
<b>Fee and commissions expense, of which:</b>	<b>(555.6)</b>	<b>100.0%</b>	<b>(410.3)</b>	<b>100.0%</b>	<b>35.4%</b>
Payment cards	(370.7)	66.7%	(243.4)	59.3%	52.3%
Loan insurance	(53.2)	9.6%	(45.6)	11.1%	16.6%
Acquisition services	(56.7)	10.2%	(51.3)	12.5%	10.4%
Settlement services	(13.9)	2.5%	(13.5)	3.3%	2.8%
Operating services provided by banks	(6.9)	1.2%	(5.8)	1.4%	17.3%
Other**	(54.4)	9.8%	(50.7)	12.3%	7.3%
<b>Net fee and commission income</b>	<b>1 489.0</b>	<b>x</b>	<b>1 434.4</b>	<b>x</b>	<b>3.8%</b>

\* Included in 'Other' are i.a. commissions of the Brokerage House for servicing Initial Public Offering issue, commissions for servicing indebtedness of borrowers against the State budget, fiduciary services.

\*\* Included in 'Other' are i.a.: fees and expenses paid by the Brokerage House to Warsaw Stock Exchange and the National Depository for Securities (KDPW) and expenses for assets management.

The level of net fee and commission income was significantly affected by:

- an increase in commission income in respect of maintenance of bank accounts (+PLN 8.0 million y/y), which is a result of changes in tariff of fees and charges introduced in 2013,
- an increase in commission in respect of maintenance of investment funds and Open Pension Funds (+10.2% y/y), due to an increase in management fees, accompanied by above 28% y/y increase in the value of investment fund companies' assets, as well as due to change of investment fund companies structure,
- stable level in the result on payment cards (-0.4% y/y),
- an decrease in commission income in respect of loans and advances granted (-4.5% y/y).

## Administrative expenses

In the first half of 2014 administrative expense amounted to PLN 2 468.5 million and increased by 10.9% compared to corresponding period of the previous year. The level of administrative expenses was determined mainly by changes influencing the PKO Bank Polski SA Group structure in 2014, of which mainly the purchase of the Nordea Group entities, which caused the operating efficiency of the PKO Bank Polski SA Group, measured by the annualised C/I ratio, to shape up at the level of 43.4% (+0.3 pp. y/y).

Table 6. *Administrative expenses of the PKO Bank Polski SA Group (in PLN million)*

	01.01- 30.06.2014	Structure 1H 2014	01.01- 30.06.2013	Structure 1H 2013	Change 1H 2014 / 1H 2013
Employee benefits	(1 267.9)	51.4%	(1 179.7)	53.0%	7.5%
Overheads and other*	(841.7)	34.1%	(761.8)	34.2%	10.5%
Depreciation and amortisation	(359.0)	14.5%	(284.0)	12.8%	26.4%
<b>Total</b>	<b>(2 468.5)</b>	<b>100.0%</b>	<b>(2 225.5)</b>	<b>100.0%</b>	<b>10.9%</b>

\* Other: taxes and fees and contribution and payments to the BGF.

#### **Net impairment allowance and write-downs**

The net impairment allowance and write-downs as at 30 June 2014 reflects the PKO Bank Polski SA Group's conservative approach to the measurement of credit risk. Deterioration of net impairment allowance compared with the corresponding period of the previous year by 12.0% y/y is mainly a result of the improvement of the net impairment allowance on the off-balance sheet liabilities and intangible assets.

Table 7. *Net impairment allowance and write-downs (in PLN million)*

	01.01- 30.06.2014	Structure 1H 2014	01.01- 30.06.2013	Structure 1H 2013	Change 1H 2014/ 1H 2013
<b>Net impairment allowance, of which:</b>					
loans and advances to customers measured at amortised cost and amounts due from banks	(928.3)	95.6%	(932.9)	107.6%	-0.5%
investments in associates and joint ventures	(0.8)	0.1%	9.0	-1.0%	x
other	(42.1)	4.3%	57.0	-6.6%	x
<b>Net impairment allowance - total</b>	<b>(971.1)</b>	<b>100.0%</b>	<b>(866.9)</b>	<b>100.0%</b>	<b>12.0%</b>

The cost of risk<sup>2</sup> at the end of the first half of 2014 amounted to 1.2% and increased by 0.1 pp. in comparison to the end of the first half of 2013. The effect of the decrease in net impairment allowance on consumer loans was offset by an increase in the net impairment allowance on corporate and housing loans.

#### *Consolidated statement of financial position – main items*

The statement of financial position of the PKO Bank Polski SA Group is mainly influenced by the financial situation of the parent entity. It determines both the size of total assets and the structure of assets and liabilities. At the same time, since the beginning of the second quarter of 2014, the PKO Bank Polski SA Group comprises also the Nordea Bank Polska SA entity, which scale of operations is significant from the point of view of present the PKO Bank Polski SA Group's scale of operations.

As at 30 June 2014, the total assets of the PKO Bank Polski SA Group amounted to PLN 242.3 billion and were 21.6% higher than at the end of December 2013.

Loans and advances to customers represented the largest part of the Group's assets and amounted to PLN 178.0 billion at the end of June 2014, reaching 73.5% of the total assets. Their volume increased by PLN 28.4 billion compared with the end of 2013, mainly due to purchase of Nordea Group assets.

Amounts due to customers which amounted to PLN 171.4 billion at the end of June 2014, reaching 79.2% of the total equity and liabilities are the primary source of financing the assets. Since the beginning of 2014, the volume of amounts due to customers increased by PLN 19.5 billion.

The main items of the statement of financial position of the PKO Bank Polski SA Group in the first half of 2014 are presented in the table below:

<sup>2</sup> Calculated by dividing net impairment allowances on loans and advances to customers for the 12 months ended 30 June 2013 and 2014 by the average balance of gross loans and advances to customers at the beginning and end of the reporting period and interim quarterly periods.

Table 8. *The main items of the statement of financial position of the PKO Bank Polski SA Group (in PLN million)*

	30.06.2014	Structure 30.06.2014	31.12.2013	Structure 31.12.2013	Change (in %)
Cash and balances with the central bank	9 910.9	4.1%	7 246.1	3.6%	36.8%
Amounts due from banks	2 470.1	1.0%	1 893.4	1.0%	30.5%
Loans and advances to customers	177 994.0	73.5%	149 623.3	75.1%	19.0%
Securities	39 115.1	16.1%	29 795.7	15.0%	31.3%
Other assets	12 799.4	5.3%	10 672.6	5.4%	19.9%
<b>Total assets</b>	<b>242 289.4</b>	<b>100.0%</b>	<b>199 231.1</b>	<b>100.0%</b>	<b>21.6%</b>
Amounts due to banks	19 243.1	7.9%	3 751.4	1.9%	5.1x
Amounts due to customers	171 378.4	70.7%	151 904.2	76.2%	12.8%
Liabilities of insurance activities	2 541.3	1.0%	-	0.0%	x
Debt securities in issue and subordinated liabilities	15 323.7	6.3%	12 167.3	6.1%	25.9%
Other liabilities	7 789.3	3.2%	6 253.9	3.1%	24.6%
<b>Total liabilities</b>	<b>216 275.8</b>	<b>89.3%</b>	<b>174 076.8</b>	<b>87.4%</b>	<b>24.2%</b>
<b>Total equity</b>	<b>26 014.1</b>	<b>10.7%</b>	<b>25 154.3</b>	<b>12.6%</b>	<b>3.4%</b>
<b>Total liabilities and equity</b>	<b>242 289.9</b>	<b>100.0%</b>	<b>199 231.1</b>	<b>100.0%</b>	<b>21.6%</b>
Loans/Deposits	103.9%	x	98.5%	x	5.4 pp.
Loans/Stable sources of funding*	87.4%	x	89.8%	x	-2.4 pp.
Interest bearing assets/Assets	90.6%	x	91.0%	x	-0.4 pp.
Interest paying liabilities/Liabilities	85.0%	x	84.2%	x	0.8 pp.

\* Stable sources of financing include amounts due to customers and external financing in the form of: issue of securities, subordinated liabilities and amounts due to financial institutions.

#### ***Loans and advances to customers***

Housing loans and advances (PLN 97.5 billion) constitute the main component in the structure of the gross loan portfolio and their increment of PLN 20.8 billion compared with the end of 2013 was mainly due to purchase of Nordea Group's assets and determined the increase in the loans and advances to customers portfolio. The share of housing loans and advances in the gross loan portfolio structure increased by 3.5 pp. up to 52.6% as compared with the end of 2013. A large increase in volume compared with the end of 2013 was also recorded by the corporate loans to non-financial sector (+9.6%).

#### ***Securities***

As at the end of the first half of 2014, the carrying value of the portfolio of securities amounted to PLN 39.1 billion and was PLN 9.3 billion higher than at the end of 2013, representing 16.1% of the total assets of the PKO Bank Polski SA Group. Debt securities issued by the State Treasury and by central banks (mainly NBP money market bills) dominated in the portfolio structure by type.

#### ***Amounts due to banks***

As at the end of the first half of 2014 the value of amounts due to banks amounted to PLN 19.2 billion and increased by PLN 15.5 billion compared with the end of 2013. The increase was mainly due to recognition in that position the funds acquired from Nordea Bank AB, in accordance with implementations of provisions regarding the Nordea Group's assets purchase transaction.

#### ***Amounts due to customers***

Amounts due to retail clients of PLN 123.5 billion were the largest component in the structure of amounts due to customers by type (+6.0% compared with the end of 2013), and their share in the portfolio structure compared with the end of 2013 decreased by 4.6 pp. (to 72.0%), accompanied by an increase of 3.4 pp. in share of amounts due to corporate clients and of 1.2 pp. in share of amounts due to State budget entities in the total amounts due to customers portfolio (the increase concerned mainly term deposits and resulted from the Nordea Group's assets purchase transaction).

#### ***External financing***

The PKO Bank Polski SA Group is an active participant in the market of debt security issues, both local and international. These actions are intended to diversify the sources of financing of operations and to adapt them to future regulatory requirements. At the end of the first half of 2013 debt securities in issue and subordinated liabilities represented 6.3% of the liabilities. The increase in the level of liabilities in respect of the issue compared to the end of 2013 was primarily a result of the increase in liabilities due to the issue of securities by PKO Finance AB (EUR 500 million in January of this year) and of the increase in subordinated liabilities resulting from obtaining control of a subsidiary. Detailed information on the issues carried out by the PKO Bank Polski SA Group is described in Note 30 to the Condensed Interim Consolidated Financial Statements of the PKO Bank Polski SA Group for the six months period ended 30 June 2014.

### Equity and capital adequacy ratio

As at the end of the first half of 2014, equity increased by 3.4% compared with the end of 2013 and represented 10.7% of the total equity and liabilities of the PKO Bank Polski SA Group (a drop in the share of 1.9 pp. compared with the end of 2013).

The capital adequacy ratio of the PKO Bank Polski SA Group amounted to 12.32% as at the end of the first half of 2014, which represents a 1.25 pp. decrease compared with the end of 2013, which was mainly due to purchase of assets of Nordea Group. This level considerably exceeds the minimum level of the ratio as specified in the Banking Law Act (8%). Capital adequacy measured with the capital adequacy ratio remained at a safe level.

In the first half of 2014, the return on equity (ROE) dropped by 0.4 pp. in annual terms, due to a higher level of annualised net profit (+1.5% y/y), accompanied by an increase in average equity of 4.6% y/y whereas the return on assets (ROA) dropped by 0.1 pp. compared with the first half of 2013.

Table 9. *Equity and capital adequacy ratio of the PKO Bank Polski SA Group (in PLN million)*

	30.06.2014	Structure 30.06.2014	31.12.2013	Structure 31.12.2013	Change (in %)
<b>Equity, of which:</b>	<b>26 014.1</b>	<b>100.0%</b>	<b>25 154.3</b>	<b>100.0%</b>	<b>3.4%</b>
Share capital	1 250.0	4.8%	1 250.0	5.0%	0.0%
Reserve capital	18 802.4	72.3%	16 760.7	66.6%	12.2%
General banking risk fund	1 070.0	4.1%	1 070.0	4.3%	0.0%
Other reserves	3 474.1	13.4%	3 469.1	13.8%	0.1%
Cash flow hedges	(2.5)	0.0%	(125.6)	-0.5%	-98.0%
Financial assets available for sale	32.1	0.1%	(57.8)	-0.2%	x
Currency translation differences from foreign operations	(194.2)	-0.7%	(129.4)	-0.5%	50.1%
Unappropriated profits	(60.7)	-0.2%	(306.2)	-1.2%	-80.2%
Net profit for the period	1 658.1	6.4%	3 229.8	12.8%	-48.7%
Actuarial gain and losses	(7.8)	0.0%	(7.7)		
Non-controlling interest	(8.2)	0.0%	1.5	0.0%	x
Share in other comprehensive income of an associate	0.2	0.0%	(0.1)	0.0%	x
<b>Own funds</b>	<b>23 859.0</b>	<b>x</b>	<b>21 305.1</b>	<b>x</b>	<b>12.0%</b>
<b>Capital adequacy ratio (%)</b>	<b>12.32%</b>	<b>x</b>	<b>13.58%</b>	<b>x</b>	<b>-1.25 pp.</b>

## 3.2 PKO Bank Polski SA

### Key financial indicators

The results achieved by PKO Bank Polski SA in the first half of 2014 enabled the key financial efficiency indicators to achieve the levels shown in the table below.

Table 10. *Key financial indicators of PKO Bank Polski SA*

	30.06.2014	30.06.2013 restated	Change (pp.)
<b>ROA net*</b> (net profit/average total assets)	1.7%	1.6%	0.1
<b>ROE net*</b> (net profit/average total equity)	13.5%	13.0%	0.5
<b>C/I*</b> (cost to income ratio annualised)	40.8%	41.1%	- 0.3
<b>Interest margin*</b> (net interest income/average interest-bearing assets)	3.7%	4.1%	- 0.4
<b>The share of impaired loans**</b>	7.8%	8.4%	- 0.6
<b>The coverage ratio of impaired loans***</b>	53.5%	51.5%	2.0

\* Income statement items used in calculating indicators capture the period of the last four quarters (annual recognition), while the statement of financial position items capture the average of the last five quarterly values of the respective assets and liabilities.

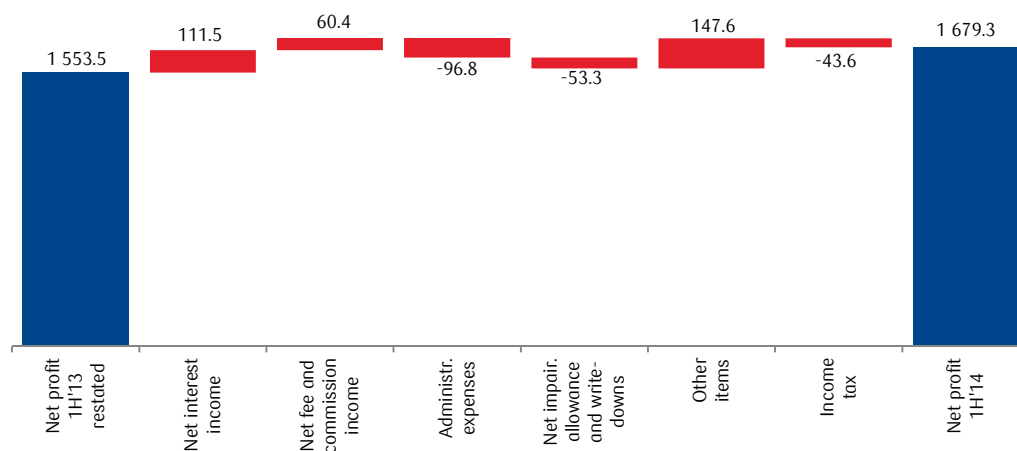
\*\* Calculated by dividing the gross carrying amount of impaired loans and advances to customers by the gross carrying amount of loans and advances to customers.

\*\*\* Calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying amount of impaired loans and advances to customers.

### Income statement of PKO Bank Polski SA

The net profit of PKO Bank Polski SA generated in the first half of this year amounted to PLN 1 679.3 million which represents an increase of PLN 125.8 million, i.e. 8.1% compared with the corresponding period of 2013.

Chart 2. *Movements in income statement items of PKO Bank Polski SA (in PLN million)*



In PKO Bank Polski SA's income statement for the first half of 2014, the sum of revenue items amounted to PLN 5 136.3 million and was PLN 319.4 million, i.e. 6.6% higher than in the corresponding period of 2013. The main income statement items are presented in the table below:

Table 11. *Movements in income statement of PKO Bank Polski SA (in PLN million)*

	01.01-30.06.2014	01.01-30.06.2013 restated	Change (in PLN million)	Change (in %)
Interest and similar income	4 872.4	5 564.1	(691.8)	-12.4%
Interest expense and similar charges	(1 440.3)	(2 243.5)	803.2	-35.8%
<b>Net interest income</b>	<b>3 432.1</b>	<b>3 320.6</b>	<b>111.5</b>	<b>3.4%</b>
Fee and commission income	1 875.2	1 717.2	158.0	9.2%
Fee and commission expense	(540.2)	(442.7)	(97.6)	22.0%
<b>Net fee and commission income</b>	<b>1 335.0</b>	<b>1 274.5</b>	<b>60.4</b>	<b>4.7%</b>
Dividend income	79.8	78.6	1.3	1.6%
Net income from financial instruments measured at fair value	42.3	3.9	38.4	11x
Gains less losses from investment securities	37.8	60.8	(23.0)	-37.8%
Net foreign exchange gains	182.0	73.2	108.7	2.5x
Net other operating income and expense	27.4	5.3	22.1	5.2x
Net impairment allowance and write-downs	(936.9)	(883.7)	(53.3)	6.0%
Administrative expenses	(2 128.2)	(2 031.4)	(96.8)	4.8%
<b>Operating profit</b>	<b>2 071.1</b>	<b>1 901.7</b>	<b>169.4</b>	<b>8.9%</b>
<b>Profit (loss) before income tax</b>	<b>2 071.1</b>	<b>1 901.7</b>	<b>169.4</b>	<b>8.9%</b>
Income tax expense	(391.8)	(348.3)	(43.6)	12.5%
<b>Net profit (loss)</b>	<b>1 679.3</b>	<b>1 553.5</b>	<b>125.8</b>	<b>8.1%</b>

#### **Net interest income**

The net interest income generated in the first half of 2014 was PLN 111.5 million higher than in the corresponding period of the prior year, mainly as a result of a PLN 803.2 million decrease in interest expense, accompanied by a decrease in interest expense of PLN 691.8 million.



Table 12. Interest income and expense of PKO Bank Polski SA (in PLN million)

	01.01- 30.06.2014	Structure 1H 2014	01.01- 30.06.2013 restated	Structure 1H 2013	Change 1H 2014/ 1H 2013
<b>Interest income, of which:</b>	<b>4 872.4</b>	<b>100.0%</b>	<b>5 564.1</b>	<b>100.0%</b>	<b>-12.4%</b>
Loans and advances to customers	4 135.4	84.9%	4 625.8	83.1%	-10.6%
Securities	479.4	9.8%	570.6	10.3%	-16.0%
Derivative hedging instruments	171.1	3.5%	270.3	4.9%	-36.7%
Placements with banks	73.1	1.5%	94.9	1.7%	-23.0%
Loans to banks	11.2	0.2%	1.0	0.0%	11.4x
Other	2.2	0.0%	1.5	0.0%	46.2%
<b>Interest expense, of which:</b>	<b>(1 440.3)</b>	<b>100.0%</b>	<b>(2 243.5)</b>	<b>100.0%</b>	<b>-35.8%</b>
Amounts due to customers	(1 343.3)	93.3%	(2 137.8)	95.3%	-37.2%
Own debt securities in issue	(44.4)	3.1%	(57.7)	2.6%	-23.1%
Loans from banks	(26.7)	1.9%	(14.7)	0.7%	81.4%
Premium on debt securities available for sale	(14.9)	1.0%	(16.6)	0.7%	-10.3%
Deposits from banks	(5.3)	0.4%	(9.7)	0.4%	-45.6%
Other expense*	(5.7)	0.4%	(7.0)	0.3%	-18.3%
<b>Net interest income</b>	<b>3 432.1</b>	<b>x</b>	<b>3 320.6</b>	<b>x</b>	<b>3.4%</b>

\* Including: costs from financial assets held for trading and financial assets designated upon initial recognition at fair value through profit and loss.

#### Net fee and commission income

Net fee and commission income generated in the first half of 2014 was PLN 60.4 million higher than in the corresponding period of the prior year, mainly as a result of a PLN 158.0 million increase in commission income, accompanied by a PLN 97.6 million increase in commission expense.

Table 13. Fee and commission income and expense of PKO Bank Polski SA (in PLN million)

	01.01- 30.06.2014	Structure 1H 2014	01.01- 30.06.2013 restated	Structure 1H 2013	Change 1H 2014/ 1H 2013
<b>Fee and commission income, of which:</b>	<b>1 875.2</b>	<b>100.0%</b>	<b>1 717.2</b>	<b>100.0%</b>	<b>9.2%</b>
Payment cards	705.6	37.6%	580.7	33.8%	21.5%
Maintenance of bank accounts	453.5	24.2%	422.3	24.6%	7.4%
Loan insurance	133.7	7.1%	132.1	7.7%	1.2%
Loans and advances granted	275.9	14.7%	291.9	17.0%	-5.5%
Cash transactions	51.6	2.8%	57.5	3.3%	-10.2%
Maintenance of investment funds (including management fees)	114.0	6.1%	99.2	5.8%	14.9%
Securities transactions	41.5	2.2%	35.4	2.1%	17.1%
Servicing foreign mass transactions	28.0	1.5%	25.0	1.5%	12.2%
Performing the function of the Treasury bonds issue agent	11.5	0.6%	11.3	0.7%	2.2%
Sale and distribution of court fee stamps	2.5	0.1%	3.9	0.2%	-36.2%
Other*	57.4	3.1%	58.0	3.4%	-1.0%
<b>Fee and commissions expense, of which:</b>	<b>(540.2)</b>	<b>100.0%</b>	<b>(442.7)</b>	<b>100.0%</b>	<b>22.0%</b>
Payment cards	(366.8)	67.9%	(288.6)	65.2%	27.1%
Loan insurance	(53.2)	9.8%	(45.4)	10.3%	17.2%
Acquisition services	(42.5)	7.9%	(45.7)	10.3%	-7.0%
Settlement services	(13.6)	2.5%	(13.5)	3.0%	0.9%
Operating services provided by banks	(6.1)	1.1%	(5.4)	1.2%	13.7%
Other**	(58.1)	10.7%	(44.1)	10.0%	31.7%
<b>Net fee and commission income</b>	<b>1 335.0</b>	<b>x</b>	<b>1 274.5</b>	<b>x</b>	<b>4.7%</b>

\* Included in 'Other' are i.a. commissions of the Brokerage House for servicing Initial Public Offering issue, commissions for servicing indebtedness of borrowers against the State budget, fiduciary services.

\*\* Included in 'Other' are i.a.: fees and expenses paid by the Brokerage House to Warsaw Stock Exchange and the National Depository for Securities (KDPW).

#### Administrative expenses

In the first half of 2014 administrative expenses amounted to (-) PLN 2 128.2 million (- PLN 96.8 million y/y), the increase was determined mainly by an increase in amortisation and depreciation expense as well as increase in employee benefit costs, which with growth of result from business operations by PLN 319.4 million y/y resulted in operating efficiency of PKO Bank Polski SA, measured with the C/I ratio (annualised), at the level of 40.8% (-0.3 pp. y/y).

Table 14. *Administrative expenses of PKO Bank Polski SA (in PLN million)*

	01.01- 30.06.2014	Structure 1H 2014	01.01- 30.06.2013 restated	Structure 1H 2013	Change 1H 2014/ 1H 2013
Employee benefits	(1 119.6)	52.6%	(1 076.5)	53.0%	4.0%
Overheads and other*	(700.6)	32.9%	(700.3)	34.5%	0.0%
Depreciation and amortisation	(308.0)	14.5%	(254.7)	12.5%	20.9%
<b>Total</b>	<b>(2 128.2)</b>	<b>100.0%</b>	<b>(2 031.4)</b>	<b>100.0%</b>	<b>4.8%</b>

\* Other: taxes and fees and contributions and payments to the BFG.

#### **Net impairment allowance and write-downs**

The net impairment allowance and write-downs reflect the safe approach of PKO Bank Polski SA to credit risk measurement. Deterioration of net impairment allowance and write-downs in the first half of 2014 by 6.0% y/y was mainly due to less favourable net impairment allowance on off-balance sheet liabilities.

The cost of risk<sup>3</sup> in the first half of 2014 amounted to 1.2% and improved by 0.2 pp. as at the end of the first half of 2013.

#### **Statement of financial position of PKO Bank Polski SA - main items**

As at 30 June 2014, the total assets of PKO Bank Polski SA amounted to PLN 222.5 billion and were 13.4% higher than at the end of December 2013.

A significant increase in total assets of PKO Bank Polski SA is the result of intensive development of business operations, which translates into a significant increase in business volumes and at the same time is influenced by the purchase of the assets of the Nordea Group.

The main items of the statement of financial position of PKO Bank Polski SA in the first half of 2014 are presented in the table below:

Table 15. *The main items of the statement of financial position of PKO Bank Polski SA (in PLN million)*

	30.06.2014	Structure 30.06.2014	31.12.2013	Structure 31.12.2013	Change (in %)
Cash and balances with the central bank	8 210.4	3.7%	7 188.4	3.7%	14.2%
Amounts due from banks	16 744.1	7.5%	2 089.1	1.1%	8x
Loans and advances to customers	151 397.5	68.0%	147 372.3	75.1%	2.7%
Securities	32 281.2	14.5%	29 400.4	15.0%	9.8%
Other assets	13 867.4	6.2%	10 229.7	5.2%	35.6%
<b>Total assets</b>	<b>222 500.5</b>	<b>100.0%</b>	<b>196 279.9</b>	<b>100.0%</b>	<b>13.4%</b>
Amounts due to banks	17 765.1	8.0%	2 533.7	1.3%	7x
Amounts due to customers	169 040.5	76.0%	159 957.7	81.5%	5.7%
Debt securities in issue and subordinated liabilities	2 505.5	1.1%	2 604.0	1.3%	-3.8%
Other liabilities	7 126.8	3.2%	6 073.4	3.1%	17.3%
<b>Total liabilities</b>	<b>196 437.8</b>	<b>88.3%</b>	<b>171 168.7</b>	<b>87.2%</b>	<b>14.8%</b>
<b>Total equity</b>	<b>26 062.8</b>	<b>11.7%</b>	<b>25 111.2</b>	<b>12.8%</b>	<b>3.8%</b>
<b>Total liabilities and equity</b>	<b>222 500.5</b>	<b>100.0%</b>	<b>196 279.9</b>	<b>100.0%</b>	<b>13.4%</b>
Loans/Deposits (amounts due to customers)	89.6%	x	92.1%	x	-2.6 pp.
Loans/Stable sources of funding*	88.5%	x	89.9%	x	-1.4 pp.
Interest bearing assets/Assets	90.1%	x	91.1%	x	-1 pp.
Interest paying liabilities/Liabilities	85.1%	x	84.1%	x	1 pp.

\* Stable sources of financing include amounts due to customers and external financing in the form of: own issue of securities and amounts due to financial institutions.

To maintain comparability with previous periods and to provide the economic substance of the acquired funds, from 2Q2014 to determine the ratio, mortgage loans granted by Nordea BP - in the amount of financing received from Nordea BP - are included within loans.

The largest part of PKO Bank Polski SA's assets are loans and advances to customers, which amounted to PLN 151.4 billion at the end of June 2014 (+ PLN 4.0 billion compared to the end of 2013), reaching 68.0% of total assets. The increase of the loan portfolio is influenced by the purchase of the Nordea Group's assets. Under this transaction a purchase agreement regarding so-called 'Swedish portfolio assets', i.e. receivables of loans, advances and bonds granted by Nordea Bank AB or other Nordea Group entities to corporate customers, was concluded.

At the same time, as compared to the end of 2013, the share of amounts due from banks, with a push - down credit facility granted to a subsidiary - Nordea Bank Polska SA, is a major element, increased substantially in the assets' structure. Funds transferred to this subsidiary were acquired in the form of credit facility from Nordea Bank AB as a part of fulfilment of the assumptions related to the purchase agreement of Nordea Group's assets. Funds acquired from Nordea Bank AB are included within the item 'Amounts due to banks' and constitute its largest part.

<sup>3</sup> Calculated by dividing net impairment allowances on loans and advances to customers for the 12 months ended 30 June 2013 and 2014 by the average balance of gross loans and advances to customers at the beginning and at the end of the reporting period and interim quarterly periods.

Amounts due to customers which amounted to PLN 169.0 billion at the end of June 2014 (+ PLN 9.1 billion compared to the end of 2013), reaching 86.1% of the total equity and liabilities, is still the primary source of assets' financing. A significant increase in amounts due to customers is associated with maintaining a safe structure of the statement of financial position during the rapid business operations' development of PKO Bank Polski SA.

## 4. BUSINESS DEVELOPMENT<sup>4</sup>

### 4.1 Directions of development of the PKO Bank Polski SA Group

The development directions of PKO Bank Polski SA are set out in the new strategy for the years 2013-2015, 'PKO Bank Polski Codziennie Najlepszy', approved by the Supervisory Board on 27 March 2013.

PKO Bank Polski SA's vision for development is based on the assumption that its market position as the financial sector leader in Poland and a leading universal bank in Central Europe should be maintained. At the same time, the following goals should be achieved:

- efficiency, building sustainable values and maintaining a stable dividend policy for the shareholders,
- customer satisfaction resulting from credibility, a product offer tailored to the customers' needs and professional service,
- the image of a reliable partner involved in long-term relationships with business partners and local communities,
- the position of the best employer in the Polish banking sector, which supports development and common values.

The strategy assumes strengthening the position of PKO Bank Polski SA as the most valuable brand in the Polish banking sector. Its strength results from such aspects as: its Polish character, the safety and long-term trust of its customers, as well as professional service, modern product offer, innovation and new technologies.

The implementation of PKO Bank Polski SA development vision will be supported by the long-term strategic levers which are a part of the strategy, such as:

1. Customer satisfaction - using the whole potential of the Bank's largest current customer base through a segment-tailored product offer;
2. Distribution excellence - related to better and more effective customer service in the biggest network of locations, and the development of remote channels;
3. Innovation and technologies - increasing the competitiveness of products and services, enhancing customer relations and diversification of revenues through improving technologies and implementing innovation;
4. Organisational effectiveness - maintaining competitiveness by introducing intelligent management information, optimizing risk management and maintaining cost discipline;
5. Development of competencies - strengthening the organisational culture based on common values and human capital, aimed at cooperation, commitment and skills development;
6. Acquisitions and alliances - active search for possibilities of development in Poland and in Central Europe through acquisitions or strategic alliances.

Long-term strategic levers contribute to the leverage of the following areas of business:

- I. Strategic levers in Retail Banking:
  1. Customer-centric approach (using the information about the customer to provide a better service).
  2. Distribution excellence (improved distribution efficiency, network modernisation and optimisation, development of direct channels, improvement in selling skills and sales efficiency).
  3. Innovation and diversification of revenues (implementation of the innovation portfolio management model and development of non-interest income streams).
- II. Strategic levers in Corporate Banking:
  1. Relationship banking and segment-based service model (implementation of an improved segment strategy, distribution structure and price policy and development of skills, as well as loan portfolio quality discipline and efficient capital allocation).
  2. Transaction banking (development of mass payment solutions, extending the product offer, improving customer service quality and improving of processes).
- III. Strategic levers in Investment Banking:
  1. Integrated sales model - capital markets and structured financing (implementing the cross-selling model and developing investment products).
  2. Optimisation of assets and liabilities management (safe and efficient management of the Bank's liquidity, improving the interest rate risk management, developing long-term financing, developing the Bank's Group).
- IV. Strategic levers of Supporting Areas:
  1. Risk management optimisation (decreasing credit risk costs, process enhancement, implementing price policies adjusted to the customer's risk profile, implementing IRB method and increasing the rate of return).
  2. Advanced, efficient and safe technologies and efficient operating processes (IT solutions supporting 'business' in the development of new products, ensuring conditions for the further, safe development of the Bank's business activities).
  3. Development through increased involvement and common values (increasing organisational efficiency and human capital value, enhancing corporate culture which is open to changes, attracting the best employees).
  4. Efficient financial management (increasing financial management efficiency through perfecting organisational intelligence, introducing new methods of the Bank's statement of financial position management and continuous cost optimisation).

Another strategic lever of development of PKO Bank Polski SA will involve acquisitions, comprising:

- domestic acquisitions, offering an opportunity to achieve synergy effects and strengthening the Bank's position on the domestic market in the period of slow-down of the market growth,

<sup>4</sup> In this section, any differences in total balances, shares and growth rates result from rounding the amounts to PLN million and rounding percentages to one decimal place.

- international acquisitions, associated with seeking growth on faster-growing markets and the opportunities to use the international experience and competencies.

In accordance with the development strategy of PKO Bank Polski SA an integrated Group model is developed. The Bank's subsidiaries, which play the role of product centres, supplement the basic offer of financial services provided by the Bank, concerning the area of leasing, factoring, investment and pension funds and services for the development and maintenance of information systems. Since 1 April 2014 the PKO Bank Polski SA Group expanded by Nordea Bank Polska SA (for which the full operating integration with the Bank is planned in the first half of 2015), Nordea Finance Polska SA – currently PKO Leasing Pro SA (which is in the process of merger with PKO Leasing SA) and 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA – currently PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary Nordea Usługi Finansowe Sp. z o.o. – currently Ubezpieczeniowe Usługi Finansowe Sp. z o.o.

The key strategic initiatives for the Group's model development comprise:

- optimisation of operational links within the Group by integration of selected companies with the Bank or the other Group entities – transfer of activities and centralisation of support functions,
- sale of assets which are not associated with the Bank's core operations,
- ensuring secure and careful development of KREDOBANK SA focused on providing services to retail consumers and small and medium enterprises,
- establishment of a mortgage bank,
- implementation of a new *bancassurance* model,
- strengthening the Group's market position in selected market segments, also through alliances in the area of payments and acquisitions of companies.

#### 4.2 Shares in the credit and deposit market – PKO Bank Polski SA and Nordea Bank Polska SA

After the first half of 2014, the total market share – of PKO Bank Polski SA and Nordea Bank Polska SA in the area of deposits increased by 1.4 pp. in relation to the end of 2013, to the level of 17.7% – mainly due to the increase in the share of corporate deposits (+7.7 billion in the volume of corporate deposits of Nordea Bank Polska SA – mainly deposits of enterprises).

As regards loans, the market share grew by 2.2 pp. in relation to the end of 2013 and reached the level of 18.3%, resulted from an increase in the market shares of housing loans – mainly in foreign currencies (+16.4 billion of the volume of housing loans of Nordea Bank Polska SA).

Table 16. *Shares in the credit and deposit market (in %)\**

	30.06.2014	31.12.2013	30.06.2013	Change 30.06.2014/ 31.12.2013	Change 30.06.2014/ 30.06.2013
<b>Loans</b>	<b>18.3</b>	<b>16.1</b>	<b>16.1</b>	<b>2.2 pp.</b>	<b>2.2 pp.</b>
retail customers	22.9	19.1	19.0	3.8 pp.	3.9 pp.
housing loans	25.9	20.6	20.2	5.3 pp.	5.7 pp.
in PLN	29.9	28.4	28.6	1.5 pp.	1.3 pp.
in foreign currencies	21.5	12.8	12.8	8.7 pp.	8.7 pp.
consumer and other	15.5	15.4	16.1	0.1 pp.	-0.6 pp.
corporate customers	13.9	13.1	13.3	0.8 pp.	0.6 pp.
<b>Deposits</b>	<b>17.7</b>	<b>16.3</b>	<b>16.5</b>	<b>1.4 pp.</b>	<b>1.2 pp.</b>
retail customers	22.2	21.7	22.2	0.5 pp.	0 pp.
corporate customers	11.9	9.4	8.9	2.5 pp.	3 pp.

\* Data source: NBP reporting system – Webis.

#### 4.3 Activities of the business segments of PKO Bank Polski SA

##### *The retail segment*

In the first half of 2014, activities undertaken by PKO Bank Polski SA within the retail segment were focused on increasing the attractiveness and competitiveness of the products offered, with a flexible reaction to the changing market conditions. PKO Bank Polski SA focused on increasing innovation in the new financial solutions not only in products, but also the distribution channels, particularly electronic banking and mobile payments.

In the retail segment of PKO Bank Polski SA, actions aimed to improve the quality of customer service were taken, i.a. by enhancing the skills of employees (product training courses) and developing system applications used by consultants in the course of customer service. PKO Bank Polski SA continued sustainable development focused on recognising and meeting the needs of its customers with whom it wishes to build strong and long-term relationships.

##### *The loan offer in the retail segment*

PKO Bank Polski SA was consistently introducing its new product offer in the retail segment and intensified cooperation with entrepreneurs, supporting growth in Polish economy.

As at the end of the first half of 2014, gross loans to the retail segment of PKO Bank Polski SA amounted to PLN 114.4 billion and have increased by PLN 3.6 billion (i.e. by 3.3%) since the beginning of the year. This was mainly due to an increase in the portfolio of mortgage banking loans (+4.8% since the beginning of the year) and loans to small and medium enterprises (+0.9%).

Table 17. Gross loans of PKO Bank Polski SA – the retail segment (in PLN million)

	30.06.2014	31.12.2013	30.06.2013	Change from:	
				31.12.2013	30.06.2013
Gross loans granted, of which:					
retail and private banking	20 516	20 399	20 685	0.6%	-0.8%
small and medium enterprises*	21 827	21 632	21 605	0.9%	1.0%
mortgage banking	72 095	68 795	66 866	4.8%	7.8%
<b>Total loans</b>	<b>114 438</b>	<b>110 827</b>	<b>109 156</b>	<b>3.3%</b>	<b>4.8%</b>

\* since 2014 presentation change consisting of including housing market customers to small and medium enterprises segment (data for 2013 have been brought to comparability)

#### Consumer loans

In the first half of 2014 PKO Bank Polski SA continued the action of promoting sales of consumer loans. As part of the initiatives supporting the sales of such group of products PKO Bank Polski SA carried out promotional activities, mainly focused on the cash loan and the Aurum/Platinum loan. In the period under discussion PKO Bank Polski SA conducted a marketing campaign under the name 'Mini Ratka w mgnieniu oka'. As part of promoting the easy availability of a cash loan up to PLN 23 thousand, which the client could receive on the basis of the bank statement, was emphasized. In the first half of 2014, the 'Mini Ratki z wypiekami na 5' promotional offer with favourable pricing terms was also available. As part of the new functionalities customers with access to the iPKO system may obtain a cash advance by filing a request through a remote channel and confirming the agreement with an authorisation code without visiting a branch or returning a paper copy of the agreement to the Bank. Customers without a current account (ROR) in PKO Bank Polski SA or without access to the iPKO system are also able to file a request for a cash advance online.

In the first half of 2014, as a part of sale intensification of the Aurum/Platinum loan, promotional actions were continued, including campaigns of binding offers ('a loan for ID' – 'kredyt na dowód') for selected customers groups and the promotional offer of Aurum/Platinum loans for vehicles' purchase.

#### Housing loans

PKO Bank Polski SA strengthened a position on the housing loan market. According to the data presented by the Polish Banks Association, PKO Bank Polski SA ranked first on the market for the first half of 2014 with a 34.9% share in sales of housing loans for retail clients.

In the first half of 2014 PKO Bank Polski SA introduced housing loans with the financial support of Bank Gospodarstwa Krajowego in the programme 'Mieszkanie dla Młodych', under which it signed ca. 3.2 thousand agreements with customers for granting loans, and the total value of loans granted exceeded PLN 570 million.

#### Loans for small and medium enterprises and the housing market

PKO Bank Polski SA consistently supports Polish entrepreneurship. It enables small and medium enterprises to finance both current and investment needs through an extensive and flexible lending offer. Due to the agreement signed between PKO Bank Polski SA and Bank Gospodarstwa Krajowego for a guarantee line 'Portfelowa Linia Gwarancyjna de minimis', under the government programme of support for small and medium enterprises, the entrepreneurs will gain support in the form of BGK guarantee – 'de minimis', aimed at increasing the availability of lending facilities and launching additional funds for companies' on-going activities. In the first half of 2014, 11 676 customers, who concluded 12 218 agreements with PKO Bank Polski SA, benefited from access to easier financing. The value of loans granted amounted to PLN 2.5 billion. As at 30 June 2014, 25 314 customers, who signed with the Bank 27 074 agreements, benefited from 'Portfelowa Linia Gwarancyjna de minimis' programme and the value of loans granted amounted to PLN 5.6 billion.

PKO Bank Polski SA was the biggest lender among twenty-one banks granting loans with de minimis guarantees and held 29% of the market share (according to data provided by the Warranties and Guarantees Centre of Bank Gospodarstwa Krajowego).

Due to the great interest in 'Portfelowa Linia Gwarancyjna de minimis' from customers, in the second quarter of 2014 PKO Bank Polski SA signed annexes to the agreement with BGK associated with prolongation of provision of guarantees period to 31 December 2015, with the increase in the guarantee limit granted up to PLN 2.0 billion.

In the first half of 2014 the possibility to offer factoring services to SME customers was introduced at Bank's branches – the product of PKO BP Faktoring SA. Apart from standard offer of PKO BP Faktoring SA, customers from small and medium entities area have also access to the specially dedicated product: domestic recourse factoring (without assumption of risk) with a maximum limits of PLN 500 thousand.

#### The deposit offer in the retail segment

In the first half of 2014, PKO Bank Polski SA continued activities aimed at offering more attractive deposits for retail segment clients, taking into account current market conditions and competitive position.

As at 30 June 2014, deposits of the retail segment of PKO Bank Polski SA amounted to PLN 128.0 billion and since the beginning of the year their volume increased by PLN 2.6 billion (i.e. by 2.1%). The increase in the retail and private banking deposit level (+2.6% since the beginning of the year) contributed to this, due to the increase in the volume of both current and term deposits.

Table 18. Deposits of PKO Bank Polski SA – the retail segment (in PLN million)

	30.06.2014	31.12.2013	30.06.2013	Change from:	
				31.12.2013	30.06.2013
Customer deposits, of which:					
retail and private banking	113 459	110 608	111 715	2.6%	1.6%
small and medium enterprises*	14 516	14 757	12 929	-1.6%	12.3%
<b>Total deposits</b>	<b>127 974</b>	<b>125 365</b>	<b>124 643</b>	<b>2.1%</b>	<b>2.7%</b>

\* since 2014 presentation change consisting of including housing market customers to small and medium enterprises segment (data for 2013 have been brought to comparability)

#### Current and saving accounts

PKO Bank Polski SA remains the leader on the market in terms of the number of current accounts maintained which amounted to 6.4 million as at the end of the first half of 2014. The constant increase in the number of accounts resulted from the offer diversified in terms of customer preferences as part of which the following products can be distinguished i.a.: PKO Konto bez Granic, SUPERKONTO Oszczędne, PKO Konto za Zero, PKO Konto dla Młodych, PKO Konto Pogodne, PKO Konto Pierwsze and PKO Junior.

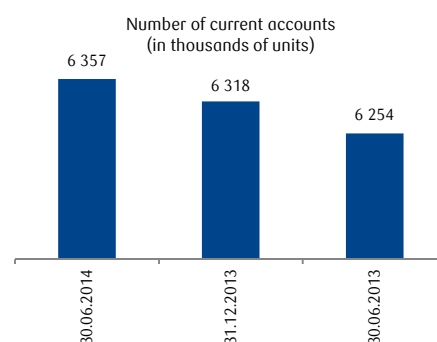
In the first half of 2014 Nowe Konto Osobiste PKO Konto dla Młodych was added to PKO Bank Polski SA offer and is intended for students and university graduates aged 18 to 26 and has a range of additional benefits, i.a., a modern embossed debit card with a contactless payment function, attractive interest rates on the Rachunek Oszczędnościowy Plus account, a new service 'Autooszczędzanie', preferential terms for renewable loans and a simplified procedure for the sale of student credit card.

The offer is accompanied by savings accounts which enable customers to combine interest rates dependent on the level of invested funds with their flexible management.

PKO Bank Polski SA continued the biggest and the oldest educational programme 'School Savings Unions of PKO Bank Polski SA' ('Szkolne Kasy Oszczędności PKO Banku Polskiego SA'). This programme encourages the youngest to save and to gain knowledge on managing of its finances within the SKO online service. A product supporting financial education is PKO Konto Dziecka account. In the first half of 2014 ca. 43.2 thousand new PKO Konto Dziecka accounts have been opened and their total number amounted to over 104 thousand of units as at 30 June 2014.

In the period under discussion, pre-paid cards offer addressed to parents and children under the age of 13, with the possibility to manage these cards on iPKO service from the Parent Application, were also introduced. There are three types of PKO Junior pre-paid cards:

- PKO Junior card (contact and proximity card) to make payments all over the world at the points that accept VISA cards payments, online and for ATM withdrawals,
- PKO Junior proximity sticker – a sticker with an attached card to pay online,
- Śmigacz PKO Junior – the SIM card, offered together with gadgets for proximity payments and online transactions.



#### Term deposits and structured products

Retail banking and private banking deposits dominate in the retail deposit market. Customers from this segment deposited most of their funds in term deposits. In the first half of 2014 PKO Bank Polski SA offered to customers i.a. deposits with progressive and standard interest rates and structured deposits. The 'Lokata 15-miesięczna' with maximum interest rate dependent on the quota threshold was the new term deposit introduced to the Bank's offer.

PKO Bank Polski SA standard offer, addressed to retail customers includes structured instruments sold in the form of structured deposits or Bank Securities. In the analysed period, the Bank conducted three subscriptions for structured deposits: a structured deposit based on the EUR/PLN exchange rate, a structured deposit based on a basket of shares of consumer goods and a structured deposit based on a basket of shares of winter sports partners. Having such products in its offer allows the Bank to offer attractive product to customer and contributes to the improvement in PKO Bank Polski SA's image, as an institution offering innovative investment instruments.

#### ***Other products and services in the retail segment***

##### Bank cards

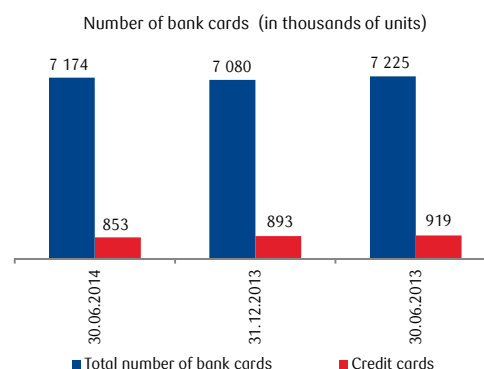
In the first half of 2014, a new MasterCard Debit card for Nowe Konto dla Młodych and new Visa Aurum and Visa Platinum embossed cards for Personal Banking customers were implemented to the Bank's offer. The Bank also revitalised credit cards with the loyalty programme VITAY. The four PKO VITAY credit cards in the offer were replaced with a Partner Credit Card PKO VITAY with a VISA logo.

In the second quarter of 2014 the advertising campaign of Przejrzysta Karta Kredytowa PKO Visa has begun. Under the campaign, the number of product's advantages was presented, such as the possibility to control expenses via SMS package. With the free SMS service, the customer regularly receives information about the date of card repayments and about upcoming date of charging an annual fee.

In the first half of 2014 PKO Bank Polski SA introduced a number of innovative process solutions, which has facilitated managing and using cards by customers.

A functionality that enables i.a. to overlook card transactions via Card Information Center and to transfer the credit card overpayment on another card or any account by using telephone service, was made available. Introducing the possibility to disable the proximity function of MasterCard cards immediately after entering data into the system was an important convenience for customers.

As at 30 June 2014, the number of banking cards of PKO Bank Polski SA amounted to approx. 7.2 million of units.



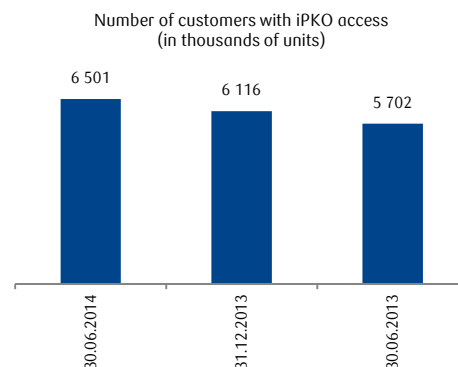
##### iPKO transaction service

As part of the iPKO service, the range of functionalities for credit cards was expanded by introducing automatic credit card debt pay-off management and making it possible to change the settlement period. The credit card details were provided with an additional functionality for presenting information about the volume of transactions performed using a card and the annual fee for the card.



In the analysed period, the iPKO transaction service obtained a functionality enabling applying for a debit card to the account, to which debit card was not given yet and another abbreviated applications were made available within the Virtual Branch – among others applications for housing loans under the 'Mieszkanie dla Młodych' programme, working capital loan for SME, investment loan for SME, credit card, as well as applications to amend a revolving credit limit and the limit on the credit card, were added.

As at the end of June 2014, approx. 6.5 million customers in the retail segment had access to electronic banking, of which 6.0 million retail and private banking customers and 0.5 million customers in the small and medium enterprises segment.



#### Mobile banking IKO

In the first quarter of 2014, a year passed since the introduction of IKO mobile payments. At present, IKO is the most popular and most developed mobile payment system in Poland. The application is constantly being enriched with new functionalities, which is appreciated both by customers and experts.

In the period under discussion, users of the IKO application were granted free access to ATMs in the Euronet network. Thanks to this, the users of the IKO have currently access to over 6 thousand ATMs, including 3 thousand machines of PKO Bank Polski SA. The application for seeking online stores in which IKO payments can be made was also implemented and the possibility to independently register a firm accepting transfers made using mobile phone numbers was introduced in the IKO acceptance network map. As at 30 June of this year, the number of active IKO applications amounted to approx. 169 thousand of units.

#### Insurance products

By increasing the attractiveness of banking products through allowing the possibility to use additional services tailored to customer needs and expectations, the Bank offers insurance products to retail and private banking customers as well as to the small and medium enterprises segment, which are linked to banking products such as ROR, banking cards, consumer loans, mortgage loans, corporate loans. In the first half of 2014, insurance associated with the new credit card PKO VITAY was added to the Bank's offer.

The above types of insurance were available in the Bank's offer for holders of other credit cards for Individual Customers. Along with the implementation of the new credit card, they were also made available to the holders of the Partner Credit Card.

In the analysed period, for customers of PKO Bank Polski SA, who have concluded mortgage secured loan or advance agreement, or have credit card or account with PKO Bank Polski SA, life insurances were introduced. The insurances were prepared in cooperation with PKO Życie Towarzystwo Ubezpieczeń S.A.

#### Other products

As from 31 March 2014, bars of investment gold have been offered on the request of individual customers at branches of PKO Bank Polski SA. Through the services of 40 branches of the Bank across Poland customers may purchase bars of both low and high basis weight. In particular, 1g, 5g, 10g, 20g, 31g, 50g, 100g, 250g, 500g and 1000g bars may be ordered. A relevant annex to the 'Cooperation Agreement' with the Mint of Poland in this case was signed in the first quarter of 2014.

#### ***Distribution network***

Improving the conditions for customer service within the network is one of the tasks supporting the strategic programme titled 'Improving the effectiveness of distribution within the network of branches and agencies'. In the first months of 2014, these activities were mainly focused on modernising the branches and moving the branches to new attractive locations. They were aimed at increasing market competitiveness, improving customer service conditions and optimising the space occupied by branches. Thanks to introducing the standard, the branches being modernised and relocated have a consistent image and customers, irrespective of the location, are being served in the same conditions. In the first half of 2014, 25 branches were modernised.

Moreover, in the first half of 2014 a development of network dedicated for servicing the wealthiest customers has been continued. Until the end of 2014 two new branches are planned to be opened. At present, customer service to this group is provided by 33 consultants and 13 business analysts in 6 offices, who ensure professionalism, availability, discretion and individual approach to customers' needs and expectations. As at 30 June 2014, 2 542 agreements on providing private banking services were signed.

As at the end of the first half of 2014, PKO Bank Polski SA network had 1 147 retail branches (including 6 offices for servicing the wealthiest customers).

The number of the Bank's own ATMs increased by 48 units and amounted to 3 040 units in the first half of 2014. Additionally, under the signed agreement the Bank's customers may use 1 382 units of BZWBK Bank ATMs (including ATMs of former Kredyt Bank) and 138 units of Nordea Bank Polska SA ATMs free of charge.

There were 319 ATMs with a cash deposit module until 30 June 2014. ATMs with a cash deposit module decrease the number of operations conducted at the bank branches, as evidenced by the steady increase in the number of transactions made through cash deposit machines, with a simultaneous decrease in the number of these transactions made at the cash desk.

As at 30 June 2014, the Bank had 310 cash drops, including 175 devices of a new type which make it possible to post on-line payments to the account holder's account.

The network of branches and ATMs is significantly supported by a network of agencies. As at 30 June 2014, the Bank cooperated with 1 054 agencies compared with 1 074 agencies as at 31 December 2013. The drop in the number of agencies is a result of activities aimed at making the network more effective, boosting sales and increasing the importance of the agency network as a distribution channel for the Bank's products and services.

On 5 May 2014, on the basis of the agency agreement, the sale of PKO Bank Polski SA's cash loans in 132 branches of Nordea Bank Polska SA, has begun.

Table 19. *Branches and ATMs of PKO Bank Polski SA*

	30.06.2014	31.12.2013	30.06.2013	Change from:	
				31.12.2013	30.06.2013
Total number of locations	1 186	1 186	1 177	-	9
<b>in the retail segment</b>	<b>1 147</b>	<b>1 147</b>	<b>1 138</b>	<b>-</b>	<b>9</b>
regional retail branches	11	11	11	-	-
retail branches	1 130	1 130	1 124	-	6
private banking offices	6	6	3	-	3
Number of ATMs	3 040	2 992	2 945	48	95
Number of agencies	1 054	1 074	1 149	(20)	(95)

### *Corporate segment*

In the first half of 2014, as in the previous periods, PKO Bank Polski SA based the development of its corporate business on building stable relationships with customers, as a consequence of providing high-quality services, cooperation principles based on partnership and the specialised qualifications of the sales network. Both the financing of the current operations of companies (through working capital loans) and openness to participation in the implementation of their future projects (through investment loans), as well as support for the implementation of projects by local authorities, have remained the main priorities of the Bank's corporate segment.

By analysing market expectations systematically and making an effort to meet customer expectations, the Bank has tailored its broad range of products and services to cope with the increasing pressure of competition. As a result, a broad range of transaction products and products mitigating financial risks (liquidity, settlement, interest rate, currency and commodity price risks) were being developed consistently, and financing structure needs were addressed in a flexible manner.

### *Lending activity and structured financing*

As at the end of June 2014, gross corporate loans amounted to PLN 40.1 billion and their balance increased by PLN 1.1 billion (i.e. by 2.8%) since the beginning of the year. The total financing provided to corporate customers, including bonds issued, amounted to PLN 47.0 billion, which means an increase by PLN 1.7 billion (i.e. by 3.8%) from the beginning of the year.

Table 20. *Financing provided to corporate customers (in PLN million)*

	30.06.2014	31.12.2013	30.06.2013	Change from:	
				31.12.2013	30.06.2013
Gross corporate loans	40 053	38 947	41 580	2.8%	-3.7%
Debt securities*	6 905	6 292	6 024	9.7%	14.6%
municipal	4 372	4 419	3 803	-1.1%	15.0%
corporate	2 533	1 873	2 221	35.3%	14.1%
<b>Total financing</b>	<b>46 958</b>	<b>45 238</b>	<b>47 604</b>	<b>3.8%</b>	<b>-1.4%</b>

\* Data presented together with securities classified as loans and advances to customers.

As part of the largest credit transactions performed in the first half of 2014, the Bank provided financing in the form of investment and working capital loans to entities in the power and telecommunication industries, the financial sector and public sector entities. The unit amounts of the largest transactions ranged from PLN 75 million to PLN 300 million. Introducing the safe financing structure, the Bank granted executive guarantees in the two largest investments in energy sector in Poland, enabling their effective and timely undertaking.

Products associated with financing large investment projects such as consortium loans or issues of non-Treasury securities are a fixed component of PKO Bank Polski SA's offer dedicated to corporate customers. As at the end of the first half of 2014, the Bank's market share, in terms of total liabilities, amounted to 14.1%<sup>5</sup> in the corporate bond segment and 28.4%<sup>6</sup> in the municipal bond segment.

In the first half of 2014, PKO Bank Polski SA concluded four loan agreements in the form of a bank consortium totalling PLN 12.6 billion, in which the Bank's share amounted to PLN 1.1 billion.

The Bank signed five agreements to organise an issue of corporate bonds, without the guarantee to close the issue, in the amount of more than PLN 14 billion. In addition, the Bank signed 34 municipal bond issue agreements totalling PLN 183 million. Moreover, the Bank signed an annex amending the terms of a bond issue programme for PLN 4 billion - the PKO's share in consortium amounted to PLN 1.6 billion.

### *Deposit activities and transaction banking*

The volume of deposits as at the end of June 2014 amounted to PLN 26.5 billion and was PLN 5.2 billion higher than at the beginning of the year. The main factor behind the increase in the deposit base is the Bank's strong position as regards the offer of transaction products, which results in an increase of the volume of negotiable deposits.

Table 21. *Deposits of corporate customers (in PLN million)*

	30.06.2014	31.12.2013	30.06.2013	Change from:	
				31.12.2013	30.06.2013
Corporate deposits	26 545	21 336	20 356	24.4%	30.4%

PKO Bank Polski SA is constantly enhancing the quality of its transaction banking services. In the first half of 2014, services dedicated to entities with a complex organisational structure (e.g. groups of companies) were being developed, enabling customers to use various kinds of products and services which make it easier to settle transactions with foreign partners.

<sup>5</sup> Based on the report, Fitch Rating & Market Polska organisers of corporate bonds (over 365 days).

<sup>6</sup> Based on the report, Fitch Rating & Market Polska organisers of municipal bonds (over 365 days).

In implementing a number of system improvements, the Bank offered its customers the possibility of managing sublimits for the 'Rachunek Skonsolidowany' and 'Cash Pooling' services. At the same time, the electronic banking system iPKO Biznes is the leading product of the corporate banking segment of PKO Bank Polski SA. In the first half of 2014 the iPKO Biznes application was expanded to include new functionalities which make it more convenient to use, including, among others, the expansion of the possibilities to service the debit cards and redoing transfers. Currently, the iPKO Biznes application allows customers to monitor and manage accounts, payment cards and loans and to place orders for all kinds of transfers. As at the end of June of this year 13 thousand of customers were using iPKO Biznes.

### **Sales network**

The sales network of the corporate segment includes seven Corporate Macro-Regions and 32 Regional Corporate Centres. The Bank successfully continued implementing a strategic programme of corporate sale development, based on modern mechanisms of planning the development of relationships with the customers, cooperation in building financial strategies and services.

Table 22. *Branches of PKO Bank Polski SA*

	30.06.2014	31.12.2013	30.06.2013	Change from:	
				31.12.2013	30.06.2013
Total number of branches	1 186	1 186	1 177	-	9
<b>in the corporate segment:</b>	<b>39</b>	<b>39</b>	<b>39</b>	-	-
regional corporate branches	7	7	7	-	-
corporate centres	32	32	32	-	-

### *Investment segment*

As part of the investment segment activities, the Bank performs operations on the money and the capital market, and trades on the interbank interest rate and foreign exchange markets, manages financial risk. Transactions concluded with retail and corporate customers, including transactions associated with financing large investment projects and transaction banking services, constitute an important part of the activities. Cooperation with financial institutions such as investment fund companies, pension and insurance companies is a growing part of this segment. In the investment segment, corporate governance is exercised over the Group entities. The organisation of the Bank's own issues on the Polish market and on international markets (i.a. through bond issues) and obtaining funds from monetary and non-monetary financial institutions form an important part of the segment's operations.

### **Interbank market**

PKO Bank Polski SA cooperates in the international settlement system with financial institutions in 107 countries throughout the world.

The Bank has 35 Nostro accounts and 52 Loro accounts.

The Bank is the Treasury Securities Dealer and the Money Market Dealer. The Bank's activities in this area include the management of liquidity risk, interest rates risk and foreign exchange risk, acting as a market maker in the currency and interest rate market.

The Bank's high activity on financial markets resulted in achieving 13.7% share in the IRS/FRA instruments market, 8.5% share in the FX Spot market and 10.8% in future transactions.

Liquidity surpluses not used for the purpose of lending activity was invested by the Bank mainly in Treasury Securities and NBP bills.

As a part of the opened issuance programme of own bonds on the domestic market, the Bank has issued short-term bonds in the amount of PLN 750 million.

In accordance with the schedule of works relating to implementation of EMIR (European Market Infrastructure Regulation) imposing on financial institutions an obligation to settle OTC derivative transactions using central counterparties – CCP, the Bank completed tasks related with joining the KDPW Repository (the National Depository for Securities) and reporting of all concluded derivatives transactions. On 30 June of this year, the Bank has joined KDPW\_CCP clearing house, as an individual clearing participant.

### **Brokerage activities**

The Brokerage House of PKO Bank Polski SA is one of the leading brokerage houses operating on the domestic financial market. As at the end of the first half of this year, the level of realised turnover and market shares of the Brokerage House of PKO Bank Polski SA in particular market segments were as follows:

- the turnover on the secondary stock market amounted to PLN 24 billion, which with a market share of 10%, gave the Brokerage House a second rank on the market,
- the turnover on the *NewConnect* market amounted to nearly PLN 63 million, which with a market share of 11.4% puts the Brokerage House in 4<sup>th</sup> place in the ranking. As at the end of June the Brokerage House of PKO Bank Polski SA performed the market maker function on *NewConnect* market for 51 companies (2<sup>nd</sup> place),
- the turnover on the option market exceeded 70 thousand units and 432 thousand units on the future contracts market, which with a share of 16.5% and 4.2% respectively, give 3<sup>rd</sup> and 4<sup>th</sup> place in the ranking.

As part of the Brokerage House of PKO Bank Polski SA's transactions on the primary market it is worth noting:

- joint book running in ABB transaction of PKP Cargo SA shares – the value of the transaction amounted to nearly PLN 584 million,
- joint managing and book running in the IPO of Torpol SA shares – the value of the transaction amounted to PLN 183.7 million,
- participation in the public offering of subsequent series of PKN Orlen SA bonds in amount of PLN 300 million,
- serving as the offeror for the ECHO Investment SA bonds in amount of PLN 50 million,
- joint book running in the IPO of Alumetal SA (turn of the second and third quarter),
- active participation in purchase transaction of Nordea Bank Polska SA's shares by the Bank.

In the past half of the year, the Brokerage House of PKO Bank Polski SA has finished subscriptions for employee shares of PKP Cargo SA and participated as an operator introducing into Catalyst market municipal bonds issued by: the Municipality Brzesko, Olkusz, Barcin and Marki. The total amount of transactions exceeded PLN 50 million. The Brokerage House of PKO Bank Polski SA participated also in the consortium executing the sale of companies: PRIME CAR MANAGEMENT SA, LIVE CHAT SOFTWARE SA, TELE POLSKA HOLDING SA and ALTUS SA.

Regarding the sale of investment funds, it is worth noting the execution of the sale transaction of A series Investment Certificates of PKO Strategii Obligacyjnych for a total amount of PLN 386.5 million and non-public issue of K2 series Investment Certificates of IPOPEMA Global Macro FIZ for the amount of PLN 43.3 million. As at the end of June of this year the Brokerage House of PKO Bank Polski SA served participation units of 188 funds and sub-funds managed by 16 Investment Funds. Moreover, the Brokerage House of PKO Bank Polski SA was the market maker for 61 companies (ranking third on the market) and issuer's market maker for 29 companies (ranking fourth on the market).

As at the end of June 2014, the Brokerage House of PKO Bank Polski SA maintained 188 thousand securities accounts and cash accounts, and 175.3 thousand registration accounts. According to KDPW data, the Brokerage House of PKO Bank Polski SA held the second position on the market in terms of the number of securities accounts (43 participants).

The Brokerage House of PKO Bank Polska SA is one of the leading brokerage houses in terms of bond trading on the WSE. In the first half of 2014 the Brokerage House of PKO Bank Polski SA had 47.4% market share, which ranks it on the first place.

#### **Treasury products**

The Bank's activities concerning sales of treasury products to institutional and individual clients were focused on increasing the sales revenues and products' offer development. SPOT forex transactions have the largest share in sales of treasury products. In the first half of this year, the number of SPOT transactions was 15% higher compared to the corresponding period of the previous year.

In the past half of the year, the Bank worked on expanding the deposits offer for corporate customers with structured products containing capital guarantee.

#### **Fiduciary services**

The Bank's fiduciary activities are mainly dedicated to domestic and foreign financial institutions, pension and investment funds and insurance companies. The Bank's customers in the area of fiduciary services are also non-financial institutions.

As at the end of June of this year, the value of assets held on fiduciary accounts of the Bank's customers amounted to PLN 65.5 billion and was 15% higher than the amount obtained as at the end of June 2013. At the same time the number of fiduciary accounts increased from 1.4 thousand units to 1.7 thousand units.

### **4.4 Activities of Nordea Bank Polska SA**

Detailed timetable of the acquisition by PKO Bank Polski SA of Nordea Group companies, including of Nordea Bank Polska SA is presented in chapter 5.2 'Description of changes in the organisation of subordinated entities' of this report.

The net profit of Nordea Bank Polska SA, achieved in the second quarter of 2014, i.e. since the date of consolidation, amounted to PLN 42.3 million, and its components are shown in the following table.

Table 23. Profit and loss account of Nordea Bank Polska SA for the second quarter of 2014 (in PLN million)

	01.01- 30.06.2014
Interest and similar income	226.5
Interest expense and similar charges	(79.5)
<b>Net interest income</b>	<b>146.9</b>
Fee and commission income	32.8
Fee and commission expense	(6.3)
<b>Net fee and commission income</b>	<b>26.6</b>
Dividend income	-
Net income from financial instruments measured at fair value	2.6
Gains less losses from investment securities	-
Net foreign exchange gains	21.7
Net other operating income and expense	5.5
Net impairment allowance and write-downs	(21.5)
Administrative expenses	(128.5)
<b>Operating profit</b>	<b>53.3</b>
<b>Profit before income tax</b>	<b>53.3</b>
Income tax expense	(11.0)
<b>Net profit</b>	<b>42.3</b>

In the income statement of Nordea Bank Polska SA for the second quarter of 2014, the sum of income items amounted to PLN 203.3 million, which with total administrative expenses on the level of (-) PLN 128.5 million translated into achieving cost effectiveness ratio (C/I) of 63.2% in this period.

Table 24. Statement of financial position of Nordea Bank Polska SA (in PLN million)

	30.06.2014	Structure 30.06.2014
Cash and balances with the central bank	1 661.9	5.2%
Amounts due from banks	283.0	0.9%
Loans and advances to customers	27 066.3	84.7%
Securities	2 689.7	8.4%
Other assets	250.0	0.8%
<b>Total assets</b>	<b>31 950.8</b>	<b>100.0%</b>
Amounts due to banks	14 879.2	46.6%
Amounts due to customers	12 967.5	40.6%
Debt securities in issue and subordinated liabilities	1 003.6	3.1%
Other liabilities	314.7	1.0%
<b>Total liabilities</b>	<b>29 165.0</b>	<b>91.3%</b>
Total equity	2 785.8	8.7%
<b>Total liabilities and equity</b>	<b>31 950.8</b>	<b>100.0%</b>

The total assets of Nordea Bank Polska SA amounted to PLN 32.0 billion as at 30 June of 2014.

The largest part of Nordea Bank Polska SA's assets are loans and advances to customers – mainly housing loans, with a total amount of PLN 27.1 billion as at the end of June 2014 (84.7% of total assets).

The primary source of assets' financing are amounts due to banks – mainly long-term financing obtained from PKO Bank Polski SA, which amounted to PLN 14.9 billion as at 30 June of this year (46.6% of total liabilities) and amounts due to customers – mainly amounts due to corporate entities, which amounted to PLN 13.0 billion as at the end of June 2014 (40.6% of total liabilities).

### Retail segment

In the first half of 2014 retail banking activities were focused on enhancing relations with customers both in the individual clients and small enterprises segments. It was directly associated with the highest priority for retention activities in the circumstances of the ongoing merger with PKO Bank Polski SA. Focusing on maintenance of relations with customers was accompanied by strong emphasis on continuing the further development of the customer base and intensifying processes of sales of selected products offered by the Bank.

#### The deposit offer

The deposit offer of Nordea Bank Polska SA contains a wide range of bank accounts: current accounts (ROR), saving accounts, foreign currency accounts. The most popular account was 'Nordea Ulubione' account, for which both opening and keeping is free of charge, and in addition the customer can make withdrawals from all ATMs in the country and abroad for free, does not pay for transfers made through electronic banking Netbank and does not pay for the use of the debit card.

In order to intensify the acquisition of deposits, the promotional campaign launched in late 2013 which consisted of the introduction of promotional deposit with attractive interest rates and with the possibility of investing funds for four months, was continued in 2014. With this deposit the funds for a total amount exceeding PLN 620 million could be obtained from existing and new customers.

Table 25. Deposits in retail segment of Nordea Bank Polska SA (in PLN million)

	30.06.2014*	Structure 30.06.2014
Customer deposits, of which:		
retail and private banking	4 720	81.7%
small and medium enterprises	1 061	18.3%
<b>Total deposits</b>	<b>5 781</b>	<b>100.0%</b>

\* the data include segmentation criteria which are applicable in Nordea Bank Polska SA.

In the first half of 2014 a positive in the sale of investment products continued. The sale of investment products, such as investment funds units, structured products, as well as unit-link type solutions and saving plans – was almost 6% higher than in corresponding period of the previous year. The largest share in the new sale related to funds from PKO TFI SA offer – in the analysed period they constitute more than 60% of total sale.

#### The loan offer

Loans structure in the retail segment is dominated by mortgage loans – within which foreign currency loans have the largest share. Within the loan offer of the retail segment the sale of loans intended for housing purposes was continued. Significant change in credit offer for retail segment customers was the introduction of PKO Bank Polski SA's cash loan, sold in the agency model from May 2014.

Table 26. Gross loans in retail segment of Nordea Bank Polska SA (in PLN million)

	30.06.2014*	Structure 30.06.2014
Gross loans granted, of which:		
retail and private banking	273	1.6%
small and medium enterprises	59	0.4%
mortgage banking	16 291	98.0%
<b>Total deposits</b>	<b>16 623</b>	<b>100.0%</b>

\* the data include segmentation criteria which are applicable in Nordea Bank Polska SA.

### Corporate segment

In the first half of 2014 the corporate segment's activities were mainly focused on maintenance good and long term relations with current customers. Moreover, Nordea Bank Polska SA focused on acquiring new customers and interesting transactions in terms of building long-term relations, with an acceptable level of profitability and high quality of banking services.

The intensive actions have been taken to inform customers about the progress of the merger of both banks and ensuring about the continuation of cooperation and the highest quality of service.

#### Lending activity and structured financing

In the first half of this year Nordea Bank Polska SA signed 20 municipal bond issue agreements in a total amount of PLN 317 million. According to Fitch's rating – a rating company monitoring the bonds market in Poland – Nordea Bank Polska SA was one of the main organisers of municipal and corporate bond issues, with a market share of 14.2% and 10.4%, respectively.

As part of the largest credit transactions performed in the first half of this year, Nordea Bank Polska SA participated in financing, in the form of a banking consortium, the fuel industry company and in the bilateral form, companies from oil & gas, energy and commercial real estate industries. Separate amounts of the financing in the bilateral form were ca. PLN 100 million.

Table 27. Gross loans in corporate segment of Nordea Bank Polska SA (in PLN million)

	30.06.2014*
Gross corporate loans	10 907

\* the data include segmentation criteria which are applicable in Nordea Bank Polska SA.

#### Deposit activities and transaction banking

In the first half of this year, Nordea Bank Polska SA completed design works on a new, e-banking platform for corporate clients, thanks to which, they will be able to use a new, modernised e-banking platform Nordea eConnect. The new solution enables to access bank account and to perform transactions via three integrated access channels:

- the home banking eConnect application,
- the website (internet banking – webConnect) and
- the application for mobile devices (mobile banking – mobileConnect).

The mobile banking is offered to corporate clients in Polish and English language version and can be used on mobile devices equipped with operating systems Android and iOS. The offered electronic banking service combines safety with comfort and with operational functionality. Customers, who use the eConnect electronic banking platform, can order transfers, make deposits and they have a free access to information about accounts, payments, defined counterparties, payment cards on their desktops, laptops, as well as in their phones and tablets.

Table 28. Deposits in corporate segment of Nordea Bank Polska SA (in PLN million)

	30.06.2014*
Corporate deposits	6 715

\* the data include segmentation criteria which are applicable in Nordea Bank Polska SA.

### Investment segment

#### Interbank market

Nordea Bank Polska SA is linked via SWIFT with approximately a thousand banks and financial institutions in the world. Nordea Bank Polska SA is a direct participant in Polish clearing systems and in the TARGET 2 and SEPA systems and is an indirect participant in the STEP2/EBA systems. Nordea Bank Polska SA is one of the top Polish banks in terms of the number of foreign payments processed for the account of Polish beneficiaries. This volume is growing, as an increasing number of foreign and domestic banks having Nostro accounts with Nordea Bank Polska SA. This growth is especially visible in the case of banks from the Emerging Markets area. A significant share in the settlement of commercial payments directed to Poland from abroad, causes that the Bank is one of the major clearing banks in the Polish market.

One of the key areas of co-operation between Nordea Bank Polska SA and foreign and domestic banks is foreign currency exchange and FX sharing. In addition to traditional methods FX transactions can be executed via the Internet platform. In the first half of 2014 the number of customers who decided on this type of cooperation, has significantly increased.



In the first half of 2014, Nordea Bank Polska SA offered to domestic and international, non-banking financial institutions a cooperation in the field of services supporting the management of funds using a broad range of settlement products, savings, treasury and risk-hedging products. Moreover, the revitalised cooperation in terms of foreign currency exchange was conducted with companies from this segment.

#### Treasury products

Nordea Bank Polska SA has a basic offer of foreign currency hedging instruments, which support customers in their day-to-day operations. Nordea Bank Polska SA's customers can also conclude foreign exchange transactions via the iPKODealer currency platform. The share of exchange through this channel is steadily growing. Financial surpluses are invested in securities issued by the State Treasury or the National Bank of Poland.

#### Operational data

As at the end of the second quarter of 2014, Nordea Bank Polska SA network consisted of 134 branches and internet branch. There were 138 ATMs with a deposit function available for customers mainly located next to branches of Nordea Bank Polska SA.

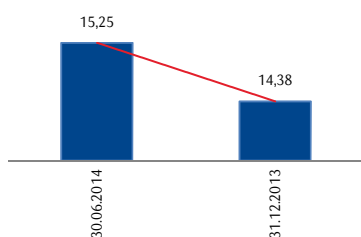
Table 29. Operational data of Nordea Bank Polska SA

	30.06.2014
Number of locations (units)	134
Number of ATMs (units)	138

### 4.5 Activities of selected the PKO Bank Polski SA Group entities

#### PKO Towarzystwo Funduszy Inwestycyjnych SA

Value of investment funds assets (in PN billion)

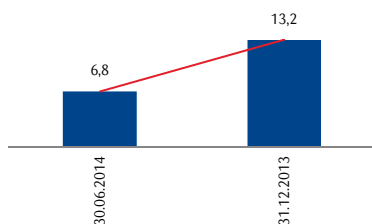


1. In the first half of 2014 the Company PKO TFI SA earned a net profit of PLN 23.9 million (in the corresponding period of 2013 a net profit of the Company amounted to PLN 17.2 million).
2. The value of assets of funds managed by the Company as at the end of June 2014 was PLN 15.25 billion, which represents 6.0% increase compared to end of 2013. The increase in the value of assets was mainly associated with the fact that the Company generated a significant net profit from sales and a result from assets management.
3. PKO TFI SA ranks 4<sup>th</sup> in terms of the net assets value and its share in the investment funds market is 7.5%\*.
4. In the first half of 2014, the Company introduced a new fund to its offer: PKO Strategii Obligacyjnych – a closed-end investment fund.
5. As at 30 June 2014, the Company managed 39 investment funds and sub-funds.

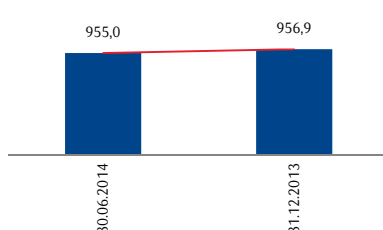
\* Source: The Chamber of Fund and Asset Managers (Izba Zarządzających Funduszami i Aktywami).

#### PKO BP BANKOWY PTE SA

Value of net assets of PKO BP Bankowy OFE (in PLN billion)



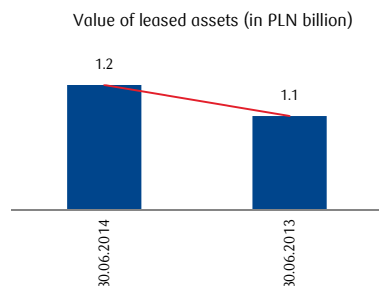
Number of PKO BP Bankowy OFE participants (in thousand)



1. In the first half of 2014, PKO BP BANKOWY PTE SA earned a net profit of PLN 7.3 million (in the first half of 2013 a net profit amounted to PLN 13.4 million).
2. As at the end of June 2014, the net assets value of PKO BP Bankowy OFE managed by PKO BP BANKOWY PTE SA, amounted to PLN 6.8 billion, which is a decrease of 48.8% in comparison to the end of 2013. The decrease resulted from the redemption of 51.5% of owned assets in February 2014 - in accordance with the Act, PKO BP Bankowy OFE transferred, to the Social Insurance Institution, assets in the form of bonds issued by the State Treasury.
3. As at the end of June 2014, the number of members of PKO BP Bankowy OFE amounted to 955 thousand.
4. PKO BP Bankowy OFE holds the eighth place on the pension funds market regarding the OPF's net assets value and the eighth place regarding the number of members.
5. According to the ranking of the Polish Financial Supervision Authority, PKO BP Bankowy OFE for the period from 31 March 2011 to 31 March 2014 reached a rate of return at the level of 21.214% (the weighted average rate of return of 20.599%) holding thereby fifth place in the ranking of OPF for that period.
6. As at the end of June of this year, PKO Bankowy OFE reached, per annum, 10% rate of return - highest among pension funds operating on the market.

\* Source: [www.knf.gov.pl](http://www.knf.gov.pl)

### The PKO Leasing SA Group



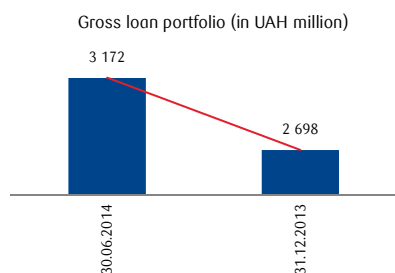
1. In the first half of 2014 the PKO Leasing SA Group (PKO Leasing SA and its subsidiaries: PKO Bankowy Leasing Sp. z o.o. and PKO Leasing Sverige AB) earned a net profit of PLN 5.5 million (in the corresponding period of 2013 a net profit of the Group amounted to PLN 5.9 million).
2. In the first half of 2014, the PKO Leasing SA Group entities leased out assets with a total value of PLN 1.2 billion, i.e. 8.5% more than in the first half of 2013.
3. The total carrying amount of the lease investments of the PKO Leasing SA Group entities amounted to PLN 4.1 billion as at the end of the first half of 2014.
4. At the end of June of this year, in terms of the value of assets leased, the PKO Leasing SA Group ranked 8<sup>th</sup> position on the leasing services market with 5.6% market share, and together with PKO Leasing Pro SA - ranked 6<sup>th</sup> position with 6.4% market share\*.

\* Source: the Company's calculations and data of Polish Leasing Association.

### PKO Leasing Pro SA

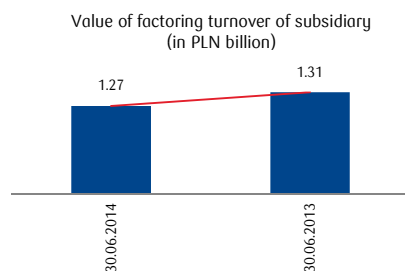
1. In April 2014, a new company - Nordea Finance Polska SA (currently, after changing the name: PKO Leasing Pro SA), which main activity is the provision of leasing and factoring services, became a part of the Bank's Group.
2. In the second quarter of 2014 the Company recorded a net profit in the amount of PLN 0.7 million.
3. In the first half of 2014, PKO Leasing Pro SA leased out assets with a total value of PLN 166 million, and the total carrying amount of the lease investments of PKO Leasing Pro SA amounted to PLN 521 million as at 30 June 2014. The total assets (including accounts receivable factoring) amounted to PLN 647 million.
4. The works related to the transfer of factoring contracts to PKO BP Faktoring SA and to the merger of PKO Leasing Pro SA with PKO Leasing SA are carried out.

### The KREDOBANK SA Group (data according to IFRS applicable in the PKO Bank Polski SA Group)



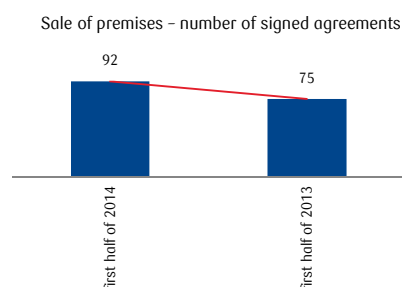
1. As at the end of June 2014, the KREDOBANK SA Group (KREDOBANK SA and its subsidiary Kompania Finansowa 'Idea Kapital' Sp. z o.o.) incurred a net loss in the amount of UAH 73.5 million (PLN 20.9 million). In the first half of 2013, the net loss of KREDOBANK SA Group amounted to UAH 65.8 million (PLN 26.0 million).
2. The KREDOBANK SA Group's (gross) loan portfolio in the first half of 2014 increased by UAH 474 million, i.e. by 17.6% and amounted to UAH 3 172 million as at 30 June 2014 (the gross loan portfolio denominated in PLN decreased by PLN 187 million, i.e. by 18.7% and amounted to PLN 813 million as at the end of the first half of 2014).
3. In the first half of 2014, term deposits of the KREDOBANK SA Group's customers decreased by UAH 69 million, i.e. by 3.7% and amounted to UAH 1 793 million as at the end of June 2014 (term deposits denominated in PLN decreased by PLN 231 million, i.e. by 33.4% and amounted to PLN 459 million as at 30 June 2014).
4. As at 30 June 2014, the network of KREDOBANK SA branches consisted of 1 Central Branch and 115 subordinated branches in 22 out of 24 Ukrainian districts. In the first half of 2014, 15 subordinated branches, including 6 in the Autonomous Republic of the Crimea, were closed. As at the end of June of this year KREDOBANK SA does not have branches in the Crimea.

### Bankowe Towarzystwo Kapitałowe SA Group



1. In the first half of 2014 the BTK SA Group (BTK SA and its subsidiary: PKO BP Faktoring SA) incurred a net loss in the amount of PLN 0.7 million (in the corresponding period of 2013, the Group recorded a net profit in the amount of PLN 0.7 million).
2. In the first half of 2014, PKO BP Faktoring SA was providing domestic and export factoring services, both with and without the acceptance of risk, reverse factoring and a service of the factoring programme for suppliers.
3. In the first half of 2014, the value of factoring turnover amounted to PLN 1.3 billion and the number of customers increased to 183.
4. As at 30 June 2014 PKO BP Faktoring SA ranked eighth place among factoring companies associated in the Polish Factors' Association, with a market share of 2.45%.

### The Qualia Development Sp. z o.o. Group



1. In the first half of 2014 the Qualia Development Sp. z o.o. Group (Qualia Development Sp. z o.o. and its subsidiaries) incurred a net loss in the amount of PLN 7.7 million (in the first half of 2013 the Group incurred a net loss in the amount of PLN 13.9 million).
2. In the first half of 2014 the Group was focused on:
  - obtaining permission for the exploitation of the residential part of the building in Sopot,
  - conducting design work and administrative procedures to obtain construction permits for: Żwirki i Wigury project in Warsaw, the Royal Tulip hotel and apartment building in Jurata and for properties of PKO Bank Polski SA located in Warsaw at Nowogrodzka Street and Sienkiewicza Street,
  - preparation for the start of the projects in Nowy Wilanów (Royal Park stage) and Neptun Park in Gdańsk (IV stage of the investment).

#### PKO Życie Towarzystwo Ubezpieczeń SA Group

1. In April 2014, a new company - 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA (currently, after changing the name: PKO Życie Towarzystwo Ubezpieczeń SA), which main activity is the provision of life insurances and its subsidiary - Nordea Usługi Finansowe Sp. z o.o. (currently, after changing the name: Ubezpieczeniowe Usługi Finansowe Sp. z o.o.), which provides supporting services for insurance activity, became a part of the Group.
2. In the second quarter of 2014 the Group generated a net profit in the amount of PLN 0.5 million.
3. PKO Życie Towarzystwo Ubezpieczeń SA offers protection products and saving-investment products. As part of the investment products, the Company offers a wide range of Insurance Capital Funds in which customers can invest their savings. The investment offer includes 116 domestic and foreign Insurance Capital Funds and 3 model portfolios and 9 Insurance Capital Funds developed by experts from PKO TFI SA.
4. The value of gross written premiums under insurance agreements, concluded by the Company in the first half of 2014, amounted to PLN 377 million (as at the end of March of this year this value amounted to PLN 186 million).
5. As at the end of June 2014, the Company insured 135 thousand people.

## 5. INTERNAL CONDITIONS

### 5.1 Organisation of the PKO Bank Polski SA Group

As at 30 June 2014, the PKO Bank Polski SA Group consisted of PKO Bank Polski SA (the parent company) and 49 direct and indirect subsidiaries.

Table 30. *Entities belonging to the PKO Bank Polski SA Group*

No.	Entity name	Head office	Business activity	Share in the share capital (%)	Consolidation method
<b>Parent company</b>					
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna				
<b>Direct subsidiaries</b>					
2	Nordea Bank Polska SA <sup>1</sup>	Gdynia	banking activity	100	full method
3	KREDOBANK SA	Lviv, Ukraine	banking activity	99.5655	full method
4	PKO Towarzystwo Funduszy inwestycyjnych SA	Warsaw	investment fund management	100	full method
5	PKO BP BANKOWY PTE SA	Warsaw	pension fund management	100	full method
6	PKO Leasing SA	Łódź	leasing activity	100	full method
7	PKO Leasing Pro SA <sup>2</sup>	Warsaw	leasing and factoring activity	100	full method
8	Bankowe Towarzystwo Kapitałowe SA	Warsaw	service activity	100	full method
9	Inteligo Financial Services SA	Warsaw	development and maintenance of IT systems	100	full method
10	PKO BP Finat Sp. z o.o.	Warsaw	services of transfer agent	100	full method
11	PKO Życie Towarzystwo Ubezpieczeń SA <sup>3</sup>	Warsaw	life insurance	100	full method
12	PKO Finance AB	Stockholm, Sweden	finance activity	100	full method
13	Polski Standard Płatności Sp. z o.o.	Warsaw	mobile payments	100	full method
14	Qualia Development Sp. z o.o.	Warsaw	development activity	100	full method
15	'CENTRUM HAFFNERA' Sp. z o.o. <sup>4</sup>	Sopot	property management of subsidiaries	72.9766	full method
16	Merkury - fiz an <sup>5</sup>	Warsaw	invest the funds collected from participants in the fund	100	full method
<b>Direct subsidiaries - reported under assets held for sale</b>					
17	'Inter-Risk Ukraina' Spółka z dodatkową odpowiedzialnością	Kiev, Ukraine	debt collection activity	100	full method
18	Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. <sup>6</sup>	Kiev, Ukraine	factoring activity	91.8766	full method
<b>Subsidiary of KREDOBANK SA</b>					
19	Finansowa Kompania 'Idea Kapitał' Sp. z o.o.	Lviv, Ukraine	financial services	100	full method
<b>Subsidiaries of PKO Leasing SA</b>					
20	PKO Bankowy Leasing Sp. z o.o.	Łódź	leasing activity	100	full method
21	PKO Leasing Sverige AB	Stockholm, Sweden	leasing activity	100	full method
<b>Subsidiary of Bankowe Towarzystwo Kapitałowe SA</b>					
22	PKO BP Faktoring SA <sup>7</sup>	Warsaw	factoring activity	99.9889	full method
<b>Subsidiary of PKO Życie Towarzystwo Ubezpieczeń SA</b>					
23	Ubezpieczeniowe Usługi Finansowe Sp. z o.o. <sup>8</sup>	Warsaw	service activity	100	full method

<b>Subsidiaries of Qualia Development Sp. z o.o.<sup>9</sup></b>					
24	Qualia Sp. z o.o.	Warsaw	general partner in limited partnerships QDE Group	100	full method
25	Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k.	Warsaw	development activity	99.9975	full method
26	Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	Warsaw	development activity	99.9787	full method
27	Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	Warsaw	development activity	99.9750	full method
28	Qualia spółka z ograniczoną odpowiedzialnością - Jurata Sp. k.	Warsaw	development activity	99.9608	full method
29	Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k.	Warsaw	development activity	99.9123	full method
30	Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	Warsaw	development activity	99.8951	full method
31	Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k.	Warsaw	development activity	50	full method
32	Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Sp. k.	Warsaw	development activity	50	full method
33	Qualia Hotel Management Sp. z o.o.	Warsaw	development activity	100	full method
34	Qualia - Residence Sp. z o.o.	Warsaw	development activity	100	full method
35	Qualia - Rezydencja Flotyła Sp. z o.o.	Warsaw	development activity	100	full method
36	'Fort Mokotów Inwestycje' Sp. z o.o.	Warsaw	development activity	100	full method
37	Sarnia Dolina Sp. z o.o.	Warsaw	development activity	100	full method
38	Giełda Nieruchomości Wartościowych Sp. z o.o.	Warsaw	intermediation in the sale of property	100	full method
39	'Fort Mokotów' Sp. z o.o. in liquidation	Warsaw	in liquidation	51	full method
<b>Subsidiaries of 'CENTRUM HAFNERA' Sp. z o.o.</b>					
40	'Sopot Zdrój' Sp. z o.o.	Sopot	property management	100	full method
41	'Promenada Sopocka' Sp. z o.o.	Sopot	rental services and property management	100	full method
42	'Centrum Majkowskiego' Sp. z o.o. in liquidation	Sopot	in liquidation	100	full method
<b>Subsidiaries of Merkury - fiz an</b>					
43	'Zarząd Majątkiem Górczewska' Sp. z o.o.	Warsaw	property management	100	full method
44	Molina Sp. z o.o.	Warsaw	general partner in limited joint-stock partnership entities of the Fund	100	full method
45	Molina Spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	purchasing and selling of real estate	100	full method
46	Molina Spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	purchasing and selling of real estate	100	full method
47	Molina Spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw	purchasing and selling of real estate	100	full method
48	Molina Spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	purchasing and selling of real estate	100	full method
49	Molina Spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	purchasing and selling of real estate	100	full method
50	Molina Spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	purchasing and selling of real estate	100	full method

1 - Subsidiary of PKO Bank Polski SA from 1 April 2014.

2 - Subsidiary of PKO Bank Polski SA from 1 April 2014; previous name Nordea Finance Polska SA.

3 - Subsidiary of PKO Bank Polski SA from 1 April 2014; previous name 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA.

4 - Until 19 January 2014 the Entity was recognised as an involvement in joint venture of the Bank.

5 - PKO Bank Polski SA has investment certificates of the Fund, which according to IFRS allow to control the Fund; the share of possessed investment certificates of the Fund is presented in the position Share in equity.

6 - The second shareholder of the Entity is 'Inter-Risk Ukraine' Sp. z d.o.

7 - The second shareholder of the Entity is PKO Bank Polski SA.

8 - Indirect subsidiary of PKO Bank Polski SA from 1 April 2014; previous name Nordea Usługi Finansowe Sp. z o.o.

9 - in limited partnerships of the Qualia Development Group, total contributions made by the limited partner - Qualia Development Sp. z o.o. are presented in the position share in equity.

Table 31. *Other subordinated entities covered by the consolidated financial statements*

No.	Entity name	Head office	Business activity	Share in the share capital	Consolidation method
				(%)	
Joint ventures					
1	Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	Warsaw	servicing and settlement of card transactions	34.00	equity method
2	'Centrum Obsługi Biznesu' Sp. z o.o.	Poznań	hotel management	41.44	equity method
Associates					
3	Bank Pocztowy SA	Bydgoszcz	banking activity	25.0001	equity method
4	'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	Poznań	quarantees	33.33	equity method
Subsidiaries of Bank Pocztowy SA					
5	Centrum Operacyjne Sp. z o.o.	Bydgoszcz	activities supporting financial services	100	equity method
6	Spółka Dystrybucyjna Banku Poczowego Sp. z o.o.	Warsaw	intermediary financial services	100	equity method

## 5.2 Description of changes in the organisation of subordinated entities

In the first half of 2014 the following events affecting the structure of the PKO Bank Polski SA Group took place:

### 1. concerning the acquisition of the Nordea Bank AB (publ) Group Companies

On 12 June 2013 PKO Bank Polski SA and Nordea Bank AB (publ), a company registered in Sweden, concluded an agreement ('Agreement', 'Transaction') concerning an acquisition by the Bank of shares of Nordea Bank Polska SA entities, 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA and Nordea Finance Polska SA, as well as receivables portfolio granted to corporate customers (so-called 'Swedish portfolio' assets).

In April and in May 2014, after satisfying conditions precedent defined in Agreement, PKO Bank Polski SA:

#### acquired shares of Nordea Bank Polska SA

On 1 April 2014 Nordea Bank AB (publ) placed a subscription in response to tender offer announced on 3 December 2013 by the Bank (the 'Tender Offer'), for the sale of all shares of this company, i.e. 55 061 403 shares representing 99.21% of the share capital of the Company and entitling to 99.21% of votes at the General Shareholders' Meeting of the Company. Minority shareholders of the Company placed subscription within the Tender Offer regarding in total the sale of 319 889 shares of the Nordea Bank Polska SA. The total purchase price for above shares, within the Tender Offer, was PLN 2 635 753 thousand.

On 4 April 2014, as a result of exercising rights under subscription warrants (acquired by PKO Bank Polski SA on 1 April of this year), Nordea Bank Polska SA issued to the Bank 8 335 100 of ordinary registered Series N shares. The total purchase price for the Series N shares amounted to PLN 400 001 thousand.

On 12 May 2014, as a part of the compulsory buy-out, PKO Bank Polski SA bought 117 408 shares of Nordea Bank Polska SA, i.e. all remaining, dematerialised shares, for the amount of PLN 5 634 thousand.

Within the above mentioned transactions the Bank acquired in total 63 833 800 ordinary shares of Nordea Bank Polska SA with a nominal value of PLN 5 each, representing 100% of the Company's share capital and entitling to 100% of the votes at the General Shareholders' Meeting of the Company. The total purchase price for the shares of Nordea Bank Polska SA, including final discount for this Transaction, was PLN 2 998 389 thousand.

The purpose of the acquisition of Nordea Bank Polska SA's shares is to merge the Company with the Bank. On 14 May 2014 the Management Board of PKO Bank Polski SA and the Management Board of Nordea Bank Polska SA executed a merger plan, whereby all property (all assets, equity and liabilities) of Nordea Bank Polska SA will be transferred to the Bank, as the bidding company. The Bank will assume all rights and obligations of Nordea Bank Polska SA, and Nordea Bank Polska SA will be unwound without liquidation proceedings, as of the date of registration of the merger in the register. The completion of the Merger depends on obtaining the permits and consents required by law in relation to the Merger, including a permit of the Polish Financial Supervision Authority.

#### acquired shares of 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA

On 1 April 2014, PKO Bank Polski SA concluded with Nordea Life Holding AB (a company registered in Sweden) an agreement to purchase 1 725 329 shares of 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA by the Bank, with a nominal value of PLN 111.59 each, representing 100% of the share capital and entitling to 100% of votes at the General Shareholders' Meeting, for a total price of PLN 184 636 thousand.

On 14 May 2014 the change of the Company's name to PKO Życie Towarzystwo Ubezpieczeń SA, was registered with the National Court Register.

At the same time, in relation to acquisition of 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA, its subsidiary: Nordea Usługi Finansowe Sp. z o.o. (currently Ubezpieczeniowe Usługi Finansowe Sp. z o.o. - change of name was registered with National Court register on 14 May of this year) became a part of the PKO Bank Polski SA Group.

As at 30 June 2014, a share capital of Ubezpieczeniowe Usługi Finansowe Sp. z o.o. amounts to PLN 1 950 thousand and consists of 3 900 shares, each of PLN 500 nominal value. The sole shareholder of the above mentioned company is PKO Życie Towarzystwo Ubezpieczeń SA. The core business of Ubezpieczeniowe Usługi Finansowe Sp. z o.o. is the provision of support services for insurance business.

#### acquired shares of Nordea Finance Polska SA

On 1 April 2014 PKO Bank Polski SA concluded with Nordea Rahoitus Suomi OY (the company registered in Finland) an agreement to purchase by the Bank 4 100 000 shares of Nordea Finance Polska SA, with a nominal value of PLN 1 each, representing 100% of the share capital of this company and entitling to 100% of votes at the General Shareholders' Meeting, for a total price of PLN 8 000 thousand.

**acquired so called  
Swedish portfolio assets**

**entered into additional  
agreements related to  
the acquisition of the  
Nordea Bank AB (publ)  
Group Companies**

On 26 June 2014, the change of the Company's name to PKO Leasing Pro SA, was registered with the National Court Register.

PKO Leasing Pro SA, is to be merged ultimately with PKO Leasing SA i.e. property (all assets, equity and liabilities excluding balance sheet items related to factoring activities acquired by PKO BP Faktoring SA) of PKO Leasing Pro SA will be transferred to the PKO Leasing SA, as the bidding company. On 30 June 2014, plan of merger between both Companies was registered with the respective courts.

On 1 April 2014 PKO Bank Polski SA and Nordea Bank AB (publ) concluded an agreement to purchase by the Bank so-called Swedish portfolio assets, i.e. receivables under facilities, loans and bonds granted by Nordea Bank AB (publ) or other members of Nordea Group to corporate customers ('Swedish Portfolio'). Pursuant to the agreement, the Swedish Portfolio sold on 1 April 2014 were excluded: (i) the assets that on the 1 April 2014 had remaining maturity period shorter than 12 months, (ii) the assets which had been repaid, prepaid or fully cancelled by the client between the date of the Agreement (i.e. 12 June 2013) and 1 April 2014; and (iii) the assets which could not be transferred without client's or third party's consent and such consent had not been obtained. The aggregate sale price of the Swedish Portfolio was the sum of PLN 761 811 thousand, USD 120 199 thousand, EUR 136 044 thousand and CZK 459 167 thousand, i.e. the total amount of PLN 1 763 815 thousand.

Pursuant to the fulfilment of the assumptions on the Transactions related to maintaining by the Nordea Bank AB (publ) Group the financing of mortgage loans portfolio granted by Nordea Bank Polska SA ('Mortgage Portfolio'), on 1 April 2014, based on the concluded agreement, Nordea Bank AB (publ) granted a credit facility to PKO Bank Polski SA in the amount of up to: CHF 3 645 818 thousand, EUR 465 414 thousand and USD 3 725 thousand for a period no longer than seven years, with a three-year repayment suspension period ('Credit Facility'). The average effective margin over the maximum crediting period under the Credit Facility is 63 base points above the relevant reference rate. The Credit Facility does not involve any commissions related to the granting of the financing. The Credit Facility will be secured with a transfer for security of certain receivables related to the Mortgage Portfolio made by Nordea Bank Polska SA in favour of Nordea Bank AB Spółka Akcyjna Oddział w Polsce – the agreement on conveyance of loans for security was signed on 2 July of this year, the process of filling requests and making entries in respective mortgage registrars is in progress. The value of receivables (loans) transferred for security amounts to approx. PLN 14 400 million. On 1 April 2014, PKO Bank Polski SA concluded a loan agreement with Nordea Bank Polska SA, according to which funds received under the Credit Facility were transferred to Nordea Bank Polska SA in the form of a push-down facility in amount of up to: CHF 3 645 818 thousand, EUR 465 414 thousand and USD 3 725 thousand for a period no longer than seven years, with a three-year repayment suspension period ('Push-Down Facility'). The Push-Down Facility is unsecured. The financial terms of the Push-Down Facility (credit margin, commission) are set at arm's length.

Pursuant to the provisions of the Agreement which require the Nordea Bank AB (publ) Group to participate in the default risk of the Mortgage Portfolio, PKO Bank Polski SA and Nordea Bank AB (publ) concluded on 1 April 2014 a special indemnity agreement (the 'Special Indemnity Agreement'), according to which Nordea Bank AB (publ) will cover, for a period of four years following the closing date, 50% of the excess of the Mortgage Portfolio cost of risk excess over the annual cost of risk set at 40 basis points for each year of the said four-year contract period of the Special Indemnity Agreement.

## 2. concerning the new company Polski Standard Płatności Sp. z o.o.

On 13 January 2014, a new company Polski Standard Płatności Sp. z o.o. was registered with the National Court Register. The share capital of the Company amounts to PLN 2 271 thousand and consists of 45 420 shares, each of PLN 50 nominal value. All shares of the Company were acquired by PKO Bank Polski SA for a price equal to the nominal value of the shares taken up.

The Company was established as part of a project, conducted jointly with partner banks, concerning building the new mobile payments standard in Poland, based on implemented in 2013 by PKO Bank Polski SA innovative mobile payment solution 'IKO'.

## 3. concerning capital investments of Merkury – fiz an

On 13 January 2014 Merkury – fiz an has taken up:

- 2 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.; above mentioned increase was registered with the National Court Register on 5 February 2014,
- 2 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.; above mentioned increase was registered with the National Court Register on 27 January 2014,
- 2 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.; above mentioned increase was registered with the National Court Register on 27 February 2014,
- 2 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.; above mentioned increase was registered with the National Court Register on 7 February 2014,
- 2 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.; above mentioned increase was registered with the National Court Register on 24 February 2014,
- 2 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.; above mentioned increase was registered with the National Court Register on 13 March 2014.

Merkury – fiz an holds shares of above mentioned Companies constituting 100% share capital and entitling to 100% of the votes at General Shareholders' Meetings of those Companies.



#### 4. concerning the changes in the 'CENTRUM HAFNERA' Sp. z o.o. Group

On 20 January 2014, a decrease in share capital of 'CENTRUM HAFNERA' Sp. z o.o., through redemption of shares owned by the Shareholder – the City of Sopot, was registered with the National Court Register. The share capital of the Company amounts to PLN 60 801 thousand and consist of 121 602 shares, each of PLN 500 nominal value.

As a result of the above mentioned transaction the Bank holds shares of above mentioned Company constituting 72.98% of the share capital and entitling to 72.98% of the votes at General Shareholders' Meeting. Due to the commencement of exercising control over the Company, the Company became a subsidiary of PKO Bank Polski SA, and its subsidiaries – became indirect subsidiaries of the Bank.

On 24 January 2014 'Kamienica Morska' Sp. z o.o. in liquidation – a subsidiary of 'CENTRUM HAFNERA' Sp. z o.o. – was removed from the National Court Register.

#### 5. concerning the capital contribution to the KREDOBANK SA Group

On 5 February 2014, PKO Bank Polski SA has made a capital contribution to KREDOBANK SA by providing financial donation in the amount of USD 6 020 thousand (i.e. PLN 18 656 thousand at the average NBP exchange rate as at the date of funds transfer). Above mentioned donation increases the Company's shares purchase price in the statement of financial position of PKO Bank Polski SA.

An increase in the share capital of Finansowa Kompania 'Idea Kapital' Sp. z o.o. of UAH 1 400 thousand, carried out by increasing the nominal value of the Company's share and acquired by KREDOBANK SA – the sole shareholder of this Company, was registered with the National Ukrainian Register of Businesses on 17 March 2014. As at 30 June 2014 the share capital of the Company amounts to UAH 5 500 thousand and comprises 1 share with the above mentioned value.

#### 6. concerning the capital contribution to PKO Bankowy Leasing Sp. z o.o.

On 23 April 2014 an increase in the share capital of PKO Bankowy Leasing Sp. z o.o. of PLN 17 585 thousand was registered with the National Court Register. As a result of the above mentioned increase, the Company's share capital amounts to PLN 100 000 thousand and consists of 200 000 shares, each of PLN 500 nominal value. All the shares in the increased Company's share capital were acquired by PKO Leasing SA – a subsidiary of the Bank, for a price equal to the nominal value of the required shares. PKO Leasing SA remains the sole shareholder of the Company.

#### 7. concerning the planned changes associated with Inteligo Financial Services SA

On 27 May 2014, the Management Board of PKO Bank Polski SA passed a resolution concerning merger of Inteligo Financial Services SA with PKO BP Finat Sp. z o.o. – subsidiaries of PKO Bank Polski SA. Under the above mentioned process, before the merger of entities, employees of Inteligo Financial Services SA and a part of the Company's resources related to IT services provided for PKO Bank Polski SA, will be transferred to the Bank as from 1 July of this year.

The above mentioned activities are conducted as a part of implementation of the Bank's strategy as regards optimisation of the PKO Bank Polski SA Group activities.

### 5.3 Transactions with related entities

In the first half of 2014, PKO Bank Polski SA provided on an arm's length basis the following services to related (subordinated) entities maintaining bank accounts, accepting deposits, granting loans and advances, issuing debt securities, granting guarantees and concluding foreign exchange transactions and offering participation units in funds, lease products, factoring products offered by the PKO Bank Polski SA Group companies. At the same time, it rented space in the Centrum Finansowe Puławska building in Warsaw to selected Group companies and together with Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. provided the settlement payment transactions services.

A list of major transactions concluded by PKO Bank Polski SA with subordinated entities, including their indebtedness in relation to the Bank as at 30 June 2014, was presented in the Condensed interim financial statements of PKO Bank Polski SA for the six months period ended 30 June 2014.

## 6. RISK MANAGEMENT POLICIES

Risk management is one of the most important internal processes both in PKO Bank Polski SA and in other entities of the PKO Bank Polski SA Group. Risk management aims at ensuring profitability of business activity, with ensuring control of risk level and maintaining it within the risk tolerance and limits system applied by the Bank, in the changing macroeconomic and legal environment. The level of the risk plays an important role in the planning process.

In the PKO Bank Polski SA Group, the following types of banking risk have been identified, which are subject to management: credit risk, interest rate risk, currency risk, liquidity risk, commodity price risk, price risk of equity instruments, derivative instruments, operational risk, compliance risk, macroeconomic changes risk, model risk, business risk (including strategic risk), reputation and insurance risk. Derivatives risk is a subject to a special control due to the specific characteristics of these instruments.

Risk management in the Group is based specifically on the following principles:

- The Group manages all the identified types of banking risk,
- the risk management process is appropriate to the scale of operations and to the materiality, scale and complexity of a given risk, and tailored to new risk factors and sources on a current basis,
- the risk management methods (in particular the models and their assumptions) and risk measurement systems are tailored to the scale and complexity of the risk and verified and validated on a periodical basis,
- the area of risk and debt collection remains organisationally independent of business activities,

- risk management is integrated with planning and controlling systems,
- the risk level is monitored on a current basis,
- the risk management process supports the implementation of the Group's strategy in compliance with risk management strategy, in particular with regard to the level of risk tolerance.

The risk management process is supervised by the Supervisory Board of the Bank, which is informed on a regular basis about the risk profile of the Bank as well as of the PKO Bank Polski SA Group and about the most important activities taken in the area of risk management.

The Bank's Management Board is responsible for the risk management, including supervising and monitoring of activities taken by the Bank in the area of risk management. The Bank's Management Board approves the most important decisions affecting the risk level of the Bank and enacts internal regulations defining the risk management system.

The risk management process is carried out in three, mutually independent lines of defence:

- 1) the first line of defence, which is functional internal control that ensures using risk controls and compliance of the activities with the generally applicable laws,
- 2) the second line of defence, which is the risk management system, including methods, tools, process and organisation of risk management,
- 3) the third line of defence, which is an internal audit.

The independence of the lines of defence consists of preserving organisational independence in the following areas:

- the function of the second line of defence as regards creating system solutions is independent of the function in the first line of defence,
- the function of the third line of defence is independent of the functions of the first and second lines of defence,
- the function of managing the compliance risk reports directly to the Chairman of the Management Board.

The Bank supervises activities of the individual subsidiaries of the PKO Bank Polski SA Group. As part of this supervision, the Bank sets out and approves entities' development strategies, including the level of the risk. The Bank also supervises the entities' risk management systems and provides support in the development of these systems. Additionally, it reflects business risk of the particular entities in the risk reporting and risk monitoring system of the entire Group.

The internal regulations concerning management of certain types of risk in the entities of the Group are defined by internal regulations implemented by those entities, after consulting the Bank's opinion and having taken into account the recommendations issued to the entities by the Bank. The internal regulations of the entities concerning risk management allow for consistent and comparable assessment of particular types of risk within the Bank and entities of the Group, as well as reflect the specific nature of the entity's activity and the market on which it operates. The PKO Bank Polski SA Group's top priority is to maintain its strong capital position and to further increase its stable sources of financing underlying the stable development of business activity, while maintaining the priorities of efficiency and effective cost control and appropriate risk assessment.

In this respect, the Bank took the following actions in the first half of 2014:

- in May 2014, rolled forward short-term bonds with a maturity of six months in the amount of PLN 700 million and issued additional PLN 50 million of these securities,
- transferred a part of the Bank's profit for 2013 to own funds,
- in April 2014, acquired long-term financing from Nordea AB in the amount of approx. PLN 14 billion as a result of acquisition of the Nordea Group's entities,
- in January 2014, acquired financing due to issuance of bonds under the EMTN programme in the amount of EUR 500 million,
- in February 2014, acquired financing due to Cross Currency Repo transactions in the amount of CHF 50 million.

In the first half of 2014, the Bank completed the purchase of entities of Nordea Bank Polska SA, Nordea Finance Polska SA, 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA, and the corporate loan portfolio serviced directly by the seller – the Scandinavian financial Nordea Group. The above mentioned acquisition will have no impact on the change in the risks identified in the business of PKO Bank Polski SA or Nordea Bank Polska SA. In the first half of 2014, PKO Bank Polski SA and Nordea Bank Polska SA introduced changes in internal risk managing regulations, being a result of integration process of both banks.

## 6.1 Credit risk

Credit risk is defined as a risk of occurrence of losses due to counterparty's default of payments to the Bank or as a risk of decrease in economic value of amounts due to the Bank as a result of deterioration of counterparty's ability to repay amounts due to the Bank.

The objective of credit risk management is to minimise losses on the credit portfolio as well as to minimise the risk of occurrence of loan exposures threatened with impairment, while keeping expected level of profitability and value of credit portfolio at the same time.

The Bank and subsidiaries of the Group apply the following principles of credit risk management:

- each loan transaction is a subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to potential and concluded loan transactions is measured on the stage of loan request analysis and on a cyclical basis, during the monitoring process, taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures which are significant due to their risk levels or the amount is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
- terms of loan contracts that are offered to a client depend on the credit risk generated by the contract,
- loan granting decisions are made only by authorised persons,
- credit risk is diversified particularly by geographical location, by industry, by product and by clients,
- expected credit risk level is mitigated by collateral received by the Bank, credit margins from clients and allowances (provisions) for losses.

The above mentioned policies are executed by the Bank through the use of more advanced credit risk management methods, both on the level of individual credit exposures and on the level of the whole credit portfolio of the Bank.

These methods and developed to ensure compliance with the internal ratings-based approach requirements (IRB) i.e. advanced credit risk measurement method, which can be used while calculating in terms of own funds requirements for credit risk after being approved by the Polish Financial Supervision Authority.

The Bank assesses the credit risk of retail clients on two levels: the client's borrowing capacity and creditworthiness. The assessment of borrowing capacity involves an examination of the client's financial situation, whereas the creditworthiness assessment involves scoring and evaluating the client's credit history obtained from the Bank's external databases and internal records.

Credit risk relating to the financing of corporate clients is assessed on two levels: the client and transaction. These assessments are based on the ratings of the client and the transaction. The cumulative credit rating is a synthetic measure of credit risk.

These models were prepared using internal data of the Bank which ensures that they are tailored to the risk profile of the Bank's clients. Models are based on a statistical dependence analysis between the default and a customer's risk scoring. Scoring includes an assessment of the financial indicators, qualitative factors and evaluation of behavioral factors. The client's risk assessment depends on the size of the enterprise for which risk analysis is made. Additionally, the Bank has implemented the evaluation model of entrepreneurs credited in the formula of specialist financing which allows adequate assessment of the credit risk of large projects involving the financing of real estate (e.g. office space, retail areas, industrial areas) and infrastructure projects (e.g. telecommunication, industrial, public utility infrastructure).

Rating models are implemented in a IT tool supporting the Bank's credit risk assessment related to financing corporate clients.

In order to assess the correctness of functioning of methods used in the Bank, methodologies of assessment of credit risk related to individual credit exposures, are reviewed on a periodical basis.

In the case of corporate customers from the small and medium enterprises segment that meet certain criteria, the Bank assesses credit risk using the scoring method. This assessment is dedicated to low-value, uncomplicated loan transactions and it is performed in two dimensions: the client's borrowing capacity and creditworthiness. The borrowing capacity assessment involves examining the customer's financial situation, whereas the creditworthiness assessment involves scoring and evaluating the customer's credit history obtained from the Bank's internal records and external databases.

In the first half of 2014, the Bank has implemented the housing cooperatives' evaluation model with the use of the scoring method.

Information on ratings and scoring is widely used in the Bank for the purposes of credit risk management, the system of credit decision-making powers, determining the conditions in which independent credit assessment services are activated and in the credit risk assessment and reporting system.

With regard to institutional clients and the small and medium enterprises segment, the Bank implemented a number of improvements in respect of the ongoing portfolio monitoring, which allows for faster response to changes in the existing portfolio of the Bank and the use of an adequate policy and tools for new customers.

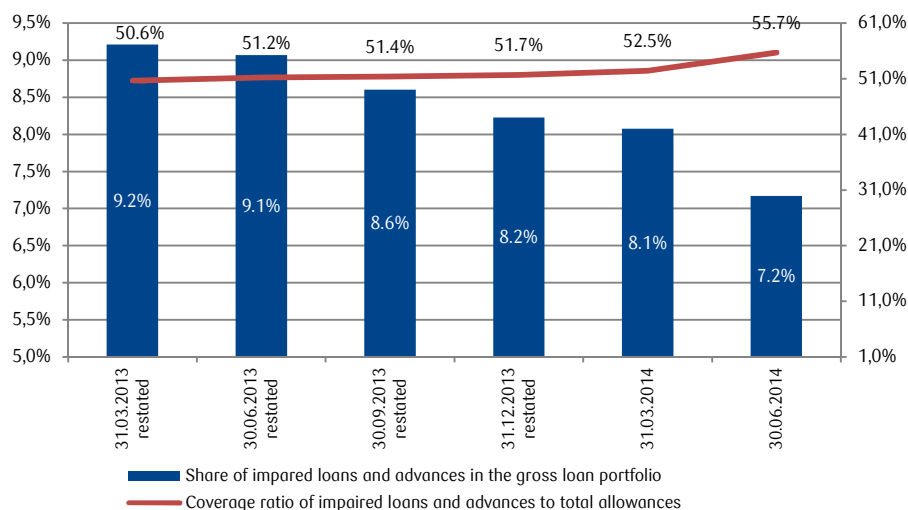
Table 32. The structure of the loan portfolio and impairment allowances of the PKO Bank Polski SA Group (in PLN million)

	30.06.2014	31.12.2013	Change (in %)
<b>Loans and advances granted:</b>			
Assessed on the individual basis	7 418.7	7 337.0	1.1%
Impaired	5 604.2	5 532.4	1.3%
Not impaired	1 814.4	1 804.6	0.5%
Assessed on the portfolio basis	7 690.0	7 328.9	4.9%
Impaired	7 690.0	7 328.9	4.9%
Assessed on the group basis (IBNR)	170 291.8	141 608.1	20.3%
<b>Loans and advances granted, gross</b>	<b>185 400.4</b>	<b>156 274.0</b>	<b>18.64%</b>
Allowances on exposures assessed on an individual basis	(2 345.9)	(2 292.2)	2.3%
Impaired	(2 329.8)	(2 276.1)	2.4%
Allowances on exposures assessed on the portfolio basis	(4 379.1)	(3 772.7)	16.1%
Allowances on exposures assessed on the group basis (IBNR)	(681.4)	(585.8)	16.3%
<b>Allowances - total</b>	<b>(7 406.4)</b>	<b>(6 650.8)</b>	<b>11.4%</b>
<b>Total loans and advances granted - net</b>	<b>177 994.0</b>	<b>149 623.3</b>	<b>19.0%</b>

In the first half of 2014, the gross value of loans granted by the Group and assessed on the individual basis increased by PLN 82 million, those assessed on the portfolio basis increased by PLN 361 million and those assessed on the group basis increased by PLN 28 684 million.

The chart below presents the share of impaired loans and their coverage ratio.

Chart 3. The share of impaired loans and advances in the PKO Bank Polski SA Group and the coverage ratio to total allowances



The share of impaired loans and advances in the PKO Bank Polski SA Group's gross loan portfolio as at 30 June 2014 amounted to 7.2% and decreased by 1.1 pp. compared with 31 December 2013.

The coverage ratio of impaired loans for the PKO Bank Polski SA Group as at 30 June 2014 amounted to 55.7%, and increased by 4.0 pp. compared with 31 December 2013.

The Group entities, which have significant credit risk levels (the KREDOBANK SA Group, the PKO Leasing SA Group, the BTK SA Group, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.) manage their credit risk individually, but the methods used by them for credit risk assessment and measurement are adjusted to the methods used by PKO Bank Polski SA, taking into account the specific nature of the activities.

Any changes to the solutions used by the Group's subsidiaries are agreed each time with the Bank's units responsible for risk management.

The PKO Leasing SA Group, the BTK SA Group and the KREDOBANK SA Group and Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. measure credit risk regularly and the results of such measurements are submitted to the Bank.

The process of credit decision-making at the KREDOBANK SA Group, the PKO Leasing SA Group and the BTK SA Group is supported by credit committees, which are activated in the case of transactions which generate increased credit risk.

Appropriate organisational units of the Banking Risk Division participate in managing the credit risk in the Group entities by giving their opinions on projects and periodically reviewing the internal regulations of the companies relating to the assessment of credit risk and the preparation of recommendations relating to amendments in the drafts of regulations. The Bank supports the implementation of the recommended changes in principles for assessing credit risk in the Group entities.

## 6.2 Interest rate risk

The interest rate risk is the risk of incurring losses on statement of financial position and off-balance sheet items sensitive to interest rate fluctuations, as a result of changes in the interest rates on the market.

The objective of interest rate risk management is to mitigate potential losses arising from market interest rate changes to an acceptable level by appropriately shaping the structure of statement of financial position and off-balance sheet items.

In the process of interest rate risk management, the Group uses in particular the Value at Risk (VaR) model, interest income sensitivity measure, measure of price sensitivity, stress-testing and the repricing gap.

The Group established limits and thresholds for interest rate risk comprising i.a.: price sensitivity, interest income sensitivity, limits and threshold for losses and limits on instruments sensitive to interest rate fluctuations.

Methods of interest rate risk management in the Group's subsidiaries are defined by internal regulations implemented by those entities which are characterised by significant values of interest rate risk measure outcomes. These regulations are developed after consultation with the parent company and take into account recommendations issued to the entities by the Bank.

The PKO Bank Polski SA Group's exposure to interest rate risk as at 30 June 2014 and 31 December 2013 consisted mainly of PKO Bank Polski SA exposure. Interest rate risk for USD was changed significantly by the exposure of the Group entities, in which the most significant exposure concerned KREDOBANK SA. Nordea Bank Polska SA has exposure to interest rate risk mainly in PLN, CHF and EUR. This item, as well as other items in other Group entities, does not impact the risk profile of the entire Group.

Table 33. VaR of PKO Bank Polski SA and stress-tests analysis of the Group's exposure to the interest rate risk (in PLN thousand)

Name of sensitivity measure	30.06.2014	31.12.2013
VaR for a 10-day time horizon*	125 136	54 930
Parallel movement of the interest rate curves by 200 b.p. (stress-test)**	666 517	495 858

\* Due to the nature of the activities carried out by other Group entities generating significant interest rate risk and the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA and Nordea Bank Polska SA use the 10-day interest rate VaR for the main currencies. The value of VaR indicator for KREDOBANK SA amounted to PLN 7 792 thousand as at 30 June 2014, and PLN 10 686 thousand as at 31 December 2013. The value of VaR indicator for Nordea Bank Polska SA was at the level of PLN 4 258 thousand as at 30 June 2014.

\*\* The table presents the value of the most adverse stress-test of the scenarios: movement of interest rate curves by 200 b.p. up and by 200 b.p. down.

As at 30 June 2014, PKO Bank Polski SA interest rate Value at Risk for a 10-day time horizon (VaR for a 10-day time horizon) amounted to PLN 125 136 thousand, which accounted for approximately 0.57% of the Bank's own funds. As at 31 December 2013, the Bank's VaR amounted to PLN 54 930 thousand which accounted for approximately 0.27% of the value of the Bank's own funds (own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio).

### 6.3 Currency risk

Currency risk is the risk of incurring losses due to unfavourable exchange rate changes. The risk is generated by maintaining open currency positions in a given foreign currency.

The objective of currency risk management is to mitigate the risk of incurring losses arising from exchange rate fluctuations to an acceptable level by respective shaping the structure of statement of financial position and off-balance sheet items.

The Bank measures currency risk using the Value at Risk (VaR) model and stress-tests.

The Group has set limits and threshold values for currency risk for i.a.: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss from transactions on currency market.

Methods of currency risk management in the Group's subsidiaries are defined by internal regulations implemented by the entities, which are characterised by the significant values of currency risk measures. These regulations are prepared after consultation and include recommendations issued to the entities by the parent company.

Table 34. *VaR of PKO Bank Polski SA and stress-tests analysis of the Group's exposure to the currency risk, cumulatively for all currencies (in PLN thousand)*

Name of sensitivity measure	30.06.2014	31.12.2013
VaR for a 10-day time horizon*	1 804	2 443
Change of CUR/PLN by 20% (stress-test)**	84 571	21 428

\* Due to the nature of the activities carried out by the other Group entities generating significant currency risk and the specific nature of the market on which they operate, the Bank does not calculate consolidated VaR. These entities apply their own risk measures in the currency risk management. KREDOBANK SA and Nordea Bank Polska SA use the 10-day VaR. The value of indicator for KREDOBANK SA amounted to approx. PLN 2 762 thousand as at 30 June 2014, and approx. PLN 906 thousand as at 31 December 2013. The value of VaR indicator for Nordea Bank Polska SA was at the level of PLN 328 thousand as at 30 June 2014.

\*\*The table presents the value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%.

The level of currency risk was low both as at 30 June 2014 and as at 31 December 2013.

Table 35. *The Group's currency position for particular currencies (in PLN thousand)*

Currencies	Currency position as at 30.06.2014	Currency position as at 31.12.2013
EUR	(326 019)	(24 166)
USD	(164 896)	(203 081)
CHF	(4 781)	7 031
GBP	520	3 656
Others (global net)	170 763	6 576

### 6.4 Liquidity risk

The liquidity risk is defined as the lack of possibility to pay the debts on time due to the lack of liquid assets. Lack of liquidity may arise from inappropriate structure of statement of financial position, misfit of cash flows, not received payments from counterparties, sudden withdrawal of cash by clients or other market events.

The objective of liquidity risk management is to ensure the necessary level of funds to pay present and future debts (also potential) on time, taking into account the nature of performed activities and requirements which may occur due to changes in market environment, by shaping the structure of statement of financial position and off-balance sheet liabilities.

The Group's policy concerning liquidity is based on keeping a portfolio of liquid securities and increasing stable sources of financing (in particular stable deposit base). In liquidity risk management, money market instruments, including NBP open market operations are also used.

To ensure an adequate liquidity level, the Bank and subsidiaries of the PKO Bank Polski SA Group have accepted limits and thresholds for liquidity risk. The limits and thresholds were set for short-, medium-, and long-term liquidity measures.

Methods of liquidity risk management in subsidiaries of the Group are defined by internal regulations implemented by the entities which are characterised by the significant value of liquidity risk measures.

These regulations are prepared after consultation and include recommendations issued to the entities by the parent company.

The table below presents the Bank's liquidity reserve as at 30 June 2014 and as at 31 December 2013.

Table 36. *Liquidity reserve of Bank (in PLN million)*

	30.06.2014	31.12.2013
Liquidity reserve to 1 month*	16 071	17 816

\*Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.

As at 30 June 2014, the level of core balances on deposits constituted approx. 94.1% of all deposits placed within the Bank (excluding the interbank market), which is a decrease of approx. 1.7 pp. as compared with the end of 2013.

## 6.5 Commodity price risk

Commodity price risk is the risk of incurring a loss due to changes in commodity prices, generated by maintaining open positions on particular types of goods.

The objective of commodity price risk management is to reduce potential losses resulting from changes in commodity prices to the acceptable level by shaping the structure of statement of financial position and off-balance sheet commodity items.

Commodity price risk is managed by imposing limits on instruments generating the commodity price risk, monitoring their use and reporting the risk level.

The effect of commodity price risk on the Group's financial position is immaterial.

## 6.6 Equity securities price risk

The price risk of equity securities is the risk of incurring a loss due to changes in the prices of equity securities on the public market or stock exchange indices, generated by maintaining open positions in instruments sensitive to changes in these market parameters.

The price risk of equity securities results from operations conducted as part of trading activities (the Brokerage House of PKO Bank Polski SA), investing activities and from other operations as part of banking activities generating a position in equity securities.

Managing the equity securities risk is aimed at limiting possible losses due to changes in the prices of equity securities on the public market or stock exchange indices to a level acceptable to the Bank, by optimising the positions taken in instruments sensitive to changes in these market parameters.

The risk is managed by imposing limits on the activities of the Brokerage House of PKO Bank Polski SA and by monitoring the utilisation thereof.

The effect of the price risk of equity securities on the financial position of the Bank was assessed as immaterial. The positions taken in equity securities and index instruments are limited, and are not expected to increase significantly.

## 6.7 Derivative instruments risk

The risk of derivative instruments is a risk resulting from taking up a position in financial instruments, which meet all of the following conditions:

- 1) the value of an instrument changes with the change of the underlying instrument,
- 2) it does not require any initial net investment or requires only a small initial net investment compared with other types of contracts which similarly respond to changes in market terms,
- 3) it is to be settled at a future date.

The derivative instruments risk management process is integrated with the management of the following types of risk: interest rate, currency, liquidity and credit risk management. However, due to the specific nature of derivatives it is subject to special control specified in the internal regulations of the Bank.

The Bank measures the derivative instruments risk using, among others, the Value at Risk (VaR) model described in the section on interest rate risk or currency risk, depending on the risk factor which affects the value of the instrument.

In the respect of the measurement of the derivative instruments risk of other Group entities, information on the entities' positions in specific derivative instruments is used, as indicated by the Bank.

Risk management is carried out by imposing limits on the derivative instruments divided into banking and trading portfolio, monitoring limits and reporting risk level.

Master agreements concluded by the Bank with the major business partners based on the standards developed by the Polish Bank Association (domestic banks) and ISDA (foreign banks and credit institutions), which allow offsetting mutual liabilities, both due (mitigation of settlement risk) and not yet due (mitigation of pre-settlement risk), are particularly important for mitigating the risk associated with derivative instruments.

Additional collateral for exposures, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA (Credit Support Annex) agreement.

Methods of derivative instruments risk management in the Group's subsidiaries are defined by internal regulations implemented by the entities which take up a positions in derivative instruments or plan to take positions in such instruments. These regulations are developed after consultation with the Bank and take into account the recommendations issued by the Bank to the Group entities.

Positions taken by the other Group entities in particular derivative instruments are determined using similar methods to those used for positions taken by the Bank in such derivative instruments, taking into account the specific nature of the business conducted by the Group entities.

## 6.8 Operational risk

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events. Operational risk takes into consideration legal risk yet does not comprise reputation risk and business risk.

The objective of operational risk management is to enhance security of the operational activity pursued by the Bank by improving the efficient, tailored to the profile and scale of operations mechanisms of identification, assessment and measurement, reduction, monitoring and reporting of operational risk.

The process of operational risk management is carried out at the level of the entire Bank and at the levels of each system-based operational risk management areas. System-based operational risk management involves creation of solutions served for exercise of control by the Bank over the level of operational risk, enabling accomplishment of Bank's objectives. The ongoing operational risk management is conducted by every employee of the Group.



For the purposes of operational risk management, the Bank collects external data about operational events and effects of their emergence, internal data about events that occurred in the Bank and the Group entities, data about effects of emergence of these events, data about the operational environment and data concerning the quality of functional internal control.

The operational risk management comprises also identification and assessment of operational risk for Bank's products, processes and applications as well as organisational changes.

Measurement of operational risk comprises calculation of Key Risk Indicators (KRI), calculation of own funds requirement for the Bank in respect of operational risk in accordance with the AMA approach, and for the Group entities conducting financial activity - the basic index approach (BIA), stress-tests and calculation of internal capital for the Group.

The Bank monitors the operational risk level to control operational risk and diagnose areas requiring management actions. In order to limit the exposure to operational risk, the Bank uses various solutions, including the following:

- 1) control instruments,
- 2) human resources management instruments (staff selection, enhancement of professional qualifications of employees, incentive systems),
- 3) thresholds and critical values of Key Risk Indicators (KRI),
- 4) strategic tolerance limits and limits on operational risk losses,
- 5) contingency plans,
- 6) insurance,
- 7) outsourcing.

In particular, if the risk level is increased or high, the Bank applies the following approaches:

- risk reduction – mitigating the effect of risk factors or the results of risk materialisation,
- risk transfer – transfer of responsibility for covering potential losses to a third party,
- risk avoidance – resignation from activity that generates risk or elimination of the probability of the occurrence of a risk factor.

The Group entities manage operational risk according to principles of these risk management in PKO Bank Polski SA, considering their specific nature and scale of activities of particular entities.

In the first half of the 2014, the dominant impact on the operational risk profile of the Group was exercised by the following 4 entities: PKO Bank Polski SA, the PKO Leasing SA Group, KREDOBANK SA and Nordea Bank Polska SA. Other Group entities, considering their significantly smaller scale and type of activity, generate only reduced operational risk.

## 6.9 Compliance risk

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of the Group, its employees or entities acting on its behalf to comply with the provisions of the law, internal regulations, standards adopted by the Group, including ethical standards.

The objective of compliance risk management is to ensure the Group's compliance with the law, adopted standards of conduct and the Bank's acting as an entity that is reliable, fair and honest, through mitigating compliance risk, mitigating the possibility of losing the Group's reputation or credibility and mitigating the risk of financial losses or legal sanctions resulting from breach of regulations and ethical standards.

Compliance risk management in the Group involves in particular the following:

- preventing involvement of the Bank in illegal activities,
- ensuring data protection,
- promoting ethical standards and monitoring of their application,
- conflict of interest management,
- preventing situations where the Bank's employees could be perceived as pursuing their own interest in the professional context,
- professional, fair and transparent formulation of product offers, advertising and marketing messages,
- prompt, fair and professional consideration of complaints, requests and claims of clients.

In all entities in the PKO Bank Polski SA Group consistent principles of compliance risk management exist.

The entities of the Group have adopted a zero tolerance policy against compliance risk, which means that the entities of the Group focus their actions on preventing cases of materialisation of this risk.

## 6.10 Business risk

Business risk is understood as the risk of incurring losses due to adverse changes in the business environment, taking bad decisions, the incorrect implementation of decisions taken, or not taking appropriate actions in response to changes in the business environment; this includes in particular strategic risk. Managing the business risk is aimed at maintaining, on an acceptable level, the potential negative financial consequences resulting from adverse changes in the business environment, making adverse decisions, improper implementation of adopted decisions or lack of appropriate actions, which would be a response to changes in the business environment.

Measurement of business risk is aimed at defining the scale of threats related to the existence of business risk with the use of defined risk measures. The measurement of business risk comprises:

- calculation of selected business risk indicators,
- conducting stress-tests,
- calculation of internal capital.

Main tools for managing business risk are:

- verification and update of quarterly financial forecasts,
- monitoring of level of strategic tolerance limit.

### 6.11 Reputation risk

The reputation risk is defined as the risk related to a possibility of negative variations from the planned financial results of the Bank due to the deterioration of the Bank's image. The objective of managing the reputation risk is to protect the Bank's image and limit the probability of the occurrence and level of reputation loss.

Management of reputation risk in the Bank comprises mainly:

- analysing and evaluation of image-related events effects and determining the level of reputation risk,
- media monitoring: television, radio, press, Internet in terms of identifying image-related events effects and distribution of information in this regard,
- recording image-related events effects,
- execution of communication protective measures.

The main tools for the execution of activities related to the assessment of the Bank's reputation risk level are:

- a catalogue of image-related events categories containing a list of image-related events categories with appropriate weights assigned. A catalogue defines the risk profile by assigning appropriate weights to particular categories of image-related events,
- a register of image-related events effects used to record identified image-related events effects – media monitoring result and complaints and requests.

Based on the Register of effects of image-related events for the previous calendar year, the Bank conducts an annual assessment of effects of particular image-related events categories identified in a given year and specifies their impact on the shaping of the reputation risk level.

### 6.12 Model risk

Model risk is the risk of incurring negative financial or reputation effects as a result of making incorrect business decisions on the basis of the operating models.

The objective of models management and model risk management is to mitigate the level of model risk in the Group. Model risk management is performed through identification, assessment and monitoring of model risk, reporting and taking management actions. Solutions functioning in the Bank are used in the Group, with the possibility of their individual adaptation to the specific nature of the particular Entities.

The model risk evaluation is aimed at determining the scale of threats associated with the occurrence of the model risk. The assessment of the risk level is performed on the level of a single model and aggregate assessment of the model risk.

The purpose of management actions is to form a model risk management process and the level of this risk.

Management actions in particular consist of:

- issuing internal regulations,
- determining acceptable levels of risk,
- issuing recommendations,
- making decisions about the use of tools supporting model risk management.

All models relevant to the Bank are covered by the process of regular, independent validation, at the same time actions aimed at covering models relevant to the Group by the independent process of giving opinions by the validation unit of PKO Bank Polski SA are conducted.

### 6.13 Risk of macroeconomic changes

Risk of macroeconomic changes is the risk of deterioration of the financial situation of the Bank as a result of the adverse impact of changes in macroeconomic conditions.

The purpose of risk of macroeconomic changes management is to identify macroeconomic factors having a significant impact on the Bank's activities and taking actions to reduce the adverse impact of potential changes in the macroeconomic situation on the financial situation of the Bank.

For the purpose of measuring the risk of macroeconomic changes the Bank uses risk measures based on the results of comprehensive stress-tests, in particular:

- financial result and its components,
- capital adequacy measures and their components,
- selected liquidity measures.

Management activities related to the risk of macroeconomic changes consist specifically of:

- issuing internal regulations of the Bank,
- determining acceptable levels of risk,
- proposals of actions aimed at reducing the level of risk in the event of elevated or high risk of macroeconomic changes occurrence.

### 6.14 Insurance risk

Insurance risk is the risk of loss or of adverse change in value of insurance liabilities, due to inadequate pricing and provisioning assumptions (in particular for technical provisions).

The objective of insurance risk management is to maintain insurance risk on an acceptable level and to limit potential loss from adverse change in the value of insurance liabilities.

Insurance risk measurement in PKO Życie Towarzystwo Ubezpieczeń SA is carried out as a part of contracts withdrawal analysis, claims analysis, analysis of assets covering technical provisions (APR) and annual analysis of shock scenarios – stress-tests, on the basis of methodology required by PFSA Office. In preparation for implementation of the new Solvency II system, PKO Życie Towarzystwo Ubezpieczeń SA performs analyses of exposure to insurance risks in the process of Quantitative Impact Studies (QIS) supervised by the PFSA Office.

As to mitigate the insurance risk exposure, PKO Życie Towarzystwo Ubezpieczeń SA uses among others:

- reinsurance of risks (mortality, morbidity risks),
- grace periods,
- exemptions,
- retention activities.

In case of the new products and risks, PKO Życie Towarzystwo Ubezpieczeń SA chooses a reinsurer, the range of protection, conditions of the reinsurance, changes in concluded reinsurance contracts and concluding new reinsurance contracts in relation to the newly introduced to offer or modified insurance products and new risks.

## 6.15 Comprehensive stress-tests

Comprehensive stress-tests constitute an integral element of risk management in the PKO Bank Polski SA Group and are complementary for stress-tests specific for particular risk types.

Comprehensive stress-tests take into account collectively the following types of risk that the PKO Bank Polski SA Group considers material, including:

- credit risk,
- market risk,
- liquidity risk,
- operational risk,
- business risk.

Comprehensive stress-tests cover an analyse of the impact of changes in the environment and functioning of the Bank on the PKO Bank Polski SA Group's financial position, in particular on:

- the income statement,
- the statement of financial position,
- own funds,
- capital adequacy, including requirements in terms of own funds, internal capital, capital adequacy measures,
- selected liquidity measures.

Comprehensive stress-tests are conducted for the Group's own purposes at least once a year in a three-year horizon, taking into consideration changes in the values and structure of the statement of financial position and the income statement (dynamic tests). Supervisory tests are conducted at the request of supervisory authorities, in accordance with the assumptions provided by supervisory authorities.

## 6.16 Capital adequacy

Capital adequacy is a process which objective is to ensure that, for a given level of risk tolerance, the level of risk assumed by the Bank associated with development of its business activity may be covered with capital held within given time horizon.

The process of managing capital adequacy comprises in particular compliance with prevailing supervisory standards and risk tolerance level determined within the Bank, the process of capital planning, inclusive of policy regarding capital acquiring sources.

The objective of capital adequacy management is to maintain capital in a continuous manner on a level that is adequate to the risk scale and profile of the Group's activities.

The Group's capital adequacy management process comprises:

- identifying and monitoring significant types of risks,
- assessing internal capital to cover the particular risk types and total internal capital,
- monitoring, reporting, forecasting and limiting of capital adequacy,
- performing internal capital allocations to business areas, client segments and the Group entities in connection with profitability analyses,
- using tools affecting the capital adequacy level (including: tools affecting the level of own funds, the scale of own funds item reductions and the level of the loan portfolio).

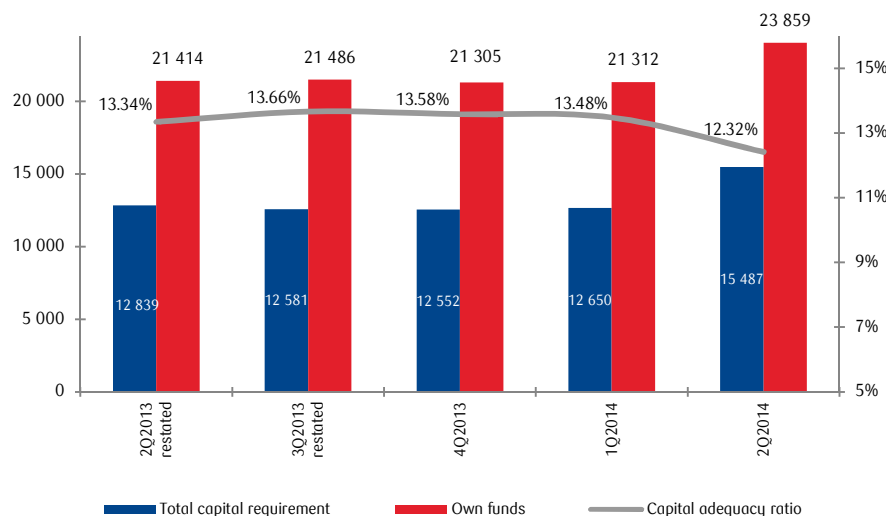
The fundamental regulation applicable in the capital adequacy assessment process as at 30 June 2014 is the Regulation No. 575/2013 of the European Parliament and the Council (EU) of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending the Regulation (EU) No. 648/2012, hereinafter called 'CRR Regulation'.

As at 31 December 2013 all capital adequacy measures were calculated in accordance with the provisions of the Banking Law, Resolution of the Polish Financial Supervision Authority No. 76/2010 of 10 March 2010 on the scope and detailed procedures for determining capital requirements for particular risks (Official Journal of PFSA No. 2, item 11 of 9 April 2010 with subsequent amendments) and Resolution of the Polish Financial Supervision Authority No. 325/2011 of 20 December 2011 on decreasing own funds (Official Journal of PFSA No. 13, item 49 of 30 December 2011).

As at 30 June 2014 the Bank meets requirements relating to capital adequacy measures defined within the CRR Regulation.

The level of the PKO Bank Polski SA Group's capital adequacy in the first half of 2014 remained at a safe level, significantly above the supervisory limits.

Chart 4. Capital adequacy of the PKO Bank Polski SA Group



As at 30 June 2014 compared with 31 December 2013, the PKO Bank Polski SA Group's capital adequacy ratio decreased by 1.25 pp. to the level of 12.32%, as a result of purchase of assets of the Nordea Group.

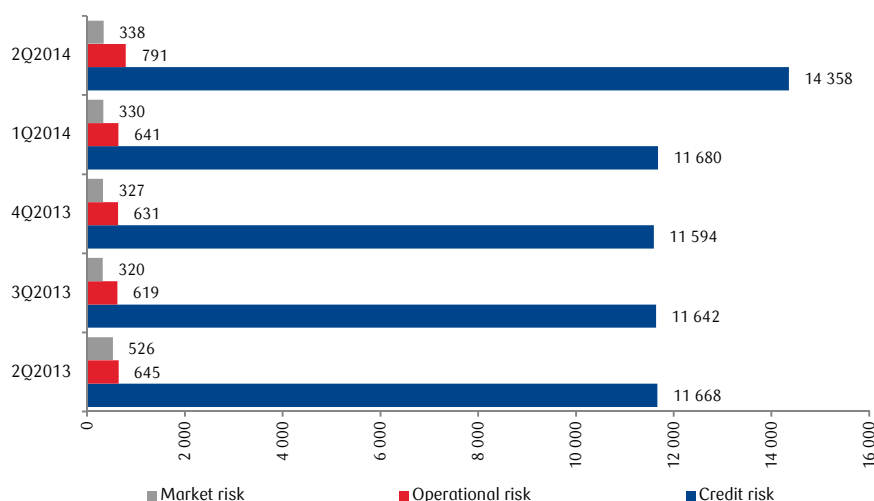
As at 30 June 2014 compared with 31 December 2013, the PKO Bank Polski SA Group's total capital requirement increased by PLN 2 934.5 million, mainly as a result of an increase in the capital requirement in respect of credit risk, while the PKO Bank Polski SA Group's own funds increased by PLN 2 553.9 million.

In accordance with the Regulation No. 575/2013 of the European Parliament and the Council (EU) of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending the Regulation (EU) No. 648/2012 and being in force since 1 January 2014, the Group calculates requirements in respect of own funds for the following risk types:

- credit risk – using the standard method,
- operational risk: for the Bank – using the advanced measurement approach (AMA), and for the Group entities conducting financial activities – using the basic index approach (BIA),
- market risk – using basic methods.

The Group calculated requirements in respect of own funds in accordance with the Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 on the scope and detailed principles of determining capital requirements for particular types of risk (Official Journal of the PFSA No. 2, item 11 of 9 April 2011 with subsequent amendments) until 31 December 2013.

Chart 5. Capital requirements of the PKO Bank Polski SA Group (in PLN million)



An increase in the capital requirement in respect of credit risk was mainly due to implementation of changes resulting from application date of regulations consistent with so called Basel 3, implemented into the European law through so called CRR/CRD4 Package, as well as due to finalising the Nordea Bank Polska SA purchase transaction.

An increase in the capital requirement in respect of market risk was mainly the result of changes in the PKO Bank Polski SA Group's exposures in respect of derivative and Treasury instruments.

An increase in the capital requirement in respect of operating risk was mainly a consequence of including Nordea Bank Polska SA in requirement. The requirement in respect of operating risk for the Bank was calculated using the advanced measurement approach (AMA), and the requirement in respect of Group entities conducting financial activities was calculated using the basic index approach (BIA).

## 7. INFORMATION FOR INVESTORS

### Shareholders holding directly or indirectly through subsidiaries at least 5% of the total number of votes at the General Shareholders' Meeting

To the best knowledge of PKO Bank Polski SA, as at the date of submission of the report, the shareholders holding directly or indirectly considerable block of shares (at least 5%) are three entities: the State Treasury, Aviva Otwarty Fundusz Emerytalny, ING Otwarty Fundusz Emerytalny.

Table 37. Shareholding structure as at the date of submission of the report

Shareholders	As at the date of submission of the report for the first half of 2014		As at the date of submission of the report for the first quarter of 2014		Change of the share in the number of votes at GSM (pp.)
	Number of shares	Share in the number of votes at GSM	Number of shares	Share in the number of votes at GSM	
State Treasury	392 406 277	31.39%	392 406 277	31.39%	0.00
Aviva Otwarty Fundusz Emerytalny <sup>1)</sup>	83 952 447	6.72%	83 952 447	6.72%	0.00
ING Otwarty Fundusz Emerytalny <sup>2)</sup>	64 594 448	5.17%	64 594 448	5.17%	0.00
Other shareholders	709 046 828	56.72%	709 046 828	56.72%	0.00
<b>Total</b>	<b>1 250 000 000</b>	<b>100.00%</b>	<b>1 250 000 000</b>	<b>100.00%</b>	<b>0.00</b>

1) Number of shares held as at 29 January 2013, reported by Aviva OFE after exceeding the threshold of 5% share in PKO Bank Polski SA's shareholding structure after settlement of the sales transaction of 153.1 million PKO Bank Polski SA's shares by BGK and the State Treasury.

2) Number of shares held as at 24 July 2012, reported by ING OFE after exceeding the threshold of 5% share in PKO Bank Polski SA's shareholding structure after settlement of the sales transaction of 95 million PKO Bank Polski SA's shares by the State Treasury.

### Changes in the number and rights of PKO Bank Polski SA's shares held by Management or Supervisory Board Members

Table 38. Shares held by members of the Management Board of PKO Bank Polski SA and the Bank's Supervisory Board

No.	Name	Number of shares as at the date of submission of the report for the first half of 2014	Purchase	Disposal	Number of shares as at the date of submission of the report for the first quarter of 2014
<b>I. Management Board of the Bank</b>					
1.	Zbigniew Jagiełło, President of the Bank's Management Board	10 000	1 000	0	9 000
2.	Piotr Alicki, Vice-President of the Bank's Management Board	2 627	0	0	2 627
3.	Bartosz Drabikowski, Vice-President of the Bank's Management Board	0	0	0	0
4.	Piotr Mazur, Vice-President of the Bank's Management Board	4 500	0	0	4 500
5.	Jarosław Mójak, Vice-President of the Bank's Management Board	0	0	0	0
6.	Jacek Obłękowski, Vice-President of the Bank's Management Board	512	0	0	512
7.	Jakub Papierski, Vice-President of the Bank's Management Board	3 000	0	0	3 000
<b>II. Supervisory Board of the Bank</b>					
1.	Jerzy Góra, Chairman of the Bank's Supervisory Board*		x	x	x
2.	Tomasz Zganiacz, Deputy-Chairman of the Bank's Supervisory Board	0	0	0	0
3.	Mirosław Czekaj, Secretary of the Bank's Supervisory Board	0	0	0	0
4.	Mirosława Boryczka, Member of the Bank's Supervisory Board*		x	x	x
5.	Zofia Dzik, Member of the Bank's Supervisory Board	0	0	0	0
6.	Jarosław Klimont, Member of the Bank's Supervisory Board*		x	x	x
7.	Elżbieta Mączyńska-Ziemacka, Member of the Bank's Supervisory Board	0	0	0	0
8.	Piotr Marczak, Member of the Bank's Supervisory Board	0	0	0	0
9.	Marek Mroczkowski, Member of the Bank's Supervisory Board	0	0	0	0

\*) Members of the Bank's Supervisory Board, who did not hold the function as at the date of the report for the first quarter of 2014.

### Assessment of financial credibility of PKO Bank Polski SA

Rating agencies Moody's Investors Service and Standard & Poor's assign a rating to PKO Bank Polski SA at a charge, in accordance with its own bank assessment procedure.

On 29 April 2014 the rating agency Standard and Poor's after considering the upcoming Directive of the European Parliament and of the Council on reorganisation and ordered banks liquidation and assessment of potential State Treasury support for PKO Bank Polski SA, affirmed PKO Bank Polski SA's long-term credit rating of 'A-' with negative perspective of maintaining assessment and PKO Bank Polski SA's short-term credit rating of 'A-2'.

Table 39. *Ratings of PKO Bank Polski SA as at 30 June 2014*

<b>Moody's Investors Service</b>	
Long-term rating for deposits	A2 with negative perspective
Short-term rating for deposits	Prime-1
Financial strength	C- with negative perspective
<b>Standard and Poor's</b>	
Long-term credit rating of the Bank	A - with negative perspective
Short-term credit rating of the Bank	A-2

As at the end of June 2014, KREDOBANK SA had the following rating granted by the international agency Standard & Poor's on 24 February 2014:

- long-term credit rating on the international scale - 'CCC',
- forecast - 'Negative',
- short-term credit rating on the international scale - 'C',
- rating on the Ukrainian scale - 'uaCCC'.

On 12 August this year the above mentioned rating has changed and is as follows:

- long-term credit rating on the international scale - 'CCC',
- forecast - 'Stable',
- short-term credit rating on the international scale - 'C',
- rating on the Ukrainian scale - 'uaCCC+'.

#### ***Changes in the Memorandum of Association of PKO Bank Polski SA***

The Ordinary General Shareholders' Meeting convened for 26 June 2014 passed the resolutions on amendments to the Memorandum of Association of the Bank.

#### ***Amendments to the Memorandum of Association in connection with the merger of PKO Bank Polski SA and Nordea Bank Polska SA***

Amendments to the Memorandum of Association of PKO Bank Polski SA (as the bidding company), in order to widen the scope of operations of PKO Bank Polski SA so as to include the operations performed by Nordea Bank Polska SA that has not been included in the scope of operations of PKO Bank Polski SA, were made in order to ensure the bidding bank to be able to carry on the full range of operations pursued by Nordea Bank Polska SA until the merger date.

These amendments to the Memorandum of Association will occur upon the merger of PKO Bank Polski SA and Nordea Bank Polska SA. The merger shall come into effect subject to obtaining the approvals and consents required by law, including the clearances from the Polish Financial Supervision Authority for the merger and the related amendments to the Memorandum of Association of PKO Bank Polski SA. The merger come into effect as of the day of registration of the merger in the register of entrepreneurs of the National Court Register.

#### ***Amendments to the Memorandum of Association not connected with the merger of PKO Bank Polski SA and Nordea Bank Polska SA, which related to the following areas:***

- waiver of the obligation of the Supervisory Board approval of the resolutions of the Management Board with regard to the rules of operational risk management,

This amendment resulted from the level of detail of the document under the name of the rules of operational risk management and the fact that since the first quarter of 2013 the essential elements of the rules of operational risk management are subject to additional approval of the Supervisory Board also as part of the document relating to the banking risk management strategy. The issues covered in the rules of operational risk management adopted by the Bank relate, to a great extent, to matters of organisation and methodology. Because of the dynamic nature of that matter, the document covering can be the subject of relatively frequent updating revisions. Hence, its approval by the Supervisory Board of each such update is not justified; specifically because that regulation has more operational than strategic character. Introduction of the amendment will, as a result, not deprive the Supervisory Board of its influence over the structure of the regulation on operational risk management in the Bank, but only preserve that role at the highest – strategic – level.

Adoption of the above mentioned amendment to the Memorandum of Association requires an authorisation from the Polish Financial Supervision Authority and its entry in the National Court Register. By decision of 12 June 2014, the Polish Financial Supervision Authority authorised making of this amendment to the Memorandum of Association. Amendment to the Memorandum of Association requires an entry in the register of entrepreneurs of the National Court Register.

- amendments on the subject of the Bank's operations,

The purpose of these amendments was to align the provisions of the Memorandum of Association of the Bank on the subject of operations (paragraph 4 clause 1 points 9 and 12) with the regulations of the 29 August 1997 Banking Law, as amended by the Act of 12 July 2013 amending the payment services act and certain other acts.

Adoption of the above mentioned amendments to the Memorandum of Association requires an authorisation from the Polish Financial Supervision Authority and entry in the register of entrepreneurs of the National Court Register.

- Bank's cooperation with other financial institutions within the Group,

This amendment was a result of taking actions to establish a mortgage bank by the Bank, in which PKO Bank Polski SA will be a sole shareholder (the 'Mortgage Bank').



The business model adopted for the Mortgage Bank assumes close cooperation with the Bank. This model enables for achievement of synergy effect within the Group through the use of IT tools and the Bank's experience and expertise. Cooperation between the banks will be based on outsourcing of certain activities forming part of the Mortgage Bank operations, while maintaining its complete autonomy. The proposed amendment aims to establish statutory basis for the Bank's collaboration with the Mortgage Bank, and to sanction the Bank's collaboration with other entities forming part of the Group as well as other financial institutions outside the Group. Adoption of these amendments to the Memorandum of Association requires entry in the register of entrepreneurs of the National Court Register.

#### ***Compliance with the corporate governance standards***

PKO Bank Polski SA applies the rules for corporate governance introduced in the form of a document 'Good Practices of Warsaw Stock Exchange Companies' (consolidated text adopted by the Council of the Warsaw Stock Exchange SA on 21 November 2012 with the Resolution No.19/1307/2012) with the exception of the rules contained in Chapter IV.10.

On 24 May 2013 the Management Board of PKO Bank Polski SA informed of its decision not to apply the rule included in Chapter IV.10 of the Good Practices of Warsaw Stock Exchange Companies, in accordance with which the Bank should ensure to its shareholders the option of participating in the General Shareholders' Meeting using means of electronic communication.

The decision not to abide by above mentioned rule in accordance with which the Bank should, i.e. ensure bilateral real time communication to its shareholders in order for them to communicate during the General Shareholders' Meeting from a place other than the location of the Meeting was taken due to legal, organisational and technical risks which could threaten the proper conduct of the General Shareholders' Meeting if such a communication option was given to all shareholders.

In the Bank's opinion, the rules currently binding at the Bank ensure that all shareholders may effectively exercise all rights vested in them and secure the interests of all shareholders.

The Bank does not eliminate the possibility of using this rule in the future, based on market standards developed by public companies.

#### ***Information on dividend paid (or declared)***

- On 29 April 2014 the Management Board of the Bank passed a resolution and decided to submit a recommendation to PKO Bank Polski SA's Ordinary General Shareholders' Meeting on payment of a dividend for the year 2013 in the amount of PLN 937 500 thousand (i.e. 31.65% of the total net profit for the year 2013 and unappropriated loss from previous years, amounted to PLN 271 242 thousand), i.e. PLN 0.75 gross per share. Unappropriated loss from previous years resulted from PKO Bank Polski SA having introduced a retrospective change in the accounting policies on the recognition of income and expenses from fees collected/paid by the Bank on account of customers having entered into insurance agreements linked to banking products offered by the Bank.
- The Management Board has proposed to set the dividend day at 18 September 2014 and the dividend payment date at 3 October 2014.
- The decision on the recommended distribution of profit for 2013 was in accordance with the dividend policy declared by PKO Bank Polski SA and adopted by the Management Board and the Supervisory Board of PKO Bank Polski SA, which provides for stable payments to shareholders from the net profit in the long term in the amount equivalent to capital surplus over the adopted minimum capital adequacy ratios (about which PKO Bank Polski SA informed in the current report No. 22/2012 on 4 April 2012). Dividend payment realised at the proposed value will ensure retention of the capital adequacy measures at a safe level, consistent with that expressed in the position of the Polish Financial Supervision Authority ('PFSA'), and will ensure the development of PKO Bank Polski SA's lending operations. PKO Bank Polski SA's dividend policy is consistent with the general recommendations of the PFSA on the payment of dividends out of profit for the year 2013, as addressed to the bank presidents.
- On 26 June 2014, the Ordinary General Shareholders' Meeting of PKO Bank Polski SA, as a result of PKO Bank Polski SA's profit appropriation for financial year 2013 and of covering unappropriated loss from previous years, allocated PLN 937 500 thousand as a shareholders dividend, representing PLN 0.75 per share. The General Shareholders' Meeting set the following dates:
  - dividend date (the date of acquisition of dividend rights) on 18 September 2014,
  - the dividend payment date on 3 October 2014.All shares of PKO Bank Polski SA are entitled to dividend.

## **8. OTHER INFORMATION**

#### ***Identification data***

PKO Bank Polski SA with its registered Head Office in Warsaw at Puławska 15 Street is registered in the District Court for the capital city of Warsaw in Warsaw, XIII Economic Department of the National Court Register, under entry No. KRS 0000026438. The Company's was granted a statistical No. REGON 016298263 and tax identification number (NIP) 525-000-77-38, share capital (the paid share capital) PLN 1 250 000 thousand.

**The authorities of PKO Bank Polski SA in the reporting period**

Table 40. *The Management Board of PKO Bank Polski SA as at 30 June 2014*

No.	Name	Function	Date of appointment
1.	Zbigniew Jagiełło	President of the Management Board	re-appointed on 8 January 2014 to the position of President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board, which begin with the end of previous joint term of the Management Board.
2.	Piotr Alicki	Vice-President of the Management Board	re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board, which begin with the end of previous joint term of the Management Board.
3.	Bartosz Drabikowski	Vice-President of the Management Board	re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board, which begin with the end of previous joint term of the Management Board.
4.	Piotr Mazur	Vice-President of the Management Board	re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board, which begin with the end of previous joint term of the Management Board.
5.	Jarosław Myjak	Vice-President of the Management Board	re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board, which begin with the end of previous joint term of the Management Board.
6.	Jacek Obłękowski	Vice-President of the Management Board	re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board, which begin with the end of previous joint term of the Management Board.
7.	Jakub Papierski	Vice-President of the Management Board	re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board, which begin with the end of previous joint term of the Management Board.

Table 41. *The Supervisory Board of PKO Bank Polski SA as at 30 June 2014*

No.	Name	Function	Date of appointment/dismissal
1.	Jerzy Góra	Chairman of the Supervisory Board	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014. On 26 June 2014 the State Treasury, as the Eligible Shareholder has appointed Jerzy Góra as a Chairman of the Supervisory Board.
2.	Tomasz Zganiacz	Deputy Chairman of the Supervisory Board	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014 the State Treasury, as the Eligible Shareholder has appointed Tomasz Zganiacz as a Deputy Chairman of the Supervisory Board.
3.	Mirosław Czekaj	Secretary of the Supervisory Board	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014. On 16 July 2014 the Supervisory Board has chosen Mirosław Czekaj as a Secretary of the Supervisory Board.
4.	Mirosława Boryczka	Member of the Supervisory Board	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014.
5.	Zofia Dzik	Member of the Supervisory Board	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014.
6.	Jarosław Klimont	Member of the Supervisory Board	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014.
7.	Piotr Marczak	Member of the Supervisory Board	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014.
8.	Elżbieta Mączyńska - Ziemacka	Member of the Supervisory Board	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014.
9.	Marek Mroczkowski	Member of the Supervisory Board	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014.
10.	Cezary Banasiński	Chairman of the Supervisory Board	appointed on 30 June 2011 for a joint term of the Supervisory Board which began on that day. On 30 June 2011 the State Treasury, as the Eligible Shareholder has appointed Cezary Banasiński, Member of the Supervisory Board, as a Chairman of the Supervisory Board. On 26 June 2014, the General Shareholders' Meeting has dismissed Cezary Banasiński from the Supervisory Board, with the effect from that day.
11.	Ryszard Wierzb	Member of the Supervisory Board	appointed on 30 June 2011 for a joint term of office of the Supervisory Board which began on that day. On 26 June 2014, the General Shareholders' Meeting has dismissed Ryszard Wierzb from the Supervisory Board, with the effect from that day.

*The State Treasury, as the Eligible Shareholder, determined the number of members of the Supervisory Board of the new term of office (which started on the day of the General Shareholders' Meeting convened as at 26 June 2014), to include 9 persons.*

### *Seasonality or cyclicity of activities in the reporting period*

PKO Bank Polski SA is a universal bank, which provides services on the territory of Poland, and thus its activities are exposed to similar seasonal fluctuations to those affecting the entire Polish economy. The activities of other companies of the PKO Bank Polski SA Group also do not show any particular seasonality or cyclicity characteristics.

### *Sponsorship, charity and promotional activities*

**Sponsorship activities** carried out in the first half of 2014 were aimed at creating the image of PKO Bank Polski SA of a trustworthy financial institution, open to client's needs and expectations, engaged in the development of the country and local societies. In accordance with the sponsorship activities plan, the Bank focuses on few selected areas of social life, in particular projects which promote an active and healthy lifestyle, contribute to the development of culture, education, expanding knowledge on history and national heritage, and promote patriotism. During the period the Bank concentrated on the following key sponsoring projects: the 'PKO Bank Polski - Let's run together' ('PKO Bank Polski - Biegajmy razem') programme, patronage over renovated and modernised Gallery of Medieval Art of the National Museum in Warsaw, continuance on co-operation with the National Philharmonic, patronage over the Theatre of Poland in Warsaw, patronage over the Theatrical Festival organised by the Imka Theatre in Warsaw as well as patronage over digital reconstruction of classical Polish motion picture. In the first half of this year PKO Bank Polski SA become also a Strategic Partner of the National Forum of Music – new institution within the Polish culture, which arose due to merger of Wrocław Philharmonics and International Festival Wratistavia Cantans.

For many years PKO Bank Polski SA has consistently supported important sports events. Under the 'PKO Bank Polski - Let's run together' programme the Bank encourages Poles to engage in joint activities. Among other things, the Bank sponsors the following races: 3 May Constitution Run, Piast Race and the following marathons: Cracovia Marathon, Night Wrocław Half Marathon, Solidarity Half Marathon and the following half marathons: Bytomski, Chelmski, Solan and Rybnicki Moon Half Marathon, Hajnowski Half Marathon, Eel Half Marathon.

Apart from the running events which were the dominating events in the sports sponsoring category, the Bank also supported other prestigious sports events, such as Cavaliada or Sea Days (Dni Morza). Cavaliada is a cycle of international equestrian jump competitions, very popular with the public. It is the largest event of this type in Poland. In 2014 the Bank was the sponsor of the second stage of Cavaliada in Lublin, Poznań and the final of the competition in Warsaw. PKO Bank Polski SA was also the Main Sponsor of Sea Days (Dni Morza) in Szczecin, a spectacular event addressed to families.

The Bank willingly engages in projects which support Polish culture as they are an investment on behalf of future generations. Actions aimed at protecting and popularizing the heritage of Polish cinematography is a particularly valued initiative. The Bank's sponsoring of the digital reconstruction of great Polish movies will enable young people to watch movies from the past, which are evidence of Polish history and culture, in an up-to-date quality.

PKO Bank Polski SA has once again supported World Academic Championship in Team Programming – the most prestigious IT competition in the world which promotes gifted and ambitious students, strengthening the image of an institution open to young people. PKO Bank Polski SA was also the Diamond Sponsor of the competition addressed to students: Enactus Poland 2014. The aim of the organiser of the Competition is to promote ideas consistent with the concept of sustainability. Under the programme students complete business projects which are their response to economic, environmental and social challenges. In the period from March to May 2014 a project called 'My first business before turning 20' ('Mój pierwszy biznes przed 20-tką'), addressed to high school students was conducted by WSB School of Banking in Wrocław and Zarząd Obsługi Jednostek Miejskich (an entity providing services for municipal units) of the Municipality of Wrocław with the support of the Bank. 'My first business before turning 20' is a unique project which combines the following areas: education, financial markets and entrepreneurship, which enables young people to gain not only the competencies for running an e-business, but also creating the concepts and mechanics of board games. In 2014 the Bank engaged in cooperation with Association of Management Education (Stowarzyszenie Edukacji Menedżerskiej) the aim of which is to promote and apply the best education and development solutions for business people. The project on which the Bank focused is the rating of Polish MBA programmes conducted by SEM FORUM once every two years.

As one of the leaders of the banking market in Poland, PKO Bank Polski SA actively participated in organizing congresses and conferences enabling sharing experiences and creative solutions by various business circles. Among others, the Bank sponsored: the 4th European Financial Congress in Sopot (IV Europejski Kongres Finansowy), the 3rd Congress of CFOs of SEG Public Companies (III Kongres CFO Spółek Giełdowych SEG), the International Academic Conference ASCOLA in Warsaw (Międzynarodowa Konferencja Naukowa ASCOLA), the 6th Polish Congress of Banking Law (VI Ogólnopolski Kongres Prawa Bankowego), IIF Annual Meeting of CEE Bank Chief Executives. Other events on a smaller scale, important to the local communities, also gained the Bank's support.

**Promotional activities** realised in the first half of this year focused mainly on support of sales of already existing banking products. Media communication was tailored to the purposes of particular campaigns. Leaflets and posters in the Bank's branches, and internal communication channels were additional support.

Promotional activities of the PKO Bank Polski SA Group other entities, carried out in the first half of 2014, were mainly aimed at promoting products and services offered by the Companies, primarily through the press and the Internet, and participation in national trade events and fairs. The Bank's tasks concerning **charity activities** are carried out through PKO Bank Polski SA's Foundation. PKO Bank Polski SA's Foundation from 4 years operates under the slogan 'Good brings profits' ('Dobro procentuje'). The Foundation, realising Strategic Projects and Local and Individual Projects, has awarded beneficiaries with grants within seven programme areas:

1. **44.70% - EDUCATION** (*education and science*) – for i.a. SIEMACHA Association within programmes of social solidarity-building with children and youth at risk of exclusion, a grant for outstanding teachers of mathematics and IT, the organisation of workshops on the Polish parliamentary and local government system and execution of social project for local communities within the Academy of Modern Patriotism (Akademia Nowoczesnego Patriotyzmu) project, free online sharing of educational materials of American version of Khan Academy in Polish for the Polish user, the organisation of the XXVII Economic Knowledge Olympiad (Olimpiada Wiedzy Ekonomicznej), the dissemination of knowledge through the media about the possible effects of the provided charity assistance.
2. **21.18% - HEALTH** (*health care and health prophylactics*) – i.a. the Foundation is responsible for organisation of Banking Honourable Blood Donation ('BHBD'). In the first stage of BHBD lasting from 13 to 17 June of this year 848 people donated blood, including about 100 employees of PKO Bank Polski SA. A total of 12 Polish cities managed to collect 380.65 liters of blood.

3. **17.95% - TRADITION** (*upbringing with a focus on patriotism*) – for i.a. the 'Intergeneration Dialogue' ('Dialog Międzypokoleniowy') programme addressed to representatives of environments which contributed to the life democratisation in Poland, the 'People of August '80 in Gdynia' ('Ludzie Sierpnia '80 w Gdyni') project, the organisation of 'On the road to democracy' ('W drodze do demokracji') training for representatives of student and academic organisations from Poland and Ukraine.
4. **6.81% - HOPE** (*social assistance, addressed in particular to disabled persons*) – on i.a. benefits in terms of social assistance, including additional food for children and youth in schools and care institutions, supporting orphanages wards, subsidising driving license courses and vehicle adaptation in the Mobility of Disabled Persons (Mobilność Osób Niepełnosprawnych) programme.
5. **6.11% - ECOLOGY** (*environmental protection in our country*) – the Foundation cooperates with the Ecological and Cultural Association - Klub Gaja within the 'Adopt a river' ('Zaadoptuj rzekę') project.
6. **2.98% - CULTURE** – mainly protection of art, especially the protection of national heritage.
7. **0.27% - SPORT** – mainly to encourage children and youth to physical activity.

The majority of projects, supported by PKO Bank Polski SA's Foundation, involves cooperation between the Bank's employees, as volunteers, and local social organisations. Within the new implemented model, the volunteer mandatory supports the process of giving aid. To optimise effects of the fieldwork, the activities relating to reporting and running of such projects are supported by the Foundation's IT system. With the adoption of such solution, the Foundation can assess precisely the most urgent local needs and in which area, the social sensitivity of employees is represented the most, taking into account the characteristic of the Bank's specific region. As at 30 June of this year there were 583 volunteers.

#### **Prizes and awards**

In the first half of 2014 several prizes and awards were granted to PKO Bank Polski SA and companies of the PKO Bank Polski SA Group, including:

##### *In the Institution category*

#### **1. The Best Bank (Najlepszy Bank)**

For the 22nd time, Gazeta Bankowa has awarded best banks. PKO Bank Polski SA ranked third in the Commercial banks category (small and medium, large). The competition is carried out under the substantive patronage of PwC - the advisory company, and chaired by Małgorzata Zaleska - the member of the management board of the National Bank of Poland. The competition honors the banks, which achieved the best financial results. The assessment is based on the audited financial results achieved by the bank in the previous year.

#### **2. The 50 largest banks in Poland (50 największych banków w Polsce)**

Once again PKO Bank Polski SA won the ranking of '50 largest banks in Poland' of 'Miesięcznik Finansowy BANK', prepared by independent analysts based on financial data of banks for the previous year.

In this year's 19th edition of the '50 largest banks in Poland' ranking of 'Miesięcznik Finansowy BANK' our Bank won in the category 'Banks financing real estate' and among banks offering consumer loans - 'Consumer finance' took third place.

#### **3. The Pillars of Budget (Filary Budżetu)**

PKO Bank Polski was honored with a new award of 'Rzeczpospolita' journal - the 'Pillars of Budget' ('Filary Budżetu'). The award for entities paying the highest taxes is part of the annual ranking of the largest companies in the Polish economy, 'List of 500' ('Lista 500').

According to the journal editors, the state can operate effectively only through legitimate businesses, which supply a common finances. Therefore in the sixteenth edition of the ranking the new award the 'Pillars of Budget' was introduced.

#### **4. Reliable Brand (Marka Godna Zaufania)**

For the tenth time, PKO Bank Polski SA was honoured with the Golden Statuette of Reliable Brand in the 'Bank' category, in the Europe-wide survey European Trusted Brands. The award is granted to those brands which gained the highest consumers' confidence. PKO Bank Polski SA was selected by 27% of participants in the survey of Reader's Digest Magazine. This year's edition of one of the largest and broadest consumer survey was carried out in 10 European countries.

#### **5. Book of Lists**

According to 'Book of Lists 2014' ranking prepared by Warsaw Business Journal, PKO Bank Polski SA is the best domestic bank and won in the 'Banks in Poland' category (a ranking criterion are revenues of given financial year). The 'Book of Lists' ranking is the largest and one of the oldest publications present on the polish publishing market, which via 70 rankings presents more than 2.5 thousand companies from different business sectors in Poland, i.a.: finance, service, advisory and energy. Each year, the best, the largest and the most dynamic companies are awarded.

#### **6. Mobile Trends Awards**

PKO Bank Polski SA was awarded in *Mobile Trends Awards* in 'The company supporting the development of mobile technology' ('Firma wspierająca rozwój technologii mobilnej') category for mobile payment system IKO. This was the third edition of the competition, whose winners were chosen by experts of IT and new technologies industry, comprising the Competition Jury.

#### **7. IT Leader in Financial Institutions (Lider Informatyki Instytucji Finansowych)**

In the twelfth edition of the competition 'IT Leader in Financial Institutions 2013' (Lider Informatyki Instytucji Finansowych 2013) by Gazeta Bankowa PKO Bank Polski SA won the prize in the 'Electronic Banking and e-Finance' ('Bankowość elektroniczna i e-finance') category, the competition jury awarded PKO Bank Polski for the implementation of IKO application. The Bank also won in the 'Back office systems' ('Systemy back office') category for the implementation of the Innovation Centre. Several financial institutions, especially in the banking and insurance sector, competed for the title of Leader.

#### **8. Golden Bulls. Summary of the Stock Exchange Year 2013 (Złote Byki. Podsumowanie Roku Giełdowego 2013)**

The Warsaw Stock Exchange in Warsaw once again awarded prizes to leaders of the Polish market for their achievements in 2013. Distinguished issuers, Stock Exchange Members and Authorised Advisors, who in the past year particularly contributed to the development of the Polish capital market. Among the winners was the Brokerage House of PKO Bank Polski SA, which received three awards:

- for the greatest value of offers for companies entering the Main Market in 2013,
- for the largest number of companies introduced on the Main Market in 2013,
- for the highest turnover of non-Treasury bonds achieved by the maker on the Catalyst in 2013.

**9. HP New Style IT (HP Nowy Styl IT)**

PKO Bank Polski won the 'HP New Style IT' ('HP Nowy Styl IT') prize. The prize, which was awarded for the first time, promotes the most innovative implementations of IT solutions carried out in Polish companies.

The jury of the competition appreciated Bank for the implementation of the first in the country, safe payment system via mobile devices.

**10. Innovator 2013 for PKO Bank Polski SA (Innowator 2013 dla PKO Banku Polskiego SA)**

For the second year in a row PKO Bank Polski SA has been elected the most innovative banking sector company in the Wprost weekly's ranking. In the third edition of the competition the awards was granted to companies which contribute to the development of innovation and increase the competitiveness of the Polish economy.

*In the Product category*

**11. Banking and Insurance World Leaders Competition (Konkurs Liderów Świata Bankowości i Ubezpieczeń)**

IKO mobile payment won in the Banking and Insurance World Leaders Competition in the category 'The Most Interesting Innovation for the Bank'. This was the third edition of the competition which was held as part of the Polish Business Congress. Its chamber is formed by renowned experts in finance, members of the government and economic journalists. Awards are granted to people and firms who contributed the most in the development of the Polish financial sector in the past year.

**12. Gold Banker of 2013 (Złoty Bankier 2013)**

In the fifth edition of the competition the Bank was rewarded in 'The best mortgage loan' and 'Financial innovation' categories in a poll organised by Bankier.pl and PayU. Once again in the history of the poll Internet users appreciated mortgage loan 'Własny Kąt Hipoteczny'. PKO Bank Polski SA received the largest number of positive opinions in 'The best mortgage loan' category, ranked first with 46% of total number of votes. The jury of the competition also awarded the Bank in special category 'Financial innovation' for IKO application.

Thanks to the votes of over 40 thousand internet users and experts, PKO Bank Polski SA was also among the winners in categories: 'The best mobile banking' (2nd place) and 'The best personal account' (3rd place). On the other hand, Inteligo was awarded among the top banks in the poll 'The best way to pay online' (2nd place) and 'The best bank for Internet entrepreneurs' (3rd place).

**13. The winner of the market (Zdobywca rynku)**

The editors of Polish Market awarded PKO Bank Polski SA with 'The winner of the market' ('Zdobywca rynku') title, in the services category. The PKO Junior payment cards, for children under age of 13, were appreciated for focusing on the young generation and the mission of society financial education from the earliest years. In 'The winner of the market' competition, the best young managers and services conquering the market are awarded.

**14. PKO Junior awarded in Electronic Economy Congress Competition (PKO Junior nagrodzony w Konkursie Kongresu Gospodarki Elektronicznej)**

The Competition Jury of the VIII Electronic Economy Congress organised under the patronage of the Polish Banks Association, recognizing the broad educational range and innovative form of unique offer for children under the age of 13 and their parents, has awarded PKO Junior in the Project of the Year (Projekt Roku) category.

*In the Employer category*

**15. Employer of the year 2013 ranking (Ranking Pracodawca Roku 2013)**

The Bank found itself among the most desired employers in the 'Employer of the year 2013' ranking organised by the international students' organisation AIESEC. It was ranked high fourth place and advancing from sixth place in the previous year. The poll, conducted periodically, was attended by more than 3.6 thousand students of economic faculties from 39 universities in Poland. Among the most important factors in choice of employer, the students pointed to a good working atmosphere, satisfaction level, a respect for private life, employment security and salary level. Subsequently they mentioned, among others, a clear career path, promotion criteria, possibility of acquiring knowledge.

**16. The Conscious Employer (Świadomy Pracodawca)**

PKO Bank Polski SA has won in the competition of the Polish Agency for Enterprise Development (Polska Agencja Rozwoju Przedsiębiorczości - PARP) in the 'Conscious Employer' ('Świadomy Pracodawca') category. The 'PKO Bank Polski SA's Manager Academy' ('Akademia Menedżera PKO Banku Polskiego') project was appreciated for i.a. form and content complexity, target group, territorial range and quality of the training offered in the competition. The award in the 'Conscious Employer' category was given for the first time. Its aim was to select from among the beneficiaries of PARP companies which, despite the economic slowdown, invest in employee development.

**17. The Ideal Employer (Idealny pracodawca)**

Once again our Bank was awarded by students. In the prestigious employers ranking - Universum Student Survey - PKO Bank Polski SA has maintained the third rank within the Business category. It was the only bank among the first ten in the ranking. In this year's edition of the survey, 23.5 thousand students made more than 70 thousand individual assessments of employers.

*In the Other category*

**18. Employer Branding Excellence Awards 2014**

PKO Bank Polski SA won the first place for 'PKO Bank Polski Run together' campaign in the Excellent Internal Branding Campaign category in the Employer Branding Excellence Awards 2014 competition organised by HRM Institute and Markline. The award in this category is granted to institutions for the best internal branding campaign. A well-defined and implemented strategy has a significant influence on attracting, employment and retention of talents.

**19. Employer Branding Stars**

The project 'PKO Bank Polski Run together', promoting the idea of jogging, both recreational as well as during mass events, received the main prize in the competition 'Employer Branding Stars' in the category 'Best internal employer branding campaign' (Najlepsza wewnętrzna kampania employer branding). Prize in this category is awarded to companies, which succeed in conducting activities in the area of building employer's branding. The competition 'Employer Branding Stars' is organised by HRstandard in cooperation with merit partner - Employer Branding Institute. Its goal is to select the best activities in the area of building employer's branding in Poland.

**20. Szpalty Roku (Columns of the Year)**

PKO Bank Polski SA was awarded the Special Prize - Golden Column (Złota Szpalta) for the entirety, multidirectional and consistency of communication. In the 7th edition of the Columns of the Year competition 150 projects were analyzed, prizes were awarded in 9 categories. As many as 8 Bank projects were in the final. Among them, intranet connecting business support with the integration of employees, multimedia



newsletter dedicated to the merger with Nordea and the Annual Report for 2012 were awarded the Silver Columns of the Year. Facebook profile about running was also awarded.

The Columns of the Year is a competition for editors and authors of the corporate press organised by Corporate Press Association (Stowarzyszenie Prasy Firmowej). Its aim is to promote high standards in the own media by awarding the best projects.

**21. Best Contact Center (Najlepsze Contact Center)**

For the sixth time, PKO Bank Polski SA's Contact Center outclassed its rivals in a cyclical survey carried out by ARC Rynek i Opinia. In the final ranking including telephone and e-mail contacts, the Bank obtained over 98 points out of the maximum 100.

The pollsters very highly evaluated the consultants' politeness, involvement and professionalism as well as knowledge of the products and substantial preparation to conversation about mortgage loans, credit cards, cash loan, accounts and deposits of PKO Bank Polski SA.

**22. Strategic Sponsor of 2014 (Strategiczny Mecenat Roku 2014)**

The Warsaw Philharmonic honoured PKO Bank Polski SA with a special award for supporting its artistic activities, contributing to performances of the most outstanding artists.

*Prizes for Group entities*

**23. First degree prize and title 'Construction of the Year 2013' ('Budowa Roku 2013')**

The Golden Tulip Gdańsk Residence at 160 Piastowska Street, Gdańsk – project realised by entity Qualia Sp. z o.o. – Pomeranka Sp. k. (entity from the Qualia Development Sp. z o.o. Group) – received a first degree prize and title 'Construction of the Year 2013' in the category of residential property above PLN 20 million. This prize, awarded for the 24th time by the Polish Association of Engineers and Construction Technicians, is called 'Oscar' of the construction industry.

**24. Prizes for the PKO TFI SA funds**

An independent survey centre 'Analizy Online' awarded five stars (i.e. the highest rating) to PKO Małych i Średnich Spółek – fio and four stars to PKO Akcji Plus (parasolowy fio) – funds managed by the PKO TFI SA.

**25. Best product for SME 2014 (Najlepszy produkt dla MSP 2014) – price in the category of lease**

The product 'PKO Auto Leasing Mobilny' (offered by the entity PKO Leasing SA) was awarded by the editorial office of 'Gazeta Finansowa' in the plebiscite 'Best product for SME 2014' (Najlepszy produkt dla MSP 2014) in the category of lease.

**26. Business Gazelle 2013 (Gazela Biznesu 2013)**

PKO Leasing Pro SA (formerly Nordea Finance Polska SA) was awarded the title of Business Gazelle 2013 in the ranking of most dynamically developing small and medium enterprises, organised by the journal 'Puls Biznesu' as well as by the information agency Coface Poland.

**27. Bank enjoying confidence (Bank cieszący się zaufaniem)**

KREDOBANK SA won in the nomination 'Bank which maintained a high level of customers' confidence' ('Bank, który zachował wysoki poziom zaufania klientów') in the II competition 'Bank enjoying confidence' (Bank cieszący się zaufaniem) organised by the quarterly 'Bankier'.

**28. Ranking of the credibility of deposits in Ukraine**

In June 2014 KREDOBANK SA placed fourth in respect of credibility of Ukrainian banks' deposits in a ranking prepared by the Ukrainian rating agency 'Standard-Ranking'.

**29. 'Investor of the year 2013' (Inwestor roku 2013)**

KREDOBANK SA received the prize 'Investor of the year 2013' (Inwestor roku 2013) in a competition organised by the Lviv government authority and the Lviv Chamber of Commerce and Industry for the largest banking investments in the oblast's economy as well as active participation in crediting the Ukrainian economy.

*Underwriting agreements and guarantees granted to subsidiaries*

As at 31 December 2013 issues of PKO Leasing SA (the Bank's subsidiary) bonds were regulated by the Underwriting Agreement for the Organisation, Conducting and Servicing of the Bond Issuance Programme as at 10 November 2011, in accordance with which the maximum value of the programme was PLN 600 million.

As at 30 June 2014 PKO Leasing SA issued bonds for a total of PLN 530 million, including bonds with a value of PLN 408 million sold on the secondary market and bonds with a value of PLN 122 million held in the portfolio of PKO Bank Polski SA.

In the first half of 2014 PKO Bank Polski SA:

- granted a guarantee of up to EUR 7.7 thousand to PKO Leasing SA in respect of office space renting; the guarantee is valid until 31 December 2016,
- prolonged until 31 December 2015 the period of validity of the guarantee granted to Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k. in respect of an agreement on the construction of the access road up to PLN 1 035 thousand.

*Loans and advance contracts, warranties and guarantees not related to the Bank's operating activity*

In the first half of 2014 PKO Bank Polski SA has not taken any loans, advances, and has not received any guarantees or warranties which do not relate to its operating activities. In the first half of 2014 KREDOBANK SA and Nordea Bank Polska SA have not taken any loans, advances, and have not received any guarantees or warranties which do not relate to their operating activities.

*Significant contracts and important agreements with the central bank or supervisory authorities*

In the first half of 2014 PKO Bank Polski SA did not conclude any important agreements with the Central Bank or with its supervisory authorities. In the first half of 2014 the subsidiaries of PKO Bank Polski SA did not conclude any important agreements with the Central Bank or with their supervisory authorities.

Closing of purchase transaction by PKO Bank Polski SA of companies: Nordea Bank Polska SA, 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA, Nordea Finance Polska SA and a loan portfolio in respect of corporate clients (so-called Swedish portfolio assets) took place in the first half of 2014. Information on significant agreements concluded by PKO Bank Polski SA and Nordea Bank Polska SA as part of execution of above mentioned transaction is presented in point 5.2 of this report.

In addition, on 1 April 2014, Nordea Bank Polska SA concluded several agreements aimed at changing the method of financing of Nordea Bank Polska SA, including:



1. an agreement with Nordea Bank AB (publ), Nordea Bank Finland plc and PKO Bank Polski SA, aimed at, inter alia, the termination of the following agreements and arrangements for the financing of Nordea Bank Polska SA:
    - loan agreement dated 3 September 2007 with Nordea Bank AB (publ),
    - loan agreement dated 30 May 2008 with Nordea Bank Finland plc,
    - loan agreement dated 15 July 2009 with Nordea Bank Finland plc,
    - agreement pledged as collateral in the form of transfer of ownership rights to funds, dated 6 August 2012 with Nordea Bank AB (publ),
    - deposits opened on the interbank market between Nordea Bank Polska SA and Nordea Bank AB (publ) and Nordea Bank Finland plc.

According to the above mentioned agreement, termination of agreements and arrangements occurred on a day of liabilities repayment of Nordea Bank Polska SA in respect of these agreements, from funds obtained from PKO Bank Polski SA in the form of a push-down credit facility up to the amount of CHF 3 645 818 thousand, EUR 465 414 thousand and USD 3 725 thousand.

Due to the fact of the concurrent conclusion of the loan agreement by Nordea Bank Polska SA and PKO Bank Polski SA, termination of the above mentioned agreements did not affect the financial situation of the Company. Termination of the agreements and arrangements concerning financing of Nordea Bank Polska SA by entities from the Nordea Group did not concern subordinated financing.
  2. an agreement with Nordea Bank AB (publ) concerning termination of the guarantee agreement dated 18 December 2012, which occurred on 4 April 2014 – i.e. at the date of settlement of the purchase transaction of the Nordea Bank Polska SA's shares from its majority shareholder by PKO Bank Polski SA. The amount of the guaranteed portfolio, based on the agreement of 18 December 2012 amounted to CHF 1.6 billion. Guarantee transferred the risk of the mortgage loan portfolio from Nordea Bank Polska SA to Nordea Bank AB (publ). Termination of the guarantee agreement caused the cessation of the Nordea Bank Polska SA's obligation to pay to Nordea Bank AB (publ) a fee for the use of the guarantee. Termination of the described agreement did not affect the Company's financial situation, because maintaining capital ratios at a level required by the Polish Financial Supervision Authority was ensured by funds obtained from the increase of the Nordea Bank Polska SA's share capital.
- In June of this year, KREDOBANK SA transferred to the National Bank of Ukraine unilaterally signed the 'Arrangement concerning the profitability improvement of KREDOBANK SA', which shall be effective till the end of 2015. The arrangement concerns the reduction of operations bearing high level of risk, improvement of performance indicators and financial situation of the Company, and the implementation of all recommendations and instructions issued by the NBU within the control conducted in October 2013.

#### **Benefits for supervisors and managers**

Full information regarding the remuneration and other benefits on behalf of the members of the Management Board of PKO Bank Polski SA and the Supervisory Board of PKO Bank Polski SA in the reporting period was disclosed in Note 40 to the PKO Bank Polski SA Group condensed consolidated interim financial statements for the six-month period ended 30 June 2014.

#### **Number of employees in PKO Bank Polski SA, Nordea Bank Polska SA and in the PKO Bank Polski SA Group**

As at the end of the first half of 2014 the number of employees of the PKO Bank Polski SA Group increased by 1 593 full time equivalents compared to the balance as at the end of the first half of 2013. This change mainly resulted from purchase of Nordea Bank Polska SA.

Table 42. *Number of employees in PKO Bank Polski SA and in the PKO Bank Polski SA Group*

	As at 30.06.2014	As at 30.06.2013	Change in the number of employees
PKO Bank Polski SA	24 421	24 673	(252)
Nordea Bank Polska SA	1 746	-	1 746
Other Group entities	3 219	3 120	98
<b>Total</b>	<b>29 386</b>	<b>27 794</b>	<b>1 593</b>

#### **Results of changes in the entity's structure, including the effects of business combination, takeover or disposal of the Group entities, long-term investments, division, restructuring and discontinuation of activities**

The results of changes in the entity's structure, including the results of merger, takeover or disposal of the Group entities have been described in point 5.2 of this report.

#### **Factors which may affect future financial performance within at least the next quarter**

In the perspective of the nearest quarters, economic processes, which will take place in Polish and in the global economy, and reactions of the financial markets, will have an impact on the results of the Bank and the PKO Bank Polski SA Group. The interest rate policy applied by the Monetary Policy Council and by other key central banks will have a large impact on future performance.

The future financial results of the PKO Bank Polski SA Group will also be impacted by the integration process of new companies: Nordea Bank Polska SA, 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA, Nordea Finance Polska SA.

The financial results of the PKO Bank Polski SA Group will be impacted also by the political and economic situation in Ukraine where the Group entities operate: KREDOBANK SA and factoring and debt collection entity. PKO Bank Polski SA continues to implement actions aimed at ensuring the safe functioning of its companies in Ukraine in the environment of the current political and macroeconomic situation. These actions include strengthening supervisory activities, including i.a. monitoring funds transferred to the Companies by the Bank and the development of the regulatory requirements determined by the National Bank of Ukraine. PKO Bank Polski SA is continuously analysing macroeconomic risks for KREDOBANK SA activities.

***Information on warranties on loan or advance granted by the issuer or by the issuer's subsidiary or on guarantee granted – cumulatively to a single entity or its subsidiary, if the total value of outstanding warranties or guarantees constitutes at least 10% of the issuer's equity***

In the first half of 2014 PKO Bank Polski SA did not grant any warranties on loan or advance or a guarantee to a single entity or its subsidiary the total value of which would constitute of at least 10% of the Bank's equity. In the first half of 2014 the subsidiaries of PKO Bank Polski SA did not grant warranties on any loan or advance or a guarantee to a single entity or its subsidiary the total value of which would constitute of at least 10% of the Bank's equity.

***Information on transaction or a number of transactions concluded by the issuer or its subsidiary with related parties, if they are significant and were concluded not on arm's length***

In the first half of 2014, PKO Bank Polski SA did not conclude any significant transactions with related parties not on arm's length. At the same time, in 2014, PKO Bank Polski SA has made a capital contribution to KREDOBANK SA by a financial donation in the amount of USD 6 020 thousand (i.e. PLN 18 656 thousand according to the average NBP exchange rate as at the date of funds transfer). The above mentioned donation in the statement of financial position of PKO Bank Polski SA increases the purchase price of a share of this Company. In the first half of 2014, the subsidiaries of PKO Bank Polski SA did not conclude any significant transactions with related parties not on arms' length.

***Proceedings pending before the court, arbitration tribunal or public administrative authority***

As at 30 June 2014 the total value of court proceedings in which the PKO Bank Polski SA Group entities (including the Bank) act as a defendant amounted to PLN 395 112 thousand, of which PLN 9 443 thousand concerning court proceedings in the Ukraine (as at 31 December 2013 the total value of the above mentioned court proceedings amounted to PLN 342 658 thousand), and the total amount of court proceedings initiated by the Group entities (including the Bank) as plaintiffs amounted to PLN 516 481 thousand, of which PLN 156 468 thousand which concerned court proceedings in the Ukraine, mainly related to the recovery of loans granted by KREDOBANK SA (as at 31 December 2013 the total value of the above-mentioned court proceedings amounted to PLN 525 949 thousand). The information above does not include KREDOBANK SA's legal claims concerning taxes described in Note 11 of Condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2014. The Bank does not have any proceedings pending before the court, the value of which amounts to at least 10% of its own funds. Other Group entities have not conducted any proceedings pending before court, arbitration tribunal or public administration authority concerning liabilities or receivables, the value of which amounts to at least 10% of the own funds of PKO Bank Polski SA.

***Position of the Management Board of PKO Bank Polski SA as regards to the possibility of achieving previously published forecast for the given year***

PKO Bank Polski SA did not publish any financial forecasts of its results for the year 2014.

***Other information of particular importance to the assessment of the human resources, proprietary and financial situation of the issuer, its financial results and changes thereto***

1. On 8 January 2014 the Supervisory Board of PKO Bank Polski SA passed the Resolutions reappointing all Members of the Management Board of the Bank to positions previously held. According to the passed Resolutions, the above mentioned persons have been appointed to perform indicated functions in PKO Bank Polski SA for the joint term of the Management Board of the Bank which will begin with the end of the current joint term of the Management Board of the Bank.
2. On 20 January 2014 the Bank has entered into an agreement with one of the Bank's clients ('the Client') and the parent company of that Client ('the Parent Company'), being also the Bank's client, concerning granting by PKO Bank Polski SA of a guarantee limit to the Client up to the maximum amount of PLN 2 548.6 million. The Agreement concerns granting at the Client's order of:
  - a payment guarantee up to the maximum amount of PLN 1 300.3 million to the benefit of the general contractor of industrial infrastructure being delivered to the Client,
  - a payment guarantee for construction works being delivered to the Client up to 100% of the granted guarantee facility amount. The Agreement remains effective for 67 months from the date of its conclusion and provides for collateral in the form of:
  - a suretyship by the Parent Company up to 120% of the current amount of the guarantee granted,
  - a statement of submission to bank enforcement by the Client (up to 120% of the bank guarantee limit) and a statement of submission to enforcement by the Parent Company as the surety provider (up to 120% of the current amount of the guarantee granted). The interest rate on the notional debt at the default on any payment arising from the guarantee shall be based on the WIBOR rate plus Bank's margin. The Agreement does not provide for contractual penalties.
3. On 25 April 2014 PKO Bank Polski SA, within a consortium of banks, concluded a loan agreement with one of the clients of PKO Bank Polski SA (Loan Agreement, Client). The subject of the agreement was granting the Client a current revolving loan in a total amount of up to EUR 2 000 million (i.e. approximately PLN 8 378.6 million, based on the average NBP exchange rate as at 25 April 2014), to be used for refinancing the Client's current revolving loan and for the financing of operations of the Client and Client Group entities. PKO Bank Polski SA's share in the amount of the Loan is EUR 100 million (i.e. PLN 418.9 million, based on the average NBP exchange rate as at 25 April 2014). The final repayment of the Loan shall be made within 5 years from the signing of the Loan Agreement. The total value of the agreements concluded by PKO Bank Polski SA and subsidiaries with the Client and its subsidiaries during last 12 months preceding the date of signing of the Loan Agreement (including the Loan) is PLN 2 642.1 million. The largest exposure of PKO Bank Polski SA towards the Client, which was created within the period of 12 months preceding the day of concluding of the Loan Agreement, is the exposure acquired by PKO Bank Polski SA from Nordea Bank AB (publ) as a part of so-called Swedish loan portfolio as at the date of closing the acquisition of shares of: Nordea Bank Polska S.A., Nordea Polska Towarzystwo Ubezpieczeń na Życie S.A. and Nordea Finance Polska S.A. by PKO Bank Polski SA.

4. On 26 June 2014, pursuant to Art. 385 paragraph 1 of the Commercial Companies Code, the Ordinary General Shareholders' Meeting of PKO Bank Polski SA dismissed from the Bank's Supervisory Board:

- Cezary Banasiński,
- Tomasz Zganiacz,
- Mirosław Czekaj,
- Zofia Dzik,
- Piotr Marczak,
- Elżbieta Mączyńska-Ziemacka,
- Marek Mroczkowski,
- Ryszard Wierzba.

The State Treasury, as the Eligible Shareholder, pursuant to paragraph 11 item 1 of the Bank's Memorandum of Association set the number of members of the Supervisory Board for 9 persons.

The Ordinary General Shareholders' Meeting - convened for 26 June 2014 - pursuant to art. 385 paragraph 1 of the Commercial Companies Code, appointed to the Supervisory Board of the Bank:

- Jerzy Góra,
- Tomasz Zganiacz,
- Mirosława Boryczka,
- Mirosław Czekaj,
- Zofia Dzik,
- Jarosław Klimont,
- Piotr Marczak,
- Elżbieta Mączyńska-Ziemacka,
- Marek Mroczkowski.

Under the adopted resolutions above mentioned persons were appointed for the next term of the Supervisory Board beginning as at the date of the Ordinary General Shareholders' Meeting convened for 26 June 2014.

The State Treasury as the Eligible Shareholder, pursuant to paragraph 12 item 1 of the Bank's Memorandum of Association, appointed:

- Mr. Jerzy Góra for the Chairman of the Bank's Supervisory Board,
- Mr. Tomasz Zganiacz for the Deputy-Chairman of the Bank's Supervisory Board.

#### ***Subsequent events occurring after the reporting period***

1. On 30 July 2014, PKO Bank Polski SA signed an annex with Polimex-Mostostal SA to the agreement on principles of managing the financial debt of the Company dated 21 December 2012 implementing initial terms of the settlement on the third stage of the Company's financial reorganisation. The above mentioned annex has been also signed by the Bank Polska Kasa Opieki SA, Bank Ochrony Środowiska SA, Bank Zachodni WBK SA, Bank Millennium SA and bondholders possessing debt due to bonds issued by the Company in the total nominal value of approx. PLN 120 million.

Key terms of amendments determined in the annex, connected with the third stage of the Company's financial reorganisation comprise i.a.:

- capital contribution – conducting the issue of bonds in the total amount of PLN 140 million designed for Agencja Rozwoju Przemysłu SA ('ARP') or other entities, the part of which shall be bonds convertible to stocks of the Company which allow the ARP to obtain up to 33% of votes at the General Meeting of the Company, taking into account the dilution due to the conversion described below; the convertible bonds shall be converted to stocks of the Company for the issue price of PLN 0.04,
- conversion of liabilities – creditors, who signed the annex, made a commitment to convert the liabilities to which they are entitled into share capital of the Company of the total amount at least PLN 470 million. In order to proceed with the conversion, the Company will issue new stocks for the average issue price of PLN 0.175 for every stock issued as part of the conversion.

The execution of the agreement, including the bonds issue and conversion of liabilities, is dependant on the fulfilment of terms determined in the annex.

The final repayment of the other liabilities of the Company's creditors who are parties to the agreement dated 21 December 2012, not being subject to the conversion, is until 31 December 2019 or by the final redemption date for the bonds (dependent on which of the above mentioned dates will occur earlier).

On 31 July 2014 the Extraordinary General Meeting of Polimex-Mostostal SA adopted a resolution in respect of increasing the share capital of the Company by the amount not higher than PLN 124 million carried out by issue of R series shares (offered in particular to creditors of the Company in order to convert the debt into share capital) and resolution concerning issue of bonds convertible into S series shares in the total nominal value not higher than PLN 85 million.

2. On 31 July 2014 an Extraordinary General Meeting of the company Polski Standard Płatności Sp. z o.o. - a subsidiary of PKO Bank Polski SA was held, during which was passed a resolution to increase the share capital of the company by the amount of PLN 11 355 thousand through the issue of new shares addressed to the banks: Alior Bank SA, Bank Millennium SA, Bank Zachodni WBK SA, ING Bank Śląski SA and mBank SA (each of the banks took over 45 420 shares with a nominal value of PLN 50). Until 20 August 2014 the above mentioned banks have provided statements about taking over the shares and paid the cash for obtaining the shares on Company's account. On 20 August 2014 the application into the National Court Register was filed. After the registration of the share capital increase each of the banks, including PKO Bank Polski SA, will hold the shares constituting 16.67% of the share capital of the Company.

***Declaration of the Management Board of PKO Bank Polski SA***

The Management Board of PKO Bank Polski SA certifies that to the best of its knowledge:

1. the consolidated interim financial statements and the comparative data have been prepared in accordance with the binding accounting and reporting standards present a true and fair view of financial condition and results of the PKO Bank Polski SA Group,
  2. the interim Directors' Report presents a true view of the development and achievements, as well as condition of the PKO Bank Polski SA Group, including a description of basic risks and threats.
  3. on 26 August 2014 the Polish Financial Supervision Authority approved the creation of the PKO Mortgage Bank SA by PKO Bank Polski SA.
- The Management Board of PKO Bank Polski SA certifies that the entity authorised to audit the financial statements and which is performing the review of consolidated interim financial statements, has been elected in compliance with applicable laws. The entity as well as the certified auditor performing the review fulfilled all criteria for providing unbiased and independent audit report in compliance with applicable laws and professional norms.

The Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group Directors' Report for the first half of 2014 consists of 54 sequentially numbered pages.

**Signatures of all Members of the Management Board**

26.08.2014	Zbigniew Jagiełło	President of the Management Board	..... (signature)
26.08.2014	Piotr Alicki	Vice-President of the Management Board	..... (signature)
26.08.2014	Bartosz Drabikowski	Vice-President of the Management Board	..... (signature)
26.08.2014	Piotr Mazur	Vice-President of the Management Board	..... (signature)
26.08.2014	Jarosław Myjak	Vice-President of the Management Board	..... (signature)
26.08.2014	Jacek Obłękowski	Vice-President of the Management Board	..... (signature)
26.08.2014	Jakub Papierski	Vice-President of the Management Board	..... (signature)