Bank Polski

The PKO Bank Polski SA Group Directors' Report for the year 2014

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1. INTRODUCTION

1.1 Characteristics of the PKO Bank Polski SA Group activity

The PKO Bank Polski SA Group (the Bank's Group, the Group) is among the largest financial institutions in Poland and is one of the largest financial groups in Central - Eastern Europe. PKO Bank Polski SA (the Bank), the parent company of the Group, is the largest commercial bank in Poland and a leading bank on the Polish market in terms of scale of operations, equity, loans, deposits, number of clients and the size of the distribution network.

PKO Bank Polski SA is a universal deposit-loan commercial bank offering services to both residents and non-residents retail, corporate and other clients. PKO Bank Polski SA is licensed to hold foreign exchange and currencies and sell/buy them, as well as to perform a full range of foreign exchange services, to open and hold bank accounts abroad and to deposit foreign exchange in these accounts. The Bank stands out on the Polish banking market with high financial results, which ensure stable and safe development of the Bank. PKO Bank Polski SA has a leading share in the Polish banking market at the level of 17.3% (deposits) and 17.9% (loans). The Bank is a leader in the Polish market in terms of the number of current accounts, payment cards and the value of mortgage loans. PKO Bank Polski SA has high creditworthiness ratings, assigned by the rating agencies S&P and Moody's. Both agencies confirmed the high rating of financial credibility of the Bank after the acquisition of Nordea Bank Polska SA. In 2014, the rating agency Standard and Poor's 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'. The agency Moody's Investors Service affirmed long- and short-term credit rating for the Bank's deposits at the level of 'A2' and 'Prime-1' respectively, and the Bank's financial strength rating at the level of 'C-'.

Apart from the strictly banking and brokerage activities, the PKO Bank Polski SA Group offers a range of specialised services relating to leasing, factoring, investment funds, pension funds and life insurance, and provides support services in the field of conducting business, it conducts real estate development and management activities, as well as through its subsidiaries in Ukraine, the Group conducts banking, debt collection and factoring activities.
The Group operates in the Republic of Poland and through its subsidiaries: KREDOBANK SA, 'Inter-Risk Ukraina' Sp. z d.o. (Additional Liability Company), Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., Finansowa Kompania 'Idea Kapitał' Sp. z o.o in Ukraine as well as through its subsidiaries PKO Finance AB and PKO Leasing Sverige AB in Sweden.

During the whole period of activity, the Bank had been consistently developing the prestige of its brand and providing services to many generations of Poles. The long tradition and clients' confidence are the source of an obligation, therefore, The PKO Bank Polski SA Group consistently takes measures in order to consolidate its perception as a group of institutions:

- secure, strong and competitive,
- modern and innovative, client-friendly and efficiently managed,
- socially responsible, concerned about the development of the cultural awareness of Poles.

Despite the keen market competition, the PKO Bank Polski SA Group effectively develops its operations not only in its traditional area of operations – serving retail clients. It became also a leader for corporate clients and small and medium enterprises– especially with regard to financing their operations and also in the market for financial services offered to communes, poviats, voivodeships and State budget sector. It is also the most important organiser of issues of municipal bonds. The high client service standards and effective credit risk assessment procedures enabled the PKO Bank Polski SA Group to increase its gross loan portfolio by 20.0% to the level of PLN 187.5 billion in 2014. With regard to consumer loans, the market share reached 22.9%, whereas the amounts due to customers reached the level of PLN 174.4 billion as at the end of 2014 which enabled the Group to maintain its leading position in respect of share in the deposit market, which amounted to 17.3%.

In 2014, the Group continued its activities concerning the improvement of efficiency of distribution network. As at the end of 2014, the largest network of PKO Bank Polski SA's branches in Poland comprised 1 319 branches (including 133 branches acquired as result of merger) and 1 001 agencies. The Bank's clients can use the systematically enriched electronic banking services offered under the iPKO brand and as a part of Inteligo account and introduced in 2013, new standard for mobile payments – IKO. Customers of PKO Bank Polski SA also have an increasing number of ATMs at their disposal – as at the end of 2014, there were 3 065 ATMs.

The PKO Bank Polski SA Group is one of the largest employers in Poland. As at the end of 2014, the PKO Bank Polski SA Group employed over 29 thousand people. The comprehensive learning and education offer was aimed at building professional and loyal staff providing increasingly higher standard of services to the clients and achieving high work performance.
The activities of the PKO Bank Polski SA's Foundation for the public good in the widest possible range are the expression of the Bank's social responsibility.

The PKO Bank Polski SA group in years 2010-2014

	2014	2013	2012 restated*	2011	2010
Statement of financial position (in PLN million)					
Total assets	248 701	199 231	193 151	190 748	169 661
Equity	27 616	25 154	24 436	22 822	21 360
Loans and advances to customers	179 497	149 623	143 483	141 634	130 668
Amounts due to customers	174 387	151 904	146 194	146 474	132 981
Income statement (in PLN million)					
Net profit	3 254.1	3 229.8	3 739	3 807	3 217
Net interest income	7 523	6 722	8 089	7 609	6 516
Net fee and commission income	2 934	3 006	2 917	3 101	3 143
Result on business activities	11 147	10 707	11 622	11 142	10 198
Net impairment allowance and write-downs	(1 899)	(2 038)	(2 325)	(1 930)	(1 868)
Administrative expenses	(5 245)	(4 623)	(4 683)	(4 411)	(4 249)
Financial indicators					
ROE net	12.4%	13.2%	16.0%	17.5%	14.9%
ROA net	1.4%	1.6%	2.0%	2.1%	2.0%
Interest margin	3.7%	3.7%	4.7%	4.6%	4.4%
Capital adequacy ratio	13.0%	13.6%	12.9%	12.4%	12.5%
C/I	47.1%	43.2%	40.3%	39.6%	41.7%
Number of clients of PKO Bank Polski SA (in thousand)	**8 894**	**8 451**	**8 173**	**8 234**	**8 116**
Retail clients	8 431	8 024	7 761	7 822	7 711
Small and medium enterprises	449	415	401	400	394
Corporate clients	14	12	12	11	12
Operational data					
Number of branches of PKO Bank Polski SA (in number of units)	1 319	1 186	1 198	1 199	1 208
Number of employees (in number of full-time equivalents)	29 032	27 387	28 556	28 924	29 780
Number of current accounts in PKO Bank Polski SA (in thousand of units)	6 660	6 318	6 220	6 146	6 150
Data on shares					
Capitalisation of the stock exchange (in PLN million)	44 700	49 275	46 125	40 150	54 188
Number of shares (in million of units)	1 250	1 250	1 250	1 250	1 250
Share price (in PLN)	35.76	39.42	36.90	32.12	43.35
Dividend per share (in PLN) (paid in the particular year from the profit for the previous year)	0.75	1.80	1.27	1.98	1.90

Source: standalone financial statements for the particular years.
* Data comparable with data for 2013.

1.2 The PKO Bank Polski SA Group – historical background

The PKO Bank Polski SA Group strengthens its position as the leader of Polish banking, offering services to retail as well as institutional customers for 96 years.

1919-1938	1. Pocztowa Kasa Oszczędności was established through a decree signed by the Head of the country Józef Piłsudski, prime minister Ignacy Paderewski and Hubert Linde – founder and the first president. 2. Pocztowa Kasa Oszczędności vested with legal personality as a state institution, operating under the supervision and with guarantee of the State. 3. First local branch of Pocztowa Kasa Oszczędności was founded in Poznań. 4. Pocztowa Kasa Oszczędności started to run School Savings Unions (Szkolne Kasy Oszczędności). 5. With the initiative of Pocztowa Kasa Oszczędności, Treasury Ministry has decided to set up Bank Polska Kasa Opieki (today Pekao SA) as a public company to facilitate the Polish Diaspora the transfer of Polish foreign currencies to the country. 6. Pocztowa Kasa Oszczędności strongly contributed to the development of non-cash transactions - every other larger industrial plant and any large company had a cheque account in Pocztowa Kasa Oszczędności, and cheque turnover in Poland was half as much greater than the cash.
1939-1945	Years of war were time of huge losses and standstill in the activity of Pocztowa Kasa Oszczędności
1949-1988	1. Pocztowa Kasa Oszczędności transformed into Powszechna Kasa Oszczędności. 2. Banking Act introduced privilege of saving deposits held in Powszechna Kasa Oszczędności, they were covered by the State guarantee. 3. Powszechna Kasa Oszczędności introduced a modern product: current account. 4. Powszechna Kasa Oszczędności merged into the structures of the National Bank of Poland (NBP); yet retains its identity (1975). 5. Powszechna Kasa Oszczędności was separated from the National Bank of Poland (1988).
1991-2000	1. The Memorandum of Association granted to Bank by the Council of Ministers included a modified name of Powszechna Kasa Oszczędności - Bank Państwowy (a state bank); PKO Bank Polski SA in the short form. The first Supervisory Board of PKO Bank Polski SA was appointed. 2. The Bank became a sole shareholder of Inbudex Sp. z o.o. (currently Qualia Development Sp. z o.o.) a development company, which implements, through its subsidiaries, specific projects. 3. The first Internet information portal of the Bank and the first e-PKO Internet branch were launched. 4. PKO Towarzystwo Funduszy Inwestycyjnych SA (PKO TFI SA), established by PKO Bank Polski SA and Credit Suisse Asset Management Holding Europe (Luxembourg) SA, started operations. Since 2009 the Bank is the sole shareholder of the Company. 5. PKO BANK POLSKI SA and Bank Handlowy w Warszawie SA established PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA. Since 2003 the Bank is the sole shareholder of the Company. 6. Bankowy Fundusz Leasingowy SA (currently PKO Leasing SA) was established. The Company, together with its subsidiary, provides services of operating and financial leases of non-current assets and properties. 7. PKO BANK POLSKI SA and Bank Śląski SA established Centrum Elektronicznych Usług Płatniczych eService SA. Since 2001 the Bank held 100% of the Company's shares. 8. In 2000 the Bank was transformed into a wholly-owned subsidiary of the State Treasury under the name of PKO Bank Polski Spółka Akcyjna.
2002-2009	1. The Bank took over Inteligo Financial Services SA. The Company provides services ensuring the maintenance and development of IT data transmission systems supporting banking systems, including electronic access to bank accounts (Inteligo account). 2. The Bank purchased 66.65% of KREDOBANK SA shares. The Company is registered and operates in Ukraine. The Bank owns 99.5655% in the Company's share capital. 3. In 2004 Bank's flotation took place - at the end of the first day of quotations, shares reached a price of PLN 24.50 per unit against the issue price fixed at PLN 20.50. 4. PKO BP Faktoring SA started operations. 5. Successful rights issue of 250 000 000 D series shares was conducted within public offering, which resulted in the Bank's share capital increase from PLN 1 000 000 000 to PLN 1 250 000 000 (2009).
2010-2013	1. PKO Bank Polski SA (through its subsidiary PKO Finance AB) issued 5-year Eurobonds with value of EUR 800 million and bonds to the American market in the amount of USD 1.0 billion, which became benchmark securities not only for Polish entities but also for issuers in Central and Eastern Europe. 2. The Bank won a prestigious contract for comprehensive services for the Social Insurance Institution (ZUS), making the Bank one of the key players in the transaction banking market. 3. Strategy for the years 2013-2015 'PKO Bank Polski. Daily the best', which assumptions will help to strengthen the position of the Group as a leader in key market segments was approved. 4. PKO Bank Polski SA set a new standard for mobile payments - IKO - the innovative solution for the mobile payments market. 5. PKO Bank Polski SA has signed with EVO Payments International Acquisition GmbH an agreement for twenty-year strategic alliance in the electronic payment market and therefore sold a significant portion of shares in eService Sp. z o.o. 6. PKO Bank Polski SA has implemented the PKO Junior offer - one of the world's first online banking services for children, which at the same time is a comprehensive financial education programme. 7. PKO Bank Polski SA has signed with Nordea Bank AB an agreement concerning the acquisition of entities: Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA, Nordea Finance Polska SA and the corporate loan portfolio serviced directly by the seller.
2014	1. PKO Bank Polski SA acquired the shares of Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA and Nordea Finance Polska SA, as well as a portfolio of receivables due to corporate clients. In October there was the legal merger of the banks. 2. PKO Bank Hipoteczny was established, which will offer long-term mortgage loans to retail customers and will issue mortgage bonds after obtaining permission from the Polish Financial Supervision Authority. 3. Expansion into foreign markets through actions aimed to establishment the first foreign corporate branch of PKO Bank Polski SA in Frankfurt am Main. 4. PKO Bank Polski SA joined the initiative 'Karta Dużej Rodziny', whose owners may enjoy the PKO Bank Polski SA's services on preferential terms. 5. The Bank launched 'Wirtualny Oddział' (the Virtual Branch), whose goal is providing opportunities to sell products and operating service without the need of visiting a branch.

1.3 The PKO Bank Polski SA Group – the main events of 2014

The economic growth rate in Poland in 2014 remained stable, despite the weakening of the economic activity in the Eurozone and unfavourable geopolitical situation. Increase in domestic demand supported by an improving situation on labour market and deflation as well as increasing an actual purchasing power of households, had positive influence on Polish economy. Given the faster GDP growth rate in 2014, the increase in the employment rate as well as wages and salaries in the corporate sector was recorded. Additionally, in 2014 the historically low interest rates influenced the banks' financial results.

The PKO Bank Polski SA Group activities in 2014 were focused on works related to finalising the transaction of acquisition of the Nordea Group's assets, the legal merger with Nordea Bank Polska SA and preparing operational merger of both banks. At the same time, the Group ensured core business activities, the growth of assets profitability and continued activities aimed at optimising of operating costs.

Purchase of assets from the Nordea Group is one of the most important elements of the realisation of PKO Bank Polski SA's strategy for the years 2013-2015, it is also the result of a change in approach to the development of the activities of PKO Bank Polski SA. After the years of organic growth which consolidated the Bank's position as the leader of the domestic banking sector, mergers and acquisitions constitute a natural, next stage in the Bank's development. It is the Bank's response to the dynamic market situation, the need to protect its market position and the profitability of its operations, especially in the current strict legal regulations and environment of low interest rates. At the same time, the measures taken by the Bank are consistently aimed at meeting the growing needs of its customers who expect to receive top quality services, a product offer tailored to their needs, and modern, suitable technological solutions.

Within the transaction finalised in April 2014, the Group expanded by purchased assets: Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA (currently PKO Życie Towarzystwo Ubezpieczeń SA) and a lease and factoring company, Nordea Finance Polska SA, which was merged with PKO Leasing SA.
Execution of the transaction of the assets acquisition significantly improved the Group's position in the segment of affluent retail customers, enhanced its competencies in the corporate banking segment and broadened the offer in the area of bancassurance.

Calendar of acquisition of the Nordea Group entities

June 2013	1. Conclusion of an agreement with Nordea Bank AB (publ), defining the terms of the realisation of the transaction of acquisition of Nordea Bank Polska SA and Nordea Polska Towarzystwo Ubezpieczeń na Życie SA and Nordea Finance Polska SA as well as receivables portfolio granted to corporate customers.
September 2013	2. The consent of the Ukrainian Antimonopoly Committee to take control over the companies that are the subject of the transaction.
October 2013	3. The consent of the President of the Competition and Consumer Protection Office for the concentration involving the taking control over the companies that are the subject of the transaction by PKO Bank Polski SA.
March 2014	4. The consent of the Polish Financial Supervision Authority for the acquisition of shares of Nordea Bank Polska SA by PKO Bank Polski SA.
April 2014	5. Formal acquisition of shares of the Nordea Group entities.
May 2014	6. Nordea Polska Towarzystwo Ubezpieczeń na Życie SA changed the name to PKO Życie Towarzystwo Ubezpieczeń SA
June 2014	7. Nordea Finance Polska SA changed the name to PKO Leasing Pro SA.
September 2014	8. The Polish Financial Supervision Authority issued a consent for the merger of PKO Bank Polski SA and Nordea Bank Polska SA.
	9. PKO Leasing Pro SA merger with PKO Leasing SA
October 2014	10. The legal merger, which ended the formal integration stage of two banks.
First half of 2015	11. Planned date of the operational merger of banks.

The first stage of the integration ended on 31 October 2014 with the legal merger of Nordea Bank Polska SA with the parent company of the Group, PKO Bank Polski SA. Upon the legal merger, Nordea Bank Polska SA ceased to function as a separate entity, and PKO Bank Polski SA became a party to all agreements concluded by this bank with its customers. The Nordea Bank Polska SA brand was withdrawn and replaced with the PKO Bank Polski SA brand.

The second stage of the integration covers the period from the legal merger to the completion of the operational merger. During this period the operations of two banks will be gradually unified, i.a. with regard to access to the branches and transaction systems for all customers, regardless of which bank's customers they were before the commencement of the integration process. The completion of these activities is scheduled for the first half of 2015.

Apart from the acquisition of the assets of Nordea, the essential elements of the strategy being implemented, which strengthen competitive advantages and give a strong base for the long-term development of PKO Bank Polski SA as the banking leader in Poland and Central Europe, include the establishment of PKO Bank Hipoteczny SA and expansion into the foreign markets.
In August 2014 PKO Bank Polski SA obtained the Polish Financial Supervision Authority's consent to establish a mortgage bank. It is assumed that PKO Bank Hipoteczny SA will begin making sales in the retail network of PKO Bank Polski SA as well as through agents and intermediaries in the first quarter of 2015, after gaining the Polish Financial Supervision Authority's consent to commence operating activities. PKO Bank Hipoteczny SA will offer long-term mortgage loans to retail customers and issue long-term mortgage bonds.

Building the Bank's strategic position for the coming years also resulted in taking measures which will lead to launching the operations of its first foreign branch in 2015 – a corporate branch of PKO Bank Polski SA in Germany. Selecting the direction of the first stage of the foreign expansion is integrally associated with the high activity of the Bank's institutional clients on the German market, the scale of the mutual trade, and the investment projects carried out. The registered office of the branch which will operate under the name of PKO Bank Polski Niederlassung Deutschland will be in Frankfurt am Main. The services offered at this branch will comprise: transaction banking products, Treasury products, trade finance, consulting services relating to foreign markets, and foreign loans.

Actions undertaken by the PKO Bank Polski SA Group in 2014 made it possible to achieve high financial results, and thanks to the acquisition of the Nordea Group's assets, it strengthened its position among the largest financial institutions in Poland.

	2014		2013		Change 2014/2013
Net profit	3 254.1	PLN million	3 229.8	PLN million	0.8%
Result on business activities*	11 146.6	PLN million	10 706.9	PLN million	4.1%
Net interest income	7 522.9	PLN million	6 722.0	PLN million	11.9%
Net fee and commission income	2 933.5	PLN million	3 005.8	PLN million	-2.4%
Administrative expenses	(5 245.1)	PLN million	(4 622.5)	PLN million	13.5%
Net impairment allowance and write-downs	(1 898.7)	PLN million	(2 037.9)	PLN million	-6.8%
C/I	47.1%		43.2%		3.9 pp.
ROE net	12.4%		13.2%		-0.8 pp.
ROA net	1.4%		1.6%		-0.2 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 2014 amounted to PLN 3 254.1 million, which represents an increase of 0.8%, i.e. by PLN 24.3 million comparing to the previous year profit. The achieved level of net profit was determined by:

1) result on business activities of the PKO Bank Polski SA Group, which reached the level of PLN 11 146.6 million (+4.1% y/y), mainly due to:

- an increase in net interest income by 11.9% y/y, due to the optimisation of maintenance costs of deposit base, along with the further reduction in market interest rates,
- a stabilisation of net fee and commission income (a decrease of 2.4% y/y), realised under the pressure of regulatory restrictions in respect of fees for payment services,
- an increase in gains less losses from investment securities (2.2x y/y), due to the realisation of positive valuation of securities held by the Bank, in connection with a decrease of the yield on Polish bonds,

2) a decrease in net other operating income and expense (by 63.5% y/y)- due to a high reference base from 2013, when a part of shares in Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o was sold,
3) an increase of administrative expenses, being under the pressure of additional expenses incurred in connection with the merger of Nordea Bank Polska SA and the extension of the Group of new companies, along with maintaining cost discipline related to on-going operations. This resulted in high cost management effectiveness, the C/I ratio amounted to 47.1%,
4) net impairment allowance and write-downs, which improved by PLN 139.2 million than achieved in 2013, mainly due to lower impairment allowances on consumer and corporate loans.

Secure and effective structure of the statement of financial position of the PKO Banko Polski SA Group, characterised by strong deposit base and a high level of equity, enabled the further growth of business activities through stable organic growth and acquisitions as a natural next stage of the Bank's development. Despite the acquisition of significant loans portfolio, the loan to deposit ratio (amounts due to customers) as at the end of 2014 amounted to 102.9% (the ratio of loans to stable sources of funding[1] amounted to 86.4%), which proves the good condition of liquidity of the PKO Bank Polski SA Group.

As a result of actions taken in 2014 the PKO Bank Polski SA Group:

- increased total assets by nearly 1/4, including portfolio of amounts due from customers by 1/5,
- increased a share of loans and deposits market to the level of 17.9% and 17.3%, respectively,
- significantly improved the quality of the loan portfolio, measured by a ratio of impaired loans and coverage ratio of allowances.
- as a result of the acquisition of the company from the insurance industry, the Group expanded its insurance and investment products offer to customers,

and a parent company of the Group, PKO Bank Polski SA increased the number of clients by 442.9 thousand, mainly in a retail clients segment and increased a sales network by new 131 retail branches and 2 new private banking offices.

1.4 Directions of development of the PKO Bank Polski SA Group

The long-term goal of the PKO Bank Polski SA Group is to strengthen its position in the Polish market as the foundation for further growth, combined with the expansion into foreign markets, where the Bank intends to support the development of its key corporate clients.
The Bank will consistently undertake actions to strengthen its leader position in all major segments of the financial market in Poland, while strengthening the high value of its brand in the Polish banking sector. Undertaking development activities aims at strengthening the position of the Bank, also as a leading universal bank in Central Europe.

Strategy for 2013 – 2015

The development directions of PKO Bank Polski SA are set out in the new strategy for the years 2013-2015, 'PKO Bank Polski. Daily the best', 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 financial sector leader position in Poland and a leading universal bank in Central Europe should be maintained. At the same time, while ensuring:

- efficiency, building sustainable values and conducting a stable dividend policy for the shareholders,

[1] *Stable sources of financing include amounts due to customers (including funds from the issue of Eurobonds) and external financing in the form of: subordinated liabilities, issue of own debt securities and amounts due to financial institutions.*

- 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 brand 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 the Bank's development vision is supported by the long-term strategic levers which are a part of the strategy, such as:

- Customer satisfaction - using the whole potential of the Bank's largest customer base through a segment-tailored product offer;
- Distribution excellence – increasing effectiveness and the quality of customer service in the biggest network of locations and the development of remote channels;
- Innovation and technology – increasing the competitiveness of products and services, enhancing customer relations and diversification of revenues through improving technologies and implementing innovation;
- Organisational effectiveness – maintaining competitiveness by introducing intelligent management information, optimising risk management and maintaining cost discipline;
- Development of competencies – strengthening the organisational culture based on common values and human capital, aimed at cooperation, commitment and skills development;
- 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:

1) Strategic levers in Retail Banking:

- Customer-centric approach (using the information about the customer to provide a better service),
- Distribution excellence (improved distribution effectiveness, network modernisation and optimisation, development of direct channels, improvement in selling skills and sales effectiveness),
- Innovation and diversification of revenues (implementation of the innovation portfolio management model and development of non-interest income streams),

2) Strategic levers in Corporate and Investment Banking:

- 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),
- Transaction banking (development of mass payment solutions, extending the product offer, improving customer service quality and improving of processes),

3) Strategic levers in Investment Banking:

- Integrated sales model - capital markets and structured financing (implementing the cross-selling model and developing investment products),
- Optimisation of assets and equity and liabilities management (safe and effective management of the Bank's liquidity, improving the interest rate risk management, developing long-term financing, developing the Group),

4) Strategic levers of Supporting Areas:

- 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),
- Advanced, efficient and safe technologies and efficient operating processes (IT solutions supporting 'business' in the development of new products, creating conditions for the further, safe development of the Bank's business activities),
- 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),
- 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:

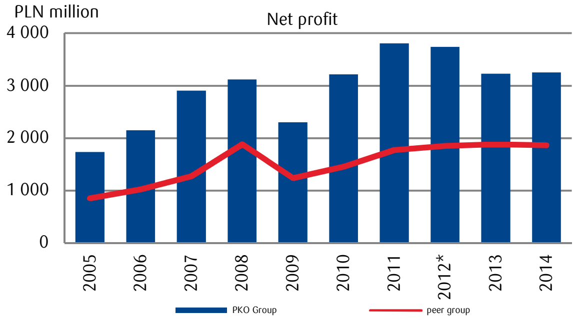
- domestic acquisitions, offering an opportunity to achieve synergies and strengthening the position on the domestic market in the period of slow-down of the market growth,
- international acquisitions, associated with seeking growth on faster-growing markets and the opportunities to use the Bank's international experience and competencies.

As part of the development strategy of PKO Bank Polski SA an integrated model of the Group is developed. The Bank's subsidiaries, acting as product centres, supplement the basic offer of the Bank's financial services in respect to leasing, factoring, investment and pension funds, and life insurance from April 2014.

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

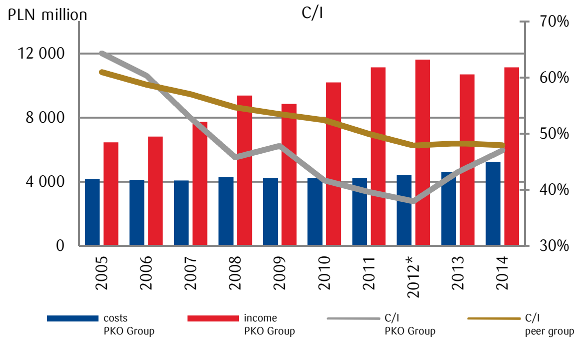
- optimisation of operational links within the Group by integration of selected companies with the Bank or the other Group entities – transfer of activities and centralisation of support functions,
- sale of assets which are not associated with the Bank's core activity,
- ensuring security and careful development of KREDOBANK SA focused on providing services to retail customers and small and medium enterprises operating mainly in western Ukraine and in Kiev,
- 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.

1.5 The PKO Bank Polski SA Group against its peer group[2]

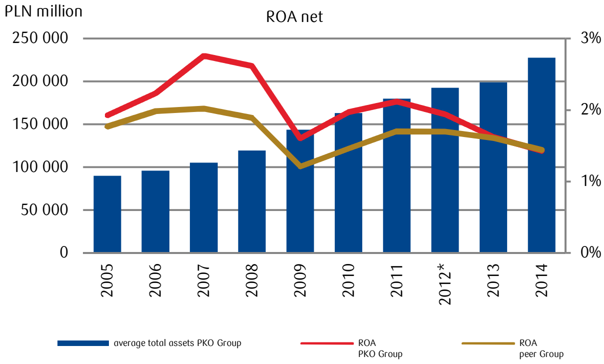


Improvement of economic growth rate and record low interest rates in 2014 were reflected in the increase in financial results of banks. In 2014, the PKO Bank Polski SA Group achieved high financial results, continuing the trend from previous periods.

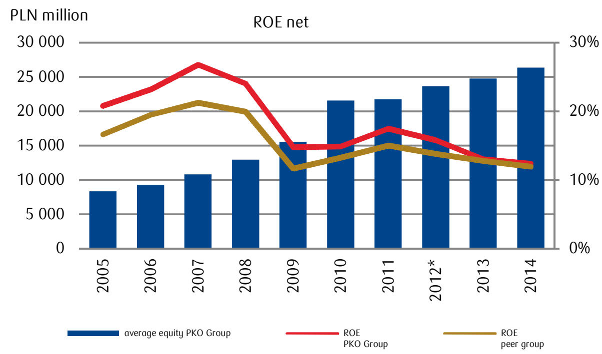
** Restated data.*



In 2014, Polish banking sector maintained strict cost control over administrative expenses. In 2014, despite the additional costs related to the integration of new companies the PKO Bank Polski SA Group maintained the relation of costs to income at a low level – lower than the value realised by the peer group.

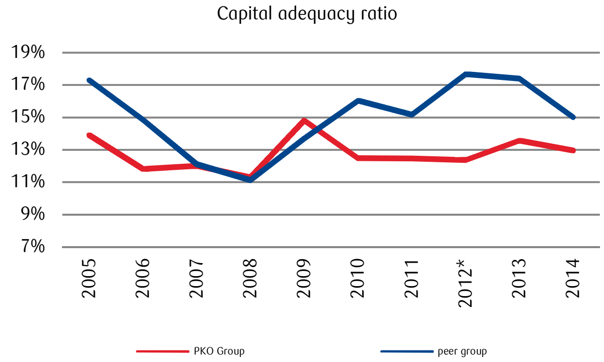


In 2014, financial results of the banking sector were influenced by low interest rates, higher credit risk costs, accompanied by positive influence of cost discipline.
At the same time, the policy of the PKO Bank Polski SA Group contributed to maintain a high return on assets.



The macroeconomic situation in 2014 contributed to increase in financial results, along with strengthening banks' capital base, which led to the stabilisation of the annualised return rates on equity. In 2014, the PKO Bank Polski SA Group maintained high profitability.

[2] *Peer group includes the following Groups: Pekao SA, mBank SA (BRE Bank SA), ING Bank Śląski SA, BZ WBK SA. Ratio calculations are based on the data available in consolidated annual and quarterly reports of the particular banks. All data is weighted by total assets.*



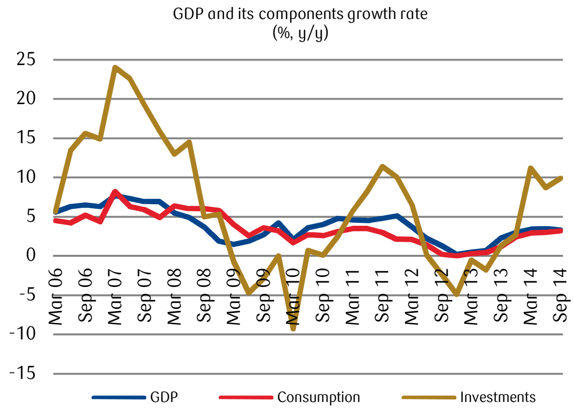
The capital situation of the banking sector in 2014 remained stable and as a result, capital adequacy ratio remained on a high level in the whole sector.
As at 31 December 2014 capital adequacy ratio was calculated based on the provisions of the CRR Regulation. In 2014 the PKO Bank Polski SA Group increased a capital base by way of the accumulation of a part of profit of PKO Bank Polski SA for 2013 and including a part of profit achieved by the Bank in the first half of 2014 to own funds.
Undertaken actions allowed to strengthen a capital position of the PKO Bank Polski SA Group compared to its peer group.

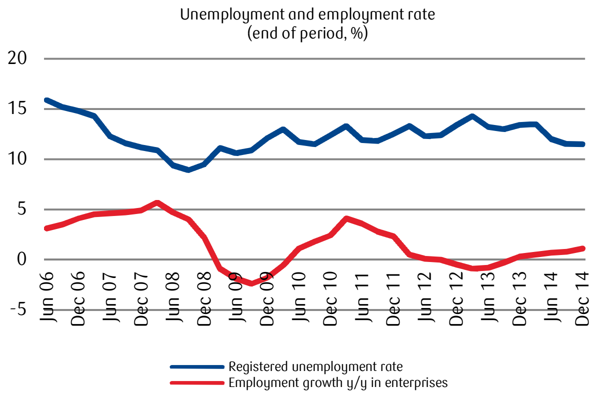
2. EXTERNAL BUSINESS ENVIRONMENT

2.1 Macroeconomic environment

The growth rate remained stable throughout 2014 and amounted to 3.3% y/y in spite of unfavourable developments in the external environment. Apart from the level of economic activity in the euro area deteriorating again, the Polish economy was adversely affected by the deteriorating geopolitical situation: the escalation of the Russian-Ukrainian conflict (the significant deterioration in the economic situation in Russia and Ukraine as well as sanctions and restrictions in trade between Russia and the EU) reduced the GDP growth rate by approx. 0.6-0.8 pp. in 2014. A strong drop in oil prices was a buffer alleviating the negative impact of the deterioration of conditions in the external environment. Thanks to this domestic demand remained on the path of strong recovery. The consumption growth rate accelerated from quarter to quarter, accompanied by an improvement in the situation on the labour market and deflation increasing the real purchasing power of households. The strong investment demand at the beginning of the year was backed by favourable weather conditions and changes to the applicable laws, whereas in the second half of the year the expansion/modernisation of the production potential in the automotive and power industries created favourable conditions for maintaining a nearly ten per cent growth rate of investments. The investment projects currently implemented in these sectors are less sensitive to changes in business activities (a lower correlation with the business cycle), which offers additional support for domestic demand and makes it more resistant to any turbulence abroad.

Given the accelerated GDP growth rate in 2014, the increase in the employment rate in the corporate sector by 0.6% y/y, compared with the decrease by 1.0% in 2013 was recorded, along with reducing the registered unemployment rate by 1.9 pp. per annum to 11.5% at the end of 2014 (preliminary data of the Ministry of Labour). The increase in wages and salaries in the corporate sector accelerated to 3.7% in 2014 from 2.9% in 2013.





In 2014, the average annual CPI inflation rate, measured with the consumer price index, dropped to 0.0% y/y from 0.9% y/y in 2013. The downward trend was particularly strong in the second and fourth quarters of 2014, in the first case due to a supply shock on the food market and, at the end of the year, due to a slump in global oil prices and the delayed effects of the Russian embargo on food (imposed in July in response to the EU's sanctions against Russia). The price growth rate dropped below zero in July, and then deflation deepened only to reach -1.0% y/y in December. The deflationary tendencies in 2014 did not have a negative effect on the Polish economy thanks to, i.a. a low level of indebtedness of the public and private sectors.

In accordance with the 'Monetary Policy Guidelines for 2014', the objective for Monetary Policy Council (MPC) was to maintain inflation at the level of 2.5% with a fluctuation range of +/- 1 pp., but the President of the NBP pointed out that in the face of non-monetary nature of the drop in prices, the impact of the MPC decision on inflation remains limited. Next to the GDP growth excessing 3% y/y it was the main reason why the Council has not eased monetary policy despite the systematic decline in inflation. In October it decided only on one action, when it came to decline in interest rates, limiting range of interest rates. The deposit rate was left unchanged (at the level of 1.00%), the reference rate was reduced by -50 b.p. (to 2.00%), and Lombard rate by -100 b.p. (to 3.00%). Deeper Lombard rate reduction resulted in a significant limitation of the maximum interest rate on loans, which is determined by 4 times the Lombard rate.

2.2 Stock market

The year 2014 was a good year from the perspective of the Polish economy, which, however, did not translate into the stock market. The WIG index increased by a token 0.3% in spite of companies' profits going up by 12-13% (the final data for 2014 has not been published yet). The main reasons for the poor situation on the stock exchange were unfavourable tendencies observed in the financial sector (low interest rates, regulatory changes, announced higher annual fee to the Bank Guarantee Fund (BFG)) and the raw materials and power sector (low prices of coal, copper and electric energy, uncertainty as to the shape of the consolidation of the sector), which make up nearly 2/3 of the index. The situation on the Warsaw Stock Exchange was also affected by the fact that the previous year was a fairy difficult for the emerging markets. In January, the U.S. central bank began discontinuing the asset purchase programme, which increased concern about the availability and cost of financing on the international markets, on which most developing countries are dependent to. China experienced a slow-down, trying to reform its economy due to poor external demand. The escalation of the conflict in Ukraine was a negative surprise. A rapid drop in oil prices, to the advantage of oil importing countries (i.a. Poland), was a very significant factor.

2.3 Foreign exchange market

In 2014, the main factors which determined changes on the foreign exchange market were as follows:

- the gradual extinction of the quantitative expansion of the U.S. central bank (the Fed) in conjunction with signals regarding the prospects of increasing interest rates,
- the ECB easing its monetary policy: conventionally (reductions in interest rates) and unconventionally (quantitative expansion),
- the deflationary pressure and reductions in the basic interest rate in Poland from 2.50% to 2.0%,
- the economic slow-down on the emerging markets and the conflict in Ukraine.

In 2014, the exchange rate of the euro against the dollar was determined first of all by the growing divergence of the monetary policies in the euro area and the USA. The easing of the monetary policy in the euro area and the gradual discontinuation of the quantitative expansion in the USA along with the rising expectations for interest rate increases in that country caused a strong depreciation of the exchange rate of the euro against the dollar which decreased from approx. 1.37 as at the end of 2013 to approx. 1.23 as at the end of 2014.
In the case of the exchange rates of the Polish zloty, the year 2014 began with a rapid depreciation of the Polish zloty due to the concern of the global financial markets about the effects of the gradual reduction in the quantitative expansion by the Fed for the emerging markets. However, this concern was quickly dispelled, which resulted in the gradual appreciation of the Polish zloty which lasted up until mid-2014, being periodically interrupted only in March and April by such events as the annexation of Crimea by Russia and the commencement of hostilities in eastern Ukraine. Since mid-2014 in step with the growing desinflationary pressure in Poland, which resulted in increased expectations for a reduction in interest rates, the gradual deterioration of the economic situation in China and in close proximity of Poland (Ukraine, Russia), as well as the rising expectations for interest rate increases in the USA, the Polish zloty entered a path of gradual depreciation which lasted up until the end of 2014. At the end of the year, the EUR/PLN exchange rate amounted to approx. 4.29 (up from approx. 4.15 at the beginning of the year), and the CHF/PLN exchange rate amounted to approx. 3.56 (up from approx. 3.38 at the beginning of the year).

2.4 Interest rate market

The year 2014 was characterised by high increases in the prices of Treasury bonds and, consequently, drops in their yield. The main reason was a strong disinflationary trend driven largely by drops in the prices of raw materials, which led to a drop in the annual inflation growth rate below zero in the second half of 2014. The bull market in bonds began in January and lasted almost uninterruptedly until the end of October 2014. This trend was stopped when, a month after a 50-point cut and the announcement of further reductions in interest rates, the Monetary Policy Council (RPP – Rada Polityki Pieniężnej – 'MPC') unexpectedly refrained from easing the monetary policy. The return to decreases in yield took place in December in response to strong drops in oil prices and suggestions of the European Central Bank concerning the launch of a new quantitative easing programme at the beginning of 2015. Throughout the year the yield on 2-year Polish bonds dropped from 3.05% to 1.79%, the yield on 5 year bonds fell from 3.64% to 2.14%, whereas the yield on 10-year bonds dropped from 4.35% to 2.52%.

2.5 The situation in the Polish banking sector

In 2014, the banking sector generated the highest net profit in its history, which amounted to PLN 16.2 billion and was 7% higher than in 2013. This result was achieved at a time of faster economic growth and, at the same time, record low interest rates and strong changes in the regulatory environment. The improvement in the financial results of the banking sector in 2014 was mainly the result of the following:

- an increase in the result on banking activities (+3% y/y), including net interest income (+7.1% y/y),
- maintaining the control of administrative expenses (-0.9% y/y).

Net impairment allowance, which was 5.6% higher than in 2013, had a negative impact on the financial results of the banking sector.

As at the end of 2014, the impaired receivables increased by 0.8% y/y, which was due to an increase in the value of non-performing housing loans (+4.3% y/y), an increase in the value of non-performing loans granted to enterprises (+4.2% y/y), and a drop in the value of non-performing consumer loans (-9.4% y/y). In spite of this, with growth in lending activity, the quality of the loan portfolio improved. In 2014, the share of the impaired receivables in total receivables dropped by 0.4 pp. to 8.1%; the ratio of non-performing loans to total loans granted to enterprises dropped to 11.2%, for consumer loans it dropped to 12.7%, and for housing loans it remained at 3.1%.

As at the end of 2014, the banking sector's total assets increased to PLN 1 532 billion (+9% y/y). The banking market was characterised by a high growth rate of deposits and a lower growth rate of loans. Thus, the gap between loans and deposits decreased to PLN 37 billion (by PLN 16 billion y/y), as a result of which the loans to deposits ratio improved to 103.8% compared with 106% as at the end of 2013.
In 2014, the total balance of loans increased by PLN 66.7 billion (7.1% y/y). The change in the volume of loans was adversely affected by the depreciation of the Polish currency (increases in the exchange rates: PLN/USD of 16.4% y/y, PLN/CHF of 4.8% and PLN/EUR of 2.8%) – after an adjustment for changes in the exchange rates, the increase in the value of loans was smaller.

In 2014, the growth of lending activity was recorded in all main market segments. The loans granted to enterprises recorded the highest increase in three years: PLN 19.9 billion (however, approx. 1/3 of this growth was the effect of the depreciation of the Polish currency). Loans to small and medium enterprises represented approximately 51% of the increase in the value of loans granted to enterprises. The recovery of lending activity in the enterprise segment was backed by the increased investment activity of companies, the easing of lending policies by banks, and the government programme titled 'Portfolio de Minimis Guarantee Facility'. The demand for loans in this segment was still limited by the continued evaluation of the economic situation.

In 2014, the housing loans market grew steadily; the increase in loans in this segment was PLN 19.6 billion (5.8% y/y) higher than in 2013, with approx. 20% being the effect of the depreciation of the Polish currency. The growth of lending activity on the housing loans market was backed by low interest rates, the stabilisation of prices on the housing market, as well as the '*Mieszkanie dla Młodych*' programme.

In 2014, a further increase in the value of consumer loans was recorded; the growth amounting to PLN 6 billion (4.5% y/y) was twice as high as in 2013. The situation in this segment was significantly affected by the easing of lending policies by banks as a result of, i.a. an improvement in the quality of the loan portfolio, rising consumption, and a reduction in interest rates on the loans (as a result of a reduction in the Lombard rate of 1 pp. to 3%, three times of which constitutes the maximum interest rate on consumer loans).

In 2014, in spite of the low interest rate levels, the deposit market grew dynamically. The increase recorded in total deposits was nearly twice as high as in 2013 (PLN 82.8 billion). This situation was due to the improving situation on the labour market, the improving financial position of enterprises and, on the other hand, a prolonged adjustment on the stock market at the WSE which backed the aversion to taking risk with regards to investing surplus funds. The main source of the growth in deposits were the deposits of households which increased by PLN 56.7 billion (10.5% y/y); the deposits of enterprises increased by PLN 19.7 billion (9.1% y/y), and the deposits of government and local government institutions increased by PLN 5 billion (8.7% y/y).

2.6 The situation of the Polish non-banking sector

Investment fund sector

In 2014, a slow-down was recorded on the domestic investment fund market compared with 2013. The increase in the assets of investment funds in 2014 was approx. 51% lower than in 2013, and the net inflows of new funds were approx. 60% lower than in 2013.
This was influenced by a smaller appetite for risk on the part of investors under the conditions of the weak situation on the WSE (an increase in the WIG index y/y of 0.3% y/y compared with an increase of 8.1% in 2013), the drop in profitability on the debt market, and the historically low level of the basic interest rates.
In 2014, the assets of the domestic investment funds increased by approx. PLN 21.1 billion (+11.2% y/y) to PLN 208.9 billion compared with an increase of PLN 41.6 billion (+28.4%) in 2013. This was the result of the positive balance of new funds inflow (PLN 12.6 billion) accompanied by a decrease in valuation (approx. PLN 6.1 billion). In 2014, the net inflow of new funds was approx. 2.5-times lower than in 2013.
In 2014, the strongest net inflow was recorded by cash and money funds as well as debt funds regarded as being the safest.
Net outflow was recorded by the domestic shares funds.
The weakening of situation on the investment fund market in 2014 caused that fund units have been a weaker competition for retail deposits than in 2013, which affected the structure of household savings. In 2014 the investment fund market received the net inflow of individuals' funds in the amount by 30% lower than in 2013. The downturn on the investment funds market affected non-interest income of banks participating in distribution of the investment fund's units.

Open pension fund market

In 2014, the situation on the open pension fund market (OPF) was significantly influenced by regulatory changes concerning the principles for the payment of pensions out of the funds accumulated in OPFs, including those relating to the obligatory transfer of 51.5% of the open pension funds' assets to the Social Insurance Institution (ZUS) in February 2014, a reduction in the contributions transferred by ZUS to OPFs from 3.1% to 2.92% of an insured person's gross remuneration, a ban on investing funds in Treasury bonds, and setting new investment limits. The results of investment policy for OPFs were affected by the weak situation on the WSE (the WIG index increased of 0.3% y/y compared with an increase of 8.1% y/y in 2013). The development of the OPF market was positively influenced by the improvement in the situation on the labour market (a drop in unemployment and an increase in disposable household income).
In 2014, OPFs' assets decreased by more than one half (-PLN 150.2 billion compared with an increase of 10.5% y/y in 2013) and as at the end of 2014, amounted to PLN 149.1 billion.
The increase in the number of OPFs' members recorded in 2014 was slower than in 2013 (+244 thousand persons compared with +471 thousand persons in 2013). As at the end of 2014, the number of OPSs' members was 16.6 million.

The lease market

In 2014, there was more dynamic growth on the lease market than in 2013. The value of assets financed by lease firms increased in 2014 by 21.3% y/y to PLN 42.8 billion (compared with an increase of 13% in 2013).
Leasing of vehicles had the greatest positive effect on the lease market development (an increase in financed value of assets of 27.7% y/y to PLN 26.5 billion). Significant growth was also recorded in leasing of machinery and equipment (17.7% y/y to PLN 13.5 billion). The structure of the market was still dominated by leasing of movable properties constituting 97.1% (as at the end of 2013 – 95.4%).
In 2014 leasing market operated in an improvement of economic situation, including strong investment demand and tax changes, including the write-off of VAT from buying cars with heavy truck type-approval.

The factoring market

In 2014, the factoring market grew slightly more dynamic than in 2013. The turnover of factoring firms in 2014 increased by approx. 17% y/y compared to the growth by about 16% in 2013.
In 2014 the factoring sector has recorded an increase in demand for services. The number of customers increased by 15.9% y/y and the number of debtors of the factoring firms that belong to the Polish Factors Association increased by 19.5% y/y.

2.7 The Ukrainian market

The recession in Ukraine deepened in the consecutive months of 2014 as the conflict with Russia in the eastern part of the country exacerbated. In the first quarter of 2014, the GDP growth rate amounted to -1.1% y/y and then dropped to -4.7% y/y in the second quarter and to -12.5% y/y in the third quarter of 2014. The areas around Donetsk and Luhansk, which are a war zone, were one of the most important industrial districts in Ukraine, accounting for a total of approx. 15% of its GDP. Throughout 2014 the Ukrainian economy may have shrunk by as much as -8.2% (according to an IMF forecast). It is also expected that GDP will drop further in 2015 (-2.3% according to the IMF, -4.3% in the budget

assumptions). The inflation rate, measured with the consumer price index, amounted to 21.8% y/y in November, and the foreign exchange reserves dropped below USD 10 billion. The further functioning of the state is closely dependent on the provision of international aid – in the first quarter of 2015, the IMF is to disburse two more tranches of financing which will total to USD 4.8 billion. In spite of this, it is already known that the aid programme will almost certainly have to be expanded so as to save Ukraine from default.
In accordance with the data of the NBU, the number of banks operating in Ukraine decreased in 2014 (the last available data on 1 December 2014) from 180 to 165. Bankruptcy proceedings are pending against 28 banks. In banking sector of Ukraine the trend of outflow of foreign capital initiated in 2013 is continued – from the beginning of the year its share decreased from 34.0% to 32.2%.
In 2014, the value of total assets in the Ukrainian banking sector had been increasing and amounted to UAH 1 317 billion as at the beginning of December (an increase of UAH 39 billion compared with the end of 2013). The increase in the value of assets was due to an increase in the value of the loan portfolio which amounted to UAH 134.6 billion (+14.7%) till the end of November 2014. The increase in the loan portfolio was mainly the result of an increase in the indebtedness of enterprises (financial enterprises of +14.7%, non-financial enterprises of +11.2%) of UAH 80.4 billion till the end of November 2014 compared with December 2013 and foreign exchange effects (an increase in the USD loan portfolio of UAH 30.1 billion, +46.6%). During the same period the amounts due of the household sector to banks increased by UAH 18.1 billion (+9.3%). As at the end of November 2014, the total value of the loan portfolio in the Ukrainian banking sector amounted to UAH 1 047.8 billion, of which UAH 1 008.2 billion represented loans to residents. The largest increase in loans occurred in the 1-5 years segment (+24.8%), and a slightly smaller one – in the long-term loan segment (+22.6%). The short-term loan portfolio (of less than one year) shrank by 4.4%.
In 2014, the deposit base of the banking sector in Ukraine increased by merely UAH 0.2 billion (to UAH 701.8 billion as at the end of November). Household deposits dropped by UAH 51.8 billion by November (a drop of -20.2% to UAH 206.0 billion). However, a serious increase was recorded in deposits from non-financial enterprises (+UAH 12.8 billion, +6.8%) and financial enterprises (+UAH 2.6 billion, +10.5%). The amount of deposits from residents in the domestic currency dropped by UAH 60.2 billion (-14.6%), and the strong drop in the deposit base was stopped by an increase in deposits denominated in foreign currencies of UAH 54.5 billion (+22.4%). A move away from deposits in UAH was due to the strong depreciation of the domestic currency – throughout 2014 it depreciated by 47.9% against USD.
The strong depreciation of the hryvnia contributed to the strong deterioration of the loans to deposits ratio, which amounted to 149% in November 2014 (compared with 131% a year before). The share of foreign currency receivables in the loan portfolio increased to 46% (compared with 34% as at the end of November 2013).

2.8 Regulatory environment

In 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 2014 was affected i.a. by the following:

- 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, being in force to 8 October 2014 (including: a decrease of the reference rate to 2.5% and the lombard loan rate to 4.0%) and Resolution of the Monetary Policy Council No. 6/2014 (Official Journal of the NBP of 2014 item 211) introducing further unbalanced reduction of the basic interest rates from 9 October 2014 (including: a decrease of the reference rate by 0.5 pp. to 2% and the lombard loan rate by 1 pp. to 3%), which was conductive on the level of banks' interest income,
- Resolutions of the Monetary Policy Council No. 15/2013 and 7/2014 (Official Journal of the NBP of 2013 item 20 and of 2014 item 12) changing the calculation principles of mandatory reserve rates (impact on the level of banks' interest income)
- Amendment to the Act on the Bank Guarantee Fund (Journal of Laws of 2013 item 1012) introducing additional charges for banks in the form of a prudential fee towards the stabilisation fund (impact on banks' operating costs),
- Resolution of the PFSA No. 148/2013 on Recommendation S concerning mortgage-secured loan exposures (Official Journal of the PFSA of 2013 item 23), introducing from 1 January 2014 and from 1 July 2014 restrictions in scope of credit risk management and additional requirements for borrowers (impact on the level of lending activity and risk management),
- 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),
- CRD IV Package, including Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (so-called 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,
- 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 5), obliging banks and insurance companies to adjust to new regulation until the end of 2014 (impact on banks' operating costs),
- Resolution of the PFSA No. 183/2014 on Recommendation U concerning best practices in the area of bancassurance (Official Journal of the PFSA of 2014 item 12), obliging banks and insurance companies to adjust to new regulation until 31 March 2015 (impact i.a. on change of business model, introduction of new risk management strategy, operating costs related to adopting central IT systems of banks and insurance companies),
- the 2010 amendment to the Act as of 27 August 2009 on Public Finance (Journal of Laws 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 Act introducing changes in the policies for disbursement of pensions from funds accumulated in open pension funds (Journal of Laws of 2013 item 1717), including concerning the transfer 51.5% of the assets of pension funds (OPFs) to the Social Insurance Institution (ZUS) on 1 February 2014, introducing a membership in open pension funds (OPFs) on a voluntary basis, a change in the investment policies for OPFs, lowered the ratio of pension contributions transferred to OPFs from 3.1% to 2.92% by ZUS, lowered the maximum ratio used for calculating the fees collected by open pension management companies from 3.5% to 1.75%. Additionally, the Act: introduced an obligation to transfer the assets, the funds of insured persons collected in OPFs to ZUS for ten years before reaching the retirement age from 12 November 2014 (an impact on the value of open funds' assets portfolio, an impact on results of open pension management companies' operations),
- the 2010 amendment to the Act on Goods and Services Tax (Journal of Laws of 2011 No. 177 item 1054 with subsequent amendments), enabling deducting in the period from 1 January to 31 March 2014, 100% of VAT on purchased and leased cars to 3.5 tones used for running a business (an impact on the amount of leased assets),

- 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 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 situation of the PKO Bank Polski SA Group, of which:

- the Act No. 453 of 14 November 2013 concerning amendments to the tax law introducing a 20% VAT rate as from 1 January 2014,
- the Act No. 1588 introducing tax on interest income in the amount of 15% since 2 August 2014 (the growth to 20% since 1 January 2015),
- Resolutions Nos.: 49/2014, 104/2014, 137/2014, 172/2014, 245/2014, 271/2014, 328/2014, 420/2014, 423/2014, 515/2014, 540/2014, 591/2014, 722/2014, 734/2014 and 758/2014 of the NBU's Management Board introducing changes in policies conducting foreign currency transactions on the interbank market, setting up a mandatory reserve for funds of non-residents and foreign currency settlements of banks with customers and central bank;
- Resolution No. 180/2014 of the NBU's Management Board determining the principles on setting the UAH exchange rate,
- Resolutions No.: 86/2014 and 91/2014 of the NBU's Management Board concerning changes in carrying out of transactions on the monetary market, liquidity management, minimum amount of mandatory reserves;
- Resolution No. 182/2014 of the NBU's Management Board concerning adjustment of open currency position limits to international standards;
- Resolutions Nos.: 212/2014 and 334/2014 of NBU's Management Board determining the interest on refinancing loan at the level of 2-fold and 1.5-fold of the discount rate respectively,
- Resolution No. 287/2014 of the NBU's Management Board lowering reserves volume maintained by banks and Decision No. 480/2014 of the NBU's Management Board changing the principles of keeping the mandatory reserves,
- Resolution No. 303/2014 of the NBU's Management Board concerning refinancing banks, determining the interest on stabilisation loan at the level of 1.5-fold of the discount rate (from 27 May 2014),
- Resolutions Nos. 417/2014 and 719/2014 of the NBU's Management Board increasing the discount rate by 3 pp. to 12.5% from 17 July 2014 and by further 1.5 pp. to 14% from 13 November 2014,
- Resolutions of the NBU's Management Board concerning functioning of banks in the Crimea and the Donetsk and Luhansk Oblasts, of which No. 727/2014 concerning i.a. suspension of mortgage loans repayment in the Autonomous Republic of the Crimea.

The regulatory solutions which will affect the financial position of banks and their groups in Poland over the following quarters include, i.a.:

- the expansion of the 'de Minimis Guarantee Facility' programme supporting small and medium enterprises and its extension onto 2015;
- resolutions of the Bank Guarantee Fund (BGF) Council of November 2014 resulting in an increase in burden on banks associated with the bank deposit guarantee system (an increase in administrative expenses) and changes in the principles for deferring it;
- the Act on payment services introducing, as from 29 January 2015, another reduction in the interchange fee, which will result in a drop in banks' non-interest income and the banks seeking new sources of income;
- restrictions in respect of granting mortgage loans (i.a. an increase in own financial contribution to 10%) arising from Recommendation S, which came into force in January 2015;
- amendments to the Banking Law (the consultation stage) transposing the Capital Requirements Directive IV (CRD IV) into the Polish law;
- continued adaptation of the activities of banks to the requirements of the Capital Requirements Regulation (CRR);
- pro-consumer regulations, including the Act on consumer rights (which came into force on 25 December 2014) and amendments to the Bankruptcy and Recovery Law (which came into force on 31 December 2014) creating conditions for consumer bankruptcy (contributing to an increase in banking risk and an increase in administrative expenses – adjustment costs);
- the agreement of 10 October 2014 concluded by and between the government of the Republic of Poland and the government of the United States (NA) for cooperation in meeting international tax obligations and implementing the FATCA legislation, imposing additional reporting obligations on banks and other financial market entities (an effect on the expenses of banks).

The implementation by banks of recommendation prepared by PFSA and concerned the restructuring of loans in CHF (after CHF releasing on 15 January 2015 by central bank in Switzerland) will substantially affect the profitability of banking sector in 2015.

2.9 Tendencies in the Polish and global economies in 2015 and their effect on the Group's results

In the external environment of the Polish economy, the year 2015 should bring a moderate improvement. With the continuation of the negative tendencies in the East (a deep recession in Russia), a moderate acceleration in the economic growth in the euro area will be of more significance to the domestic economy. The main risk factors in the external environment are: slow-down in the economic recovery in the euro area (i.e. due to concern about Greece) and the possible re-escalation of the conflict in Ukraine.

We forecast that the economic growth in Poland will accelerate to 3.6% in 2015 (from 3.3% in 2014), with the first half of the year being weaker and the second one being stronger (up 3.0-3.5% and 4.0-4.5% y/y respectively). In 2015, the GDP growth will be backed by low oil prices, public investments, and reduced interest rates which may add a total of +1.5 pp. to the GDP growth. This will be counteracted by the recession in Russia and the appreciation of CHF which may subtract a total of -0.8 pp. from the GDP growth rate in 2015. The strongest positive effect on the GDP growth in 2015 will be the drop in oil prices which – by releasing approx. PLN 20 billion in the balance sheets of the private sector – may add 0.7-1.1 pp. to the GDP growth rate, as well as public infrastructure investment projects (the value of the signed agreements for road construction projects exceeded PLN 12 billion), which may add another 0.5-1.0 pp. to the GDP growth. The strongest negative effect on the GDP growth may be the recession in Russia subtract from GDP dynamics approx. 0.6 pp. (assuming an accumulated drop in exports to Russia in the years 2014-2015 similar to the drop in the years 2008-2009, i.e. of approx. 40-50%).

We predict that the situation on the labour market will continue improving in 2015 (a periodic increase in demand for labour), which will positively contribute to a drop in the registered unemployment rate to approx. 10.5% at the end of 2015 (-1.0 pp. y/y), with 1.65 million people remaining unemployed. The acceleration in the nominal increase in wages and salaries and deflation will accelerate the growth rate of real disposable income to 3.9% y/y in 2015 compared with an estimated 3.1% in 2014.

In January 2015, the growth rate of consumer prices dropped to -1.3% y/y from -1.0% y/y as at the end of 2014. We predict that the CPI inflation rate will be fairly stable until March 2015 and will then start increasing only to return above zero in the fourth quarter of 2015. The increase in inflation will result from the low base effect (the temporary deflationary factors of 2014 will expire) and the strengthening of the demand pressure for price increases. In spite of the gradual increase in CPI inflation during 2015 we forecast a drop in the average annual CPI inflation rate to -0.4% compared with 0.0% in 2014. The reaction of the prices of agricultural raw materials and energy resources remains the most serious risk for this forecast.

Despite the fact that the increase in deflation is mainly due to external factors, its scale and duration encouraged the Monetary Policy Council to continue adjusting the NBP interest rate levels by 0.5 pp. in March 2015. At the same time the MPC has declared outright that monetary policy easing cycle has been completed. Further reductions are unlikely due to the anticipated increase in inflation and improvement in the GDP growth rate which may exceed 4.0% y/y in the second half of the year.

In the banking sector, we predict an acceleration in the growth rate of loans as a result of increased demand for loans on the part of the private sector, increased supply of loans (with the announced continuation of the banks' policies of introducing less stringent lending criteria in respect of consumer loans and loans to enterprises) and a reduction in the Lombard rate. According to our forecasts, in 2015 the growth rate of deposits will slow down slightly accompanied by a smaller increase in the growth rate of the deposits of non-financial business entities (with substantial investments and better financial results of companies) and a slight decrease in the growth rate of the deposits of individuals (with a stronger interest in saving methods alternative to deposits at a time of record low interest rates).

The direct effect of the decision of the Swiss National Bank to lift the restrictions on the EUR/CHF exchange rate on the Polish economy (consumption and GDP) through an increase in debt servicing costs should be very limited. Less than 600 thousand households, which service loans in CHF, will have to curb their consumption due to higher debt servicing costs by no more than 0.1% of GDP. A negative wealth effect (the increase in the CHF/PLN exchange rate means a decrease in the net assets of households, which can make the indebted households less prone to consumption) may be an additional risk for consumption. The potential deterioration of consumer sentiment and the possible refraining from purchasing durable goods (cars, furniture) during the period of increased volatility on the foreign exchange market is also a risk.

3. FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP[3]

On 31 October 2014 the legal merger of Nordea Bank Polska SA with PKO Bank Polski SA occurred. Data disclosed in this chapter include data of acquired bank. Detailed information on the above mentioned acquisition has been described in the explanatory note no. 3 to Consolidated financial statements of PKO Bank Polski SA for the year ended 31 December 2014.

3.1 Key financial indicators

The summary of results, achieved by the PKO Bank Polski SA Group in 2014, is represented by the following key financial efficiency indicators, which are shown in the table below.

Table 1. Financial indicators of the PKO Bank Polski SA Group

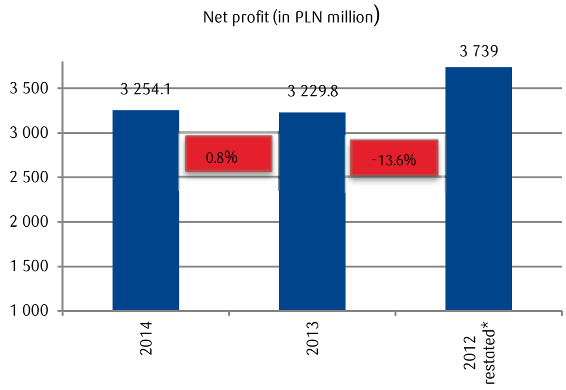
	31.12.2014	31.12.2013	Change 2014-2013
ROA net (net profit/average total assets)*	1.4%	1.6%	-0.2 pp.
ROE net (net profit/average total equity)*	12.4%	13.2%	-0.8 pp.
C/I (cost to income ratio)*	47.1%	43.2%	3.9 pp.
Interest margin (net interest income/average interest-bearing assets)*	3.6%	3.7%	-0.1 pp.
The share of impaired loans**	6.9%	8.2%	-1.3 pp.
The coverage ratio of impaired loans***	61.8%	51.7%	10.1 pp.

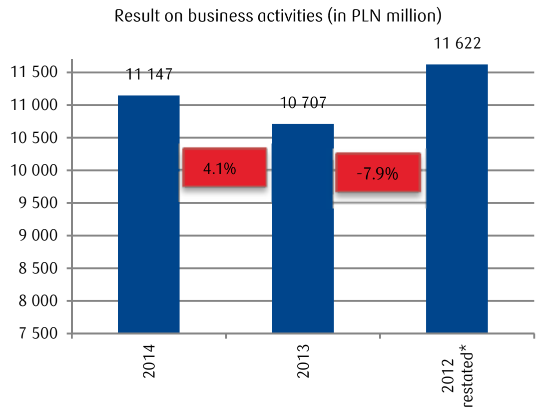
* Income statement items used in calculating indicators capture the period of the last four quarters (annual recognition), while the statement of financial position items capture the average of the last five quarterly values of the respective assets and liabilities.
** Calculated by dividing the gross carrying amount of impaired loans and advances 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.

3.2 Consolidated income statement

The consolidated net profit of the PKO Bank Polski SA Group generated in 2014 amounted to PLN 3 254.1 million which was PLN 24.3 million higher than in 2013.

[3] *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.*





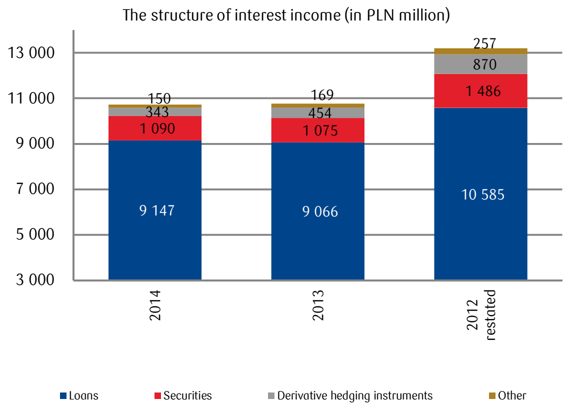
In the PKO Bank Polski SA Group's income statement for the year 2014, the sum of revenue positions amounted to PLN 11 147 million and was PLN 439.7 million, i.e. by 4.1% higher than in 2013, mainly due to increase of net interest income by 11.9% y/y.

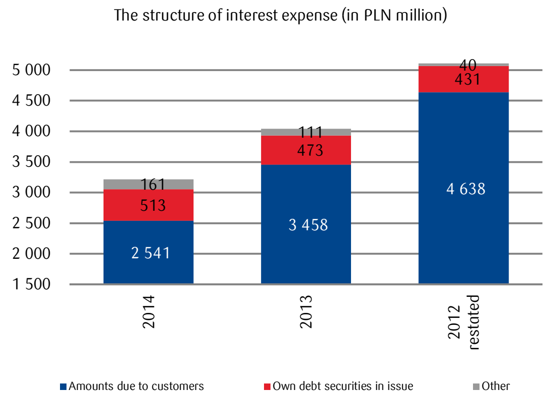
Table 2. Income statement of the PKO Bank Polski SA Group (in PLN million)

	2014	2013	Change (in PLN million)	Change (in %)
Interest and similar income	10 737.4	10 763.5	(26.1)	-0.2%
Interest expense and similar charges	(3 214.5)	(4 041.5)	827.0	-20.5%
Net interest income	**7 522.9**	**6 722.0**	**801.0**	**11.9%**
Fee and commission income	4 002.2	3 926.6	75.6	1.9%
Fee and commission expense	(1 068.6)	(920.9)	(147.8)	16.1%
Net fee and commission income	**2 933.5**	**3 005.8**	**(72.2)**	**-2.4%**
Dividend income	6.5	5.8	0.7	12.9%
Net income from financial instruments measured at fair value	75.2	54.3	20.9	38.4%
Gains less losses from investment securities	150.1	67.5	82.6	2.2x
Net foreign exchange gains (losses)	235.8	241.8	(6.1)	-2.5%
Net other operating income and expense	222.6	609.7	(387.2)	-63.5%
Net impairment allowance and write-downs	(1 898.7)	(2 037.9)	139.2	-6.8%
Administrative expenses	(5 245.1)	(4 622.5)	(622.6)	13.5%
Operating profit	**4 002.8**	**4 046.4**	**(43.7)**	**-1.1%**
Share of profit (loss) of associates and joint ventures	31.8	(2.0)	33.8	x
Profit (loss) before income tax	**4 034.6**	**4 044.5**	**(9.9)**	**-0.2%**
Income tax expense	(791.7)	(816.3)	24.5	-3.0%
Net profit (including non-controlling shareholders)	3 242.8	3 228.2	14.6	0.5%
Profit (loss) attributable to non-controlling shareholders	(11.3)	(1.6)	(9.7)	7.1x
Net profit (loss)	**3 254.1**	**3 229.8**	**24.3**	**0.8%**

Net interest income

The net interest income generated in 2014 was PLN 801.0 million higher than in the previous year, mainly due to a decrease in interest expense by PLN 827 million, along with a stable level of interest income at PLN 10 737.4 million. Net interest income was determined i.a. by the further fall in market interest rates (which for 1M and 3M WIBOR on an annual basis was 0.53 pp. and 0.65 pp. respectively), which was offset by an increase in revenues related to the increase in the loan portfolio.





In 2014, interest income amounted to PLN 10 737.4 million and in comparison with 2013 was lower by 0.2%, mainly as a result of:

- a decrease in income from derivative hedging instruments (-PLN 111.0 million y/y), as a result of 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,
- with an increase in income in respect of loans and advances to customers (increase by PLN 84.0 million y/y).

In 2014, interest expense amounted to PLN 3 214.5 million and was lower by 20.5% than in 2013 mainly due to a drop in the costs of amounts due to customers of PLN 917.4 million y/y. The drop in the costs of amounts due to customers resulted from a lower average interest rate on deposits – the effect of the drop in market interest rates and the adaptation of the price offer of deposit products.
Also the change in the structure of deposits had a positive effect on the level of the interest expense on amounts due to customers.

In 2014, the average interest rate on loans in PKO Bank Polski SA amounted to 5.2%, whereas the average interest rate on deposits in total amounted to 1.6%, as compared with 6.1% and 2.3% respectively in 2013.

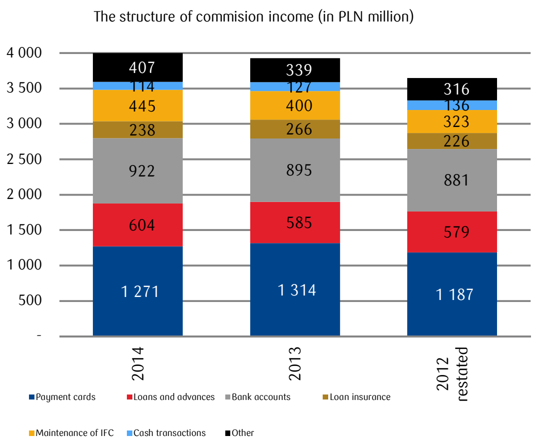
Interest margin of the PKO Bank Polski SA Group amounted to 3.6% in 2014 and still remains at a stable level on an annual basis despite a drop of interest rates.

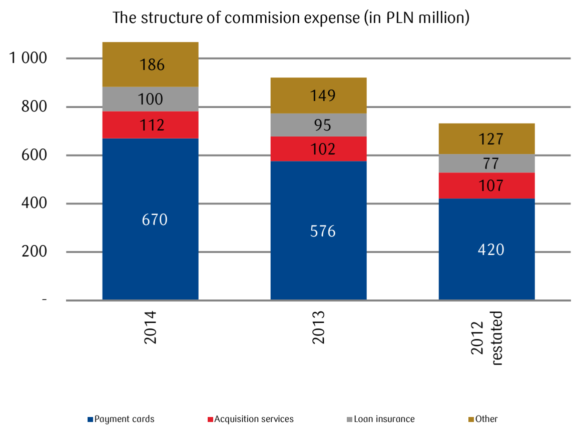
Table 3. Interest income and expense of the PKO Bank Polski SA Group (in PLN million)

	2014	Structure 2014	2013	Structure 2013	Change 2014/2013
Interest and similar income, of which:	10 737.4	100.0%	10 763.5	100.0%	-0.2%
Loans and advances to customers	9 146.6	85.2%	9 062.6	84.2%	0.9%
Securities	1 090.5	10.2%	1 074.5	10.0%	1.5%
Derivative hedging instruments	343.3	3.2%	454.3	4.2%	-24.4%
Placements with banks	140.1	1.3%	165.2	1.5%	-15.2%
Loans to banks	7.2	0.1%	2.9	0.0%	2,5x
Other	9.7	0.1%	4.0	0.0%	2,4x
Interest expense and similar charges, of which:	(3 214.5)	100.0%	(4 041.5)	100.0%	-20.5%
Amounts due to customers	(2 541.2)	79.1%	(3 457.8)	85.6%	-26.5%
Amounts due to banks	(86.1)	2.7%	(32.0)	0.8%	2,7x
Own debt securities in issue	(512.7)	15.9%	(472.6)	11.7%	8.5%
Deposits from banks	(11.4)	0.4%	(17.1)	0.4%	-33.4%
Premium on debt securities available for sale	(40.9)	1.3%	(38.7)	1.0%	5.7%
Other expense	(22.2)	0.7%	(23.3)	0.6%	-4.6%
Net interest income	7 522.9	x	6 722.0	x	11.9%

Net fee and commission income

Net fee and commission income generated in 2014 amounted to PLN 2 933.5 million and was PLN 72.2 million lower than in the previous year, as a result of PLN 147.8 million increase in commission expenses, accompanied by higher commission income of PLN 75.6 million.





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

- a decrease in the result on payment cards (-18.6% y/y), mainly due to a decrease in commission related to interchange fee, in connection with a reduction of interchange fee rates by payment organisations - lower commission related to was accompanied by the increase in card transactions,
- a decrease in net fee and commission income in respect of loan insurance (-PLN 27.9 million y/y), mainly due to a decrease in insurance saturation of loans,
- an increase in acquisition service costs by 10.8 million y/y, connected with the acquisition of insurance company and the growth of investment and insurance product distribution costs,
- a decrease in income on cash transactions (-PLN 12.7 million y/y), related to the development of electronic banking,
- an increase in fee and commission income in respect of maintenance of bank accounts (+PLN 27.7 million y/y),

- an increase in commission income in respect of maintenance of investment funds and open pension funds (including management fees) by PLN 44.6 million y/y,
- an increase in income in respect of investment and insurance products (+PLN 60.5 million y/y), due to the acqusition of PKO Życie Towarzystwo Ubezpieczeń SA and expansion of the Group's product offer by investment and insurance products.

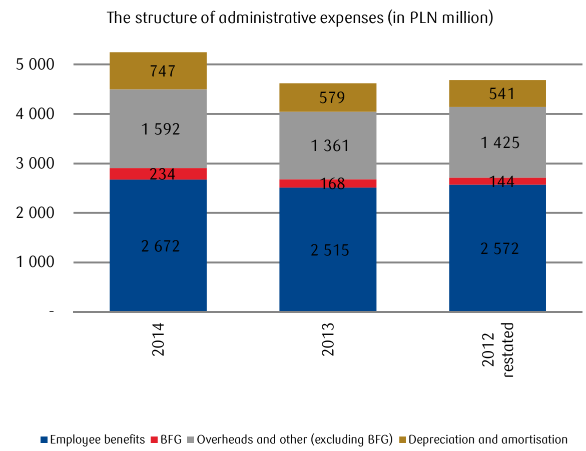
Table 4. Fee and commission income and expense of the PKO Bank Polski SA Group (in PLN million)

	2014	Structure 2014	2013	Structure 2013	Change 2014/2013
Fee and commission income, of which:	**4 002.2**	**100.0%**	**3 926.6**	**100.0%**	**1.9%**
Payment cards	1 271.5	31.8%	1 314.3	33.5%	-3.3%
Maintenance of bank accounts	922.2	23.0%	894.5	22.8%	3.1%
Loans and advances granted	603.9	15.1%	585.5	14.9%	3.1%
Loan insurance	238.3	6.0%	266.2	6.8%	-10.5%
Maintenance of investment funds and OPF (including management fees)	445.0	11.1%	400.4	10.2%	11.1%
Cash transactions	114.1	2.8%	126.8	3.2%	-10.0%
Securities transactions	95.5	2.4%	79.3	2.0%	20.4%
Servicing foreign mass transactions	68.7	1.7%	52.3	1.3%	31.3%
Providing the services of an agent for the issue of Treasury bonds	23.0	0.6%	29.0	0.7%	-20.6%
Sale and distribution of court fee stamps	9.6	0.2%	20.9	0.5%	-54.1%
Fiduciary activities	4.4	0.1%	4.3	0.1%	1.0%
Insurance and investment products	60.5	1.5%	0.0	0.0%	x
Other*	145.6	3.6%	153.0	3.9%	-4.8%
Fee and commissions expense, of which:	**(1 068.6)**	**100.0%**	**(920.9)**	**100.0%**	**16.1%**
Payment cards	(669.8)	62.7%	(575.6)	62.5%	16.4%
Loan insurance	(100.2)	9.4%	(95.0)	10.3%	5.5%
Acquisition services	(112.4)	10.5%	(101.7)	11.0%	10.6%
Settlement services	(27.8)	2.6%	(24.4)	2.6%	14.2%
Operating services provided by banks	(15.9)	1.5%	(11.5)	1.2%	38.6%
Asset management	(18.8)	1.8%	(12.6)	1.4%	49.0%
Other**	(123.6)	11.6%	(100.1)	10.9%	23.5%
Net fee and commission income	**2 933.5**	**x**	**3 005.8**	**x**	**-2.4%**

* Included in 'Other' are i.a.: commissions of the Brokerage House of PKO Bank Polski SA for servicing Initial Public Offering issue and commissions for servicing indebtedness of borrowers against the State budget.
** Included in 'Other' are i.a.: fee and expenses paid by the Brokerage House of PKO Bank Polski SA to WSE and to the National Depository for Securities (KDPW).

Administrative expenses

In 2014 administrative expense amounted to PLN 5 245.1 million and increased by 13.5% compared with the previous year. The level of administrative expenses was determined mainly by changes in 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 47.1%.



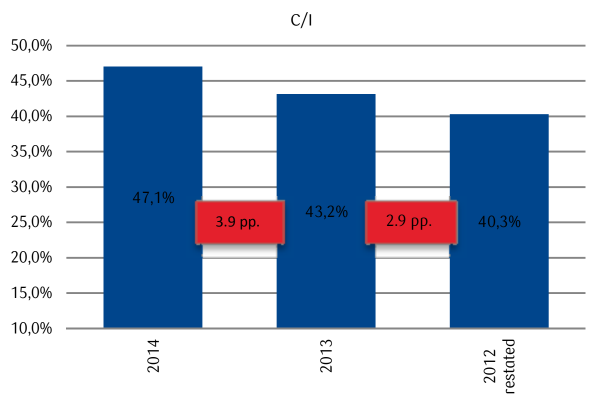


Table 5. Administrative expenses of the PKO Bank Polski SA Group (in PLN million)

	2014	Structure 2014	2013	Structure 2013	Change 2014/2013
Employee benefits	(2 672.4)	51.0%	(2 514.8)	54.4%	6.3%
Overheads and other, of which:	(1 825.5)	34.8%	(1 528.5)	33.1%	19.4%
Contribution and payments to the Bank Guarantee Fund	(233.8)	4.5%	(167.7)	3.6%	39.4%
Amortisation and depreciation	(747.2)	14.2%	(579.2)	12.5%	29.0%
TOTAL	(5 245.1)	100.0%	(4 622.5)	100.0%	13.5%

Net impairment allowance and write-downs

Net impairment allowance and write-downs reflects a conservative approach of the PKO Bank Polski SA Group to recognition and measurement of credit risk. Improvement of net impairment allowance (-6.8% y/y) is mainly the result of a decrease in the net impairment allowance on the consumer and corporate loans portfolio as a result of improvement of the quality of newly granted loans compared to the older generations.
As at the end of 2014, the share of impaired loans and the coverage ratio of impaired loans respectively amounted to 6.9% (a decrease by 1.3 pp. in comparison to 2013) and 61.8% (an increase by 10.0 pp. in comparison to 2013), due to improvement of the quality of all categories of loans.
The cost of risk at the end of 2014 amounted to 1.0% compared to 1.3% as at the end of 2013, as a result of the improvement of the net impairment allowance on the consumer and corporate loans portfolio.

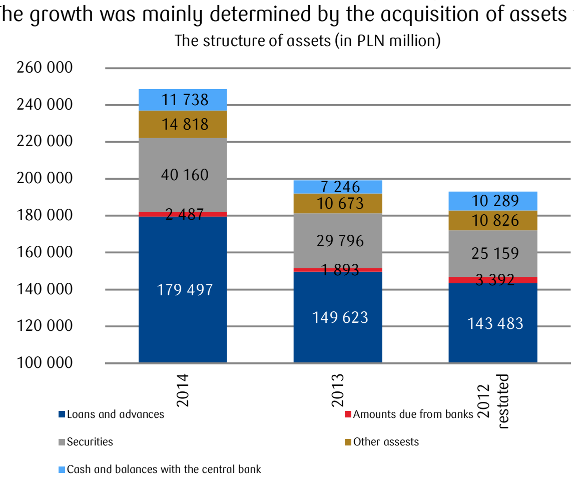
Table 6. Net impairment allowance and write-downs of the PKO Bank Polski SA Group (in PLN million)

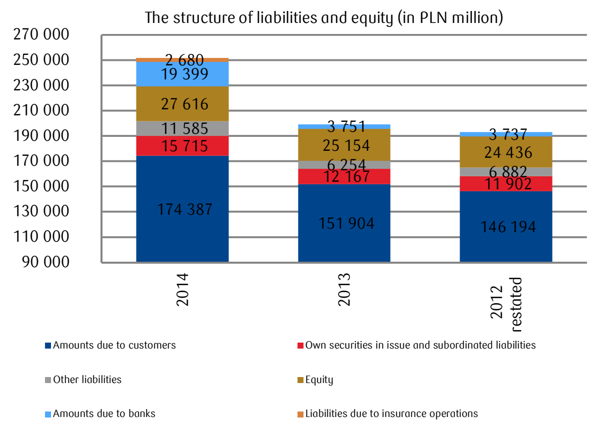
	2014	Structure 2014	2013	Structure 2013	Change 2014/2013
Net impairment allowance and write-downs, of which:					
investment securities available for sale	(126.7)	6.7%	(16.2)	0.8%	7.8x
loans and advances to customers measured at amortised cost	(1 733.7)	91.3%	(2 028.3)	99.5%	-14.5%
non-financial sector	(1 705.2)	89.8%	(2 015.4)	98.9%	-15.4%
consumer loans	(239.1)	12.6%	(412.5)	20.2%	-42.0%
housing loans	(365.4)	19.2%	(269.4)	13.2%	35.7%
corporate loans	(1 036.5)	54.6%	(1 308.3)	64.2%	-20.8%
debt securities	(64.2)	3.4%	(25.3)	1.2%	2.5x
financial sector	5.3	-0.3%	(8.1)	0.4%	x
public sector	(0.8)	0.0%	10.7	-0.5%	x
finance lease receivables	(32.9)	1.7%	(15.5)	0.8%	2.1x
intangible assets	(37.2)	2.0%	(11.0)	0.5%	3.4x
investments in associates and jointly controlled entities	1.6	-0.1%	(3.3)	0.2%	x
tangible fixed assets	(3.2)	0.2%	(0.5)	0.0%	6.9x
other	0.5	0.0%	21.4	-1.1%	-97.6%
Total	**(1 898.7)**	**100.0%**	**(2 037.9)**	**100.0%**	**-6.8%**

3.3 Consolidated statement of financial position

The main items of the statement of financial position

The statement of financial position of the PKO Bank Polski SA Group is mainly influenced by the statement of financial position of the parent entity. It determines both the size of total assets and the structure of assets and liabilities.
The total assets of the PKO Bank Polski SA Group amounted to PLN 248.7 billion as at the end of 2014, which means an increase by 24.8% y/y. The growth was mainly determined by the acquisition of assets from the Nordea Group.





The increase in total assets of the PKO Bank Polski SA Group was mainly due to an increase in the volume of loans and advances to customers by PLN 29 874.1 million y/y, of which 77.2% of the increase were acquired assets. The increase in total assets was financed mainly by an increase in amounts due to customers by PLN 22 482.6 million, of which 18.6% was achieved through the merger.

Table 7. Main items of the statement of financial position of the PKO Bank Polski SA Group (in PLN million)

	31.12.2014	Structure 2014	31.12.2013	Structure 2013	Change 2014/2013
Cash and balances with the central bank	11 738.4	4.7%	7 246.1	3.6%	62.0%
Amounts due from banks	2 486.7	1.0%	1 893.4	1.0%	31.3%
Loans and advances to customers	179 497.4	72.2%	149 623.3	75.1%	20.0%
Securities	40 160.2	16.1%	29 795.7	15.0%	34.8%
Other assets	14 818.0	6.0%	10 672.6	5.4%	38.8%
Total assets	**248 700.6**	**100.0%**	**199 231.1**	**100.0%**	**24.8%**
Amounts due to banks	19 398.9	7.8%	3 751.4	1.9%	5.2x
Amounts due to customers	174 386.8	70.1%	151 904.2	76.2%	14.8%
Debt securities in issue and subordinated liabilities	15 714.6	6.3%	12 167.3	6.1%	29.2%
Liabilities of insurance activities	2 679.7	1.1%	0.0	0.0%	x
Other liabilities	8 905.0	3.6%	6 253.9	3.1%	42.4%
Total liabilities	**221 085.0**	**88.9%**	**174 076.8**	**87.4%**	**27.0%**
Total equity	27 615.6	11.1%	25 154.3	12.6%	9.8%
Total liabilities and equity	**248 700.6**	**100.0%**	**199 231.1**	**100.0%**	**24.8%**
Loans/Deposits (amounts due to customers)	102.9%	x	98.5%	x	4.4 pp.
Loans/stable sources of funding*	86.4%	x	89.8%	x	-3.4 pp.
Interest bearing assets/Assets	89.3%	x	91.0%	x	-1.7 pp.
Interest paying liabilities/Liabilities	84.2%	x	84.2%	x	0 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.

In 2014, the following efficiency ratios deteriorated: the return on assets (ROA) and the return on equity (ROE), by 0.2 pp. and 0.8 pp. respectively. The decrease was due to a dynamic of the net profit at the level of 0.8% y/y, combined with an increase in average assets by 15.1% y/y and an increase of average equity by 7.7% y/y.

Loans and advances to customers

In the structure of the net loan portfolio by type, the main items were loans and advances to the non-financial sector (93.5% of the portfolio as at the end of 2014) whose share increased by 0.2 pp. y/y. Housing loans, volume of which increased by +27.9% y/y were the main item of loans and advances to the non-financial sector (53.4% of the portfolio as at the end of 2014).

Table 8. Loans and advances to customers of the PKO Bank Polski SA Group – structure by type (in PLN million)

	31.12.2014	Structure 2014	31.12.2013	Structure 2013	Change 2014/2013
Loans and advances to the Bank's customers net	**179 497.4**	**100.0%**	**149 623.3**	**100.0%**	**20.0%**
Financial sector (other than banks)	1 620.7	0.9%	2 981.2	2.0%	-45.6%
Non-financial sector	167 792.0	93.5%	139 434.1	93.2%	20.3%
housing loans	95 798.0	53.4%	74 900.2	50.1%	27.9%
corporate loans	49 656.3	27.7%	44 508.3	29.7%	11.6%
consumer loans	20 321.7	11.3%	19 213.9	12.8%	5.8%
debt securities and receivables due from repurchase agreements	2 016.0	1.1%	811.8	0.5%	2.5x
Public sector	10 084.7	5.6%	7 207.9	4.8%	39.9%
corporate loans	7 265.0	4.0%	6 230.8	4.2%	16.6%
debt securities	2 819.7	1.6%	977.2	0.7%	2.9x

In term structure of loans and advances to customers dominate long-term loans (78.4% of the portfolio) which increased by 27.9% y/y compared to 2013 as a result of the growth of the housing loan portfolio.

Table 9. Loans and advances to customers of the PKO Bank Polski SA Group – term structure (in PLN million)

	31.12.2014	Structure 2014	31.12.2013	Structure 2013	Change 2014/2013
Loans and advances to the Bank's customers (gross)	187 519.9	100.0%	156 274.0	100.0%	20.0%
Short-term	40 440.6	21.6%	41 294.3	26.4%	-2.1%
Long-term	147 079.3	78.4%	114 979.7	73.6%	27.9%
Allowances - total	(8 022.5)	x	(6 650.8)	x	20.6%
Total	**179 497.4**	**x**	**149 623.3**	**x**	**20.0%**

Securities

As at the end of 2014, the securities portfolio of the PKO Bank Polski SA Group amounted to PLN 40.2 billion and recorded an increase by PLN 10.4 billion compared with the end of 2013. In the structure of the portfolio by type, the main items were debt securities issued by central banks and issued by the State Treasury.

Table 10. Securities portfolio of the PKO Bank Polski SA Group (in PLN million)

	31.12.2014	Structure 2014	31.12.2013	Structure 2013	Change 2014/2013
Financial instruments measured at fair value through profit and loss	15 723.1	39.2%	15 204.8	51.0%	3.4%
Investment securities available for sale	22 279.2	55.5%	14 073.1	47.2%	58.3%
Trading assets	1 924.4	4.8%	479.9	1.6%	4x
Securities held to maturity	233.4	0.6%	38.0	0.1%	6.1x
Total	40 160.2	x	29 795.7	x	34.8%

Amounts due to customers

In the structure of amounts due to customers by types, the main items are amounts due to retail clients (73.8% of the portfolio as at the end of 2014), the share of which decreased by 2.9 pp. y/y, along with an increase in share of amounts due to corporate entities by 2.4 pp. (y/y) (mainly in respect of current deposits).

Table 11. Amounts due to customers of the PKO Bank Polski SA Group – structure by type (in PLN million)

	31.12.2014	Structure 2014	31.12.2013	Structure 2013	Change 2014/2013
Amounts due to retail clients	128 675.6	73.8%	116 464.1	76.7%	10.5%
Amounts due to corporate entities	40 932.9	23.5%	31 966.6	21.0%	28.0%
Amounts due to public entities	4 778.3	2.7%	3 473.5	2.3%	37.6%
Total amounts due to customers	174 386.8	100.0%	151 904.2	100.0%	14.8%

In 2014, the term structure of amounts due to customers changed. The share of liabilities with maturity up to 1 month inclusive increased and represented 62.2% of all amounts due to customers as at 31 December 2014, at the same time, there was an increase in the share of liabilities with maturities of over 3 months and up to 5 years inclusive.

Table 12. Amounts due to customers of the PKO Bank Polski SA Group – term structure (in PLN million)

	31.12.2014	Structure 2014	31.12.2013	Structure 2013	Change 2014/2013
Up to 1 month inclusive	109 773.3	62.2%	94 883.2	61.6%	15.7%
Over 1 month up to 3 months inclusive	12 560.3	7.1%	16 098.6	10.5%	-22.0%
Over 3 months up to 1 year inclusive	35 033.6	19.9%	26 107.0	16.9%	34.2%
Over 1 year up to 5 years inclusive	16 953.6	9.6%	14 389.8	9.3%	17.8%
Over 5 years	2 099.2	1.2%	2 550.7	1.7%	-17.7%
Value adjustments and interest	(2 033)	x	(2 125.0)	x	-4.3%
Total amounts due to customers	174 386.8	x	151 904.2	x	14.8%

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 regulatory requirements. As at the end of 2014 the main item in these sources of financing constituted loans received from monetary financial institutions, including above all credit line from Nordea Bank AB (publ), being a part of the transaction of acquisition of the Nordea Group's assets by PKO Bank Polski SA (received for the purpose of financing the acquired portfolio of mortgage loans).

Next significant category of long-term financing was debt securities in issue. The growth of these liabilities is the effect of bonds issued in the amount of EUR 500 million within the EMTN programme carried out in January 2014.

Obtained funds were used for the diversification of sources of financing and securing further development of lending activity.

The increase in subordinated liabilities results from the acquisition of subordinated loan in CHF of Nordea Bank Polska SA.

Detailed information on the issues carried out by the PKO Bank Polski SA Group is described in note 35 of the Consolidated Financial Statements of the PKO Bank Polski SA Group for the year ended 31 December 2014.

Table 13. External financing of the PKO Bank Polski SA Group (in PLN million)

	31.12.2014	Structure 2014	31.12.2013	Structure 2013	Change 2014/2013
Debt securities in issue	13 300.6	36.2%	10 546.4	59.8%	26.1%
Subordinated liabilities	2 414.0	6.6%	1 620.9	9.2%	48.9%
Loans and advances received – monetary institutions*	17 643.6	48.0%	2 606.5	14.8%	6.8x
Loans and advances received – non-monetary institutions**	3 421.7	9.3%	2 863.7	16.2%	19.5%
Total	**36 779.9**	**x**	**17 637.4**	**x**	**2.1x**

* The item is recognised in 'amounts due to banks' in the statement of financial position of the PKO Bank Polski SA Group.

** The item is recognised in 'amounts due to customers' in the statement of financial position of the PKO Bank Polski SA Group.

Equity and capital adequacy ratio

Equity of the PKO Bank Polski SA Group increased by 9.8% per annum and accounted for 11.1% of total equity and liabilities as at the end of 2014.
As at 31 December 2014 capital adequacy measures were calculated based on the CRR Regulation, including planned to be implemented national options known to the Group.
The capital adequacy ratio of the PKO Bank Polski SA Group amounted to 13.0% as at the end of 2014, thereby was 0.6 pp. lower than achieved as at the end of 2013.
Capital adequacy measured with the capital adequacy ratio remained at a safe level.

Table 14. Equity and capital adequacy ratio of the PKO Bank Polski SA Group (in PLN million)

	31.12.2014	Structure 2014	31.12.2013	Structure 2013	Change 2014/2013
Equity, of which:	**27 615.6**	**100.0%**	**25 154.3**	**100.0%**	**9.8%**
Share capital	1 250.0	4.5%	1 250.0	5.0%	0.0%
Reserve capital	18 802.4	68.1%	16 760.7	66.6%	12.2%
General banking risk fund	1 070.0	3.9%	1 070.0	4.3%	0.0%
Other reserves	3 474.1	12.6%	3 469.1	13.8%	0.1%
Financial assets available for sale	31.0	0.1%	(57.8)	-0.2%	x
Share in other comprehensive income of an associate	1.0	0.0%	(0.1)	0.0%	x
Cash flow hedges	5.2	0.0%	(125.6)	-0.5%	x
Actuarial gains and losses	(9.0)	0.0%	(7.7)	0.0%	16.9%
Currency translation differences from foreign operations	(192.7)	-0.7%	(129.4)	-0.5%	48.9%
Undistributed profits	(60.7)	-0.2%	(306.2)	-1.2%	-80.2%
Net profit for the period	3 254.1	11.8%	3 229.8	12.8%	0.8%
Non-controlling interest	(10.0)	0.0%	1.5	0.0%	x
Own funds	**24 743.2**	**x**	**21 305.1**	**x**	**16.1%**
Capital adequacy ratio	**12.96%**	**x**	**13.58%**	**x**	**-0.62 pp.**

4. ACTIVITIES OF THE PKO BANK POLSKI SA GROUP[4]

4.1 Activities of PKO Bank Polski SA – the parent company of the PKO Bank Polski SA Group [5]

The PKO Bank Polski SA Group conducts business activities as part of segments offering specific products and services addressed to specific groups of customers. The manner in which the business areas are divided ensures consistency with the sales management model and offers the customers a comprehensive offer comprising both traditional banking products and more complex investment products. In 2014, changes were made to the functioning of the existing segments: the corporate area and the investment area, which were combined into one corporate and investment segment. These changes were aimed at further improving the quality of service for corporate customers and financial institutions, including extending the range of services and products offered and, consequently, ensuring the provision of comprehensive services. Currently, the Group conducts its business activities as part of the retail segment and the corporate and investment segment.

[4] *Financial data concerning the companies of the PKO Bank Polski SA Group is presented in accordance with the Companies' financial statements prepared under IAS/IFRS*

[5] *In this sub-chapter the Bank's management information is presented; any differences in total balances, shares and growth rates result from roundings.*

Retail segment

The retail segment offers a full range of services for individuals as part of retail and private banking as well as mortgage banking. Moreover, it comprises transactions conducted with legal persons, i.e. small and medium enterprises. The products and services offered to customers in this segment include, i.a.: current accounts, savings accounts, term deposits, private banking services, investment and insurance products, credit and debit cards, electronic banking services, consumer and mortgage loans, as well as corporate loans to small and medium enterprises, developers, cooperatives and property managers.

Corporate and investment segment

The corporate and investment segment comprises transactions conducted with large corporate customers and financial institutions. This segment comprises, i.a. the following products and services: maintaining current accounts and term deposits, holding securities, foreign exchange and derivative products, sell buy back and buy sell back transactions with customers, corporate loans, as well as leases and factoring. As part of this segment's activities, PKO Bank Polski SA also concludes, on its own or in consortiums with other banks, agreements for financing large projects in the form of loans and issues of non-Treasury securities. Moreover, this segment comprises own activities, i.e. investing activities, brokerage activities, interbank transactions, as well as transactions in derivative instruments and debt securities.

4.1.1 Retail segment

In 2014, activities undertaken by the Bank within the retail segment were focused on increasing attractiveness and competitiveness of produtcs offered, with flexible reaction to changing market conditions. In the retail segment PKO Bank Polski SA continued sustained development, focused on recognising and satisfying needs of customers with whom it wants to build strong, long-term relationships. Actions aimed to improvement of the customer service quality i.a. through the development of employees competencies (product trainings) and actions leading to increase innovation in the new financial solutions, not only concerning products, but distribution channels as well, particularly in electronic banking and mobile payments were taken.

The loan offer in the retail segment

The PKO Bank Polski SA's offer includes a wide range of loan products. Retail, private and mortgage banking customers can take advantage of financing available under the consumer loans in the form of cash loan, Aurum and Platinium loan, mortgage loan, revolving loans and credit cards as well as financing available under housing loans. The loan offer in the form of investment and investor loans is available for Small and medium enterprises.

As at the end of 2014, gross loans to the retail segment of PKO Bank Polski SA amounted to PLN 133.6 billion and have increased by PLN 22.8 billion (i.e. by 20.5%) since the beginning of the year. This was mainly due to an increase in the portfolio of mortgage banking loans (+31.7% since the beginning of the year) the level of which was influenced by i.a. the legal merger and the acquisition of housing loans portfolio in the amount of approx. PLN 15.7 billion.

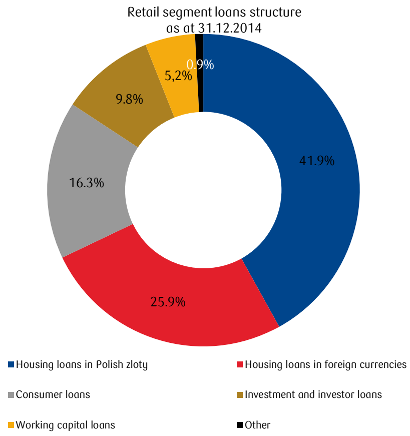


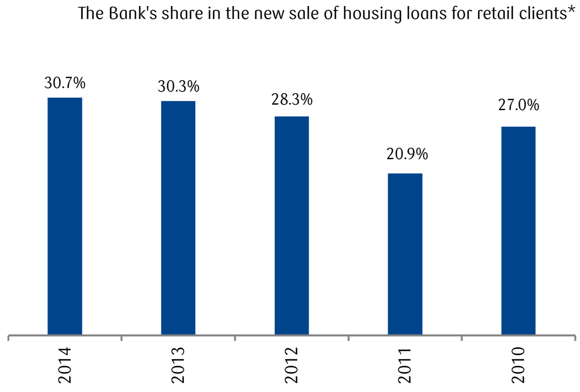
Table 15. *Loans in the retail segment (in PLN million)*

	31.12.2014	31.12.2013	Change 2014/2013	Change (in PLN million)
Loans and advances granted, gross, of which:				
retail and private banking	21 455	20 399	5.2%	1 056
small and medium enterprises	21 504	21 632	-0.6%	(128)
mortgage banking	90 623	68 795	31.7%	21 828
Total	**133 582**	**110 827**	**20.5%**	**22 755**

Mortgage banking loans

In 2014, the Bank maintained a strong position on the housing loans market. According to the data presented by the Polish Bank Association ('PBA'), PKO Bank Polski SA ranked first on the market with its 30.7% share in sale of housing loans for individuals.

In the discussed period PKO Bank Polski SA granted housing loans with the financial support of Bank Gospodarstwa Krajowego in the programme 'Mieszkanie dla Młodych'. The programme consists of co-financing from State budget's funds to own contribution and awarding additional financial support in the form of repayment of a part of the loan. In 2014 PKO Bank Polski SA granted 4 976 loans for a total amount of PLN 882.5 million within the programme 'Mieszkanie dla Młodych'. In last year a special offer for customers being members of specific professions and for the customers of the industry fairs was still maintained. Special offers for customers buying real estate by selected developers and an offer for the holders of 'Karta Dużej Rodziny' were also introduced.



* source: PBA, the Bank's share calculated including Nordea Bank Polska SA since the moment of entry into the PKO Bank Polski SA Group

Retail and private banking loans

The PKO Bank Polski SA's offer includes a wide range of loan products. Retail customers can take advantage of both the standard Cash Loan, as well as the current financing available under the revolving loans and credit cards. A special offer of the Aurum and Platinium loans with available high amounts of loans and competitive pricing parameters, is available for the affluent clients.
In 2014, PKO Bank Polski SA continued the action of promoting sales of consumer loans. As part of the initiatives supporting the sales of such products, the Bank carried out promotional activities, mainly focused on the cash loan and the Aurum/Platinium loan.
In 2014, the Bank conducted four marketing campaigns to promote the sales of cash loans under the following slogans: 'Mini Ratka z wypiekami na 5', 'Mini Ratka w mgnieniu oka', 'Wzruszająco przystępna Mini Ratka', and 'Bądź dobrej myśli na święta z Mini Ratką'. The main product benefits of these campaigns were attractive price terms and easy access.
In focusing its measures on increasing the availability of the loan offer to retail customers, PKO Bank Polski SA introduced a number of simplifications comprising, i.a.:

- eliminating the requirement for the co-spouse to give his/her consent and to enter into the agreement for cash advances or loans of up to PLN 30 thousand inclusive,
- increasing the amount available based on a salary certificate for customers who do not have a current account or who have had a current account for less than 6 months,
- implementing special terms and conditions for granting loans based on PIT returns, consisting of the possibility to document one's income in a simplified manner,
- enabling customers who have access to the iPKO service to raise a cash loan based on a loan request filed through a remote channel and to confirm the agreement with an authorisation code,
- enabling customers who do not have a current account with PKO Bank Polski SA or who do not have access to the iPKO service to file a complete request for a cash loan via the website.

Loans for small and medium enterprises

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 portfolio de minimis guarantee line 'Portfolio de Minimis Guarantee Facility', under the government programme of support for small and medium enterprises, the entrepreneurs 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 2014, approximately 19 thousand customers benefited from access to easier financing. The value of loans granted amounted to PLN 4.4 billion. As at the end of 2014 almost 30 thousand customers had already benefited from 'Portfolio de Minimis Guarantee Facility' programme and the value of granted loans amounted to PLN 6.8 billion. PKO Bank Polski SA was the biggest lender among twenty one banks granting loans with de minimis guarantees and held 26.9% of the market share (according to data provided by the Warranties and Guarantees Centre of Bank Gospodarstwa Krajowego as at 31 December 2014).
Due to the great interest in 'Portfolio de Minimis Guarantee Facility' from customers in 2014 PKO Bank Polski SA signed annexes to the agreement with BGK associated with prolongation of provision of guarantees, with the increase in the guarantee limit granted. In accordance with the last agreement the programme of guarantee de minimis remains effective till the end 2016 and guarantee limit was increased to PLN 2.5 billion.
In the fourth quarter of 2014 a loan for SMEs was introduced to the Bank's offer for customers of small and medium enterprises sector. The loan is granted only in PLN for the period to 60 months up to maximum amount of PLN 500 thousand and can be used for any purpose related to conducted business activities. The customers with a total credit exposure up to PLN 3 million can avail themselves of the offer. Additionally, PKO EURO BIZNES credit card was introduced to the Bank's offer for the customers of housing market sector.

The deposit and investment offer

In 2014, PKO Bank Polski SA continued activities aimed at offering more attractive deposits for retail clients, taking into account current market conditions and competitive position.
As at 31 December 2014, deposits of the retail segment of PKO Bank Polski SA amounted to PLN 139.1 billion and since the beginning of the year their volume increased by PLN 13.7 billion (i.e. by 11.0%). The increase in the retail and private banking deposit level mainly contributed to this, due to the increase in both the volume of current deposits and volume of term deposits. As a result of a legal merger with PKO Bank Polski SA and Nordea Bank Polska SA retail segment deposits portfolio in the amount of approx. PLN 5.3 billion was acquired.

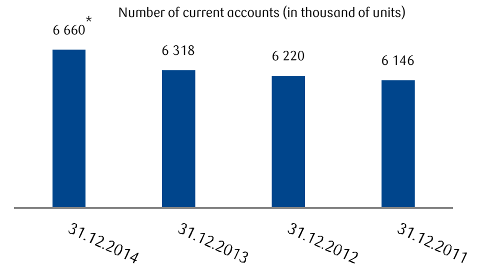
Table 16. *Deposits in the retail segment (in PLN million)*

	31.12.2014	31.12.2013	Change 2014/2013	Change (in PLN million)
Client deposits, of which:				
retail and private banking	121 893	110 608	10.2%	11 286
small and medium enterprises	17 213	14 757	16.6%	2 455
Total	**139 106**	**125 365**	**11.0%**	**13 741**

Current and savings accounts

PKO Bank Polski SA remains market leader in terms of the number of current accounts maintained, which amounted to 6.7 million as at the end of 2014 (including 0.3 million accounts acquired as a result of the merger). The increase in the number of accounts resulted from the diversified offer in terms of customer preferences as part of which i.a. the following products can be distinguished: PKO Konto bez Granic, SUPERKONTO Oszczędne, PKO Konto za Zero, PKO Konto dla Młodych, PKO Konto Pogodne, PKO Konto Pierwsze and PKO Junior.
The changes in the offer in respect of current accounts introduced in 2014 include:

- a new offer PKO Konto za Zero, giving exemption from charges for keeping an account in case of having a debit card to the account and from fees on debit card, if a given amount of non-cash transactions was realised, as well as including a unique within the market Acceptable Debit Balance, which is characterised by non-interest bearing balance up to the limit granted,
- introducing 'Nowe Konto Osobiste PKO Konto dla Młodych' to the offer. This account is intended for students and university graduates aged 18 to 26 and comes with a wide range of additional benefits, i.a. a modern embossed debit card with a contactless payment function, attractive interest rates on the saving account, a new service called 'Autooszczędzanie' (Autosaving), a simplified procedure for the sale of student credit card and preferential terms for revolving loans,
- customers in the age of 13-18 were offered a free debit card to free of charge 'PKO Konto Pierwsze' account, which allows to withdraw cash from all ATMs without any charges in Poland and worldwide.



*data with accounts of Nordea Bank Polska SA, may change after operational merger, i.e. after standarisation of account calculating methodology

In 2014 PKO Bank Polski SA joined the initiative 'Karta Dużej Rodziny'. Due to that, since 1 September 2014 owners of the 'Karta Dużej Rodziny' may enjoy free PKO Konto za Zero account and a debit card free of charge.

The offer is supplemented by savings accounts giving clients the ability to combine the interest dependent on the level of invested funds with the possibility of its flexible management. Since 31 September 2014 the availability of saving account payable on demand was expanded by currencies: Swedish crown, Norwegian crown and Danish crown.
In 2014 PKO Bank Polski SA introduced a special offer for individual farmers including account, settlements and lending. The individual farmers, who opened a current account within Biznes Rozwój package benefited from reduced charge for keeping an account and free of charge sealed cash collection. Customers without any additional charges can i.a. benefit from the availability to use the account in iPKO electronic banking, Internet transfers to the Social Insurance Institution (ZUS), Tax Office (US), free access to cash deposit machines and to the platform for keeping of accounts (free over the period of 6 months).

Banking services for children under the age of 13

PKO Bank Polski SA has been involved in projects aimed at the financial education of the youngest for years. In 2014, active measures were taken to develop the PKO Junior service for children. New functionalities were implemented, which comprised, i.a.:

- adding two new lines of badges for children and 'Good Deeds' by which children may support various charity campaigns organised by the PKO Bank Polski SA's Foundation,
- the money box can be broken, with the funds being automatically transferred,
- introducing the option 'Pinning posts on social services' to be activated by the parent, thanks to which the child has the possibility of adding posts on selected social portals about, i.a. winning a new badge, collecting a full amount in his/her money box or meeting a challenge,
- in the Parent Application, the possibilities to make family transfers, delete pocket money without having to provide an authorisation code, expand the details of challenges, and unblock access to the child's service by the parent were added,
- the option for the parent to grant the child access to information about the cards assigned to it, which gives the child the possibility of viewing the transactions conducted using a card and to better manage its funds.

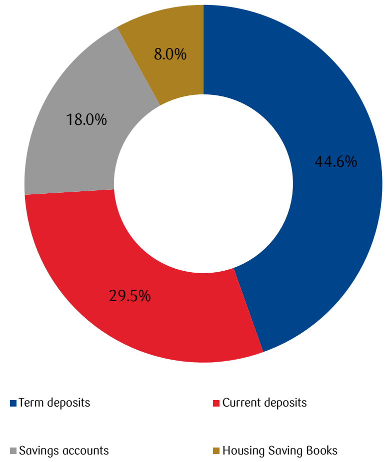
In 2014, an offer of prepaid cards dedicated to parents and children under the age of 13 was comprehensively implemented. For the needs of this product, a new process was implemented, which makes it possible to manage cards in the iPKO service from the Parent Application level. The PKO Junior prepaid cards linked to the PKO Junior offer were prepared in three versions:

- PKO Junior card (a contact-proximity card) for making payments all over the world at points of sale accepting VISA card payments, on the Internet, and for cash withdrawals from ATMs,
- PKO Junior proximity label – a label with an accompanying card for making online payments,
- Śmigacz PKO Junior – a SIM card offered together with gadgets for making proximity payments and conducting online transactions.

In the course of 2014, the offer of prepaid PKO Junior cards was expanded to include PKO Junior MasterCard with the images of popular cartoon characters.
In 2014, the students of the first post-primary schools used the PKO Bank Polski SA school card. The school card is an innovative solution on the Polish market, combining two useful properties: security and education. The school card is a prepaid payment card which is also an entrance card for the school building. It enables the child to use its money in a convenient way without having to give it cash and to remain safe on its school premises. The implemented product skilfully combines modern technologies, elements of financial education, and cooperation with social partners.
In 2014, the First Savings Account for the Bank's youngest customers was added to its offer. This account is the first and only savings account in the Bank's offer, using the mechanism of calculating an extra bonus to the interest rate on the funds in the account, in return for regular payments made by the customer.

Term deposits and regular saving products

Retail segment deposit structure
as at 31.12.2014



As at 31 December 2014, the value of retail market deposits amounted to PLN 139.1 billion y/y, in which retail and private banking deposits prevailed. The retail segment customers invested their funds mainly in term deposits. The share of term deposits in the segment's deposits amounted to 44.6% as at the end of 2014.
The Bank offered its customers, i.a. deposits with progressive and standard interest rates, housing savings books and structured deposits. For retail and private banking customers the following were available in the Bank's offer: an even and an odd deposit, a 3M deposit, a 6M deposit, a 3+9+12 deposit, a 15M deposit, a 24M deposit, a 3+3 deposit account, 36 month Saving Housing Book, whereas for small and medium enterprises sector the Bank offered the 12M dynamic deposit with a progressive rate of interest.
In the second half of 2014 the Bank introduced a complex offer in respect of regular long-term saving for individual and retirement purposes through a number of dedicated term deposit accounts i.a.: 'Kapitał na Emeryturę', 'Kapitał na Emeryturę z funduszem PKO Zabezpieczenia Emerytalnego', 'Kapitał na Marzenia' and 'Kapitał na Marzenia z Portfelem Inwestycyjnym'. Within the determined saving purpose, the customer has the possibility to choose a product based on three product categories: deposit (100%), deposit-investment (50%/50%) and investment (100%). Each product category consists of several saving programmes, which are characterised by defined monthly amount of contributions. Introduction of distinction in respect of a purpose, a contract period, a category and a declared payment allows customers to adjust a saving programme to its needs, risk tolerance and financial capabilities.
Structured instruments sold in the form of structured deposits or Bank Securities are an element of the Bank's standard offer dedicated to retail customers. In the period under discussion, the Bank conducted 17 subscriptions for 10 structured deposits based on, i.a. a basket of company shares, currency exchange rates, and stock exchange indices. Having such products in its sales offer allows the Bank to offer attractive products to its customers and helps to improve PKO Bank Polski SA's image as an institution offering innovative investment instruments. The appeal of these products is demonstrated by the results: a structured deposit based on the price of palladium, which PKO Bank Polski SA offered to its customers in 2012, generated a 37.39% profit for the investors for the entire investment period, which is nearly 15% a year.
As part of the deposit offer for small and medium enterprises, in 2014 cooperatives, property managers and homeowner associations were offered for the first time the possibility of participating in the next edition of 'Business Deposit' ('Biznes Lokata') – a term deposit with progressive interest rates and 3, 6 and 12-month tenors.

Gold bars

The Private Banking Offices and all of the Bank's branches offer their Clients the possibility of purchasing investment gold bars, both with low and high basis weight. In particular, it is possible to purchase bars such as: 1g, 5g, 10g, 20g, 31g, 50g, 100g, 250g, 500g, 1 000g.
A unique solution on the market is the possibility of collecting bars at a PKO Bank Polski SA branch or the warehouse of the Mint of Poland. On individual Client request, bars may be sent by courier to any address.

Investment funds and investment and insurance products

In 2014, PKO Bank Polski SA was systematically developing its investment fund offer. Apart from modifying the PKO Towarzystwo Funduszy Inwestycyjnych SA's offer (i.a. the subfunds set apart within the PKO Światowy Fundusz Walutowy were merged – the PKO Ochrony Kapitału 100 subfund with the PKO Papierów Dłużnych USD subfund). The Bank also performed new issues for closed-end investment funds, which gave its customers access to various investment strategies.
In 2014, in cooperation with PKO Życie Towarzystwo Ubezpieczeń SA, a new product line of Life Insurance with Capital Insurance Funds for retail and private banking clients was included in the Bank's offer. The product is available in two versions: a basic one, based on three investment strategies designed by PKO Towarzystwo Funduszy Inwestycyjnych SA, and an expanded one, additionally based on selected PKO Towarzystwo Funduszy Inwestycyjnych SA funds and its partners' funds.

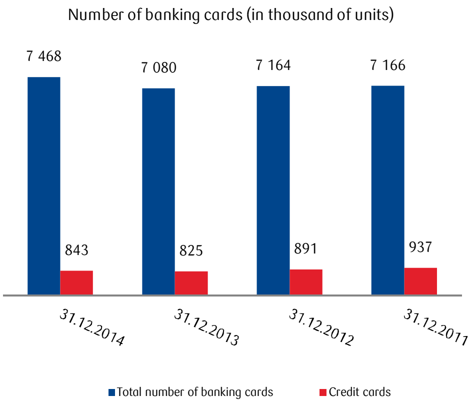
Sales of State Treasury bonds

PKO Bank Polski SA is the only bank to sell and service retail bonds issued by the State Treasury, under an agreement concluded with the Minister of Finance. Treasury bonds are sold through the expansive sales network of PKO Bank Polski SA, which is a great convenience for all persons who wish to invest in bonds. In 2014, over 27 million bonds were sold, including nearly 8 million of highly popular short-term bonds (KOS).

Other products and services in the retail segment

Banking cards

As at the end of 2014 a number of credit cards of PKO Bank Polski SA increased to the level of 7.5 million units (including 0.3 million cards acquired as a result of the merger).
In 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 of PKO Bank Polski SA with the loyalty programme VITAY. Four PKO VITAY credit cards in the Bank's offer were replaced with a Partner Credit Card PKO VITAY with a VISA logo.
A new payment product 'Karta debetowa dla użytkownika' was introduced into the Bank's offer in July 2014, giving the possibility to issue a debit card for the account's proxy, as well as for owner-designated third parties not connected with the account by any kind of relationship.
In 2014, the Bank conducted the advertising campaign of Przejrzysta Karta Kredytowa PKO Visa. 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 period under discussion, 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 (that allows customers to have immediate access to information concerning card transactions) 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 and managing daily limit Internet transactions via electronic access channels were an important convenience for customers.
The actions aimed to increasing a number of card transactions were also taken. For this purpose the communication to customers with information on rebates and bonuses in the selected shops were prepared. The Bank also encouraged customers without debit cards to their ordering through the presentation of benefits from holding and using of cards.

Insurance products for retail and private banking clients as well as small and medium enterprises

In increasing the appeal of its banking products by allowing the possibility to use additional services, tailored to the needs and expectations of its customers, the Bank offers insurance products for retail and private banking clients as well as the segment of small and medium enterprises, linked to banking products such as:

- current accounts (ROR) (i.a. life and accident insurance, property insurance, civil liability insurance, assistance insurance, travel insurance, Bill Protector),
- banking cards (i.a. security insurance package for credit, charge and debit cards, travel insurance),
- consumer, mortgage and corporate loans (life and loss of job insurance, low own contribution insurance, bridging insurance, property insurance, assistance insurance).

In 2014, insurance associated with a new credit card, PKO VITAY, and life insurance for PKO Bank Polski SA customers who have concluded agreements for loans or advances secured with mortgage or are holders of credit cards or current accounts (ROR) maintained by PKO Bank Polski SA were added to the Bank's offer. These insurance products were designed in cooperation with PKO Życie Towarzystwo Ubezpieczeń SA. The Bank also included Insurance for Cash Loans and Insurance for Inteligo Loans in its offer. These products constitute insurance packages consisting of life insurance designed in cooperation with PKO Życie Towarzystwo Ubezpieczeń SA and loss of job insurance.

Mobile banking IKO

In 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 IKO application is now used by more than 228 thousand users, and the acceptance network covers over 70 thousand eService payment terminals and 10 thousand online stores. At present, IKO users have access to more than 6 thousand ATMs.
In the analysed period, a new version of the IKO application was made available to PKO Bank Polski SA customers. Upgrading the software made the application operate more quickly and brought a number of improvements in the area of security, i.a. due to modifications to the application registration process.
The changes and new functionalities introduced to the IKO application in 2014 comprised, i.a.:

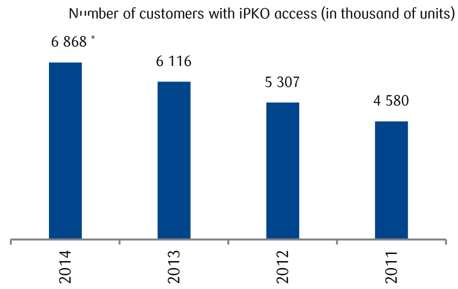
- access to ATMs in the Euronet network free of charge,
- making available an engine to search for online stores in which IKO payments can be made,
- possibility to register companies accepting transfers to telephone numbers with the IKO acceptance network map on one's own,
- possibility to make payments using IKO in PKO Bank Polski SA paying machines,
- introducing a 'fast payment mode' (presentation of IKO authorisation codes without having to log into the application), the possibility to repeat a transfer and make a return transfer to the sender,
- implementing the Autosaving service which consists of linking transactions conducted via IKO to saving funds in a specified customer account.

Parallel to this, the IKO Wallet ('Portmonetka IKO') was modified in such a way that Wallet users may purchase a part of funds in ATMs, close the Wallet when the balance is higher than nil, or purchase funds in excess of the purchase limit. In 2014, the Bank's infrastructure was adapted to processing mobile payment transactions using Polski Standard Płatności Sp.z o.o. Thanks to this, when Polski Standard Płatności Sp. z o.o.

becomes operational and the decision about the start of the new transaction processing model is made, it will be possible to process IKO mobile transactions without unnecessary delay.

Electronic banking

Retail segment customers have access to electronic banking as part of the iPKO, iPKONET and iPKO Biznes services. In the period under discussion, a new functionality was introduced to the iPKO transaction service, which makes it possible to file a request for a debit card to an account. In addition, the Bank enabled all holders of PLN accounts to order proximity gadgets via iPKO. The Bank also implemented a CardMoney service in iPKO – a fast transfer between accounts, where, instead of the recipient's account number, a debit card number is given. The range of functionalities for credit cards was also expanded by introducing the possibility to manage the automatic pay-off of credit card balances and change the settlement cycle. In credit card details, a functionality was added, consisting of presenting information about the number of card transactions and the annual fee for the card.



*excluding clients using iPKONET

In order to increase the level of security of online transactions conducted using MasterCard credit cards, in 2014 the Bank introduced an additional safety feature for such transactions. At present, accepting payments requires logging into iPKO and confirming the order with an authorisation code.
At the end of 2014, PKO Bank Polski SA gave its customers access to new versions of the iPKO online service and the iPKO Dealer platform. The new iPKO has new, fresh artwork in line with that of the information service of PKO Bank Polski SA, as well as new functionalities and elements which customers can manage on their own. iPKO Dealer is a professional, online foreign exchange platform addressed to the Bank's customers who make settlements in foreign currencies. It allows them to conclude foreign exchange transactions, manage exchange risk, and invest surplus funds on their own.

Private banking

In 2014, the Private Banking Centre continued the dynamic development of the network dedicated to serving the Bank's wealthiest clients. Banking Offices were opened in Łódź (October 2014) and Szczecin (November 2014). At present, clients are served in eight Offices located all over Poland. The clients are served by 60 Private Banking Consultants who guarantee discretion, professionalism, availability, and an individual approach to their clients' needs and expectations.
As part of the offer, the Bank's wealthiest clients may count on, i.a. financial consulting services provided by a professional team of consultants, being served in private banking offices which guarantee a discrete atmosphere and prestige, and a special product offer.
PKO Bank Polski SA prepared an extensive deposit offer for its private banking clients, which makes it possible to place deposits for various terms, including foreign currency deposits. The proposed forms of saving also include products which allow access to funds during the investment period. Clients may take advantage of individually negotiated interest rates. As part of products for its wealthiest clients, the Bank offers, i.a. an asset management service provided by PKO Towarzystwo Funduszy Inwestycyjnych SA. The asset management service is dedicated to clients who seek individual solutions and wish to entrust all or part of their funds with licensed investment advisors.
In order to ensure top quality services, the Bank introduced a three-stage training and certification path for consultants serving the wealthiest clients. A specialised team of consultants, in active cooperation with clients, monitors their assets, provides economic knowledge, and signals market events which may affect the rate of return on client investments. In addition, in each office there is a possibility to contact a broker who coordinates the cooperation of the Private Banking Centre with the Brokerage House of PKO Bank Polski SA.

Distribution network

As at the end of 2014, the retail network of PKO Bank Polski SA consisted of 1 261 branches and 8 retail banking offices. Compared with the end of 2013 the total number of retail branches increased by 131. The incorporation of 133 branches of Nordea Bank Polska SA into the structure of PKO Bank Polski SA within the legal merger conducted in October 2014 influenced the number of branches.

Branch network and agencies

Improving customer service conditions in the network is one of the tasks supporting a strategic programme titled 'Enhancing the effectiveness of distribution of the network of branches and agencies'. In the period under discussion, these measures focused on modernising branches, moving the branches to new, attractive locations, and creating new branches. They were aimed at increasing market competitiveness, improving customer service conditions, and optimising the space occupied by the branches. These measures support the effective acquisition of customers and guarantee that the customers are served in comfortable and identical conditions, regardless of the place of service. In 2014, 67 branches were modernised, including relocating 33 branches and modernising another 27. In the year under discussion, a project titled 'Low-cost modernisations' was launched, which was aimed at adapting the branches to the applicable standards in terms of the equipment and liquidating checkout counters at branches which did not require complete redecoration. The project covered 52 branches, including 49 branches modernised by the end of 2014. As a result of the above actions, in 2014 a total of 116 branches were renewed and modernised.
The large branches were optimised by reallocating them and dividing into smaller locations, which made it possible to reach a greater number of customers. These measures have resulted in an evenly spread network of small and medium branches, a structure tailored to the potential of a given micromarket with optimisation of space.
A network of agencies constitutes an important supplement to the network of the branches and ATMs. As at 31 December 2014, the Bank cooperated with 1 001 agencies compared with 1 074 agencies as at 31 December 2013. The drop in the number of agencies was the effect of planned measures aimed at increasing the effectiveness of the network, increasing sales and increasing the importance of the agency network as a channel for distributing the Bank's products and services.

In 2014, the number of the Bank's own ATMs increased by 73 compared with 31 December 2013 and reached 3 065 as at the end of December 2014. By 31 December 2014, there were 485 ATMs with a cash deposit module. The share of the number of deposit transactions using cash deposit machines in the total number of deposit transactions conducted at branches equipped with cash deposit machines amounted to 36.0% as at the end of the fourth quarter of 2014 and increased by 16.6% compared with the corresponding period of 2013. Moreover, the first cash recyclers – self-service devices equipped with ATM functionalities and a cash deposit module, with a closed cash cycle – were launched. PKO Bank Polski SA was the first commercial bank to adopt this solution which, by ensuring that the same cash is used over and over inside the machine, reduces the machine's maintenance costs.
As at the end of 2014, the Bank had 325 cash drops, including 187 devices of a new type which make it possible to post on-line payments to the account holder's account.

Table 17. *Operational data in retail segment*

	31.12.2014	31.12.2013	31.12.2012	31.12.2011	Change 2014/2013	Change 2014-2013
Number of branches in the retail segment:	1 280	1 147	1 134	1 132	11.6%	133
retail branches	1 261	1 130	1 120	1 119	11.6%	131
regional retail branches	11	11	11	12	0.0%	0
private banking branches	8	6	3	1	33.3%	2
Number of ATMs	3 065	2 992	2 803	2 457	2.4%	73
Number of agencies	1 001	1 074	1 208	1 400	-6.8%	(73)

The Virtual Branch

In 2014 PKO Bank Polski SA launched the Virtual Branch, which purpose is to above all provide the possibility of sale products and operational service without the necessity to visit the branch, along with keeping the highest Customer service quality.
Customers can file applications for mortgage loan within the programme 'Mieszkanie dla Młodych', 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 via the Virtual Branch.
Moreover, within the project of sale process virtualisation buying a business package via Internet was made available for civil law companies and individuals conducting a business activity, which resulted in reducing the time of opening a company account.

Payments of the funds of Bank Guarantee Fund to SKOK Wspólnota and SKOK Wołomin customers

In 2014 in branches of PKO Bank Polski SA payments of funds of Bank Guarantee Fund were made to the customers of SKOK Wspólnota and SKOK Wołomin. The payments were realised by 21 600 customers of SKOK Wspólnota among 74 035 authorised persons, who took funds for a total amount of PLN 766 million (out of PLN 815 million) and 16 thousand customers of SKOK Wołomin among 45 428 authorised persons, who took funds for a total amount of PLN 1.9 billion (out of PLN 2 250 million).

4.1.2 Corporate and investment segment

In 2014, PKO Bank Polski SA enhanced the image of a partner of Polish entrepreneurship by financing both the firms' current operations, as well as their future projects. At the same time, the Bank actively supported the implementation of investment and optimisation projects in the local government sector. The main focuses were mainly the following: 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.
The Bank analysed market expectations systematically and, in order to meet customer expectations, tailored its current product and service offer so as to cope with increasing competitive pressure. 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 31 December 2014, gross corporate loans amounted to PLN 46.3 billion and their balance increased by PLN 7.3 billion since the beginning of the year. The total financing provided to corporate customers, including bonds issued exceeded PLN 59 billion, which means an increase by PLN 14.1 billion (i.e. by 31.1%) from the beginning of the year. The total financing provided to corporate segment customers in the amount of approx. PLN 7.6 billion was acquired as a result of the legal merger.

Table 18. *Financing of the corporate clients (in PLN million)*

	31.12.2014	31.12.2013	Change 2014/2013	Change (in PLN million)
Corporate loans, gross	46 257	38 947	18.8%	7 311
Debt securities*	13 064	6 292	107.6%	6 772
municipal	7 303	4 419	65.3%	2 884
corporate	5 761	1 873	207.6%	3 888
Total financing	**59 321**	**45 238**	**31.1%**	**14 082**

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

The highest loan transactions concluded by the Bank in 2014 included financing in the form of investment and working capital loans granted to entities from the energy, telecommunications, financial sectors and to public finance sector entities. The unit values of the highest transactions ranged from PLN 75 million to PLN 300 million. Introducing the safe financing structure, the Bank granted excecutive guarantees in two largest investments in the 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 debt securities are a fixed component of PKO Bank Polski SA's offer dedicated to corporate customers. For many years the Bank has been a leader in the organisation of municipal bonds issue and an important participant on corporate bond market. In 2014, the Bank's share in market in respect of total amount of

debt amounted to 25.6%[6] in corporate bond segment and 43.2%[7] in municipal bond segment.
In 2014, the Bank took part in 14 banking consortiums, under which financing in the total amount of PLN 25 billion, of which the Banks' share amounted to PLN 3.2 billion was granted. In 2014 the Bank concluded 132 agreements to issue municipal bonds in the total amount of PLN 538.6 million. Moreover, it concluded 16 agreements to issue corporate bonds without the guarantee to close issue in the total amount of PLN 8.5 billion, 5 agreements to issue corporate bonds with the guarantee to close the issue in the form of a bank consortium totalling PLN 14.1 billion, in which the Bank's share amounted to PLN 2.2 billion and 2 anexes to agreements of bond issue programme in the form of a bank consortium concluded previously, amending the terms of an issue for a total amount of PLN 5.5 billion, in which the Bank's share amounted to PLN 2.6 billion.

Deposit activities and transaction banking

The volume of corporate customers deposits as at the end of 2014 amounted to PLN 30.9 billion and was higher by PLN 9.6 billion than in the corresponding period of the previous year. The legal merger (the acquisition of corporate segment deposits portfolio in the amount of approx. PLN 4.1 billion) as well as the Bank's strong position as regards the offer of transaction products contributing to a consistent increase in the transaction (current) deposits volume had the impact on the increase in the deposit base.

Table 19. *Deposits of the corporate clients (in PLN million)*

	31.12.2014	31.12.2013	Change 2014/2013	Change (in PLN million)
Corporate deposits	30 907	21 336	44.9%	9 572

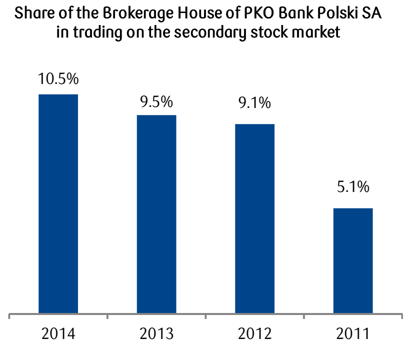
PKO Bank Polski SA continues to improve the quality of the services provided in respect of transaction banking. In 2014, the services addressed to entities with a complex organisational structure (e.g. capital groups), enabling its customers to use various kinds of products and services which make it easier to settle transactions with foreign partners were developed. At the same time the Bank introduced a loyalty programme targeted at a numerous group of Clients using the transaction banking products. Under the programme, customers may adjust specialised banking services to their needs and optimise servicing costs. 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.
Within providing electronic services, the electronic banking system– iPKO biznes - is the leading product. In 2014, the iPKO biznes application was expanded to include new functionalities which make it more convenient to use, including, i.a. simplifying and re-design of key operations made in the service, so that to make them even more user-friendly and intuitive. At present, the iPKO biznes application allows customers to monitor and manage accounts, payment cards and loans, and to place orders for all types of transfers.

Financial institutions

As part of the international settlement system, the Bank cooperates with financial institutions in 109 countries throughout the world and is one of the leading Polish banks in terms of the number of foreign payments cleared and sent to Polish beneficiaries. As regard correspondence banking, after the completion of the legal merger there was an increase in loro accounts. Last year measures were taken to implement a new foreign exchange intermediation model. As part of its current operating activities, the Bank attracted new customers and concluded new agreements with domestic and foreign financial institutions other than banks. Based on these agreements the Bank offered attractive products supporting funds management as well as settlement, investment, Treasury, and risk hedging products.

Activities of the Brokerage House of PKO Bank Polski SA

The Brokerage House of PKO Bank Polski SA is one of the foremost leaders among the brokerage houses operating on the domestic financial market. It offers its customers both an expansive sales network and a competitive product offer. The activities of the Brokerage House are highly praised by Investors. According to a ranking by the FORBES monthly, the Brokerage House of PKO Bank Polski SA was ranked 1st by individual Investors (it scored the most points for: the quality of direct services, employees' professionalism, functionality of the online platform, access to information and quotations, quality of analyses and recommendations, and educational offer) and 2nd by institutional Investors (FORBES No. 10/2014).
In 2014, the share of the Brokerage House of PKO Bank Polski SA in transactions on the secondary share market amounted to 10.5% and was slightly (approx. 1%) higher than the volume of transactions carried out in 2013. As a result of the increase in the transaction volume, the Brokerage House went up to number two in the ranking of brokerage houses from number three in 2013.



The Brokerage House of PKO Bank Polski SA's high place as the market maker on the NewConnect market is worth noting – as at the end of last year, the Brokerage House of PKO Bank Polski SA performed this function for 47 companies, which puts it in 2nd place on the market, as well as the high level of its activity in the segment of trading in Treasury bonds – a 50.5% market share puts the Brokerage House of PKO Bank Polski SA in 1st place.
In 2014, the Brokerage House of PKO Bank Polski SA participated in carrying out significant transactions on the primary market: PKP Cargo SA (the value of the issue – PLN 583.5 million), Torpol SA (PLN 183.7 million), Alumetal SA, PGE (the value of the issue – PLN 1.3 billion) and the LOTOS SA Group (the value of the issue – PLN 995.5 million). Moreover, the Brokerage House participated in organising a public offering of the bonds of PKN Orlen SA and ECHO Investment SA.
As at the end of 2014, the Brokerage House of PKO Bank Polski SA maintained 182.6 thousand securities and cash accounts and had 173.5 thousand active registration accounts, which puts it in 2nd place among 42 participants.

[6] *Data source: NBP reporting system – WEBIS.*
[7] *Data source: NBP reporting system – WEBIS.*

Treasury products

The Bank has a wide offer of forex, interest rate and commodity market instruments, which effectively support customers in their day-to-day operations and allow them to prepare effective financial risk management strategies. SPOT forex transactions have the largest share in sales of treasury products. Good results are achieved by the Bank as regards sales of derivative instruments, such as forwards, options, IRS, CIRS or commodity. In 2014 a number of SPOT transactions was higher by about 15% and about 5% in respect of FORWARD transactions. The highest growth rate in terms of a number of transactions was achieved via Internet channel.
In December 2014, the Bank finished working on the implementation of a new autodealing system linking its branch network to the Bank's Head Office. A new transaction console for dealers, branch and Private Banking applications, and the iPKO dealer platform were launched. The new online platform, iPKO dealer, was given not only a new look, but first of all, the possibility of concluding new transactions, and new functionalities. At present, the Bank's customers may use the iPKO dealer platform to conduct: foreign exchange spot transactions with different settlement dates (today, tomorrow, spot), Forward foreign exchange transactions, FX SWAP transactions, accelerated and deferred settlement of FORWARD and FX SWAP transactions, complete and partial closure of concluded transactions, and to negotiate deposit interest rates. In addition, a possibility was given to submit text message alerts about the expected levels of exchange rates and transactions to be settled on a given date. The transaction history records were also expanded. The new iPKO dealer platform provides customers with current market analyses and charts. In 2015, there are plans to continue developing the autodealing system and to launch new functionalities such as: placing orders, mobile access, multiFX transactions or online access to market news.

Fiduciary services

The Bank operates securities accounts and handles transactions on the domestic and the foreign markets, as well as provides fiduciary services and acts as a depositary for pension and investment funds As at the end of 2014, the value of customers' assets held on fiduciary accounts amounted to PLN 62.8 billion and was higher by approximately 6% than the amount obtained as at the end of 2013. Simultaneously the number of securities accounts serviced amounted to 1.8 thousand units.

Sales network

The sales network of the corporate and investment segment includes seven Corporate Macro-Regions including 37 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.
In 2014 the changes in the organisational structure of sales network were made in the corporate and investment segment - the optimalisation of network functioning in connection with the acquisition of new Regional Corporate Centres, under the merger. By adjusting in 2014 the organisation of its sales network and the model of its functioning to the existing market needs, the Bank improved the cooperation with all groups of corporate customers. These changes helped the Bank to maintain a high level of satisfaction with the services provided, which is reflected, i.a. things, in the growing number of customers.

Table 20. *Operational data in the corporate segment*

	31.12.2014	31.12.2013	31.12.2012	31.12.2011	Change 2014/2013	Change 2014-2013
Number of branches in the corporate and investment segment:	**39**	**39**	**64**	**67**	**0.0%**	**0**
regional corporate branches	7	7	13	13	0.0%	0
corporate centres	32	32	51	54	0.0%	0

4.2 Market share of PKO Bank Polski SA

In 2014 due to the growth of business activity the Bank strengthened its position in respect of its share in the deposit market, which amounted to 17.3% and increased by 1 pp. y/y. As regards loans, market shares also increased to the level of 17.9%, in particular in respect of loans for retail clients (+3.8 pp.).
An increase in shares in respect of retail client's loans was determined by the increase in shares in housing loans (+5.3 pp.), which is a result of the acquisition of significant loans portfolio as a result of the legal merger, improved of share in consumer loans (+0.2 pp. y/y), and loans for corporate clients, which remained at a stable level.

Table 21. Market share of PKO Bank Polski SA (in %)*

	31.12.2014	31.12.2013	31.12.2012	Change 2014/2013
Loans for:	**17.9**	**16.1**	**16.1**	**1.8 pp.**
retail clients, of which:	22.9	19.1	19.0	3.8 pp.
housing	25.9	20.6	20.0	5.3 pp.
in Polish zloty	29.6	28.4	28.6	1.2 pp.
foreign currencies	21.5	12.8	12.9	8.7 pp.
consumer and other	15.6	15.4	16.6	0.2 pp.
corporate clients	13.1	13.1	13.2	0 pp.
Deposits for:	**17.3**	**16.3**	**16.8**	**1 pp.**
retail clients	21.7	21.7	21.8	0 pp.
corporate clients	11.5	9.4	10.2	2.1 pp.

* Data source: NBP reporting system – WEBIS.

4.3 International cooperation

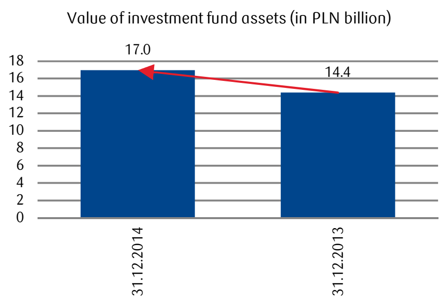
In the PKO Bank Polski SA Group, funds to cover the needs arising from the development of business operations, including the financing of projects relating to the small and medium enterprises segment, are also raised via international cooperation. The Bank raises funds on foreign financial markets, i.e. through loans from international financial institutions (i.a. the Council of Europe Development Bank and the European Investment Bank). As part of the transaction of acquisition of Nordea Bank Polska SA's assets, financing from Nordea Bank AB (publ) on acquired housing loans denominated in foreign currencies was obtained. As at the end of 2014 total financing of the Group in the form of loans received from financial institutions amounted to approx. PLN 21.1 billion and included funds denominated in PLN, EUR, CHF and USD.
At the same time PKO Bank Polski SA participates in 'The 2020 European Fund for Energy, Climate Change and Infrastructure' (the 'Marguerite Fund') project, where increased its capital involvement in the above mentioned fund from EUR 35 650 thousand as at the end of 2013 to EUR 39 150 thousand as at the end of December 2014. PKO Bank Polski SA takes part in the above mentioned project as the only Bank operating in one of the new European Union members which was awarded the status of 'Core sponsor'. The Marguerite Fund was established in 2009 for 20 years and currently implements investment projects such as green-field and brown-field in the energy and the road sector in Poland and other European Union countries.

4.4 Activities of other entities of the PKO Bank Polski SA Group[8]

Among strict banking activity the PKO Bank Polski SA Group provides specialist financial services relating to leasing, factoring, investment funds, pension funds and life insurance and debt collection services and support in the conduct of business, as well as real estate development and management of real estate.

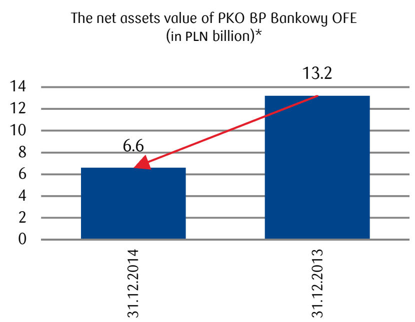
General information on the selected PKO Bank Polski SA Group entities:

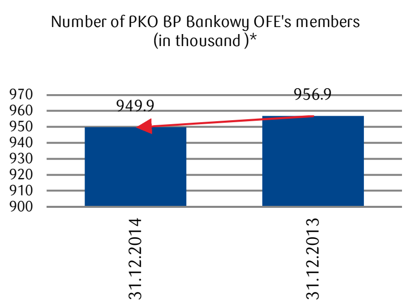
PKO Towarzystwo Funduszy Inwestycyjnych SA



1) In 2014, the Company recorded a net profit in the amount of PLN 51.1 million (in 2013, the Company's net profit amounted to PLN 35.0 million).
2) The asset value of the funds managed by the Company amounted to PLN 16.95 billion as at the end of 2014, which represents the increase in the assets by 17.8% comparing to the end of 2013. An increase of the assets value was associated mainly with positive balance on net sales and result due to asset management.
3) PKO Towarzystwo Funduszy Inwestycyjnych SA ranks 4th place in terms of the net asset value with 8.1% share in the investment funds market and second place with 13.9% share in nondedicated funds managed.
4) As at 31 December 2014, the Company managed 40 investment funds and subfunds.
** Source: Chamber of Fund and Asset Management.*

PKO BP BANKOWY PTE SA

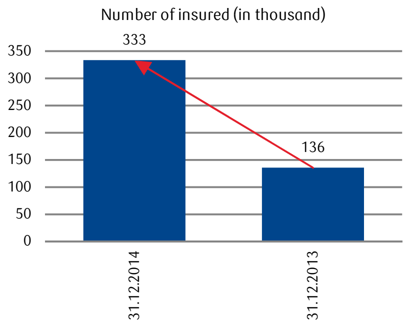




1) In 2014, PKO BP BANKOWY PTE SA recorded a net profit in the amount of PLN 17.5 million (in 2013, the Company's net profit amounted to PLN 14.4 million).
2) As at the end of December 2014, the net assets value of PKO BP Bankowy OFE managed by PKO BP BANKOWY PTE SA amounted to PLN 6.6 billion, which is a decrease of 49.6% in comparison to the end of 2013. The decrease results 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 December 2014, PKO BP Bankowy OFE had approximately 950 thousand members.
4) PKO BP Bankowy OFE holds the ninth place on the pension funds market regarding the OPF's net assets value and the ninth 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 30 September 2011 to 30 September 2014 reached a rate of return at the level of 33.215% (the weighted average rate of return of 31.993%) holding thereby 3rd place in the ranking of OPFs for that period.
** Source: www.knf.gov.pl*

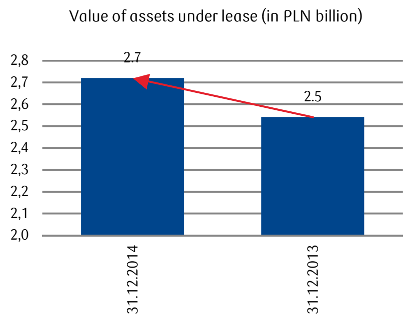
[8] *In the case of the groups financial result presented in the description is the financial result attributable to the parent company of those group.*

The 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 2014 the Group incurred a net loss in the amount of PLN 25.7 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 186 domestic and foreign Insurance Capital Funds, of which 6 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 as at the end of 2014, amounted to PLN 851 million.
5) As at the end of December 2014, the Company insured 333 thousand people.

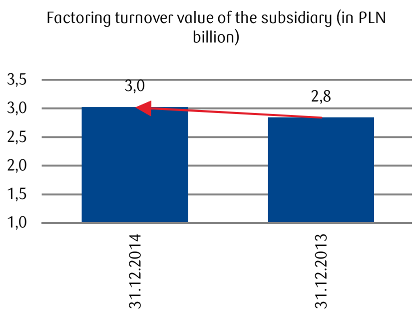
The PKO Leasing SA Group (formerly named: the Bankowy Fundusz Leasingowy SA Group)



1) The merger of PKO Leasing Pro SA (formely Nordea Finance Polska SA) and PKO Leasing SA occurred on 30 September 2014, as a result of which all the assets of PKO Leasing Pro SA (all assets and equity and liabilities, excluding statement of financial position items related to factoring activity taken over by PKO BP Faktoring SA) was transferred to PKO Leasing SA. Presented data include this merger.
2) In 2014 the PKO Leasing SA Group generated result on business activities in the amount of PLN 174.5 million (compared to PLN 142.3 million in 2013).
3) In 2014, the Group entities leased out assets with a total value of PLN 2.7 billion, i.e. an increase of 7% compared with 2013. The increase is a result of the Bank's sales network utilisation, own distribution growth and merger with PKO Leasing Pro SA.
4) At the end of December 2014, in terms of the value of assets leased, the PKO Leasing Group ranked 5th position on the leasing services market with 6.4% market share*.
5) The total carrying amount of the lease investments of the PKO Leasing Group entities amounted to PLN 4.7 billion as at the end of December 2014.

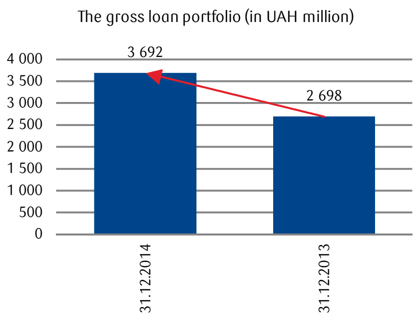
** Source: Polish Leasing Association*

PKO BP Faktoring SA



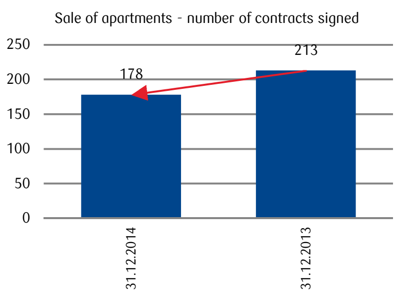
1) In 2014 PKO BP Faktoring SA (an indirect subsidiary of the Bank) generated a net profit in the amount of PLN 2.9 million (in 2013, the Company's net profit amounted to PLN 2.2 million).
2) In 2014 PKO BP Faktoring SA was providing domestic and export factoring services, both with and without the acceptance of risk, reverse factoring and a service of the factoring programme for suppliers.
3) In 2014, the value of factoring turnover amounted to PLN 3.0 billion (in the corresponding period of 2013 this value was PLN 2.8 billion) and the number of customers increased to 200.
4) As at the end of December 2014 PKO BP Faktoring SA ranked ninth place among factoring companies associated in the Polish Factors' Association, with a market share of 2.7%.

The KREDOBANK SA Group (data according to IFRS/IAS)



1) As at the end of December 2014, the KREDOBANK SA Group incurred a net loss in the amount of UAH 321 million (PLN 84.7 million). In 2013, the net loss of KREDOBANK SA Group amounted to UAH 322 million (PLN 125.2 million).
2) In 2014, the KREDOBANK SA Group's loan portfolio (gross) increased by UAH 996 million, i.e. by 36.9% and amounted to UAH 3 694 million as at 31 December 2014; the gross loan portfolio as denominated in PLN decreased by PLN 170 million, i.e. by 17.0% and amounted to PLN 830 million as at the end of 2014. The increase in the value of loan portfolio in UAH is the result of the growth of value in UAH loans denominated in foreign currencies and the sale of new loans.
3) In 2014, term deposits of the KREDOBANK SA Group clients increased by UAH 27 million, i.e. by 1.5% and amounted to UAH 1 889 million as at the end of 2014; term deposits as denominated in PLN decreased by PLN 266 million, i.e. by 38.5% and amounted to PLN 424 million as at the end of the year.
4) As at 31 December 2014 the network of KREDOBANK SA branches consisted of the Central Branch in Lviv and 110 subordinated branches in 22 out of 24 Ukrainian districts. In 2014 the location of 6 subordinated branches was changed and 20 subordinated branches, including 6 in the Autonomous Republic of the Crimea were closed. As at the end of 2014 KREDOBANK SA did not have any branches in the Crimea.

The Qualia Development Sp. z o.o. Group



1) In 2014, the Group incurred a net loss in the amount of PLN 16.4 million (in 2013, the Group's net loss amounted to PLN 49.7 million).
2) In 2014, the Group's activities were focused on:

- conducting conceptual work and administrative procedures to obtain zoning for the project Żwirki i Wigury Street in Warsaw and for properties owned by PKO Bank Polski SA located in Warsaw at Nowogrodzka Street and Sienkiewicza Street,
- conducting the sale of apartments in the realised investments (mainly relates to the project Nowy Wilanów in Warsaw and the project Neptun Park in Gdańsk Jelitkowo),
- preparation and starting of the projects in Nowy Wilanów in the fourth quarter of 2014 (Royal Park stage).

PKO BP Finat Sp. z o.o.

1) The core business of Company is the provision of support services in respect of carrying out activities and services supporting funds management. The Company offers in particular transfer agent services, maintaining the books of accounts, top-up services, body leasing, personnel and payroll services and IT services.
2) The merger of Inteligo Financial Services SA with PKO BP Finat Sp. z o.o. occurred on 28 November 2014. In connection with the above mentioned merger PKO Bank Polski SA has acquired the employees and the resources of Inteligo Financial Services SA, related mainly to IT services provided for the Bank, whereas the employees and the resources regarding business areas and business support together with the management of implementation projects in respect of provided services were transferred to PKO BP Finat Sp. z o.o.
3) In 2014 PKO BP Finat Sp. z o.o. generated the net profit in the amount of PLN 5.1 million, moreover the net profit of acquired Company – Inteligo Financial Services SA amounting to PLN 11.4 million was recognised in the Company's equity.

Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.

1) Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. provides factoring services and together with 'Inter-Risk Ukraina' Additional Liability Company debt collection of liabilities portfolio purchased from KREDOBANK SA.
2) During 2014 the company incurred net loss amounting to UAH 481 million (PLN 126.7 million). In 2013, Company's net loss amounted to UAH 199 million (PLN 77.4 million).

4.5 Sponsorship activities of PKO Bank Polski SA

Sponsorship activities realised by PKO Bank Polski SA have aimed at building the image of the Bank as a reliable financial institution, open to the needs and expectations of its clients, engaged in the development of the country and local communities. Every year, the Bank sponsors several hundred events in culture, education and sport areas.
In addition to large, nationwide sponsorship programmes, the Bank participates also in small projects of great importance to local communities.

Sponsorship of culture and arts

Sponsoring culture and arts is one of the most important areas of the Bank's sponsorship activities. In the support of national culture, what is obliged by almost century-long history, the Bank engages in important cultural events and takes care of numerous cultural institutions.
PKO Bank Polski SA has unwaveringly supported the National Museum in Warsaw for many years. In 2014, the Bank patronised the renewed and modernised Medieval Arts Gallery which exhibits the richest collection from this period in Poland. Moreover, the Bank actively participated in an exceptional cultural event – the Night of Museums in Warsaw, during which the National Museum is traditionally one of the most visited places in the Capital.

The Bank was also a sponsor of the next four portraits of prof. Waldemar Świerzy, ending the series of 'New retinue of Rulers of Poland' ('Nowy Poczet Władców Polski'), which will be given the Polish President during an official ceremony at the Royal Castle in Warsaw in the autumn of 2015. The cooperation with the Warsaw Philharmonic is also long standing, including many memorable concerts for music lovers. In previous year, the Bank acting as Strategic Sponsor of the Warsaw Philharmonic for 2014, was a sponsor of the concert on the occasion of the ceremonial inauguration of the artistic season 2014/2015 as well as a WDR Sinfonieorchester Köln orchestra conducted by Jukka-Pekka Saraste with the participation of a pianist Anna Vinnitska and also the Christmas Carol Concert with the participation of Warsaw Philharmonic Choir conducted by prof. Henryk Wojnarowski.
The Bank's leading sponsorship initiatives include the patronage of Teatr Polski in Warsaw. For the second time already, the Bank will support the activity of this eminent theatre scene for a period of three successive years.

Other institutions that can count on the Bank's support include museums, opera theatres and philharmonic orchestras operating in various regions of Poland whose planned exhibitions or programmes attract large audiences and have an impact outside the region's boundaries. Such cultural institutions include: the Wrocław Opera, the Opera Nova in Bydgoszcz, the Łódź Philharmonic, the Jaracz Theatre in Łódź and the Warmia and Mazury Philharmonic Orchestra in Olsztyn.
In the first half of this year the Bank become also a Strategic Partner of the National Forum of Music (NFM)–new institution within the Polish culture, which arose due to merger of Wrocław Philharmonics and International Festival Wratislavia Cantans. NFM, as a culture institution of city Wrocław, is conducted jointly with the Minister of Culture and National Heritage, the Municipality Wrocław and the Dolnośląskie voivodeship. The NFM plan of action focuses on an organisation of many musical and artistic events, including international festivals such as: Forum Musicum, World Music Days, Wratislavia Cantans or JAZZTOPAD as well as a series of educational projects. Modern and multifunction NFM building will be completed in 2015 and will be the centre of all music projects related to the initiative under the name Wrocław – European Capital of Culture 2016.

PKO Bank Polski SA as a cultural patron was involved in the preservation and popularisation of Polish cinematographic works by becoming involved in the programme for the digital reconstruction of Polish film classics. Thanks to financial support, the younger generation of Poles will be able to watch works by Polish film classics in excellent sound and image quality.

In 2014, the Bank for the third time took patronage of the 39. Film Festival in Gdynia. During the event, guests of the festival participated in the premiere of the digitally reconstructed movie 'Zmruż oczy' ('Squint your eyes') directed by A. Jakimowicz.

For many years now, the Bank has supported initiatives whose purpose is to protect the national heritage and Polish cultural legacy. As part of this mission, for the fourth time the Bank was the Exclusive Partner of the 'Lech Wałęsa Award' (Nagroda Lecha Wałęsy) granted to people ready to make sacrifices for democratic values, and whose attitude creates opportunities for introducing political and social changes. Cooperation with the 'Lech Wałęsa Institute' (Instytut Lecha Wałęsy) Foundation which symbolises solidarity with persons or organisations acting for agreement and joint cooperation of the nations, freedom and respect of basic human rights – is of particular importance to the Bank.

As evidence of the care for the Polish cultural achievements, PKO Bank Polski SA has been for several years a strategic partner of the 'Kisiel Awards' (Nagrody Kisiela) the granting of which was initiated by Stefan Kisielewski, a writer and columnist. The awards in three categories – a politician, a columnist, an entrepreneur are granted to persons with outstanding achievements in their work.

Science and education

Science and education are the natural directions of the Bank's sponsorship activities as an employer, an institution open to young people, a learning organisation which develops its employees' competences. The Bank addresses its activities to both children, pupils and students.

For years now, PKO Bank Polski SA has been a partner of the Knowledge of Poland and Modern World Contest and a sponsor of scholarships for the best participants. Participation in the Contest is an opportunity for high school pupils with extensive knowledge to be admitted to a university and win prizes. On the Banks' profile on Facebook a special competition, in which students can repeat, strengthen their knowledge and prepare for the Contest, and all fans – win the attractive prizes was launched. Although only students of high schools can participate in the real Contest, the competition on Facebook is open to everyone.

The Bank again supported Poland's Championship in Team Programming and participation of the University of Warsaw team in Central European University Contest and World University Contest in Team Programming – the prestigious IT contest in the world, which promotes able and ambitious students. The team of IT specialists from the University of Warsaw won the silver medal in the last Contest, which took place in June 2014 in Yekaterinburg.

For years now, the Bank has cooperated with universities in organising conferences and symposia which are important from an academic, economic and social perspective.

Sports sponsorship

In 2014, the Bank continued a running programme called 'Let's run together' ('Biegajmy razem') as part of which the Bank provided sponsorship for: more than 60 mass runs throughout Poland, a running training programme BiegamBoLubię carried out in the stadiums of 80 cities and towns, and completed a project called 'Drużynowa Liga biegowa PKO Banku Polskiego' with the participation of bank customers and runners. The most important events realised this half-year are: 14th Cracovia Marathon, 3rd Night Wroclaw Half Marathon, 33rd Wroclaw Marathon, Run Warsaw with PKO Bank Polski SA, 7th Silesia Marathon, 16th Poznań Marathon, Gdynia Grand Prix - Independence Run, Running Triada 'Zabiegaj o pamięć' (3 runs cycle: 3rd May Constitution Run, Warsaw Uprising Run and Independence Run), Rzeszow runs, Gryf Half Marathon (Półmaraton Gryfa), Solidarity Half Marathon.

As part of runs supported by the Bank, 59 charity campaigns in total, thanks to which PKO Bank Polski SA's Foundation donated people in need of support in the fight for health of PLN 840 thousand, were carried out, over 19 thousand runners ran for them.
Apart from the running events which definitely dominated in the sports sponsorship category, the Bank also supported other prestigious sports events, such as the Piast Race (Bieg Piastów), Cavaliada or the Sea Days (Dni Morza).

The annual Piast Race (Bieg Piastów) – the oldest and also the most popular ski race in Poland has took place already for the 38th time in the first March weekend in Szklarska Poręba-Jakuszyce. Continuing the long tradition, PKO Bank Polski SA as a Genaral Sponsor took patronage of this event for the next time. The employees of banking sector, including the representatives of PKO Bank Polski SA started in the race together with other participants.

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 whole event consisted of three stages: a competition in Poznań, Lublin 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 unusual yachts and sailing ships moored to representative seashore in Szczecin. Over 100 thousand persons passed through the area of event.

Undertakings related to the sector

The Bank is involved in leading undertakings related to the sector, thus intensifying its promotional activities supporting sales of the offered products and services. The purpose of the supported initiatives was to present the Bank as the financial market leader.
The examples of such initiatives include i.a.: sponsorship of contests: the Entrepreneur of the Year, organised by EY, the Polish Firm - International Champion, organised by PwC and Young Business Brands, executed by the publisher of the Rzeczpospolita. Other examples of sector initiatives are: Professional Investor, WallStreet conference, Conference Programme of Brokerage Houses Chamber, the Institute of International Finance Annual Meeting of CEE, Bank Chief Executives, Warsaw Capital Market Summit Conference in Warsaw, the 10th Economists Congress, the 4th European Financial Congress, the 5th Retail Banking Congress, the Listed Company of the Year Gala, the 3rd Congress of CFOs of SEG Listed Companies.

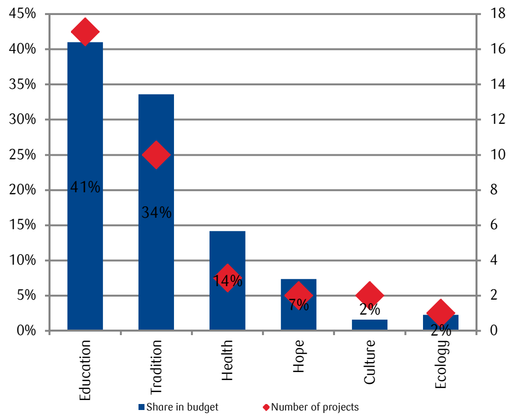
As part of this year's celebration of the 25th Anniversary of the Employers of Poland, the Bank sponsored the events held by this Organisations: the 2nd Polish Economic Congress titled 'Science for business, business for science', an International Conference titled 'From transformation to globalisation', and it became the patron for the 25th Anniversary Jubilee Gala at the Grand Theatre, during which the 25th Anniversary Super Vectors were awarded in several categories of much importance to the transformation which have taken place in Poland over the last 25 years.

Already for the second time in 2014, the Bank was the sponsor for the competition Grand Press – Journalist of the Year and the Grand Press Gala organised by the Press monthly. As part of this event, the Bank was also Partner for the Grand Press Economy award for a journalist specialising in economics.

4.6 Charity activities of the PKO Bank Polski SA's Foundation

Charity activities affect the forming of PKO Bank Polski SA's image as a socially involved business. The support provided by the Foundation contributes to building the Bank's strong relationships with its environment and to strengthening mutual trust.
In following the motto 'Good brings profits' ('Dobro procentuje'), the Foundation wishes to support areas which are of key importance to development of Poland, build strategic partnerships with Polish social organisations, and it allows the Bank's employees to get involved in social activities. The Foundation carries out projects on three levels: strategic, local and individual. The areas of the Foundation's programme activities are: EDUCATION, TRADITION, HOPE, HEALTH, CULTURE, ECOLOGY, SPORT.
The main source of financing of tasks of the Foundation is a grant from the Founder (PLN 13.4 million). Additional funds for grants came from the profit generated during the non-cash transactions made by customers of Inteligo associated with two affinity cards: PSS (PLN 0.4 million) and 'Dobro procentuje' (PLN 0.9 million). In addition, the Foundation used a part of funds from provisions from previous years.
In 2014, the PKO Bank Polski SA's Foundation allocated approx. PLN 11.1 million, for programme-related activities, including PLN 8.9 million for strategic projects, PLN 1.3 million for local projects and over PLN 0.9 million for individual. The Foundation carries out tasks mainly through the establishment of strategic partnerships with selected social organisations, which are the innovator and driving force of the development of civil society in Poland.

Chart 1. Main areas of charity activities of the PKO Bank Polski SA's Foundation in 2014



The involvement of the Foundation in 2014 included 35 strategic projects, mainly:

- In the area of EDUCATION, in 2014 continuing of substantive and financial cooperation with SIEMACHA Association, in developing talents and supporting programmes of social solidarity-building with children and youth at risk of exclusion. The cooperation with Jagiellonian Club within the realisation of the project Academy of Modern Patriotism (Akademia Nowoczesnego Patriotyzmu) was also continued. The Foundation gave a support again to the Foundation of Education for Future (Fundacja Edukacji dla Przyszłości) for a project translating resources of Khan Academy platform, ensuring free access to online education for all, into Polish language. In 2014 for the first time the Foundation supported i.a. Polish Economic Society (Polskie Towarzystwo Ekonomiczne) in respect of Economic Knowledge Contest (Olimpiada Wiedzy Ekonomicznej);
- In the area of TRADITION, the Foundation supported activities of the organisations concerned with the education of children and youth in patriotic spirit: Polish Scouting and Guiding Association (Związek Harcerstwa Polskiego) and Scouting Association of the Republic of Poland (Związek Harcerstwa Rzeczypospolitej) as well as provided support for intergenerational integration activities conducted by Wspólnota Pokoleń Foundation. In addition, the Foundation is the patron of the Jan Rodowicz Anoda award, granted by the Warsaw Uprising Museum;
- In the area of HEALTH, the Banking Honourable Blood Donation was organised. The aim of the donation is to educate a new generation of honourable blood donors recruited from both employees of PKO Bank Polski SA and the Group, as well as circles of other socially sensitive environments;
- In the area of HOPE, cooperation with the Disabled Drivers Help Association 'SPiNKa' in the 'Mobilność osób niepełnosprawnych' project, was continued. 144 persons with musculoskeletal dysfunctions, of which 88% with positive results took a State driving test till November 2014. Similarly, cooperation with the WIOSNA Association was continued, through supporting the volunteer training system of 14th edition of the nationwide assistance campaign 'Szlachetna Paczka'. 1 700 Bank's employees were engaged in 'Szlachetna Paczka', thanks to which 120 packages were given in total;
- In the area of CULTURE, the Creative Initiatives Foundation 'Atut' (Fundacja Twórczych Inicjatyw Atut) was supported for the realisation of the 'Mała Kamienica' programme. The grant was also used to support the Independence Day Concert 2014, organised by the Dziedzictwo Rzeczpospolitej Foundation;
- In the area of ECOLOGY, at the strategic level, the Foundation has been cooperating for three years with the Ecological and Cultural Association Gaja Club, realising together an educational project 'Adopt a river' (Zaadoptuj rzekę), involving Poles to real actions for rivers, ponds, lakes and Baltic Sea.

Local projects are another important area of activity of the Foundation. The purpose of realisation of these tasks is solving problems by local communities, including the involvement of both legal entities, operating in the area: non-governmental organisations (e.g. foundations,

associations), local government units or public utility institutions (e.g. schools), and (in selected projects) employees of PKO Bank Polski SA. At this level, involvement of the Volunteer - Employee of the Bank, which supports the procedure for providing assistance to local organisations is important in the projects realisation. In total, 179 local projects from all over Poland were covered by grants in this category.
In 2014, the Foundation provided support to 89 persons. As part of the Bank's programme 'Let's run together' ('Biegajmy razem...'), 59 Charity Jogging Campaigns were conducted for 60 beneficiaries. 19 142 joggers got involved in these campaigns, including 595 employees of the Bank and the Group.
The results of the activities of the PKO Bank Polski SA's Foundation are becoming increasingly noticeable and stand out among the activities of the other bank corporate foundations. In October 2014, the Foundation received two awards given by the Centre of European Projects – the National ESF Centre for the Best Social Partnership in 2014: a strategic project of the Foundation and the Jagiellonian Club titled 'Academy of Modern Patriotism' was awarded the title of the best social-private partnership in 2014. An honourable mention was awarded for the Foundation's partnership with the SIEMACHA Association. The Foundation also received an honourable mention for the variety of its activities conducted on many platforms entered for the competition, and for its ad-hoc and systemic measures in the partnerships in which it participates.

4.7 Promotional activities carried out by other companies of the PKO Bank Polski SA Group

In 2014, promotional activities of the PKO Bank Polski SA's subsidiaries were mainly aimed at promoting products and services offered by the Companies and were focused in particular on:

- PKO Towarzystwo Funduszy Inwestycyjnych SA conducting marketing activities to strengthening the image and supporting sales of selected products, including: units of PKO Dóbr Luksusowych Globalny and PKO Technologii i Innowacji Globalny offered under PKO Parasolowy – fio, investment certificates of PKO Strategii Obligacyjnych – fiz and Pakiet Emerytalny PKO TFI, conducted in the press, through the Internet and through e-mailing addressed directly to customers and participation as a sponsor in 4th Fund Forum organised by Analizy Online,
- the information and educational campaign conducted by PKO BP BANKOWY PTE SA at the beginning of 2014 (in the period permitted by the law provisions) together with other open pension management companies, aimed at activating the insured persons to their deliberate choice of an institution, to which a part of pension contribution is to be transferred and presenting the position of pension funds in the retirement security system,
- promotion of the products offered by the PKO Leasing SA Group entities, in particular leasing of vehicles and machines and equipment, i.a. through participation in fairs and trade events (Fleet Market, Agro Show, Targi Outsourcingu, Targi Wiatr i Woda),
- marketing activities supporting sales of apartments and investment premises built by the Qualia Development Sp. z o.o. Group entities (as part of the following projects: Neptun Park in Gdańsk Jelitkowo, Nowy Wilanów in Warsaw, Rezydencja Flotylla in Międzyzdroje, Na Fali in Sopot and Pomeranka in Gdańsk),
- the advertising and promotional campaigns for products and services offered by KREDOBANK SA and building the image of the above mentioned Bank as a reliable financial institution in Ukraine, of which in particular: the organisation of branding campaign under the name 'Polish experience. Ukrainian success. European future' ('Polskie doświadczenie. Ukraiński sukces. Europejska przyszłość'), the sales promotion of payment card in Polish zloty 'Złotówka' and deposit product 'Right choice' ('Prawidłowy wybór') as well as the participation in open lessons about financial knowledge in the Lviv schools within the World Saving Day.

4.8 Prizes and awards granted to entities of the PKO Bank Polski SA Group

In 2014, PKO Bank Polski SA have been granted numerous prizes and awards. Innovative services and products as well as excellent customer service quality were appreciated, Bank's management, excellent financial results and the entirety of both commercial and social activities of the Bank were awarded several times.
The most important awarded prizes were as follows:

Products and services

IKO among the prize winners of the Mobile Trends Awards

In the third edition of the Mobile Trends competition, PKO Bank Polski SA was awarded in the category 'Company supporting the development of mobile technology' for IKO mobile payments.
The Mobile Trends Awards competition is open to products, applications, websites, and campaigns, which were created or carried out by Polish companies or Polish branches of foreign companies. Out of approximately 100 enterprises and institutions, winners in 16 categories were chosen. The prizes are awarded by the competition jury (which consists of experts from the world of IT and mobile technologies) and based on votes by Internet users.

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 per cent 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).

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 jury 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.

Brokerage activities

Broker of the Year 2014

In February 2015, the Brokerage House of PKO Bank Polski SA received a prestigious special award of the Warsaw Stock Exchange, 'Broker of the Year 2014', and:

- a prize for the highest turnover realised by a market maker on session transactions in non-Treasury bonds on the Catalyst market,
- a prize for the highest share of a market maker in the volume of transactions in options.

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. It 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.

The Brokerage House of PKO Bank Polski SA appreciated in the Forbes ranking

The Brokerage House of PKO Bank Polski SA was the winner in the Forbes' monthly ranking of the Best brokerage houses according to individual investors. It received the highest marks, winning in six out of seven categories subject to the assessment. Individual investors appreciated the functionality of the IT platform, the quality of direct services, professionalism of employees, the quality of analyses and recommendations, educational offer and access to information and quotations. In addition - maintaining the last year's number of points - it placed second in the institutional investors segment. It also has one of the best teams of institutional stock brokers.

Financial results

The Best Bank (Najlepszy Bank)

For the 22nd time, Gazeta Bankowa has awarded the best banks. PKO Bank Polski SA ranked third in the Commercial banks category (small and medium and 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.

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 2014' ranking of 'Miesięcznik Finansowy BANK' the Bank won in the category 'Banks financing real estate' and among banks offering consumer loans - 'Consumer finance' took third place.

Leader in the Forbes ranking (Lider rankingu Forbesa)

PKO Bank Polski SA was awarded six stars in the general classification of the ranking 'The Best Bank for Enterprises' ('Najlepszy bank dla firm') and won in the category of the best account for enterprises. The Bank was awarded in respect of its credit offer and for the quality of business customers service. The Bank was appreciated first of all for one of the cheapest baskets of banking services for enterprises and credit offer.
The Bank also achieved a high, third rank in the survey realised with the mystery customer method. Awarded were i.a.: service quality, customer acquisition method, décor and organisation of branches.

Bank of the Year in Poland according to the 'The Banker' monthly

Once more, PKO Bank Polski SA received the award 'Bank of the Year in Poland'. The Bank received recognition for its above-average financial results, the high profitability of its assets and equity, the best cost effectiveness, measured with the C/I ratio, among the bank groups in the country, the quality of its loan portfolio, the increase in its market shares, and consolidating its position as the indisputable leader of Polish banking.
The 'Bank of the Year' competition is organised each year by the 'The Banker' monthly which is owned by the 'Financial Times'. The magazine analyses the financial results of banks, their development strategies, and projects carried out in a given year in the context of the situation in the financial sector in a given country.

'Golden Laurel of Super Business' for PKO Bank Polski SA

The Bank won in the 'Golden Laurel of Super Business' competition (in the 'finance and banking' category), which rewards people, institutions and companies for conducting activities that create favourable conditions for the development of Polish entrepreneurship. The jury appreciated the fact that the Bank maintained the position of leader in Polish banking, its merger with Nordea Bank Polska SA, giving Poles the possibility to do banking conveniently and quickly using the IKO mobile application, as well as the revolutionary changes in School Savings Unions (Szkolne Kasy Oszczędności).
The competition was organised by the office of 'Super Business' ('Super Biznes'), the economic supplement to the 'Super Express' daily.

The Pillars of Budget (Filary Budżetu)

PKO Bank Polski SA was honored with a new award of 'Rzeczpospolita' daily – 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 daily 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. Among the winners, there were also KGHM and PZU apart from PKO Bank Polski SA.

Ranking of the largest corporate income tax (CIT) payers

'Puls Biznesu' has been giving awards to the largest Polish CIT payers for two years. PKO Bank Polski SA, which transferred PLN 870 million, came second the Ranking of the largest corporate income tax (CIT) payers. According to the credit reference agency Bisnode, which collected the data for the ranking, the first one hundred payers transferred PLN 12.2 billion worth of tax to the tax authorities in 2012 (the latest data available as at the ranking preparation date).

In the top one hundred of the largest CIT payers, there are as many as 14 banks which transferred a total of more than PLN 3 billion to the tax authorities.

Awards for the Management Board of the Bank

Best manager

Zbigniew Jagiełło, President of the Management Board of PKO Bank Polski SA received an honourable mention in the competition 'TOP 20 Best Managers in the Polish Economy in 2014' organised by Bloomberg Businessweek Polska. The winners were chosen based on a survey conducted among the leading Polish managers.
The 'TOP 20 Best Managers in the Polish Economy in 2014' is an award granted by Bloomberg Businessweek Polska to managers, who employ modern management methods and demonstrate consistency in taking action, and who manage organisations which stand out on the market in terms of quality, the innovative nature of their offers, and above all success. The TOP 20 was made up of well-known and widely recognised on the market heads of companies representing various industries.

Top 50 Marketers of Europe (Top 50 Marketingowców Europy)

Tomasz Marszałł, the director of the Marketing in PKO Bank Polski SA was included in the 'Top 50 Marketers of Europe' list, prepared by publishing house 'The Internationalist'. In preparing the 'Top 50 Marketers of Europe' list, managers considered the best in the region, having a real impact on the growth of the business potential of this region and showing unconventional thinking, innovative realisations of campaigns, as well as generating good results have been taken into account.
'The Internationalist' operates in the publishing market for more than nine years. It is a kind of a platform connecting experts and professionals related to the international advertising and marketing market.

Marketing and Sales Man by Brief

Tomasz Marszałł was chosen as the Marketing and Sales Man of 2014 by 'Brief'. The 'Brief' magazine has been giving 'People of the Year by Brief' awards for several years. It grants them to people who, through their professional activities, contribute to the development of Poland and its regions.

Tomasz Marszałł, Marketing Director at PKO Bank Polski SA, was awarded for his achievements in building marketing communication for the largest Polish bank.

Heroes of HR (Bohaterowie HR)

Artur Miernik, the director of Personnel Management Division of the Bank was awarded in the 'Heroes of HR' competition, in the Best Head of HR of the year category. This title is awarded to people who in a special way manage HR departments. Artur Miernik was recognised for modernising the structure of HR in a large and stable organisation, in accordance with the latest global trends.
It was the first edition of the Heroes of HR competition organised by Employer Branding Institute.

The brand

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 per cent of the Reader's Digest Magazine's survey participants.
This year's edition of one of the largest and broadest consumer survey was carried out in 10 European countries.

The leader in the 'Top Marka' ranking

PKO Bank Polski SA is the most frequently and best described in media banking sector institution - as shown by the 7th 'Top Marka' ranking. The purpose of the compilation prepared by 'Press' and the entity Press-Service Monitoring Mediów is to select the most popular brands in the press and internet media.
On average, 4 thousand bits of information about our Bank appear each month in the media and web portals. In the analysed period of July 2013 - June 2014, media and internet users particularly described and commented on topics connected with integration with Nordea Bank Polska SA, financial results, stock price quotations and product offer.

PKO Bank Polski SA among the best Polish 25 years of freedom brands

PKO Bank Polski SA made it to the '25/25 years: Brands for Poland' chart by Brief magazine, which is the list of 25 domestic commercial brands making up an image of a modern, creative and economically strong Poland. According to the magazine's editorial office, the Bank's brand is a 'national treasure' and it represents our country proudly in the international arena. The Bank's brand enhances the positive image of Poland both in the minds of Poles and foreign investors.
The '25/25 years: Brands for Poland' chart was compiled by the Brief monthly to celebrate the 25th anniversary of Poland's freedom. It dedicated it to twenty-five exceptional Poles, places and events, as well as companies and brands with the greatest potential for building a strong brand for Poland.

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.

Grand Prix Effie for PKO Bank Polski SA

The advertising campaign of PKO Bank Polski SA called 'The Ideal Employee' with the participation of Szymon Majewski proved to be the best in the Effie Awards 2014 competition. The concept of creative commercials received the Grand Prix. It was also granted a golden statuette in the 'Long-term marketing excellence' category. Next, the PKO Junior Achilles campaign won the bronze Effie award in the Banking category. The jury appreciated the spectacular, consistent, and transparent marketing strategy.
The Effie is one of the most important competitions in the marketing communication industry. It gives awards to brands for market success achieved thanks to implemented advertising campaigns. The competition is organised by the Association of Marketing Communication SAR.

„A load off my mind' ('Kamień z serca') – the best card product commercial

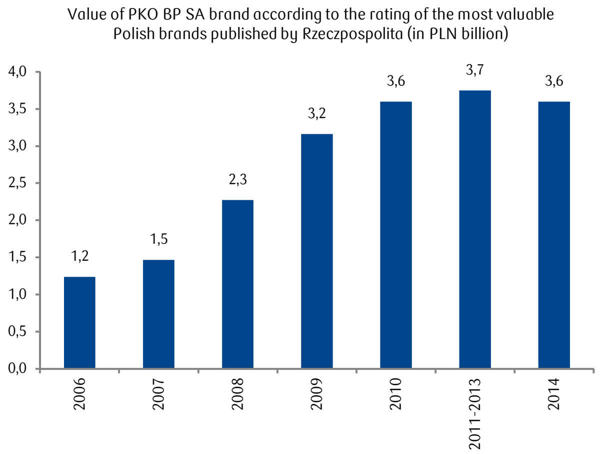
The commercial for a transparent PKO Visa credit card titled 'A load off my mind' ('Kamień z serca') of PKO Bank Polski SA won the competition for the 'Best card product commercial broadcast in the Polish media'. The jury appreciated first of all the non-standard product image – a piece of transparent plastic made using a special technology, with elements visible inside the card: a chip and a payWave antenna. It also emphasised the appeal of the message, the essence of which is an apt combination of the slogan – the set phrase of 'A load off my mind' ('Kamień z serca') with the product's intended use – the card's qualities, emphasising its transparency and the possibility to keep expenses under control. The award was given at the Polish Card Gala which was held as part of the 7th Central European Electronic Card Conference Warsaw 2014.

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 (19.7 points out of the maximum 20) 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.

PKO Bank Polski SA again awarded the most valuable brand title

A victory in the finance category, second place in the general classification of the Polish brands ranking, and the value of the PKO Bank Polski SA brand amounting to PLN 3.6 billion sum up the results of the latest edition of the Rzeczpospolita ranking (the ranking is open only to those brands which were formed in Poland, regardless of the country of origin of their current owner). Since the ranking was presented for the first time in 2006, the value of our flagship brand has tripled and increased by PLN 2.4 billion.



For the purposes of the ranking, a worldwide used method relief from royalty was adopted. It is based on hypothetical fees that the user of the brand would have to pay, if he used it basing on the license agreement. Such a fees are settled in relation to net income on sales.

Employer

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, 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, i.a, a clear career path, promotion criteria, possibility of acquiring knowledge.
PKO Bank Polski SA found itself among the companies such as: Ernst & Young, PwC, Google or Deloitte.

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 the beneficiaries of PARP companies which, despite the economic slowdown, invest in employee development.

The Ideal Employer (Idealny Pracodawca)

Once again our Bank was awarded by students. In a prestigious employer ranking – Universum Student Survey – PKO Bank Polski SA retained its third place in 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 over 70 thousand individual assessments of employers. The survey participants specified their expectations as regards future employers and selected the ideal ones, in their opinion, in seven categories: Business, Engineering, IT, the Humanities, Science, Law, and Medicine and Pharmacy. Apart from our Bank, the companies which received this title included, i.a. Google Poland, Skanska, Bayer, TVN, EY (formerly Ernst & Young).

Internship sponsor

PKO Bank Polski SA received a statuette as a Sponsor of internships for students and graduates as part of the 19th edition of the 'Win the Internship' ('Grasz o staż') competition. The awards are given to companies which got involved in the project to a significant extent.
'Win the Internship' is an all-Poland competition organised by PwC and Gazeta Wyborcza. The Ministry of Science and Higher Education is the Honorary Patron for the competition.

Human Resources Management Leader

In the 15th edition of the Human Resources Management Leader competition, the Bank received an honourable mention for building an employer's image and a Confederate Cap – a prestigious award of the Employers of Poland – an institution which supports the competition. The jury appreciated the Bank's comprehensive measures aimed at building an attractive labour environment and career development addressed to its employees, as well as its activity on the external labour market.
The aim of the competition organised by the Institute of Labour and Social Studies is to examine the condition of human resources management in the companies operating on the Polish market, identify effective solutions, and popularise the so-called good standards.

Other

The Best of the Best

Second time in a row, the Annual Report of PKO Bank Polski SA was awarded a special prize The Best of the Best. The prize is awarded to enterprises which won the main prize in 'The Best Annual Report' competition, organised by Instytut Rachunkowości i Podatków (Accounting and Tax Institute), three times in the last few years.
The award of Annual Report for 2013 is proof of its highest value for shareholders and investors. The Competition Jury appreciated its value in use, application of IFRS/IAS standards and online publication, emphasising highest quality in all these areas. Image-related value of PKO Bank Polski SA financial statements – its completeness and consistency as well as clear and logical presentation of data (i. a. strategy and forecasts taking account of risks, and application of corporate governance principles) was also acknowledged.

IT Leader in Financial Institutions (Lider Informatyki Instytucji Finansowych)

In the 12th edition of the 'IT Leader in Financial Institutions 2013' (Lider Informatyki Instytucji Finansowych 2013) competition of Gazeta Bankowa PKO Bank Polski SA won the prize in the 'Electronic Banking and e-Finance' ('Bankowość elektroniczna i e-finanse') category, which the competition jury awarded the Bank 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.

Columns of the Year (Szpalty Roku)

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 analysed, 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 Bank Polska SA 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.

Strategic Sponsor of 2014 (Strategiczny Mecenas 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. The Bank has been cooperating with The Warsaw Philharmonic for years.

PKO Junior awarded in Electronic Economy Congress Competition (Kongres Gospodarki Elektronicznej)

The Competition Jury of the VIII Electronic Economy Congress organised under the patronage of the Polish Bank Association, recognising 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. On the other hand, the company from the Group - Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o., was recognised as a leader among settlement agents operating in Poland.

HP New Style IT (HP Nowy Styl IT)

PKO Bank Polski SA 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.

Leader of the Dialogue with the Stakeholders

For its consultations on the Rotunda design, PKO Bank Polski SA was ranked third in the 'large companies' category in the 'Leader of the dialogue with the stakeholders' competition which is aimed at promoting on-going, partnership dialogue with the stakeholders, as well as dialogue with the stakeholders as a preliminary and necessary condition for implementing good practices in other CSR areas.
The 'Leader of the dialogue with the stakeholders' competition forms part of the project titled 'Promoting corporate involvement in building social capital in Poland by using CSR tools' carried out by the Polish Confederation 'Lewiatan' and Deloitte, co-financed by the European Union using the funds from the European Social Fund.

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 actions have a significant influence on attracting, employment and retention of talents.

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 (EBstars)' 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 (EBstars)' 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.

Positivist of the Year

For its work at the core – financial education and promoting entrepreneurship among Poles – PKO Bank Polski SA received an award in the 'Positivist of the Year' competition. The jury gave a Special Award to the 'Bankomania' portal.
In this competition, which is organised by 'Wokulski' Foundation of Regional Incubators of Entrepreneurship (Fundacja Regionalnych Inkubatorów Przedsiębiorczości 'Wokulski') under the auspices of the Ministry of Economy and the Polish Chamber of Commerce, awards are given to people, companies and institutions who can combine business activities with the promotion of broadly understood entrepreneurship.

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.

Leader in the Mortgage Banking (Lider Bankowości Hipotecznej)

PKO Bank Polski SA was awarded in the category 'Mortgage Banking' of the ranking 'Newsweek's Friendly Bank' ('Przyjazny Bank Newsweeka'). It was appreciated for effectiveness in customers acquisition and high quality of their servicing. The purpose of the ranking was the assessment of banks' inclination towards granting mortgage loans to young Poles with different family situation and forms of earning income. The survey carried out with the mystery customer method showed, that our Bank has a credit offer to various groups of customers, i.a.: singles, young people in cohabitation and marriages, self-employed, permanently employed, employed on a fixed-term employment contract or on a mandate contract or a task-specific contract. The ranking was conducted in collaboration with a market research company Millward Brown.

The Best Bank for Retail Clients

PKO Bank Polski SA was recognised as the best bank for retail clients and won the Nobilatum prize. The ranking prepared by the 'Polish Market' in cooperation with the Warsaw School of Economics (SGH) originated on the basis of a survey conducted among corporate entities – companies from the list of Pearls of the Polish Economy and individuals. Based on its results, the editorial staff chose best entities in three categories: banks, insurers and leasing companies. When choosing the best, number of indications and evaluation of cooperation with the institution was taken into account. Nobilatum Prize winners are the companies most and best rated.

Best Partner in Business

PKO Bank Polski SA won in the banking category in the 'Best Partner in Business' competition. It received an award for introducing qualitative changes as regards attractiveness and competitiveness of its offer and improving customer service.
The competition is organised by the economic monthly 'Home & Market'. Companies are nominated for the awards based on the assessment of services addressed to institutional clients and the opinions of the largest private enterprises surveyed by the magazine. Awards go to organisations which have a broad offer and innovative solutions, and which demonstrate high professionalism and reliability.

Honourable mention for the PKO Bank Polski SA's Foundation in the best partnerships competition

The PKO Bank Polski SA's Foundation received a special honourable mention in the Best Partnerships Competition organised by the National Centre of the European Social Fund. The jury recognised the diverse activities it undertakes – for undertaking activities both at local and national level, for ad-hoc activities and systematic activities in partnerships.
A strategic project of the Foundation and the Jagiellonian Club titled 'Academy of Modern Patriotism' was awarded the title of best social-private partnership in 2014. An honourable mention was also awarded for the Foundation's partnership with the SIEMACHA Association for supporting the development of children and young people by running a network of modern educational care centres all over Poland.

PKO Bank Polski SA among the best CSR communicators

In a periodical survey on methods for communicating CSR and social engagement issues, conducted by the Rzeczpospolita daily, PKO Bank Polski SA was the only bank in the ranking to score 14 points out of a possible 15 (three companies representing other sectors scored the same number of points). None of the five hundred organisations surveyed scored the maximum number of points.
The survey was conducted for the fifth time. It is aimed at verifying information concerning social engagement which can be found on the websites of the largest Polish companies, and analysing the key trends in social involvement and the manner of disseminating information about this area of activity.

Philanthropy Leader

PKO Bank Polski SA was the only one to receive two honourable mentions in the Philanthropy Leaders contest. For yet another time in a row, the Bank received an award in the category of companies that have transferred, in the past year, the largest amount of funds for social purposes. It also received recognition for the 'customer social involvement programme', i.a. for the affinity Inteligo Visa payWave 'Doing Good Pays Off' ('Dobro procentuje') payment card issued in cooperation with the PKO Bank Polski SA's Foundation and charity jogging campaigns 'I'm jogging for…' ('biegnę dla…') which form part of the bank programme 'Let's run together' ('Biegajmy razem').
The Philanthropy Leaders contest is organised by 'Forum Darczyńców' in Poland. Its purpose is to honour organisations that have the greatest engagement in social activities, and thereby contribute to the promotion of the idea of corporate social involvement.

Prizes granted to entities of the PKO Bank Polski SA Group

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 Qualia Spółka z ograniczoną odpowiedzialnością – 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.

The Rzeczpospolita daily's ranking of PKO Towarzystwo Funduszy Inwestycyjnych SA

PKO Towarzystwo Funduszy Inwestycyjnych SA was ranked fourth in the ranking prepared by the Rzeczpospolita daily, concerning the best investment companies. The analysis covered the fund's results for the last 5 years and their recurrence, risk, staff turnover in the management team, and a subjective assessment of the communication of investment fund companies with the media.

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. The aim of granting the above mentioned awards is the indication of innovative and the most complex solutions for small and medium enterprises.

First place in the ranking of the Ukrainian edition of 'Forbes', concerning the solvency of banks

KREDOBANK SA was ranked first in the ranking concerning the solvency of banks in Ukraine, prepared by Forbes Ukraine. The ranking was compiled based on the results for 2014. The analysis covered the liquidity ratio, profitability ratio, capitalisation ratio, qualitative factors concerning liquidity, shareholders' support, and the risks associated with the shareholders' countries of origin. The objective of the ranking was to find banks which demonstrated the greatest ability to survive the period of system instability.

Bank enjoying confidence in Ukraine (Bank cieszący się zaufaniem na Ukrainie)

KREDOBANK SA won in the nomination 'Bank which maintained a high level of customers' confidence' ('Bank, który zachował wysoki poziom zaufania klientów') in the 2nd competition 'Bank enjoying confidence' (Bank cieszący się zaufaniem) organised by the Ukrainian quarterly 'Bankier'.

The best Bank in car loans in Ukraine

KREDOBANK SA won in the category 'Best Bank in granting car loans' in the 6th Ukrainian competition titles 'Bank of the Year – 2014' organised by the Ukrainian quarterly 'Banker'. The prize was awarded for achieving the largest share in the market for crediting car purchases in Ukraine and the record value of loans granted.

The credibility of deposits in Ukraine

In 2014 KREDOBANK SA was placed in the Top-5 in respect of credibility of deposits among Ukrainian banks in a ranking prepared by the Ukrainian rating agency 'Standard-Ranking'. In the appraisal the agency analysts took into account the results of KREDOBANK SA's operations, maintaining the economic norms of National Bank of Ukraine and the support of a strategic shareholder – PKO Bank Polski SA.

Honourable mention in the 'Leader in the area of PR-technology and marketing' competition in Ukraine

KREDOBANK SA received a special honourable mention in the 2nd 'Leader in the area of PR-technology and marketing – 2014' competition organised by Ukrainian quarterly 'Banker', in the category 'for consistency in promoting banking products and banking service'.

5. ORGANISATION OF THE PKO BANK POLSKI SA GROUP

As at 31 December 2014, the PKO Bank Polski SA Group consisted of the Bank (the parent company) and 46 direct and indirect subsidiaries.

5.1 Entities included in the financial statements

The consolidated financial data includes PKO Bank Polski SA – the parent company of the PKO Bank Polski SA Group and its subsidiaries as defined in IAS 27 'Consolidated and separate financial statements'.

Table 22. Entities comprising the PKO Bank Polski SA Group

No.	Entity name	Head office	Business activity	Share in the share capital (%)	Consolidation method
Parent company					
1.	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna				
Direct subsidiaries					
2.	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	investment fund management	100	full method
3.	PKO BP BANKOWY PTE SA	Warsaw	pension fund management	100	full method
4.	PKO Leasing SA	Łódź	leasing services	100	full method
5.	Bankowe Towarzystwo Kapitałowe SA	Warsaw	services	100	full method
6.	PKO BP Finat Sp. z o.o.	Warsaw	services, including services supporting fund magagement	100	full method
7.	PKO Życie Towarzystwo Ubezpieczeń SA	Warsaw	life insurance	100	full method
8.	PKO Bank Hipoteczny SA	Gdynia	banking activities	100	full method
9.	KREDOBANK SA	Lviv, Ukraine	banking activities	99.5655	full method
10.	Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. [1]	Kiev, Ukraine	factoring	95.4676	full method
11.	'Inter-Risk Ukraina' Additional Liability Company	Kiev, Ukraine	debt collection services	100	full method
12.	PKO Finance AB	Stockholm, Sweden	financial services	100	full method
13.	'CENTRUM HAFFNERA' Sp. z o.o.	Sopot	subsidiaries' real estate management	72.9766	full method
14.	Qualia Development Sp. z o.o.[2]	Warsaw	real estate development	100	full method
15.	Merkury – fiz an [3]	Warsaw	placements of funds collected from fund members	100	full method
Subsidiaries of PKO Leasing SA					
16.	PKO Bankowy Leasing Sp. z o.o.	Łódź	leasing services	100	full method
17.	PKO Leasing Sverige AB	Stockholm, Sweden	leasing services	100	full method
Subsidiary of Bankowe Towarzystwo Kapitałowe SA					
18.	PKO BP Faktoring SA[4]	Warsaw	factoring	99.9889	full method
Subsidiary of PKO Życie Towarzystwo Ubezpieczeń SA					
19.	Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	Warsaw	services	100	full method
Subsidiary of KREDOBANK SA					
20.	Finansowa Kompania 'Idea Kapitał' Sp. z o.o.	Lviv, Ukraine	financial services	100	full method
Subsidiaries of Qualia Development Sp. z o.o. [5]					
21.	Qualia Sp. z o.o.	Warsaw	general partner in limited partnerships of the QDE Group entities	100	full method
22.	Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k.	Warsaw	real estate development	99.9975	full method
23.	Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	Warsaw	real estate development	99.9811	full method
24.	Qualia spółka z ograniczoną odpowiedzialnością - Jurata Sp. k.	Warsaw	real estate development	99.9770	full method
25.	Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	Warsaw	real estate development	99.9750	full method
26.	Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k.	Warsaw	real estate development	99.9123	full method
27.	Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	Warsaw	real estate development	99.8951	full method
28.	Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k.	Warsaw	real estate development	50	full method
29.	Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Sp. k.	Warsaw	real estate development	50	full method
30.	Qualia Hotel Management Sp. z o.o.	Warsaw	real estate development	100	full method
31.	Qualia - Residence Sp. z o.o.	Warsaw	real estate development	100	full method
32.	Qualia - Rezydencja Flotylla Sp. z o.o.	Warsaw	real estate development	100	full method
33.	'Fort Mokotów Inwestycje' Sp. z o.o.	Warsaw	real estate development	100	full method
34.	Sarnia Dolina Sp. z o.o.	Warsaw	real estate development	100	full method
35.	Giełda Nieruchomości Wartościowych Sp. z o.o.	Warsaw	intermediation in the sale of real estate	100	full method
36.	'Fort Mokotów' Sp. z o.o. in liquidation	Warsaw	in liquidation	51	full method
Subsidiaries of 'CENTRUM HAFFNERA' Sp. z o.o.					
37.	'Sopot Zdrój' Sp. z o.o.	Sopot	real estate management	100	full method
38.	'Promenada Sopocka' Sp. z o.o.	Sopot	rental services and real estate management	100	full method
39.	'Centrum Majkowskiego' Sp. z o.o. in liquidation	Sopot	in liquidation	100	full method

Subsidiaries of Merkury – fiz an					
40.	'Zarząd Majątkiem Górczewska' Sp. z o.o.	Warsaw	real estate management	100	full method
41.	Molina Sp. z o.o.	Warsaw	general partner in limited joint-stock partnership entities of the Fund	100	full method
42.	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	purchase and sale of real estate on own account, real estate management	100	full method
43.	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	purchase and sale of real estate on own account, real estate management	100	full method
44.	Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw	purchase and sale of real estate on own account, real estate management	100	full method
45.	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	purchase and sale of real estate on own account, real estate management	100	full method
46.	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	purchase and sale of real estate on own account, real estate management	100	full method
47.	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	purchase and sale of real estate on own account, real estate management	100	full method

1) The second shareholder of the Company is 'Inter-Risk Ukraina' Additional Liability Company.
2) In the financial statements the Company is recognised as non-current assets held for sale.
3) The Fund was included in this statement as PKO Bank Polski SA owes investment certificates in the above mentioned Fund, which allows, according to IFRS, to exercise control over the Fund; share of owned Fund's investment certificates is presented within share in share capital item.
4) The second shareholder of the Company is PKO Bank Polski SA.
5) In limited partnerships of the Qualia Development Group in the position of share in the capital, the total contributions made by the limited partner – Qualia Development Sp. z o.o. is presented

Table 23. Other subordinated entities included in the consolidated financial statements

No.	Entity name	Head office	Business activity	The share in the share capital (%)	Consolidation method
Joint ventures					
1.	Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	Warsaw	activities supporting financial services, including servicing of transactions made using payment instruments	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 activities	25.0001	equity method
4.	'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	Poznań	guarantees	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 Pocztowego Sp. z o.o.	Warsaw	intermediary financial services	100	equity method

5.2 Changes to the organisation of subordinated entities

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

1) The acquisition of the Nordea Bank AB (publ) Group entities by PKO Bank Polski SA [9]

On 12 June 2013, PKO Bank Polski SA and Nordea Bank AB (publ) concluded an agreement, concerning the acquisition by the Bank of shares in Nordea Bank Polska SA ('the Company'), 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 May 2014, after satisfying the conditions precedent defined in the Agreement, PKO Bank Polski SA:

- acquired shares of Nordea Bank Polska SA

In April and in May 2014, 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 votes at the General Shareholders' Meeting of the Company. The total purchase price for the shares of Nordea Bank Polska SA, including the discount for this Transaction, was PLN 2 998 389 thousand.
On 14 May 2014, the Management Board of PKO Bank Polski SA and the Management Board of Nordea Bank Polska SA signed a merger plan, whereby all property (all assets, equity and liabilities) of the Company was transferred to the Bank, as the acquirer. On 26 September 2014 the Polish Financial Supervision Authority granted its permit to the above mentioned merger. On 31 October 2014, the merger was register with the National Court Register relevant to PKO Bank Polski SA's head office. The merger was carried out in the manner provided in Article 515 § 1 of the Commercial Companies Code, i.e. without an increase in the share capital of the Bank.
From the acquisition date (i.e. from 1 April 2014) to the legal merger date (i.e. to 31 October 2014) Nordea Bank Polska SA was a separate company in the Bank's Group. The Bank and the Company remained separate as regards the provision of their services.
Nordea Bank Polska SA ceased to operate as a separate entity as from the legal merger date. As of this day PKO Bank Polski SA automatically became a party to all agreements concluded with the customers and, consequently, assumed all rights and obligations of the Company.
The process of the banks' integration will be rounded off with an operating merger scheduled for the half year of 2015.

- acquired shares of Nordea Polska Towarzystwo Ubezpieczeń na Życie SA

On 1 April 2014, PKO Bank Polski SA concluded an agreement with Nordea Life Holding AB (a company registered in Sweden) on the purchase by the Bank of 1 725 329 shares in Nordea Polska Towarzystwo Ubezpieczeń na Życie SA, 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.

[9] *A detailed description of the acquisition of the assets of the Nordea Group is contained in Note 3 of the Consolidated Financial Statements of the PKO Bank Polska SA Group for 2014*

On 14 May 2014, the change in the Company's name to PKO Życie Towarzystwo Ubezpieczeń SA was registered with the National Court Register.
At the same time, in connection with the 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. – the change in the name was registered with the National Court Register on 14 May 2014) became part of the PKO Bank Polski SA Group.
As at the end of 2014, the share capital of Ubezpieczeniowe Usługi Finansowe Sp. z o.o. amounts to PLN 1 950 thousand and consists of 3 900 shares with a nominal value of PLN 500 each. PKO Życie Towarzystwo Ubezpieczeń SA is the sole shareholder of the above mentioned entity. The core business of Ubezpieczeniowe Usługi Finansowe Sp. z o.o. is the provision of services supporting insurance operations.

- acquired shares of Nordea Finance Polska SA

On 1 April 2014, PKO Bank Polski SA concluded an agreement with Nordea Rahoitus Suomi OY (a company registered in Finland) for the purchase by the Bank of 4 100 000 shares in Nordea Finance Polska SA, with a nominal value of PLN 1 each, representing 100% of the company's share capital and entitling to 100% of votes at the General Shareholders' Meeting, for a total price of PLN 8 000 thousand.
On 26 June 2014, the change in the Company's name to PKO Leasing Pro SA was registered with the National Court Register.
On 30 September 2014 the merger of PKO Leasing Pro SA with PKO Leasing SA was registered with the National Court Register of the domicile of the acquirer, by which the all property of PKO Leasing Pro SA (all assets and equity and liabilities, excluding statement of financial position items related to factoring activities acquired by PKO BP Faktoring SA), was transferred to PKO Leasing SA.

- acquired the so called Swedish portfolio assets

On 1 April 2014, PKO Bank Polski SA and Nordea Bank AB (publ) concluded an agreement for the purchase of the so called Swedish portfolio assets, i.e. receivables from loans and advances granted and bonds issued by Nordea Bank AB (publ) or other entities of its Group to corporate customers (the 'Swedish Portfolio'). The total value 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. it amounted to PLN 1 763 815 thousand in total.

- concluded additional agreements related to the acquisition of the Nordea Bank AB (publ) Group entities

In connection with the fulfilment of the terms of the Transactions related to the Nordea Bank AB (publ) Group retaining the financing of the mortgage loans portfolio granted by Nordea Bank Polska SA ('Mortgage Portfolio'), based on the agreement concluded on 1 April 2014, Nordea Bank AB (publ) granted a credit facility to PKO Bank Polski SA in an amount of up to: CHF 3 645 818 thousand, EUR 465 414 thousand and USD 3 725 thousand, for a period of no longer than 7 years, with a three-year repayment suspension period (the 'Credit Facility'). The average effective margin over the maximum crediting period under the Credit Facility is 63 basis points above the relevant reference rate. The Credit Facility does not involve any commissions related to the granting of the financing. The Credit Facility was secured with a transfer for security of receivables related to the Mortgage Portfolio made by Nordea Bank Polska SA in favour of Nordea Bank AB Spółka Akcyjna Oddział w Polsce under the agreement on the transfer of ownership of loans for security signed on 2 July 2014. The process of making entries in the 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 credit facility, the so called push-down facility, in the amount of up to: CHF 3 645 818 thousand, EUR 465 414 thousand and USD 3 725 thousand for a period of no longer than 7 years, with a three-year repayment suspension period (the 'Push-Down Facility'). The Push-Down Facility was unsecured. The financial terms of the Push-Down Facility (credit margin, commission) were set at arm's length. On the legal merger between PKO Bank Polski SA and Nordea Bank Polska SA, the contract has expired.
In accordance with the provisions of the Agreement, which oblige the Nordea Bank AB (publ) Group to participate in the default risk of the Mortgage Portfolio, on 1 April 2014 PKO Bank Polski SA and Nordea Bank AB (publ) concluded a special indemnity agreement (the 'Special Indemnity Agreement'), according to which Nordea Bank AB (publ) will cover, for a period of 4 years following the closing date, 50% of the excess of the Mortgage Portfolio cost of risk over the annual cost of risk set at 40 basis points for each year of the above mentioned four-year duration of the Special Indemnity Agreement.

2) **Changes concerning 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 amounted to PLN 2 271 thousand and consisted 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 acquired shares.
On 19 September 2014 an increase in the share capital of Polski Standard Płatności Sp. z o.o. of PLN 11 355 thousand, i.e. from PLN 2 271 thousand to PLN 13 626 thousand, was registered with the National Court Register. Shares in the increased share capital were acquired by: Alior Bank SA, Bank Millennium SA, Bank Zachodni WBK SA, ING Bank Śląski SA and mBank SA. As a result of the above mentioned capital increase, share of PKO Bank Polski SA in the share capital of the Company and votes at the General Shareholders' Meeting decreased from 100% to 16.67%.
During the period from 13 January 2014 to 18 September 2014, the Company was a subsidiary of the PKO Bank Polski SA, and since 19 September 2014, shares of the Company have been recognised in financial assets.
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'.
The new mobile payment system was launched on 9 February 2015 under the name of BLIK.

3) **Changes concerning the 'CENTRUM HAFFNERA' Sp. z o.o Group entities.**

On 20 January 2014, a decrease in share capital of CENTRUM HAFFNERA 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 consists of 121 602 shares, each of PLN 500 nominal value.
As a result of the above mentioned transaction the Bank holds shares of the aforementioned Company, constituing 72.98% of the Company's share capital and entitling to 72.98% of the votes at General Shareholders' Meeting. Due to start of exercise 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 HAFFNERA Sp. z o.o.- was removed from the National Court Register.

4) **Changes concerning the KREDOBANK SA Group entities**

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 Kapitał' Sp. z o.o. of UAH 1 400 thousand, carried out by increasing the nominal value of the Company's one share and acquired by the sole shareholder of the Company - KREDOBANK SA, was registered with the Ukrainian Register of Businesses on 17 March 2014. As at the end of 2014, the share capital of the Company amounted to UAH 5 500 thousand and comprises one share with the above mentioned value.

5) Changes concerning the PKO Leasing SA Group entities

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. All 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 acquired shares. PKO Leasing SA remains the sole shareholder of the Company.
On 30 September 2014 the following events were registered with the National Court Register of the domicile of the acquirer:

- a merger of PKO Leasing Pro SA and PKO Leasing SA, whereby all the assets of PKO Leasing Pro SA (all assets and equity and liabilities, excluding the statement of financial position items related to factoring activities acquired by PKO BP Faktoring SA) were transferred to PKO Leasing SA,
- an increase in the share capital of PKO Leasing SA of PLN 4 057 thousand through the issue of shares, which were granted to PKO Bank Polski SA, as the sole shareholder of PKO Leasing Pro SA (acquiree) under the merger of the above mentioned Companies.

As at 31 December 2014, the share capital of PKO Leasing SA amounts to PLN 94 057 thousand and consists of 9 405 690 shares, each of PLN 10 nominal value. PKO Bank Polska SA holds shares of PKO Leasing SA representing 100% of the share capital and entitling to 100% of votes at the General Shareholders' Meeting of the Company.

6) Changes concerning the Qualia Development Sp. z o.o. Group entities

On 4 September 2014, due to shareholders resolution of Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k. the limited partner's contribution (Qualia Development Sp. z o.o.) and the Company's limited partnership sum were increased by PLN 1 796 thousand, i.e. from PLN 2 551 thousand to PLN 4 347 thousand. Above mentioned changes were registered with the National Court Register on 2 October 2014.
On 3 November 2014, due to shareholders resolution of Qualia spółka z ograniczoną odpowiedzialnością – Sopot Sp. k. the limited partner's contribution (Qualia Development Sp. z o.o.) was increased by PLN 600 thousand, i.e. from PLN 4 700 thousand to PLN 5 300 thousand. Above mentioned changes were registered with the National Court Register on 31 December 2014.

7) Changes concerning Bankowe Towarzystwo Kapitałowe SA

On 20 October 2014 an increase in the share capital of Bankowe Towarzystwo Kapitałowe SA of PLN 8 500 thousand, was registered with the National Court Register. As a result of the above mentioned increase the share capital of the Company amounts to PLN 33 244 thousand and consists of 332 439 shares, each of PLN 100 nominal value. All shares in the increased share capital of the Company were acquired by PKO Bank Polski SA - the sole shareholder of the Company, at a price equal to the nominal value of the acquired shares.

8) Changes concerning PKO Bank Hipoteczny SA

On 26 August 2014 the Polish Financial Supervision Authority granted its permit to the establishment of the bank under the name of PKO Bank Hipoteczny SA by PKO Bank Polski SA.

On 6 October PKO Bank Polski SA estabilished PKO Bank Hipoteczny SA and on 24 October 2014 the Company was registered with the National Court Register. The share capital of the Company amounted to PLN 300 million and consisted of 300 million shares, each of PLN 1 nominal value. In December 2014, the Company submitted an application to the Polish Financial Supervision Authority for authorisation to commence operations. The company will offer long-term mortgage loans to retail customers and issue long-term mortgage bonds.

9) Changes concerning Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.:

An increase in the share capital of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. of UAH 420 000 thousand, carried out by increasing the nominal value of the Company's share and acquired by PKO Bank Polski SA, was registered with the Ukrainian Register of Businesses on 17 November 2014. As a result of the above mentioned increase, the share capital of the Company amounts to UAH 950 101 thousand and comprises 1 share with the above mentioned value.
As at 31 December 2014 the shareholders of the Company are: PKO Bank Polski SA with a 95.47% share in the Company's share capital and 'Inter-Risk Ukraina' Additional Liability Company with a 4.53% share in the Company's share capital.

10) Changes concerning 'Inter-Risk Ukraina' Additional Liability Company

An increase in the share capital of 'Inter-Risk Ukraina Additional Liability Company of UAH 35 000 thousand, carried out by increasing the nominal value of the Company's share and acquired by PKO Bank Polski SA, was registered with the Ukrainian Register of Businesses on 3 December 2014. As a result of the above mentioned increase, the share capital of the Company amounts to UAH 78 275 thousand and comprises 1 share with the above mentioned value.
As at 31 December 2014, PKO Bank Polski SA is the sole shareholder of the Company.

11) Changes concerning a merger of Inteligo Financial Services SA and PKO BP Finat Sp. z o.o.

On 27 May 2014 the Management Board of PKO Bank Polski SA passed a resolution concerning merger of Inteligo Financial Services SA (as acquiree) with PKO BP Finat Sp. z o.o. (as acquirer).
Under the above mentioned process, before the merger of entities, the Bank acquired a part of resources of Inteligo Financial Services SA connected mainly with IT services provided for PKO Bank Polski SA and the employees from the IT area related to the operations transferred to the Bank.
On 28 November 2014 in the National Court Register of the domicile of the acquirer, the following events were registered:

- a merger of Inteligo Financial Services SA and PKO BP Finat Sp. z o.o., whereby all the remaining assets of Inteligo Financial Services SA was transferred to the company PKO BP Finat Sp. z o.o.,
- an increase in the share capital of PKO BP Finat Sp. z o.o. of PLN 97 841 thousand through the issue of 978 415 new shares, each of PLN 100 nominal value, which were released to PKO Bank Polski SA, as the sole shareholder of Inteligo Financial Services SA (acquiree) under the merger of the above mentioned Companies.

As at 31 December 2014, the share capital of PKO BP Finat Sp. z o.o. amounts to PLN 107 302 thousand and consists of 1 073 025 shares, each of PLN 100 nominal value. PKO Bank Polski SA is the sole shareholder of the Company.

12) **Changes concerning equity investments of Merkury – fiz an**

In 2014 Merkury – fiz an (a fund, which 100% of certificates are held by PKO Bank Polski SA) took up shares in the increased share capital of its subsidiaries with the total value of PLN 38 500 thousand.

13) **Changes concerning subsidiaries recognised in non-current assets held for sale**

In December 2014, PKO Bank Polski SA reclassified, in accordance with IFRS 5, shares in Qualia Development Sp. z o.o. to the position 'Non-current assets held for sale' - the Bank intends to recover the value of the above mentioned shares through a sale transaction. A signed letter of intent and the planned transaction relate to the sale of the above mentioned Company along with the Bank's properties located in Warsaw. At the same time, due to the change in 2014 in the strategy of the Bank's operations towards the companies: Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and 'Inter-Risk Ukraina' Additional Liability Company., taking into consideration difficult economic and political situation in Ukraine, these shares ceased to be recognised in the 'Non-current assets held for sale' as at the end of 2014.

14) **Events which will cause changes in the PKO Bank Polski SA Group in 2015**

In November 2014, a new company, Qualia 2 Sp. z o.o., with the share capital of PLN 5 thousand was established within the Qualia Development Sp. z o.o. Group.
In January 2015, the Company was entered in the National Court Register and took over the duties of general partner in Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.
At the same time, due to the aforementioned changes in February 2015 a change in Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.'s name for Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k. was registered.

6. INTERNAL ENVIRONMENT

6.1 Principles of risk management

Risk management is one 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, while ensuring control of the level of risk and maintaining it within risk tolerance and limit system adopted by the Bank, in the changing legal and macroeconomic environment. The level of the risks is an important component of 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 securities, derivative instruments risk, operational risk, compliance risk, risk of macroeconomic changes, model risk, business risk (including strategic risk), reputation risk, capital and insurance risk. Derivatives risk is a subject to a special control due to the specific characteristics of used financial instruments.
Risk management in the Group is based especially on the following principles:

- the Group manages all of the identified types of banking risk,
- the risk management process is appropriate to the scale of the 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 the 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 recovery remains organisationally independent from business activities,
- risk management is integrated with the 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 keeping with the risk management strategy, in particular with regard to the level of tolerance of the risk.

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 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 takes the most important decisions affecting the risk level of the Bank and enacts internal regulations regarding the risk management.
The risk management process is carried out in three, mutually independent lines of defence:

- the first line of defence, which is functional internal control that ensures using risk controls mechanisms and compliance of the activities with the generally applicable laws,
- the second line of defence, which is the risk management system, including methods, tools, process and organisation of risk management,
- 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 of 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 President 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 development strategies of the entities, 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 management regulations of certain types of risk in the Group entities are defined by internal regulations implemented by those entities, after consulting the Bank's opinion and having taken into account the recommendations issued by the Bank. The internal regulations of the entities concerning risk management are introduced based on consistency principle and comparable assessment of particular types of risk within the Bank and Group entities, including the scope and nature of the link entities included in the Group, the specificity and scale of the entity's activity and the market on which it operates.
The top priority of the PKO Bank Polski SA Group is to maintain its strong capital position and to 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.
For this purpose, in 2014 the Bank has taken the following activities:

- 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 April 2014, acquired long-term financing from Nordea Bank AB (publ) in the amount of approx. PLN 14 billion as a result of acquisition of the Nordea Group entities,
- in May and November 2014, rolled forward short-term bonds with a current maturity of three 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 2014, the Bank acquired 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 group Nordea. The above mentioned transactions had no impact on the change in the risks identified in the business of PKO Bank Polski SA or Nordea Bank Polska SA.
In October 2014, PKO Bank Polski SA obtained the Polish Financial Supervision Authority's consent to introduce a significant expansion of the Advanced Measurement Approach (AMA) used for calculating the own funds requirement in respect of operating risk, by including in this approach an additional part of the operations which resulted from the merger with Nordea Bank Polska SA.
In the 4th quarter of 2014, the legal merger took place, which ended the stage of formal integration of the aforementioned companies acquired by the Bank. The operating merger is scheduled for the first half of 2015.

6.1.1 Credit risk

Credit risk is defined as a risk of occurrence of losses due to client'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 client's ability to repay amounts due to the Bank.
The objective of credit risk management is to reduce 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 applies mainly 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 assessment related to loan transactions is measured on the stage of loan request review 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 their value 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 level 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 collaterals received by the Bank, credit margins collected from clients and impairment allowances on loan exposures.

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 exposures and on the level of the whole credit portfolio of the Bank. These methods are developed to ensure compliance with the internal rating based method (IRB) requirements, i.e. advanced credit risk measurement method, which can be used while calculating capital requirements for credit risk after being approved by the Polish Financial Supervision Authority.
The Bank assesses the credit risk of retail clients on two dimensions: 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 internal records of the Bank and external databases. The evaluation of credit risk related to financing institutional clients is performed in two dimensions: in respect of the client and of the transaction. The assessment measures comprise ratings of clients and transactions. The cumulative credit rating is a synthetic measure of credit risk.

The 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 behavioural factors. The client's risk assessment depends on the size of the enterprise for which analysis is made. In addition, the Bank has implemented a model for assessment of credited entrepreneurs in the formula of specialist financing, which allows adequate credit risk assessment of large projects involving real estate financing (e.g. office space, retail areas, industrial areas) and infrastructure projects (e.g. telecommunications, industrial, public utility infrastructure).
The rating and scoring models are implemented in an IT tool that supports 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 and the small and medium enterprises 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: clients' borrowing capacity and creditworthiness. The borrowing capacity assessment involves examination of the client's economic and financial

situation, whereas the creditworthiness assessment involves scoring and evaluation of the client's credit history obtained from internal records of the Bank and external databases.

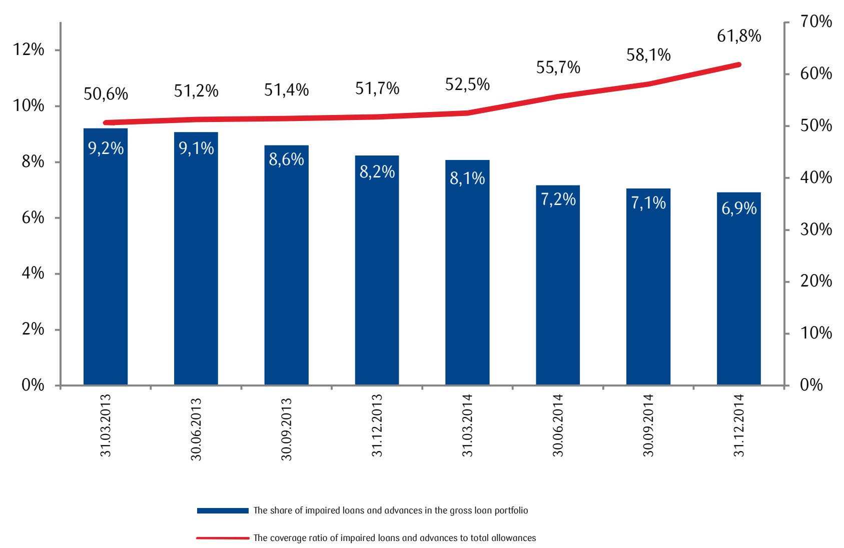
In 2014, the Bank has implemented the housing cooperatives' evaluation model with the use of the scoring method.
The information about ratings and scoring is widely used in the Bank for the purposes of credit risk management, in particular in the system of credit decision-making powers and in the credit 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 24. The structure of loan portfolio and impairment allowances of the PKO Bank Polski SA Group (in PLN million)

	31.12.2014	31.12.2013	Change 2014/2013
Loans and advances to customers			
Assessed on an individual basis	7 378.0	7 337.0	0.6%
Impaired, of which:	5 615.9	5 532.4	1.5%
Finance lease receivables	*345.0*	*134.0*	*2.6x*
Not impaired, of which:	1 762.1	1 804.6	-2.4%
Finance lease receivables	*300.0*	*193.6*	*55.0%*
Assessed on a portfolio basis, of which:	7 361.4	7 328.9	0.4%
Impaired, of which:	7 361.4	7 328.9	0.4%
Finance lease receivables	*106.4*	*115.9*	*-8.2%*
Assessed on a group basis (IBNR), of which:	172 780.5	141 608.1	22.0%
Finance lease receivables	*4 477.9*	*3 793.7*	*18.0%*
Loans and advances to customers - gross	**187 519.9**	**156 274.0**	**20.0%**
Allowances on exposures assessed on an individual basis	(2 963.7)	(2 292.2)	29.3%
Impaired, of which:	(2 948.0)	(2 276.1)	29.5%
Impairment allowances on lease receivables	*(95.1)*	*(46.4)*	*2x*
Allowances on exposures assessed on a portfolio basis, of which:	(4 426.9)	(3 772.7)	17.3%
Impairment allowances on lease receivables	*(75.3)*	*(75.4)*	*-0.1%*
Allowances on exposures assessed on a group basis (IBNR), of which:	(631.9)	(585.8)	7.9%
Impairment allowances on lease receivables	*(14.5)*	*(10.9)*	*32.9%*
Allowances – total	(8 022.5)	(6 650.8)	20.6%
Loans and advances to customers – net	**179 497.4**	**149 623.3**	**20.0%**

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

Chart 2. 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 of the PKO Bank Polski SA Group in gross loan portfolio as at 31 December 2014 amounted to 6.9% and dropped by 1.3% y/y compared with 31 December 2013.
The coverage ratio of impaired loans for the PKO Bank Polski SA Group as at 31 December 2014 amounted to 61.8%, compared with 51.7 % as at 31 December 2014.

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 their activities.

Any changes to the solutions used by the Group's subsidiaries are agreed every 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 Group and the BTK SA Group is supported by credit committees, which are activated in the case of credit transactions which generate increased credit risk.
Appropriate organisational units of the Banking Risk Division and organisational unit of the Risk Management Area dedicated to integration of risk management in the Group participate in managing the credit risk in the Group entities by giving their opinions on projects and periodically reviewing internal regulations of these companies relating to the assessment of credit risk and preparation of recommendations relating to amendments in the drafts of regulations. The Bank supports implementation of the recommended changes in principles for assessing credit risk in the Group entities.

6.1.2 Interest rate risk

The interest rate risk is a risk of incurring losses on the Bank's 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 the risk of potential losses arising from market interest rate changes to an acceptable level by appropriate 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, price sensivity measure, stress-tests and a repricing gap.
The Group established limits and thresholds for interest rate risk comprising the i.a. following: 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 Bank and include recommendations issued to the entities by the Bank.

As at 31 December 2014 and 31 December 2013, the exposure of the PKO Bank Polski SA Group to the interest rate risk comprised mainly of the exposure of the Bank. Interest rate risk with regard to USD was significantly changed by exposure of the Group entities, in which the most significant exposure concerned the KREDOBANK SA Group.

Table 25. 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	31.12.2014	31.12.2013
VaR for a 10-day time horizon with a confidence level of 99% threshold* (in PLN thounsand)	282 268	54 930
Parallel movement of the interest rate curves by 200 b.p. (in PLN thousand) (stress-test)**	2 380 354	495 858

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as 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. The KREDOBANK SA Group uses the 10-day interest rate VaR for the main currencies. As at 31 December 2014 the value of VaR in the KREDOBANK SA Group amounted to approx. PLN 9 480 thousand and PLN 10 686 thousand as at 31 December 2013.
** The table presents the value of the most adverse stress-test of the scenarios: movement of interest rate curves in particular currencies by 200 b.p. up and by 200 b.p. down.

As at 31 December 2014 the Bank's interest rate VaR for a 10-day time horizon (10-day VaR) amounted to PLN 282 268 thousand, which accounted for approximately 1.14% of the Bank's own funds. As at 31 December 2013, VaR for the Bank amounted to PLN 54 930 thousand, which accounted for approximately 0.27% of the Bank's own funds (value of the funds calculated in accordance with regulations on calculation of the capital adequacy ratio).

6.1.3 Currency risk

Currency risk is the risk of incurring losses due to exchange rate changes. The risk is generated by maintaining open currency positions in a given foreign currencies.
The objective of managing the currency risk is to reduce potential losses arising from exchange rate changes to an acceptable level by shaping the currency structure of statement of financial position and off-balance sheet items.
The Group 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 these entities, which are characterised by the significant values of currency risk measures. The regulations are developed after consultation with the Bank and taking into account recommendations issued to the entities by the Bank.

Table 26. VaR of PKO Bank Polski SA and stress-tests of the Group's exposure to the currency risk, cumulatively for all currencies (in PLN thousand)

Name of sensitivity measure	31.12.2014	31.12.2013
VaR for a 10-day time horizon with a confidence level of 99% threshold * (in PLN thousand)	6 230	2 443
Change in CUR/PLN rates by 20% (in PLN thousand) (stress-test)**	28 609	21 428

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk as well as 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. The KREDOBANK SA Group uses the 10-day VaR, which amounted to approx. PLN 3 663 thousand as at 31 December 2014 and approx. PLN 906 thousand as at 31 December 2013.
** The table presents the value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%.

Table 27. The Group's currency position for particular currencies (in PLN thousand)

Currencies	Currency position as at 31.12.2014	Currency position as at 31.12.2013
EUR	(216 994)	13 010
USD	(113 960)	79 507
CHF	(36 566)	6 526
GBP	5 009	3 673
Other (global net)	214 752	6 020

6.1.4 Liquidity risk

The liquidity risk is a risk of the lack of possibility to pay the debts on time due to the lack of liquid assets. Lack of liquidity may arise from inadequate structure of statement of financial position, mismatch 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 the 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 growth of stable sources of financing (in particular stable deposits base). In liquidity risk management policy, 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 implemented limits and thresholds for short, medium and long-term liquidity risk.
Methods of liquidity risk management in the 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 developed after consultation with the Bank and take into account recommendations issued to the entities by the Bank.
The table below presents liquidity reserve of the Bank as at 31 December 2014 and as at 31 December 2013.

Table 28. Liquidity reserve of PKO Bank Polski SA (in PLN million)

Name of sensitivity measure	31.12.2014	31.12.2013
Liquidity reserve up to 1 month*	21 075	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 31 December 2014 the level of permanent balances on deposits constituted approx. 94.7% of all deposits in the Bank (excluding interbank market), which means a decrease by approximately 1.2 pp. as compared to the end of 2013.

6.1.5 Commodity price risk

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

6.1.6 Price risk of equity securities

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 price 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.
Risk management is carried out by imposing limits on the activity of the Brokerage House of PKO Bank Polski SA and monitoring their utilisation.
An influence 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.

6.1.7 Derivative instruments risk

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

- the value of an instrument changes with the change of the underlying instrument,
- 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,
- it is to be settled at a future date.

The process of derivative risk management is integrated with the management of: interest rate, currency, liquidity and credit risks. 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 instrument risk using, i.a, the Value at Risk (VaR) model, which is discussed in the chapter concerning interest rate risk or in the chapter concerning currency risk, depending on the risk factor which affects the value of the instrument.
Risk management is carried out by imposing limits on derivative instruments divided into banking and trading portfolio, monitoring the use of 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 agreements (Credit Support Annex).

Methods of derivative risk management in the Group's subsidiaries are defined by internal regulations implemented by these entities which take up 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 to entities by the Bank.
Positions taken by the other Group entities in particular derivative instruments are determined in a similar manner to positions taken by the Bank in such instruments, taking into account the specifics of the economic activity of companies.

6.1.8 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 risk of losing reputation 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 in respect of their roles and responsibilities. The aim of the current operational risk management is preventing the materialisation of operational events and detecting and reacting to occurring operational events.
For the purposes of operational risk management, the Bank collects external data about operational events that occurred in the Bank and in other banks, including causes and effects of their emergence, data about the business environment factors, results of self-assessment of operational risk, data on Key Risk Indicators (KRI) of operational risk and data on quality of the functional internal control.
The operational risk management also includes the self-assessment of operational risk for Bank's products, processes and applications as well as organisational changes.

Measurement of operational risk comprises calculation of 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 activities in accordance with BIA (base rate), 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 and in particular relates to operational risk limits, operational events and their effects, results of self-assessment, own funds requirement in respect of operational risk in accordance with the AMA approach, stress-tests and value of KRI.

The Bank uses various solutions to limit its exposure to operational risk, including the following:

- control instruments,
- human resources management instruments (staff selection, enhancement of professional qualification of employees, incentive systems),
- thresholds and critical values of Key Risk Indicators (KRI),
- strategic tolerance limits for the Group and limits on operational risk losses for the Bank,
- contingency plans,
- insurance,
- outsourcing.

If the risk level is elevated or high, the Bank applies the following approach:

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

The process of operational risk management is a subject to internal control system including review of strategy and process of operational risk management, self-assessment of compliance with AMA approach requirements, validation of AMA approach and internal audit.
The Group entities manage the operational risk in accordance with the rules of managing this risk implemented in PKO Bank Polski SA, taking into account the scope and nature of the relation of the Group entities, specific nature and scale of the business conducted by individual entities.

In 2014, the dominant impact on the operational risk profile of the Group was exercised by PKO Bank Polski SA, the PKO Leasing SA Group, the Qualia Development Sp. z o.o. Group and the KREDOBANK SA Group. The other Group entities, considering their significantly smaller scale and type of activity, generate only reduced operational risk.

6.1.9 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 and standards of conduct adopted by the Group, including ethical standards.

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

Consistent principles of compliance risk management exist in all entities in the PKO Bank Polski SA Group.
The Group entities have adopted a zero tolerance policy against compliance risk, which means that the Group entities focus their actions towards preventing cases of materialisation of that risk.

6.1.10 Business risk

Business risk is understood as the risk of incurring losses due to adverse changes in the business environment, taking bad decisions, incorrect implementation of decisions taken, or not taking appropriate actions in response to changes in the business environment, it 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.

The main tools used in business risk management include:

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

6.1.11 Reputation risk

The reputation risk is understood as the risk of deterioration of reputation among clients, counterparties, investors, supervisory and control authorities, and the general public as a result of business decisions, operating events, instances of non-compliance or other events. The objective of managing the reputation risk is to protect the Group's reputation by counteracting the occurrence of reputation losses and limiting the negative effect of image-related events on the Group's reputation.

Reputation risk management in the Group includes mainly:

- mass media monitoring: television, radio, press, and Internet in terms of identifying the effects of image-related events and distribution of information in this regard;
- execution of communication protective measures;
- recording image-related events and their effects in the form of reputation losses;
- analysing and evaluating reputation losses and determining the level of reputation risk;
- identifying potential reputation threats.

The main tools for carrying out activities related to the assessment of the Group's reputation risk level are:

- a register of image-related events, reputation losses and their categories;
- a questionnaire designed to identify reputation risk sources and factors;
- reputation risk indicators as auxiliary business environment measures.

The activities related to reputation risk are undertaken on the basis of periodical management reports. They concern, in particular, avoiding or discontinuing activities generating reputation risk and communication activities undertaken by the Group for protection purposes.

6.1.12 Model risk

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. Entities, in which the models risk is considered to be significant, implement appropriate internal regulations after consultation with the Bank. 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 for the Group's entities and aggregate assessment of the model risk at the Group level. The purpose of management actions is to form a model risk management process and the level of this risk.

Management actions related to model risk in particular consist of:

- issuing internal regulations of the Bank,
- 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 regular independent validation process. At the same time, in 2014 in accordance with the internal regulations, the process of giving opinions on the significant models for the Group by the validation unit of the Bank was started.

6.1.13 Risk of macroeconomic changes

Risk of macroeconomic changes is the risk of deterioration of the Bank's financial position as a result of an unfavourable impact of changes in macroeconomic conditions.

The objective of risk of macroeconomic changes management is identification of macroeconomic factors with a significant impact on the Bank's operations and taking actions aimed at mitigating the unfavourable impact of potential changes in macroeconomic conditions on the Bank's financial position.

For the purposes of measuring the risk of macroeconomic changes, the Bank uses risk measurements 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 within the Bank,
- setting acceptable risk levels,
- proposals of actions aimed at reducing the level of risk in the event of elevated or high risk of macroeconomic changes occurrence.

6.1.14 Capital risk

Capital risk is defined as the risk of failing to ensure an appropriate level and structure of own funds, with respect to the scale of PKO Bank Polski SA's operations and risk exposure and, consequently, insufficient for the absorption of unexpected losses, taking into account development plans and extreme situations.

Therefore, the objective of managing the capital risk is to ensure an appropriate level and structure of own funds, with respect to the scale of the operations and risk exposure of PKO Bank Polski SA and the PKO Bank Polski SA Group, taking into account of the assumptions behind PKO Bank Polski SA's dividend policy as well as supervisory instructions and recommendations concerning capital adequacy.

The capital risk level for PKO Bank Polski SA and the PKO Bank Polski SA Group is determined based on levels of values of capital adequacy measures, i.a.: the total capital ratio.
In the case of high level of capital risk, the Bank takes actions to capital adequacy measures reach the safe level, complying with internal standards of PKO Bank Polski SA and supervisory recommendations concerning capital adequacy.

6.1.15 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 i.a.:

- 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.

6.1.16 Comprehensive stress-tests

Comprehensive stress-tests are an integral part of the risk management in the PKO Bank Polski SA Group and are complementary for stress-test specific to particular types of risks.
Comprehensive stress-tests collectively include the following risks considered by the PKO Bank Polski SA Group to be relevant, including: credit risk, market risk, liquidity risk, operational risk, business risk.

Comprehensive stress-tests include an analysis of the impact of changes in the environment and the functioning of the Bank on the financial position of the PKO Bank Polski SA Group, in particular on: income statement, statement of financial position, own funds, the capital adequacy and selected measures of liquidity.

Comprehensive stress-tests for the own use of the Group are carried out at least once a year in the three-year horizon, taking into account changes in the value and structure of the statement of financial position and income statement items (dynamic tests). Supervisory tests are carried out at the request of the supervisory authorities in accordance with the assumptions provided by supervisory authorities.

6.2 Capital adequacy[10]

Capital adequacy is a process which objective is to ensure that the level of risk, which is assumed by the PKO Bank Polski SA Group associated with development of its business activity, may be covered with capital held, taking into account given risk tolerance level and time horizon. The process of capital adequacy management comprises in particular compliance with prevailing regulations of supervisory authorities and risk tolerance level determined within the Bank as well as the process of capital planning, including policy of capital acquiring sources.

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

The process of managing the Group's capital adequacy comprises:

- identifying and monitoring of all of significant 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 31 December 2014 is the Regulation (EU) No. 575/2013 of the European Parliament and of the Council as 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 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 2014 remained at a safe level, significantly above the supervisory limits.

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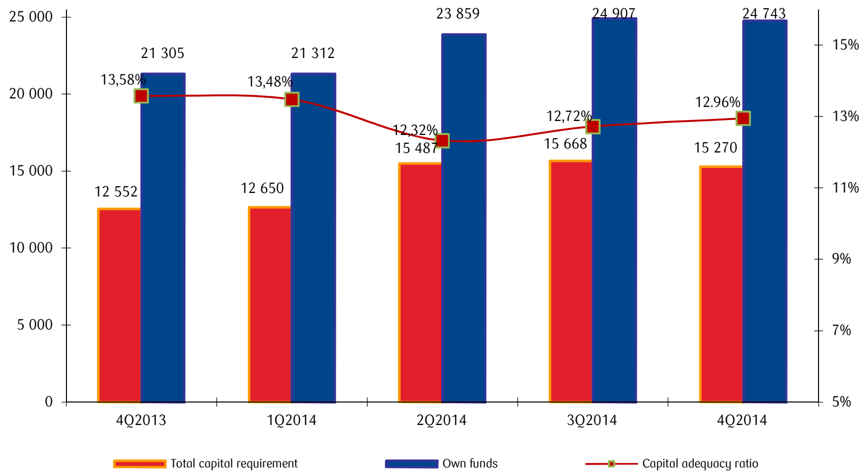
[10] *Own funds for the purposes of capital adequacy are calculated in accordance with the provisions of the Banking Act and Resolution of the Polish Financial Supervision Authority No. 325/2011 of 20 December 2011 on deductions of basic funds, their amount, scope and conditions of their deduction from bank's basic funds, other statement of financial position items included in supplementary funds, their amount, scope and conditions of their inclusion in bank's supplementary funds, deductions from supplementary funds, their amount, scope and conditions of their deduction from supplementary funds and the scope and manner of treating the activity of banks that are members of conglomerates in calculating own funds (Official Journal of the PFSA No. 13, item 49 of 30 December 2011)*

Chart 3. Capital adequacy of the PKO Bank Polski SA Group (in PLN million)



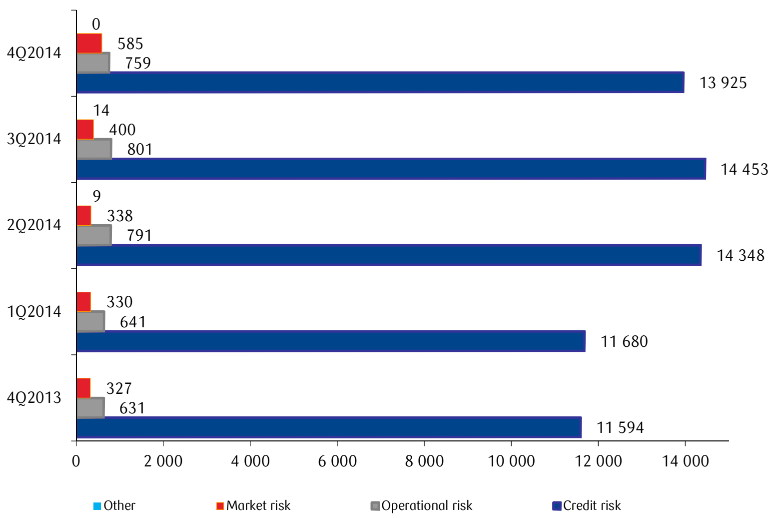
As at 31 December 2014 compared with 31 December 2013, the Group's capital adequacy ratio decreased by 0.62 pp. to the level of 12.96%. As at 31 December 2014 in the Group's own funds calculated for the purposes of capital adequacy the Bank's net profit for 2013 in the amount of PLN 937 500 thousand after deducting dividends approved and the Bank's net profit generated from 1 January 2014 to 30 June 2014 in the amount of PLN 1 004 300 thousand, after deducting expected charges and dividends (on the basis of decision No. DBK/DBK4/7105/7/5/2014 of the Polish Financial Supervision Authority, dated on 29 September 2014).
The Group calculates capital requirements in accordance with the Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 on the scope and detailed procedures of determining capital requirements for particular types of risk (Official Journal of the PFSA No. 2, item 11 of 9 April 2010 with subsequent amendments): in respect of credit risk – using the standardised approach, in respect of the operational risk for the Bank– using the advanced measurement approach (AMA) and for the Group entities - basic indicator approach (BIA) in respect of market risk – the basic methods.

The total requirements in respect of the Group's own funds comprises the sum of the capital requirements for:

- credit risk – including credit risk of instruments from the banking book, counterparty credit risk and risk of credit valuation adjustment (CVA),
- position risk – including equity securities price risk, specific risk of debt instruments, general interest rate risk
- operational risk,
- other types of requirements of the own funds in respect of:
  a) currency risk,
  b) settlement risk,
  c) commodity price risk,
  d) exceeding the exposure concentration limit and large exposure limit.

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

Chart 4. Capital requirements of the PKO Bank Polski SA Group (in PLN million)



The increase in own funds capital requirement in respect of credit risk in 2014 compared to 2013 by approx. PLN 2.3 billion is mainly due to an inclusion of Nordea Bank Polska SA portfolio (as a result of the legal merger) and a significant growth of loan portfolio.

The increase in own funds requirement in respect of market risk in 2014 compared to 2013 by approx. 79% to the level of PLN 585 million results mainly from an inclusion of corporate bonds portfolio and corporate bonds guarantees of Nordea Bank Polska SA.
A significant increase in the loan portfolio (statement of financial position and off-balance sheet exposures) of approximately 3.8% contributed to an increase in the requirenment of the own funds in respect of credit risk in 2014 compared to the end of 2013.
An increase in the requirement of own funds in respect of market risk by 39% to the level of PLN 495 million is mainly due to the increase in liabilities from underwriting corporate bonds with a decline in the value of corporate bonds (a total increase in bonds requirement by approximately 77%).
The own funds requirement in respect of operational risk for the Bank was calculated in accordance with the AMA approach, and the requirement in respect of operational risk for the Group entities conducting financial activities was calculated using the basic index approach (BIA). There was an increase in the requirement from PLN 631 million (as at 31 Decmeber 2013) to PLN 759 million (as at 31 December 2014) mainly due to recognition of the merger.

6.3 Human resources management

6.3.1 Incentive system in PKO Bank Polski SA

PKO Bank Polski SA has a remuneration and incentive system, in which the level of variable component of the salary is determined by the degree of achievement of the targets set. The procedure for target setting and performance measures used depends on the type of position and classification to one of the three employee groups: management, widely understood sales and processing-support. The system is based mainly on the Management by Objectives (MbO) model. As the individual remuneration is linked with the level and quality of performance of the tasks specified, the variable component of the remuneration is strengthened and represents an additional salary incentive. The system focuses on setting objectives which are aligned with the direction of development of the entire organisation; these tasks are then cascaded to particular organisational units and individual employees.

Four pillars of the remuneration and incentive system:

I Pillar, the so-called Management by Objectives (MbO) covers managers for which specific individual objectives may be assigned. The MbO consists of granting bonus which depends on the quality and degree of completion of the tasks assigned and is the system which focuses on: determining performance indicators, assessing performance against the targets assigned, granting bonuses depending on performance.
II Pillar, the so-called Individual Bonus System (IBS) is the system of bonuses which depends on the degree of completion of specific tasks in the areas of sales and effectiveness. The system covers those employees who are completing business tasks, mainly in retail branches and corporate centres, where individual or team, measurable targets can be defined or where there is a strong causal link between activities undertaken by individual employees and the level of achievement of the economic and financial results of the Bank.
III Pillar, the so-called Sales Bonus System is aimed to positions in retail branches, which sale the banking products.
IV Pillar, the so-called Support Bonus System (SBS) includes other employees not covered by the system MbO, IBS and Sales Bonus System. In the SBS pillar there is a possibility to define targets for the whole unit or for the separate team (for an internal organisational unit).

Regardless of the bonus system there is a system of rewarding employees, under which the Bank creates a prize fund for the purpose of:

- individual discretionary awards to employees of the Bank, deriving outstanding results in their work or for achievements, which led to results important for the Bank, and
- awards in competitions relating to performance and other competitions organised by the Bank.

In addition, in accordance with the Resolution No. 258/2011 of the Polish Financial Supervision Authority, Directive No. 2013/36/EU of the European Parliament and the Council, and delegated Regulation No. 604/2014 of the European Commission, the Bank introduced separate regulations fixing the variable salary components policy, applicable to persons on managerial positions.

The PKO Bank Polski SA Group entities have incentive and remuneration systems in which the degree of achievement of the individual targets is determined by the level of performance salary. The procedure for target setting and belonging to the particular system depends on performed tasks including sales tasks and the size of the Company.

6.3.2 Remuneration policy in PKO Bank Polski SA

The basic internal regulation regard of remuneration policy is the Collective Labour Agreement ('Zakładowy Układ Zbiorowy Pracy' - ZUZP) concluded with the company trade union organisations on 28 March 1994 (with subsequent amendments), under which employees of the Bank receive the following remuneration components:

- the base remuneration,
- additional remuneration for working overtime, as well as under conditions which are especially onerous and detrimental to health,

and in addition, based on the separate resolutions passed by the Management Board of the Bank as a result of a recommendation of ZUZP in consultation with the trade union organisations, bonuses and awards for special achievements in work.

Base salaries and additional benefits granted to employees are formed on the basis of job grading (grading categories assigned to specific organisational positions) and analysis of market remuneration in the banking sector.

The principles of the remuneration of members of the Companies' Management Boards of set out in the employment Standards of the members of the Management Boards of the PKO Bank Polski SA Group entities. Moreover the principles of the remuneration are set out in rules of remuneration and in employment contracts or only in employment contracts. In addition, the Collective agreement concluded with Committee of Trade Union in 2003 is operating in KREDOBANK SA.

6.3.3 Benefits for employees

Employee Pension Programme

In 2013, the Employee Pension Programme (EPP) was created at the Bank. The EPP was introduced in the form of a contract on the Bank making basic and additional contributions on behalf of the employees to investment funds managed by PKO Towarzystwo Funduszy Inwestycyjnych SA. In connection with the acquisition of Nordea Bank Polska SA on 31 October 2014, also the Employee Pension Programme created in Nordea Bank Polska SA, designed for its employees, who at the date of the legal merger were participants of EPP of Nordea Bank Polska SA has been functioning in the Bank.
In 2014 the Employee Pension Programme (EPP) was also functioning in the following companies - PKO BANKOWY PTE SA, PKO Towarzystwo Funduszy Inwestycyjncyh SA and PKO Życie Towarzystwo Ubezpieczeń SA.

Medical care

The Bank ensures its employees additional, besides occupational health services (resulting from the regulations of the Polish Labour Code), medical care owed to employees according to various packages, addressed to particular groups of jobs. All packages enable employees to have unlimited number of doctors' consultations in all areas of specialisation and to diagnostic tests ordered by them.
Since 2011, the medical care for the employees was extended to include a health promotion programme called 'Zdrowie jak w Banku', covering, i.a. a preventive health check and activities directed at health-oriented education and promoting a healthy life style.

Additional medical care is also ensured for employees of the majority of the PKO Bank Polski SA Group entities.
Most of the PKO Bank Polski SA Group entities ensure their employees, besides occupational health services, additional medical care by equal or various packages, depending on the rules adopted in these Entities.

Providing broad range of charge medical services for employees constitutes a significant element of additional benefits provided for the employed in the PKO Bank Polski SA Group.

My Benefit

The Bank gives its employees the possibility of using the cafeteria system called 'MyBenefit' as part of which each employee of the Bank may use the funds allocated to him/her from the Company Social Benefits Fund via an online platform on his/her own. The platform offers a broad range of benefits for the employees to choose from.
The amount of funds received to be spent at the cafeteria is dependent on the amount of gross income per person in a given family.

Social benefits

In accordance with the Act of 4 March 1994 on the Company Social Benefits Fund, the aid granted out of the Company Social Benefits Fund to the Bank's employees and former employees (pensioners, people receiving pre-retirement benefits) and members of their families in 2014 was earmarked for the following purposes:

- various forms of holidays,
- promotion of education, cultural and sport activities,
- day carers or nannies looking after children in day care centres, children's clubs, and kindergartens, and other forms of pre-school education;
- provision of material aid – in-kind or financial aid, as well as aid for housing purposes under terms and conditions set out in agreements.

6.3.4 Number of employees

As at 31 December 2014, employment in the PKO Bank Polski SA Group amounted to 29 032 full-time positions, which is an increase by 1 645 positions y/y. Employment in PKO Bank Polski SA increased by 1 490 positions y/y, while other (apart from PKO Bank Polski SA) Group entities increased by 155 positions. The increase in employment was mainly due to changes in the organisational structure of the Group, i.e. acquisition of the Nordea Group companies.

Table 29. Number of employees in PKO Bank Polski SA and other Group entities (in number of full-time equivalents)

	31.12.2014	31.12.2013	31.12.2012	31.12.2011	31.12.2010
PKO Bank Polski SA	25 927	24 437	25 399	25 908	26 770
Other Group entities	3 105	2 950	3 157	3 015	3 010
Total	29 032	27 387	28 556	28 924	29 780

As at 31 December 2014, PKO Bank Polski SA employed 26 078 persons (25 927 full-time equivalents). The average age of employees was 41.8 years, 68.8% employees (66.3% in 2013) had higher education, while women accounted for 78.6% of total employment.

6.3.5 Training policy

PKO Bank Polski SA offers its employees various forms to raise professional qualifications. The Bank carries out development projects of hard and soft skills. The team of 60 internal trainers conducts group's and position's trainings. In the key strategic training projects, group trainings and workshops are conducted by external companies. E-learning platform, mainly for training on product knowledge, processes and IT applications service, is actively used by the Bank.
All actions taken as a part of the training policy support the execution of the Bank's strategy and are adapted to the current needs of the employees and the possibilities of the organisation.

Objectives of the training projects executed in 2014:

- development of skills of the employees to support the execution of the PKO Bank Polski SA's strategic goals,
- promoting the Bank's values through training addressed to selected groups of employees,
- improvement of skills associated with selling techniques,
- maintaining the highest possible customer service quality,
- supporting the positive attitude to changes among the Bank's employees,
- increasing commitment to the performance of business tasks.

In 2014, over 515 thousand participants attended the training courses organised by PKO Bank Polski SA. On average, one employee participated in 18 e-learning training courses and in two in-house training courses.
The training courses and workshops conducted at the Bank are addressed to the employees of PKO Bank Polski SA and the network of agencies of PKO Bank Polski SA. This allows the employees of the Bank and the agency network to make use of high quality training courses carried out in line with the training methodology and standards of the Bank. Moreover, the framework agreements signed with training companies offer attractive terms and conditions, including training rates.
The training courses conducted as part of the Catalogue of Training Courses are available to all of the Bank's employees. The said training courses develop PKO Bank Polski SA's competence and guarantee that the employees participate in closed training courses.
Internships for the employees of KREDOBANK SA (Ukraine) are continued at the Bank. Until now 28 employees of the Bank have taken part in the internships, which contributed to exchanging the best practices within the Group and to increasing the effectiveness of cooperation between the banks.

Due to the legal merger in the period from July to October adaptation in-house training courses supported by e-learning were carried out. The training courses concerned all sales and post-sales processes in place at PKO Bank Polski SA, as well as IT systems. In addition, training courses were organised to make it easier to adapt to and function in the newly-merged organisation.
Due to the entry into force of Recommendation U, training courses were conducted on a large scale within the retail sales network and the agency network of PKO Bank Polski SA, enabling the employees and agents to acquire the status of individuals performing agency activities.

Training policy conducted in the PKO Bank Polski SA Group entities is aimed at supporting the professional development of employees, including the adaptation of their knowledge and skills to the changing legal and macroeconomic factors.

7. CORPORATE GOVERNANCE

7.1 Information for investors

7.1.1 Share capital and shareholding structure of PKO Bank Polski SA

As at 31 December 2014, the share capital of PKO Bank Polski SA amounted to PLN 1 250 000 thousand and consisted of 1 250 000 thousand shares with a nominal value of PLN 1 each – shares are fully paid. In relation to the end of 2013 there were no changes in the share capital of PKO Bank Polski SA. All issued shares of PKO Bank Polski SA are not preferred shares.

Table 30. Share capital structure of PKO Bank Polski SA

Series	Type of shares	Number of shares	Nominal value of 1 share	Issue amount by nominal value
Series A	registered ordinary shares	312 500 000	PLN 1	PLN 312 500 000
Series A	bearer ordinary shares	197 500 000	PLN 1	PLN 197 500 000
Series B	bearer ordinary shares	105 000 000	PLN 1	PLN 105 000 000
Series C	bearer ordinary shares	385 000 000	PLN 1	PLN 385 000 000
Series D	bearer ordinary shares	250 000 000	PLN 1	PLN 250 000 000
		1 250 000 000		**PLN 1 250 000 000**

To the best knowledge of PKO Bank Polski SA, as at 31 December 2014 the shareholders holding, directly or indirectly, considerable block of shares (at least 5%) were three entities: the State Treasury, Aviva Otwarty Fundusz Emerytalny and ING Otwarty Fundusz Emerytalny.

Table 31. Shareholding structure of PKO Bank Polski SA

Shareholders	As at 31.12.2014		As at 31.12.2013		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 [1)]	83 952 447	6.72%	83 952 447	6.72%	0.00
ING Otwarty Fundusz Emerytalny [2)]	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
Total	1 250 000 000	100.00%	1 250 000 000	100.00%	0.00

1) Number of shares held as at 29 January 2013, reported by Aviva OFE after exceeding 5% of shares in PKO Bank Polski SA's shareholding structure after settlement the transaction of sale of 153.1 million of 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 5% of shares in PKO Bank Polski SA's shareholding structure after settlement the transaction of sale of 95 million of PKO Bank Polski SA's shares by the State Treasury.

7.1.2 Information concerning dividend

Dividend policy

In 2014, PKO Bank Polski SA implemented the dividend policy, adopted on 4 April 2012. The general principle of the Bank's dividend policy is the stable execution of dividend payments over a long period in keeping with the principle of prudent management of bank and in line with the Bank's and the Group's financial capabilities. The objective of the dividend policy is to optimally shape the Bank's and the Group's capital structure, taking into account the return on capital employed and its cost, capital requirements related to development, accompanied by the necessity to ensure an appropriate level of the capital adequacy ratios.

The Management Board's intention is to recommend to the General Shareholders' Meeting passing resolutions on dividend payments in amounts exceeding the adopted capital requirements indicated below:

- the capital adequacy ratio of the Bank and the Group will be above 12%, and the necessary capital buffer will be maintained,
- the common equity Tier 1 ratio of the Bank and the Group will be above 9%, and the necessary capital buffer will be maintained.

However, the dividend payment policy may be amended by the Management Board as required, and the decision in this matter will be made taking into account a number of factors related to the Bank and the Group, in particular, the current and anticipated financial standing and regulatory requirements. In accordance with the provisions of the law, each resolution on the payment of dividend will be considered by the General Shareholders' Meeting.
The dividend policy described above was approved by the Bank's Supervisory Board.

Dividend payment

On 26 June 2014, the Ordinary General Shareholders' Meeting of PKO Bank Polski SA, as a result of the distribution of net profit of PKO Bank Polski SA for the year 2013 and of covering unappropriated loss from previous years, in accordance with the recommendation of the Bank's Management Board, allocated for dividends to shareholders amount of PLN 937 500 thousand, which is PLN 0.75 gross per share.
The General Shareholders' Meeting set:

- dividend date (the date of acquisition of the rights to dividend) on 18 September 2014,
- the dividend payment on 3 October 2014.

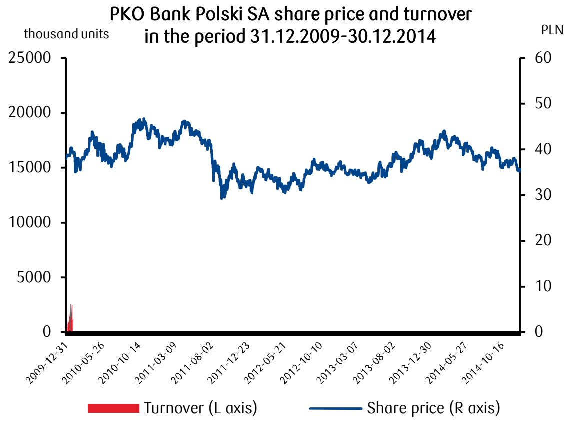
Dividend concerns all shares of PKO Bank Polski SA.
The dividend from the profit of PKO Bank Polski SA for the year 2013 was paid on 3 October 2014.

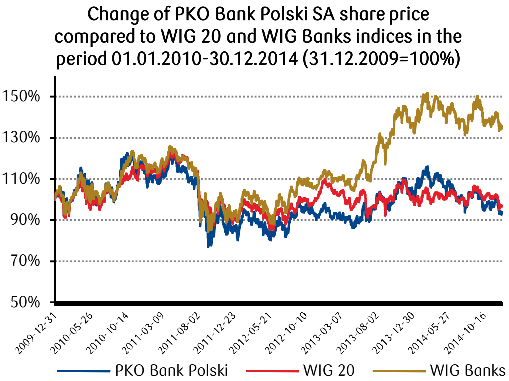
On 2 October 2014 the Management Board of PKO Bank Polski SA adopted a resolution on the distribution of the net profit that PKO Bank Polski SA achieved for the period from 1 January 2014 to 30 June 2014. As per this resolution the Bank's Management Board resolved that in the Management Board's recommendation on distribution of the net profit achieved by the Bank in 2014 addressed to the Ordinary General Shareholders' Meeting approving the Bank's financial statements for 2014, the net profit achieved for the period from 1 January 2014 to 30 June 2014 in the amount of PLN 1 679 300 thousand will be taken into account in a way that assumes allocation of the amount of PLN 675 000 thousand out of that net profit as a dividend for shareholders. This amount constitutes 40.2% of the Bank's net profit achieved in the first half of 2014.
The adoption of the aforementioned resolution was aimed at including 59.8% of the net profit achieved in the period from 1 January 2014 to 30 June 2014, after deduction of the expected charges and dividends, to Tier 1 basic capital of the Bank. The aforementioned allocation of net profit ensured maintenance of the capital adequacy measures at a safe level and provided the Bank's further development. Pursuant to Article 26 item 2 of the Regulation (EU) No. 575/2013 of the European Parliament and Council, inclusion of the profit for this year in own funds is possible only with the prior permission of the Polish Financial Supervision Authority (the PFSA) and after verification of profits by independent persons responsible for the auditing of the financial statements.
The Bank obtained the aforementioned permission of the PFSA and indicated in the current report No. 71/2014 as of 2 October 2014, that accumulation of a part of the net profit for 2014 is required in order to ensure safe level of capital adequacy for its developing operations. The key factors determining this decision of the Bank were conducting the transaction of acquisition of the Nordea Group assets, the changing regulatory environment as well as the process of establishing a mortgage bank (as a subsidiary of the Bank).

The aforementioned level of dividend of the net profit achieved for the period from 1 January 2014 to 30 June 2014 was solely a declaration to recommend a payment out of the net profit for the indicated period. The part of the net profit achieved in 2014, which in the Management Board's opinion should be allocated as a dividend, will be recommended to the Ordinary General Shareholders' Meeting approving the Bank's financial statements for 2014, by the Bank's Management Board in compliance with a relevant procedure, prior to the convening of this Ordinary General Shareholders' Meeting, and the final amount of the dividend will be determined by the General Shareholders' Meeting.

7.1.3 Share price of PKO Bank Polski SA at the Warsaw Stock Exchange

Share price of PKO Bank Polski SA





In 2014:

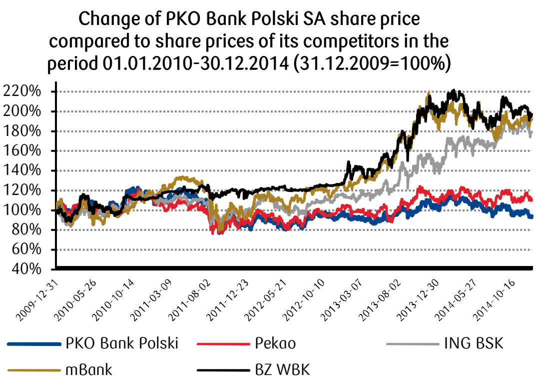
- the price of PKO Bank Polski SA shares decreased by 9.3% (–PLN 3.66) from PLN 39.42 at the end of 2013 to PLN 35.76 at the end of 2014, and the drop of share price took place in the fourth quarter (-9.8%, i.e. PLN –3.90 q/q),
- the average price of the Bank's shares amounted to PLN 39.37 per share and was higher by 7.6% (PLN +2.78) than in 2013,
- the share price fluctuated in the range from PLN 44.15 (28.02.2014) to PLN 35.20 (29.12.2014),
- the daily average volume of trading in the Bank's shares amounted to 2 952 thousand of shares while the lowest level (721 thousand of shares) was recorded on 26 May 2014 and the highest (16 886 thousand of shares) on 10 January 2014.

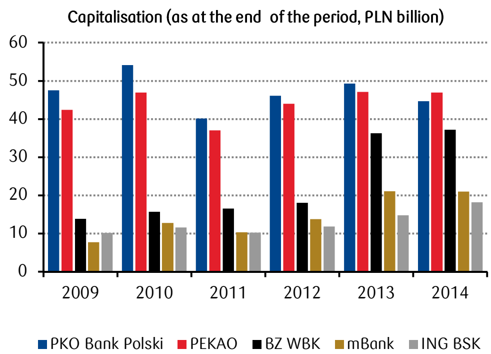
In 2014, share prices on the WSE changed slightly throughout the year (an increase in the WIG index of 0.3% y/y), however, they fluctuated considerably during the year, especially in the second half of the year (from +5.7% in the third quarter to -6.3% in the fourth quarter), which was due to both external and internal factors.

Among the external factors, the escalation of the Ukrainian-Russian conflict had the greatest effect as it triggered off an entire avalanche of events, including the imposition of sanctions by the USA and the EU and countersanctions by Russia (and, in consequence, a drop in Polish export to Russia), as well as a slump in oil prices. It resulted in a rapid economic slump in Russia which culminated in the so-called 'black Tuesday', 16 December 2014, when the Ruble exchange rates plummeted and panic selling occurred on the Moscow Stock Exchange. These events affected investors' behaviour due to the increase in the geopolitical risk in Central and Eastern Europe.

Among the internal factors, in 2014 share prices were mainly affected by the reform of the Open Pension Funds (OFE), serious players on the WSE, which put them under an obligation to transfer more than a half of their funds (the so-called bond portion) to the Social Insurance Institution (ZUS) in February 2014, introduced the freedom of choice in transferring pension contributions to the OFE or ZUS, a reduction in management fees, and the entry into force of the so-called 'safety zipper' in November 2014, according to which 10 years before reaching the retirement age the retirement savings put away by Poles in the OFE will be transferred to their respective accounts in ZUS. These changes forced the OFE to restructure their stock portfolios, including liquidating some of them, and diminished the OFE's investment potential on the WSE.
In 2014, the prices of banks' shares were also adversely affected by a cut in interest rates by the Monetary Policy Council, deflation, and regulatory factors, i.e. a reduction in the interchange fee in 2014, and yet another reduction in the said fee in 2015, as well as a significant increase in fees payable to the Bank Guarantee Fund (BGF). All of these elements contributed to a reduction in banks' forecasted profits for the years 2015–2016 and, consequently, a reduction in target prices.

Share prices of PKO Bank Polski SA and capitalisation of competitors





7.1.4 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 its impact on 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 32. Ratings as at 31 December 2014

Rating with a charge	
Moody's Investors Service	
Long-term rating for deposits	A2 with negative perspective
Short-term rating for deposits	Prime-1
Financial strength	C- with negative perspective
Standard and Poor's	
Long-term loan rating of the Bank	A- with negative perspective
Short-term loan rating of the Bank	A-2

As at the end of 2014, KREDOBANK SA had the following rating granted by the international agency Standard & Poor's on 23 December 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-'.

7.1.5 Investor relations

In 2014, the Bank's investor relation activities focused on the following areas:

- strengthening a positive image of PKO Bank Polski SA as a reliable and transparent company among the existing and potential investors, financial market analysts and rating agencies, through the use of various market communication tools,
- fulfilling the information duties of the Company as an issuer of securities, as required by the law,
- organising the General Shareholders' Meeting and providing information to the Bank's shareholders,
- ensuring the Bank's cooperation with appropriate governmental bodies, organisations and capital market institutions in connection with the Bank's presence on the public securities market.

As part of market communication in 2014:

- after each quarter end, the Bank's and the Group's financial performance was presented by the Bank's Management Board in a meeting with capital market and debt securities analysts, organised on the Bank's premises, and during teleconferences in which ca. 70 analysts and representatives of investors participated each time,
- members of the Management Board of the Bank and the key management regularly participated in meetings (and teleconferences) with investors and analysts, both on the Bank's premises and in investor conferences. In 2014, there were ca. 80 meetings on the Bank's premises, ca. 170 meetings during 14 investor conferences and two roadshow project and over 110 teleconferences,
- chat of President of the Management Board with individual investors took place in May 2014 and in June 2014 representatives of the Bank participated in the conference of the Association of Individual Investors (Stowarzyszenie Inwestorów Indywidualnych) in Karpacz,
- the Investor Relations Office maintained on-going contacts with analysts and investors, both corporate and individual, by answering many questions asked by telephone or e-mail and relating to business operations and financial performance of PKO Bank Polski SA,
- the Bank immediately published all information relevant to investors and the Bank's shareholders on the website of the Investor Relations Office: http://www.pkobp.pl/pkobppl-en/investor-relations/,
- in March 2014, the Bank launched its annual on-line report once again, this time for 2013, in the form of a dedicated online service in two language versions: Polish and English (www.raportroczny2013.pkobp.pl). The annual report published as a separate service is a tool for achieving the Bank's objectives in the area of information and image. First and foremost, it makes it easier to find and use the key financial and business information of the PKO Bank Polski SA Group; in 2014 the service was significantly modified, its structure changed into more transparent and intuitive for internet users, additional user-friendly functionalities, including i.a. interactive tools for presenting data and charts were introduced,
- in December 2014, the Bank adopted (subsequently made public on the website) the PKO Bank Polski SA's Capital Adequacy Information Policies in contacts with investors and clients that relate to conducting the communication by the Bank with investors, clients and professional clients, in particular, they determine the scope and the way of conducting the communication, including communication channels and the competencies in information activities.

These activities were aimed at providing comprehensive information on the Bank's financial performance and activities, including the changes in market environment, to enable a reliable assessment of the Bank's current position and outlook and the correct valuation of the company's shares.

PKO Bank Polski SA makes every effort to ensure that periodic reports maintained the highest standards in respect of professionalism and fair information, so that they present the Bank's results in a complete and transparent manner and are as useful as possible to institutional investors, analysts and individual shareholders.

In 2014, second time in a row, PKO Bank Polski SA received a special award and the title of 'The Best of The Best' in the competition for the best annual report, published by Instytut Rachunkowości i Podatków (Accounting and Tax Institute). The prize is awarded to enterprises and banks which won the main prize in the competition three times in the last three years. The award is proof of the highest quality of the Bank's annual reports. The Chapter of the competition appreciated its value in use for WSE investors, application of IFRS/IAS standards and publication of an online version in all these areas.
Recognition was also given to the image-related value of the Bank's financial statements, its completeness and consistency, and clear and logical presentation of data (i.a. strategy and forecasts taking account of risk, the application of the principles of corporate governance).

7.2 Compliance with the rules for corporate governance

7.2.1 The rules for corporate governance and the scope of use

The rules for corporate governance introduced in the form of a document 'Best Practices of Warsaw Stock Exchange Companies'

PKO Bank Polski SA applies the rules for corporate governance introduced in the form of a document 'Best Practices of Warsaw Stock Exchange Companies' approved by the Supervisory Board of the Warsaw Stock Exchange SA on 4 July 2007 (the Resolution No. 12/1170/2007 with subsequent amendments).
The above mentioned document on corporate governance rules is publicly available at the website: www.corp-gov.gpw.pl, which is the official site of Warsaw Stock Exchange SA in the topic of corporate governance of companies listed on Warsaw Stock Exchange SA.
In 2014, PKO Bank Polski SA took necessary actions with an aim to fully obey the rules included in the document 'Best Practices of Warsaw Stock Exchange Companies'.

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 Code of Best Practice for WSE listed 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 that rule in accordance with which the Bank should, i.a. 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.

Corporate governance principles for supervised institutions, issued by the Polish Financial Supervision Authority

On 9 December 2014, the Bank's Management Board adopted for use the Corporate Governance Principles for supervised institutions (adopted by the Polish Financial Supervision Authority at the meeting on 22 July 2014) concerning the responsibilities and obligations of the Management Board, i.e. conducting the Bank's affairs and representing it, in compliance with the generally binding laws and the Bank's Memorandum of Association, with the provision that paragraph 8, clause 4 of the Principles, insofar as it relates to allowing the shareholders the possibility to participate in the meetings of the decision-making authority electronically, will not be applied unless the General Shareholders' Meeting makes appropriate amendments to the Bank's Memorandum of Association authorising the Management Board to organise the General Shareholders' Meeting using electronic means of communication. Chapter 9 of the Principles, concerning the managing of assets at the client's risk, will not be applied due to the fact that the Bank does not conduct such activities.
On 17 December 2014, the Bank's Supervisory Board adopted for use the Corporate Governance Principles for supervised institutions concerning the responsibilities and obligations of the Supervisory Board, i.e. supervising the conducting of the Bank's affairs in compliance with the generally binding laws and the Bank's Memorandum of Association.
The text of the Principles can be found on the website of the Polish Financial Supervision Authority at the following address:
https://www.knf.gov.pl/Images/Kanon%20%C5%82adu%20korporacyjnego%20wersja_tcm75-36761.pdf

7.2.2 Control systems in financial statements preparation process

Internal control and risk management

Internal control system being in force in PKO Bank Polski SA, and which is composed of the following items: control mechanisms, compliance of Bank's operations with binding laws and internal regulations of the Bank and internal audit.

The objective of the internal control system is to support decision processes which contribute to ensuring the following: the Bank's effectiveness and efficiency, reliability of its financial reporting and the compliance of Bank's operations with binding laws and internal regulations. Within the system of internal control the Bank identifies risk: connected with every operation, transaction, product and process, resulting from the organisational structure of the Bank and the Group.
Control mechanisms are designed and used to reduce the number of irregularities and fraud in the Bank's activities, ensure the quality and correctness of the tasks performed, compliance of the Bank's operations with the generally binding laws, internal regulations, as well as the fairness of accounting, reporting and management information. All of the Bank's employees are obliged to use the control mechanisms. The use of the control mechanisms is verified as part of the functional internal control and internal audits.
The functional internal control is a set of activities undertaken on an on-going basis, which consist of verifying the correctness of the activities performed by all of the Bank's employees, including the use of control mechanisms, to ensure the compliance of the activities performed with the generally binding laws and the Bank's internal regulations, as well as counteracting and responding to irregularities on a current basis.
In order to ensure the fairness and correctness of the process of preparation of the financial statements, the Bank designed and implemented a number of control mechanisms which were embedded in the functionality of the reporting systems and in the internal regulations relating to this process. These mechanisms consist of, i.a. verifying and reconciling reporting data on an on-going basis with the books of account, subsidiary ledger accounts and other documents underlying the preparation of the financial statements, and with the binding laws concerning the accounting policies and the preparation of financial statements.
The process of the preparation of the financial statements is subject to cyclical multi-level functional internal control, in particular concerning the correctness of accounting reconciliations, merit-based analysis and or fairness of information. In accordance with the internal regulations, the

financial statements are accepted by the Management Board of PKO Bank Polski SA and the Supervisory Board's Audit Committee established by the Supervisory Board of PKO Bank Polski SA in 2006.

The duties of the Audit Committee of the Supervisory Board include i.a. monitoring the financial reporting process, including the review of interim and annual standalone and consolidated financial statements, with particular emphasis on:

- information on the significant changes in the accounting and reporting policies and the way of making management estimates and judgments important for the financial reporting, as well as the financial reporting process compliance with applicable laws,
- significant adjustments resulting from the audit and the auditor's opinion on the audit of the financial statements, discussing any issues, concerns and doubts arising from the audit of financial statements and analysis of the external auditor's recommendations, addressed to the Bank's Management Board and the response of the Bank's Management Board in this regard.
- Description of the cooperation of the Audit Committee with the external auditor and its assessment is included in the report prepared annually on the activities of the Audit Committee constituting appendix to the report of the Supervisory Board on the activities of this body.

Entity authorised to audit financial statements

In accordance with the Resolutions of the Supervisory Board (final of 29 January 2014) on the rules for selecting an auditor, PKO Bank Polski SA applies the rule according to which it is assumed that:

- the maximum period of uninterrupted cooperation with the same audit company is 6 years. Starting from the cooperation period covering audit of the financial statements for years 2015-2017, the maximum cooperation period is 5 years,
- contracts for audit and review of the financial statements are concluded for the maximum period of 3 years,
- an audit company may perform an audit of the financial statements again after the period of at least 3 years.

Principles set up by the Supervisory Board in 2010 were applied for the choice of the entity authorised to audit financial statements for the year 2014, with the exception of certain provisions relating to the modalities for the appointment of the entity authorised to audit financial statements, including limitations to six years maximum period of uninterrupted cooperation with this entity.
Bank applied to the Polish Financial Supervision Authority to express a favourable opinion regarding the extension of the period of cooperation with the authorised entity, i.e. PricewaterhouseCoopers Sp. z o.o. for one year. On 19 December 2013, the PFSA complied with the Bank's request, considering the extension of the Bank's cooperation with the current auditor as an exceptional deviation from the general rule.

Information concerning the agreement concluded with the entity authorised to audit financial statements:

- On 28 March 2011, the Supervisory Board of PKO Bank Polski SA selected PricewaterhouseCoopers Sp. z o.o. as the entity authorised to audit and review the Bank's financial statements and the consolidated financial statements of the Group. PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw, Al. Armii Ludowej 14, has been entered to the list of registered auditors maintained by the National Council of Registered Auditors with No. 144. The Bank's Supervisory Board appointed the auditor authorised to audit and review financial statements in accordance with applicable laws and occupational standards, on the basis of par. 15 clause 1 point 3 of the Bank's Memorandum of Association.
- On 14 April 2011, PKO Bank Polski SA concluded a contract with PricewaterhouseCoopers Sp. z o.o., an entity authorised to audit financial statements, for an audit of standalone and consolidated financial statements for the years ended 31 December 2011, 2012 and 2013 respectively and for a review of standalone and consolidated financial statements for the six-month periods ended 30 June 2011, 2012, 2013 respectively. In the past, the Bank used the services of PricewaterhouseCoopers Sp. z o.o. for the purpose of auditing and reviewing the financial statements of PKO Bank Polski SA and the Group for the years 2008-2010, and for related services.
- On 5 March 2014, the Bank's Supervisory Board appointed PricewaterhouseCoopers Sp. z o.o. as an entity authorised to audit and review of the Bank's financial statements and the Group's consolidated financial statements. The choice of entity authorised to audit and review of financial statements was made by the Bank's Supervisory Board in accordance with applicable regulations and occupational standards based on § 15 section 1 point 3 of the Bank's Memorandum of Association.
- On 18 June 2014, an agreement for the audit of the financial statements and consolidated financial statements for the year ended 31 December 2014 and the review of the financial statements and consolidated financial statements for the six-month period ended 30 June 2014, was concluded between PKO Bank Polski SA and PricewaterhouseCoopers Sp. z o.o. - the entity authorised to audit of the financial statements.
- Total fees payable to PricewaterhouseCoopers Sp. z o.o. under the contracts concluded by PKO Bank Polski SA amounted to PLN 6 705.0 thousand net for the financial year of 2014 compared to PLN 3 211.0 thousand net for the financial year of 2013.

Table 33. Fee for the entity authorised to audit financial statements (in PLN thousand)

No.	Title	2014	2013
1.	Audit of standalone and consolidated financial statements	1 540.0	1 140.0
2.	Authenticating services, including a review of financial statements	2 568.5	1 731.0
3.	Tax consulting services	1 786.2	106.0
4.	Other services	810.3	235.0
	TOTAL	6 705.0	3 211.0

7.2.3 Shares and shareholders of PKO Bank Polski SA

To the best knowledge of PKO Bank Polski SA, as at 31 December 2014 there were three shareholders that hold, directly or indirectly, significant block of shares (at least 5%): the State Treasury, Aviva Otwarty Fundusz Emerytalny and ING Otwarty Fundusz Emerytalny, holding respectively: 392 406 277, 83 952 447 (as at 29 January 2013, reported by Aviva OFE after exceeding the threshold of 5% share in shareholding structure) and 64 594 448 (as at 24 July 2012, reported by ING OFE after exceeding the threshold of 5% share in shareholding structure) of PKO Bank Polski SA's shares.
The percentage share of the State Treasury, Aviva Otwarty Fundusz Emerytalny and ING Otwarty Fundusz Emerytalny in the share capital of PKO Bank Polski SA as at 31 December 2014 and to the best knowledge of the Bank amounted to 31.39%, 6.72% and 5.17% respectively and matched the percentage share in the total number of votes at the General Shareholders' Meeting of PKO Bank Polski SA.
Special control rights are not resulting from PKO Bank Polski SA securities for their holders.

7.2.4 Limitations on the shares of PKO Bank Polski SA

All the shares of PKO Bank Polski SA carry the same rights and obligations. None of the shares are preference shares, in particular in relation to voting rights and dividends. The Memorandum of Association of PKO Bank Polski SA restrict the voting rights of shareholders holding more than 10% of the total number of votes at the General Shareholders' Meeting and forbids those shareholders to execute more than 10% of the total number of votes at the General Shareholders' Meeting. The above limitation does not apply to:

- those shareholders who on the date of passing the resolution of the General Shareholders' Meeting introducing the limitation of the voting rights had rights from the shares representing more than 10% of the total number of votes at the Bank (i.e. the State Treasury and BGK),
- shareholders who have the rights from A-series registered shares (the State Treasury) and
- shareholders acting jointly with the shareholders referred to in point (ii) based on an agreement concerning the joint execution of voting rights from shares. Moreover, limitation of the voting rights shall expire when the share of the State Treasury in the Bank's share capital drops below 5%.

In accordance with § 6 clause 2 of the PKO Bank Polski SA's Memorandum of Association, the conversion of A-series registered shares into bearer shares and the transfer of these shares requires an approval of the Council of Ministers in the form of a resolution. Conversion into bearer shares or transfer of A-series registered shares, after getting the above mentioned approval, results in the expiry of the above mentioned restrictions in respect of shares subject to conversion into bearer shares or transfer, to the extent to which this approval was given.

7.3 The Memorandum of Association of PKO Bank Polski SA

Principles for amending the Memorandum of Association of PKO Bank Polski SA

Principles for amending the Memorandum of Association of PKO Bank Polski SA comply with the provisions of the Commercial Companies Code and the Banking Act.
Resolutions of the General Shareholders' Meeting relating to share preference and to issues of the Bank's merger by transferring all of its assets to another company, its liquidation, reduction of share capital by redemption a part of the shares without increasing it at the same time or changing the scope of the Bank's operations which would lead to the Bank ceasing its banking activities - all require a 90% majority of the cast votes.

Changes in the Memorandum of Association in 2014

In 2014, the following amendments to the Bank's Memorandum of Association were made:

1) Amendments connected with the merger of PKO Bank Polski SA and Nordea Bank Polska SA (the PFSA's consent for amendments of 2 October 2014)

Amendments to the Memorandum of Association of PKO Bank Polski SA (as acquirer), 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. This amendment was made in order to ensure the merged bank to be able to carry on the full range of operations pursued by Nordea Bank Polska SA until the day of merger. These amendments to the Memorandum of Association occurred upon the merger of both banks.

2) 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 these documents 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.

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

The amendment was aimed to establish statutory basis for collaboration between the Bank and Bank Hipoteczny SA, and to sanction the Bank's collaboration with other financial institutions within the Group.
On 5 November 2014, the Supervisory Board of the Bank (based on authorisations under the resolutions of the General Shareholders' Meeting) passed a resolution on adopting uniform text of the Bank's Memorandum of Association as set out in Appendix 1 to the report No. 77/2014.
The uniform text of the Bank's Memorandum of Association includes subsequent amendments in relation to its wording given by the resolution No. 34/2010 of the Ordinary General Shareholders' Meeting of the Bank dated 25 June 2010, resulting from: the resolution No. 3/2011 of the Extraordinary General Shareholders' Meeting of the Bank dated 14 April 2011, the resolution No. 26/2011 of the Ordinary General Shareholders' Meeting of the Bank dated 30 June 2011 and resolution No. 45/2014, No. 47/2014 and No. 48/2014 of the Ordinary General Shareholders' Meeting of the Bank dated 26 June 2014.

A detailed list of amendments to the wording given to the Memorandum of Association of the Bank by the resolution No. 34/2010 of the Ordinary General Shareholders' Meeting of the Bank dated 25 June 2010, entered by above mentioned resolutions of the General Shareholders' Meetings is attached as Appendix 2 to the above mentioned report.

7.3.1 The General Shareholders' Meeting, its manner of functioning and fundamental powers

The General Shareholders' Meeting of PKO Bank Polski SA is convened as ordinary or extraordinary meeting in accordance with the provisions of the Code of Commercial Companies and the Memorandum of Association, and based on the policies defined in the by-laws of the General Shareholders' Meeting.

The fundamental powers of the General Shareholders' Meeting, apart from other matters defined in the binding laws, include adopting resolutions concerning the following matters:

- appointment and dismissal of Supervisory Board Members,
- approval of by-laws of the Supervisory Board,
- determining the manner of redemption of shares and the amount of consideration for the shares subject to buyout,
- creation and liquidation of special funds established from net profit appropriation,
- disposal by PKO Bank Polski SA of property items or perpetual usufruct right to property, provided that the value of the real property or the right being subject to such an act exceeds ¼ of the share capital,
- issuance of convertible bonds or other instruments giving the right to acquire or take up PKO Bank Polski SA's shares.

Allowed to participate in the General Shareholders' Meeting are beneficiaries of rights attached to registered shares, as well as pledges and usufructuaries having voting rights, who have been entered in the Register of Shares at the day of registration and holders of bearer shares, if they were shareholders of the Bank at the day of the registration and they asked, within the act compliant time frame specified in the notification on the call of General Shareholders' Meeting, the entity maintaining their securities accounts for registered certificate on the right to participate in the General Shareholders' Meeting.
The shareholder who is a natural person may participate in the General Shareholders' Meeting and exercise his voting right in person or by proxy. The shareholder who is not a natural person may participate in the General Shareholders' Meeting and exercise his voting right by a person authorised to file declarations of will on his behalf, or by proxy.
A power of attorney should be prepared, under the sanction of nullity, in writing and attached to the minutes of the General Shareholders' Meeting or granted in an electronic form. The right to represent a shareholder who is not a natural person should be specified in the original or copy of the excerpt from the relevant register presented possibly with a power of attorney or sequence of a power of attorney. These documents should be presented at the time of drawing up the attendance register or sent electronically until the day before the day of the General Shareholders' Meeting on an email address indicated on announcement of convening the General Shareholders' Meeting.
The person(s) granting a power of attorney on behalf of a shareholder who is not a natural person should be listed in an up-to-date excerpt from the relevant register of a given shareholder.
Management Board Member and an employee of PKO Bank Polski SA may serve as proxy of shareholders at the General Shareholders' Meeting of PKO Bank Polski SA.
Projects of resolutions proposed by the Management Board are accepted by the General Shareholders' Meeting with justification and opinion of the Supervisory Board and complete text of the documentation, which will be presented to the General Shareholders' Meeting, are published on the Bank's website in the time enabling acquainting with them and evaluating them.

The Bank makes available on the website projects of resolutions notified in accordance with the provisions of the Commercial Companies Code by authorised shareholder or shareholders before the General Shareholders' Meeting immediately after receiving them.
A shareholder or shareholders representing at least one twentieth of the share capital of the Bank may demand that certain matters be included in the agenda of the General Shareholders' Meeting. Such demand should be filed with the Management Board of the Bank no later than twenty one days before the date set for the meeting. The demand should contain a justification or a draft resolution concerning the proposed item on the agenda. The demand may be filed in an electronic form.
A shareholder or shareholders of PKO Bank Polski SA representing at least one twentieth of the share capital may, before the date of the General Shareholders' Meeting, put forward to the Bank, in writing or by using electronic means of communication, draft resolutions concerning the matters included in the agenda of the General Shareholders' Meeting or matters which are to be included in the agenda. Moreover, shareholders during the General Shareholders' Meeting have the right to propose projects of resolutions and submit proposals of changes or supplements to the projects of resolutions, included in the agenda of the General Shareholders' Meeting.
Removing from agenda or desisting, at the request of shareholders, from further discussing the matter included in the General Shareholders' Meeting agenda requires that the General Shareholders' Meeting resolution is adopted by the majority of three-quarters votes, after prior consent of all those shareholders present at the General Shareholders' Meeting who applied for including the matter in the agenda.
Resolutions of the General Shareholders' Meeting are adopted by an absolute majority of votes, unless the binding laws or the Memorandum of Association of PKO Bank Polski SA provide otherwise.

The General Shareholders' Meeting adopts resolutions by way of open vote, with the provision that votes by ballot are ordered in the following circumstances:

- elections,
- applications for dismissal of members of PKO Bank Polski SA's authorities or liquidators,
- applications for bringing members of PKO Bank Polski SA's authorities or liquidators to justice,
- in staff matters,
- on demand of at least one shareholder present or represented at the General Shareholders' Meeting,
- in other cases defined in binding law regulations.

A shareholder may not, either personally or by proxy, or while acting as a proxy of another person, vote on resolutions concerning his liability towards PKO Bank Polski SA on whatever account, including the acknowledgement of the fulfilment of his duties, release of any of his duties towards PKO Bank Polski SA, or any dispute between him and PKO Bank Polski SA.

Shareholders have the right to ask questions, through the Chairman of the General Shareholders' Meeting, to the Members of PKO Bank Polski SA's Management or Supervisory Boards and the PKO Bank Polski SA's auditor.

For each of the agenda point, each shareholder has the right to one own speech and one reply. Shareholders may, during the course of discussion on each of the agenda points, apply for closing the list of speakers or closing the discussion on the given agenda point.

7.3.2 The Supervisory Board and the Management Board of PKO Bank Polski SA in the reporting period

The Supervisory Board of PKO Bank Polski SA

The Supervisory Board of PKO Bank Polski SA is composed of 5 to 13 members appointed for a joint term of office of three years. Members of the Supervisory Board are appointed and dismissed by the General Shareholders' Meeting.
On 26 June 2014 the State Treasury, as the Eligible Shareholder, on the basis of § 11 clause 1 of the Bank's Memorandum of Association determined the number of the Supervisory Board members to include 9 persons, of which the Bank informed in a Current Report No. 53/2014. As at 31 December 2014, the Supervisory Board of the Bank consisted of 9 persons.
The current term of office of all the Supervisory Board members started on 26 June 2014.

Table 34. Composition of the Supervisory Board of PKO Bank Polski SA as at 31 December 2014

Functions	Competences
Jerzy Góra - Chairman of the Bank's Supervisory Board On 26 June 2014 appointed for the current term of the Supervisory Board, on the same day appointed the Chairman of the Supervisory Board by the Minister of State Treasury	President of the Management Board of Polskie Inwestycje Rozwojowe SA since 1 January 2015. He gathered his work experience holding managerial positions, i.a. at Bank Gospodarstwa Krajowego as a Director of the Investment Project Finance Department. He was a Vice-President of the Management Board of Agencja Rozwoju Przemysłu SA (Industrial Development Agency), Vice-President of the Management Board of Stocznia Szczecińska Porta Holding SA (Porta Holding Szczecin Shipyard JSC), a Deputy General Director of Polska Żegluga Morska w Szczecinie (Polish Steamship Company in Szczecin) and a Director of Department at Bank Morski SA. He also worked in the Ministry of the Treasury as a Director of the Corporate Governance and Privatisation II Department. Earlier he was a member of supervisory boards of companies, including Polimex-Mostostal SA, LZPS Protektor SA, Elektrociepłowania Będzin SA, Euroafrica Sp. z o.o., Polska Agencja Informacji i Inwestycji Zagranicznych SA (Polish Information and Foreign Investment Agency) and of Grupa Azoty Zakłady Chemiczne 'Police' SA and Polskie Inwestycje Rozwojowe SA as well as banks: Bank Morski SA, BIG Bank SA. He is a holder of Ph.D. in Economics from the University of Szczecin and of a research fellowship of the Saint Ignatius University Faculties of Antwerp (UFSIA).
Tomasz Zganiacz - Deputy-Chairman of the Bank's Supervisory Board On 31 August 2009 appointed to the Supervisory Board. On 26 June 2014 reappointed for the current term of the Supervisory Board and on the same day appointed the Deputy-Chairman of the Supervisory Board by the Minister of State Treasury.	Experienced manager, since 2009 as a director in the Ministry of the Treasury responsible for capital market and financial institutions. Until June 2009, President of TRITON DEVELOPMENT SA, a development company listed on the stock exchange. Before that, his positions included that of Vice-President and Financial Director of ARKSTEEL SA (also listed), credit department manager at SOCIETE GENERALE bank, and member of the academic and teaching staff of the Institute of Production Systems Organisation of the Warsaw University of Technology. He took part in the National Investment Funds programme. He has taken part in numerous projects implemented by business entities operating in various sectors by cooperating with commercial and investment banks, brokerage houses and other players on the capital markets. He has been responsible for managing finances and preparing and implementing investment projects, and has co-created development strategies. He has a wealth of experience in supervising commercial law companies, and was a member of the Supervisory Board of the Warsaw Stock Exchange. He is a Member of the supervisory board of PZU SA. He graduated as an engineer, and also completed MBA postgraduate studies.
Mirosław Czekaj - Secretary of the Supervisory Board On 31 August 2009 appointed to the Supervisory Board. On 26 June 2014 reappointed for the current term of the Supervisory Board. On 16 July 2014 reappointed the Secretary of the Supervisory Board.	PhD in Economics, a graduate of the Nicolaus Copernicus University in Toruń. Registered Auditor. In January 2007, he was elected by the Council of the City of Warsaw to the position of City Treasurer. Between 2004 and 2006, he was Vice-President of Bank Gospodarstwa Krajowego, responsible for the commercial activities of the bank and for supervising its branches. Previously, he was responsible for public sector and corporate finances. Since 1992 to 2009, he held positions on the supervisory boards of numerous companies, including as Chairman of the Supervisory Board of Remondis – Szczecin Sp. z o.o., Chairman of the Supervisory Board of Fundusz Wspierania Rozwoju Gospodarczego Miasta Szczecina, Chairman of the Supervisory Board of Szczecińskie Centrum Renowacji Sp. z o.o., Chairman of the Supervisory Board of MPT Sp. z o.o. in Warsaw. He was also a Supervisory Board Member of Pomorski Bank Kredytowy SA in Szczecin. He is the author and co-author of finance-related publications.
Mirosława Boryczka - Member of the Supervisory Board On 26 June 2014 appointed for the current term of the Supervisory Board.	She is a general director in the Ministry of Finance. She is an expert in the area of management, including finance management. For many years already she has been leading financial affairs and public sector institutions, starting her career with a civil service position in the Chancellery of the Prime Minister. Subsequently, she held advisory, managerial and supervisory posts in institutions of both public and private sectors, i.a. the Government Office for Legislation, Capital City of Warsaw Municipal Office, Polish Agency for Enterprise Development, Industrial Development Agency, Polish Information and Foreign Investment Agency, Bank Gospodarstwa Krajowego. She held the position of general director in the Ministry of Economy and Ministry of Science and Higher Education. In years 2007-2008 and 2009-2013 as a member of the management board of Social Insurance Institution she was responsible, i.a. for managing and providing liquidity to Social Insurance Fund and managing Demographic Reserve Fund. A graduate of Jagiellonian University, National School of Public Administration and Advanced Management Programme at IESE Business School.
Zofia Dzik - Member of the Supervisory Board On 6 June 2012 appointed for the current term of the Supervisory Board. On 26 June 2014 reappointed for the current term of the Supervisory Board.	A graduate of the University of Economics in Cracow, University of Illinois in Chicago, University of Social Sciences and Humanities in Warsaw and Executive Programmes at INSEAD Business School, she also holds a MBA from Manchester Business School and a certified member of the Association for Project Management (APMP). In 1995-2003 a consultant at Arthur Andersen companies and Andersen Business Consulting, responsible for insurance sector (Insurance Division Director), provided advisory service, i.a. to such entities as PZU SA, PZU Życie SA, TUiR Warta SA, Aplico Life SA, Commercial Union SA, Gerling SA, Compensa SA. Since 2003, she was associated with the Intouch Insurance Group (now RSA), where in 2004-2007 she performed a function of the Management Board's President of Towarzystwo Ubezpieczeń Link4 SA, and in 2007-2009 the Management Board's member of Intouch Insurance B.V. in the Netherlands and CEO for Central and Eastern Europe of the Intouch Insurance Group. Within this function she was responsible for new markets development; she was a chairman of the supervisory boards of: TU Link4 SA and Direct Insurance Shared Services Centre in Poland, Intouch Strachowanie in Russia (the implementation of the project from start up stage) and Direct Pojistovna in the Czech Republic (support the start up) and a deputy-chairman of the supervisory board of the TU na Życie Link4 Life SA. In 2006-2008, the Management Board's member of the Polish Insurance Association. In 2007-2010, member of the supervisory board of the Insurance Guarantee Fund. Currently, the Management Board's President of the established Humanites – Sztuka Wychowania Foundation, which purpose is support the process of social transformation in Poland, the author of the 'Cohesive Leadership

	in support of sustainable human development' model, the director of the Leadership Academy for the Education Leaders – aiming at the development of leadership in the education as well as a member of the supervisory boards of: TU Link4 SA, ERBUD SA and PKO Bank Polski SA.
Jarosław Klimont - Member of the Supervisory Board On 26 June 2014 appointed for the current term of the Supervisory Board.	He is a Master of Laws and Master of Administration. He graduated from Maria Curie Skłodowska University in Lublin. Since 1995 he has been practicing as a legal counsel, since 1999 he has been a counselor. Between 1996 - 1999 he was a barrister. He is a specialist in economic affairs, civil and administrative proceedings. He has a long experience in legal services for companies and public administration entities. He is a member of the supervisory boards of commercial companies (i.a. Totalizator Sportowy Sp. z o.o. in Warsaw, Echo-Son SA in Puławy, The Machinery and Valve Repair and Overhaul Company Masz-ZAP Ltd. in Puławy).
Piotr Marczak – Member of the Supervisory Board On 25 June 2010 appointed to the Supervisory Board. On 26 June 2014 reappointed for the current term of the Supervisory Board.	He graduated from Warsaw School of Economics (earlier the Main School of Planning and Statistics). He has worked for the Ministry of Finance since 1992, now he is the director of the Public Debt Department and his main tasks include, for instance, preparation of public debt management strategies, the State Treasury risk and debt management, management of the State budget foreign currency, consolidation of liquidity of the entities of the public finance sector. He is the author of dozen papers and articles on the public debt and the market of treasury securities in Poland, and he was also a lecturer in Dolnośląska Szkoła Bankowa (Banking School of Lower Silesia). At the moment he is a member of the Supervisory Board of PKP Intercity SA, and previously he was a member of the supervisory boards of, for instance, Bank Gospodarstwa Krajowego, Huta Będzin SA, Huta Stalowa Wola SA, Stomil Poznań SA.
Elżbieta Mączyńska-Ziemacka - Member of the Supervisory Board On 20 June 2013 appointed to the Supervisory Board. On 26 June 2014 reappointed for the current term of the Supervisory Board.	Graduated from the University of Warsaw (Political Economy Department, specialisation: econometrics). Prof. PhD in economic sciences, employed at the Institute of Economic Sciences of the Polish Academy of Sciences (since 1990) and the Warsaw School of Economics (since 1998) at the position of the Head of the Department of Research of Enterprise Bankruptcy at the Institute of Corporate Finance and Investments at the Collegium of Business Administration of the Warsaw School of Economics (since 2008) and the Head of the Postgraduate Studies: 'Property Valuation'. Chairman of the Economic Strategic Thinking Committee of the Ministry of Economy (since 14 June 2013), President of the Polish Economic Society (since 2005), and member of the Presidium of the 'Poland 2000 Plus' Forecast Committee and the Committee of Economic Sciences of the Polish Academy of Sciences (since 2011). In 1994-2005, scientific secretary and member of the Presidium of the Social and Economic Strategy Council of the Council of Ministers. In 2005-2007, independent member of the Supervisory Board of BGŻ, in 1996-1998 independent member of the Supervisory Board of Polski Bank Rozwoju, in 1990-1991 advisor and consultant to the Polish-Swedish limited liability company SWEA SYSTEM. Has completed scientific and research internships i.a. in Germany (University of Mannheim) and Austria (WIIW, Wirtschaftsuniversität Wien). Three-time recipient of a DAAD scholarship. Author, co-author and editor of around 200 publications and expert opinions in the area of economic analysis, finance and enterprise appraisal, as well as in the area of economic systems and strategies of social and economic development. Member of the Editorial Committee of the bi-monthly 'Ekonomista' published by the Polish Economic Society and the Committee of Economic Sciences of the Polish Academy of Sciences, member of the Editorial Board of the quarterly 'Kwartalnik Nauk o Przedsiębiorstwie' published by the Collegium of Business Administration of the Warsaw School of Economics, member of the editorial team of the quarterly International Journal of Sustainable Economy (IJSE), Inderscience Publishers Editorial Office, UK.
Marek Mroczkowski - Member of the Supervisory Board On 30 June 2011 appointed to the Supervisory Board. On 26 June 2014 reappointed for the current term of the Supervisory Board.	He graduated from the Warsaw School of Economics (earlier the Main School of Planning and Statistics). He completed postgraduate studies on the Faculty of Law and Administration at the University of Wrocław, as well as postgraduate studies - Advanced Management Programme in INSEAD Fontainebleau, France. Since 2009, he has been providing services in the field of consultancy related to management in MRM Finance. In the years 2007-2009 he was a President of the Management Board - General Director of MAŻEIKIU NAFTA AB in Lithuania. In the years 2005 - 2006 he was a Vice-President of the Management Board - Financial Director of UNIPETROL A.S. in Czech Republic (from September 2005 to April 2006 he was also a President of the Management Board - General Director). In the years 2003-2004 he was a President of the Management Board - General Director of ELANA SA in Toruń, Poland. In the years 2001-2002 he was a President of the Management Board - General Director of POLKOMTEL SA, and since 1994 to 2001 he was a Vice-President of the Management Board - Financial Director of PKN ORLEN SA. Also, he was a Member of the Management Board - Financial Director of Eda Poniatowa SA (1986-1994). He has experience in the field of supervisory bodies' activities – he was a member of the supervisory boards of the following companies: ZCH POLICE SA, IMPEXMETAL SA, ENERGOMONTAŻ PÓŁNOC SA, POLKOMTEL SA, ANWIL SA, MOSTOSTAL Kraków SA. Currently, he is a member of the Supervisory Board of AZOTY TARNÓW.

Changes in the composition of the Supervisory Board in 2014

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 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.

According to statements made by the members of the Supervisory Board, Mirosław Czekaj, Zofia Dzik, Jarosław Klimont, Elżbieta Mączyńska – Ziemacka and Marek Mroczkowski meet the criteria of independent members of the Supervisory Board set out in The Best Practices of WSE Listed Companies. The other newly appointed members of the Supervisory Board made statements that they do not meet the criteria of independence from the Bank and entities remained in a significant relation with the Bank.

The Supervisory Board manner of functioning

The Supervisory Board acts based on the by-laws passed by the Supervisory Board and approved by the General Shareholders' Meeting. Meetings of the Supervisory Board are convened at least once a quarter.
The Supervisory Board adopts resolutions by an absolute majority of votes with the presence of at least half of the Supervisory Board Members, including the Chairman or Deputy-Chairman of the Supervisory Board, except for resolutions indicated in the Bank's Memorandum of Association concerning those matters that are required to be accepted by, apart from the quorum indicated, the qualified majority of 2/3 of total votes. Excluded from the vote are those members of the Supervisory Board to whom the given voted matter relates.

The Supervisory Board competencies

The competencies of the Supervisory Board, apart from the rights and obligations stipulated in generally binding legal regulations and the provisions of the Memorandum of Association of PKO Bank Polski SA, include passing resolutions relating specifically to:

1) approving the strategy of PKO Bank Polski SA and the annual financial plan approved by the Management Board,
2) accepting the Bank's general level of risk,
3) appointing the entity to conduct the audit or review of the financial statements and giving consent to concluding contracts with such entity or its related entities,
4) passing the Internal Regulations in regard of:
   - the Supervisory Board,
   - defining the rules of granting loans, advances, bank's guarantees and warranties to a member of the Management Board, the Supervisory Board, to a person holding a managerial position in the Bank and to entities related in terms of capital and organisation,
   - using other reserves,
5) appointing and dismissing the President of the Management Board and, at the request of the President of the Management Board, also the Vice-Presidents and other Management Board Members, and suspending Members of the Management Board from performing their duties, as well as delegating Members of the Supervisory Board to temporarily perform the duties of Members of the Management Board,
6) approving the Internal Regulations passed by the Management Board: of the Management Board, Management of special funds set up from the net profit, the Organisational Regulations of the Bank,
7) expressing prior consent to actions which meet specific criteria, including, i.a. things, purchasing and selling fixed assets and real estate, establishing a company, taking up or acquiring shares, concluding transactions between PKO Bank Polski SA and a related entity,
8) applying to the Polish Financial Supervision Authority for granting consent to appoint two Members of the Management Board, including the President of the Management Board.

Changes in the Internal Regulations of the Supervisory Board

On 17 December 2014, the Supervisory Board adopted an amendment to the Regulations of the Supervisory Board by adding a provision that its members will ensure that their activities comply with the requirements adopted for use by the Bank of The Best Practices of WSE Listed Companies and The Principles of Corporate Governance for supervised institutions issued by the Polish Financial Supervision Authority.
Above mentioned change of the Regulations will come into force after approval of the General Shareholders' Meeting.

Committees of the Supervisory Board

According to the Internal Regulations of the Supervisory Board, it is entitled to appoint, and in cases, when the provisions of the law require, appoint permanent committees whose members perform functions as members of the Supervisory Board delegated to fulfil selected supervisory activities in the Bank. The Supervisory Board appoints particularly permanent committees:

The Remuneration Committee, which is responsible in particular for executing the following tasks:

1) providing opinions on general rules approved by the Supervisory Board on the variable salary components policy for persons holding managerial positions, as defined in § 28 clause 1 of the Resolution No. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles for the functioning of the risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital, and the principles for determining the variable salary components policy for persons holding managerial positions at the bank, including the amount and components of the salaries, based on prudent and stable risk management, capital and liquidity and special care about the long-term interests of the Bank and the interests of shareholders and the Bank's investors,
2) making a periodical review of general principles of the variable salary components policy for persons holding managerial positions in the Bank and presentation of the results of the review to the Supervisory Board,

3) presentation to the Supervisory Board proposals of principles for remunerating, the variable salary components policy and remuneration of the Management Board members,
4) presentation to the Supervisory Board proposals related to appropriate forms of contracts with the Management Board members of the Bank,
5) giving opinions on motions for approval for a member of the Management Board to become involved in competitive business activities or participate in a competitive company as a shareholder of a civil law company, a partnership or as a member of a body in a corporation, or participate in another competitive legal person as a member of its body,
6) giving opinions on a review report concerning the implementation of the variable salary components policy carried out by the Internal Audit Department.

The Audit Committee of the Supervisory Board, which is responsible in particular for executing the following tasks:

1) monitoring the process of the financial reporting, including the review of interim and annual financial statements of the Bank and the Group (standalone and consolidated),
2) monitoring the level of remuneration of the director and employees of the Internal Audit Department,
3) monitoring efficiency of the systems of internal control, internal audit and risk management, in particular:

- an assessment of the Bank's activities related to the implementation of the management system, including risk management and internal control and assessment of its adequacy and efficiency, i.a. by means of:
    a) consulting resolutions of the Management Board of the Bank to be approved by the Supervisory Board on the prudent and stable management of the Bank and on the acceptable level of risk in particular areas of the Bank's operations,
    b) consulting resolutions of the Management Board of the Bank to be approved by the Supervisory Board on risk management, capital adequacy and the internal control system,
    c) consulting reports on risk management, capital adequacy and the internal control system submitted periodically to the Supervisory Board,
    d) assessing the Bank's activities aimed at risk mitigation through Bank's property insurance and civil liability insurance for members of the Bank's bodies and its proxies,
- cooperation with an internal auditor, of which:
    a) consulting the plan of internal audits in the Bank and an internal regulations of the Internal Audit Department,
    b) performing a periodic review of the execution of the internal audit plan, ad-hoc audits and evaluating activities of the Internal Audit Department within the available resources,
    c) presenting an opinion to the Supervisory Board as regards appointing and dismissal the head of the Internal Audit Department.

4) monitoring the execution of financial audit activities, in particular by means of:

- recommending to the Supervisory Board a registered audit company entitled to perform a financial audit of the Bank together with its evaluation, level of fee and supervision of work performed,
- examining written information submitted by the registered audit company about relevant issues concerning financial audit, of which in particular information concerning material irregularities in the Bank's internal control system as regards financial reporting.

5) monitoring the independence of a registered auditor and a registered audit company and on the services referred to in art. 48, clause 2 of the Act of 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision, in particular through obtaining:

- statements confirming the independence of a registered audit company and the independence of the registered auditors conducting the financial audit activities,
- information on the services referred to in art. 48, clause 2 of the Act of 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision, provided to the Bank.

As at 31 December 2014, the Remuneration Committee consisted of 5 members:

- Tomasz Zganiacz (President of the Committee),
- Jerzy Góra (Vice-President of the Committee),
- Jarosław Klimont (Member of the Committee),
- Elżbieta Mączyńska-Ziemacka (Member of the Committee),
- Marek Mroczkowski (Member of the Committee).

As at 31 December 2014, the Audit Committee of the Supervisory Board consisted of 5 members:

- Mirosław Czekaj (President of the Committee),
- Zofia Dzik (Vice-President of the Committee),
- Mirosława Boryczka (Member of the Committee),
- Piotr Marczak (Member of the Committee),
- Tomasz Zganiacz (Member of the Committee).

The Management Board of PKO Bank Polski SA

Pursuant to § 19 clause 1 and 2 of PKO Bank Polski SA Memorandum of Association, members of the Management Board are appointed by the Supervisory Board for a joint term of office of three years. Pursuant to § 19 clause 4 of PKO Bank Polski SA Memorandum of Association, a member of the Management Board may only be dismissed for important reasons.

The Management Board is composed of 3 to 9 members. Appointment of two members of the Management Board, including the President of the Management Board, requires approval of the Polish Financial Supervision Authority. As at 31 December 2014, the Management Board of the Bank was composed of 7 members.

Current joint term of office of the Bank's Management Board began at the end of the previous joint term of the Management Board started on 30 June 2011.

Table 35. The Management Board of PKO Bank Polski SA as at 31 December 2014

Functions	Competences
Zbigniew Jagiełło – President of the Management Board **Member of the Management Board** from 1 October 2009. On 8 January 2014 reappointed for the current term of the Management Board.	The President of the Management Board of PKO Bank Polski SA since October 2009, with appointment for new terms in 2011 and 2014. Prior to this he was the Pioneer Pekao TFI SA Management Board President for nearly 9 years. Also, within the global structure of Pioneer Investments he was responsible for the CEE region distribution. In the second half of 90s of the last century he was, i.a. active in establishing PKO/Credit Suisse TFI SA. investment funds company, in the function of its Vice-President. In his more than ten-year long career in the financial markets he was responsible, i.a. for: (•) successfully steering PKO Bank Polski SA through the critical period of turmoil in the international financial markets, while strengthening the Bank's position of leadership in terms of assets, equity funds and earnings in Poland and the CEE region; (•) development and implementation of the PKO Bank Polski SA's strategy for the years 2010-2012, which resulted in strong efficiency gains as measured in terms of ROE, ROA and C/I ratios as well as in increased interest in the company among domestic and international investors (PKO Bank Polski SA continues to lead the market in terms of the value of its free float and as a major corporate debt issuer); (•) adjustment of PKO Bank Polski SA to the requirements of the ever more competitive financial market through increased attractiveness of its product offer and quality of its customer service; (•) refocusing of the PKO Bank Polski SA Group's operational model toward its core activity of providing financial services. He is actively involved in development and promotion of the most demanding financial market standards in Poland. He is a member of the Council of the Polish Bank Association and of the prestigious Institute International D'Etudes Bancaires, which brings together the international banking community. His previous functions included, i.a. that of the Chairman of the Chamber of Fund and Asset Management. A graduate of the Wrocław Technical University, School of Computer Science and Management. He also completed Postgraduate Management Studies at the Gdańsk Foundation for Management Development and the University of Gdańsk, with Executive MBA certified by the Rotterdam School of Management, Erasmus University. The President of the Republic of Poland decorated him with the Officer's Cross of the Order of the Rebirth of Poland and he was awarded the Social Solidarity Medal for promoting the idea of corporate social responsibility. He is the Chairman of the Programme Council of the PKO Bank Polski SA's Foundation, an entity formed at his initiative in the year 2010. Chosen the CEO of the Year 2011 by Parkiet daily; the recipient of the Wektor 2011 granted by the Polish Employers' Chapter and of the Golden Banker in the Personality of the Year 2011 category. He was also lauded the Manager of the Year 2011 in a competition ran by Gazeta Bankowa. In the year 2012, Bloomberg Businessweek Polska singled him out as one of the Top 20 Managers in Crisis. In 2013 he was honoured by Bank – financial monthly – with the title of 'The Innovator of Banking Sector 2012'. He also received the special award of 'Man of the Year 2013' from Brief monthly and 'Visionary 2013' from Dziennik Gazeta Prawna daily in appreciation of contribution to financial sector development, consequence in strengthening the Bank`s market leader position and determination in changing its image.
Piotr Alicki - Vice-President of the Bank's Management Board in charge of IT and Services Member of the Management Board from 2 November 2010. On 8 January 2014 reappointed for the current term of the Management Board.	A graduate of the Mathematics and Physics Department of Adam Mickiewicz University in Poznan. He has a many years' experience in IT projects management in the banking area. In 1990-1998 he worked for Pomorski Bank Kredytowy SA in Szczecin in the Information Science Department – since 1997 as its Director, where he was responsible for designing, development, implementation and operation of the Bank's transaction systems. In the period 1999-2010 he worked for Bank Pekao SA - at first as the Assistant Manager and then the Manager of the IT Systems Maintenance and Development Department, and during the last four years he managed the Information Technology Division. He was responsible, i.a. things, for the execution of the IT merger of four banks (Pekao SA, PBKS SA, BDK SA, PBG SA), he implemented the Integrated Information System and managed the IT business analyses area in that bank. He also managed the IT integration and migration from BPH SA systems to Pekao SA systems and participated in the work of the team responsible for the preparation of the whole integration process. In 1999-2010, Piotr Alicki took part in the work of the Polish Bank' Association: in its Steering Committee for the Development of Bank Infrastructure, the Payments System Committee, the Problem Committee for Banking and Bank Financial Services, and the Electronic Banking Board. Since 2000 he was a member of the Supervisory Council of Krajowa Izba Rozliczeniowa SA (the National Clearing Chamber Ltd.), and since 2005 until 2010 he was its President. In 2002-2010 he represented Bank Pekao SA in the Payments System Council functioning under the auspices of the National Bank of Poland (NBP), since 2010 until now he has been representing PKO Bank Polski SA in this Council. He also sat on the Supervisory Boards of companies belonging to the Bank Pekao SA Group. Since 1 May 2011 he has been the member of Visa Europe Limited Board of Directors where he represents PKO Bank Polski SA, other banks from Poland and seven countries of the Subregion. On 10 December 2010 he was appointed to the Supervisory Board of Inteligo Financial Services SA, where he has been performing the function of Deputy Chairman of the Company's Supervisory Board since 30 May 2011. He has been a Chairman of Electronic Banking Council functioning in the Polish Bank Association since 11 October 2011. He has been a Member of the Supervisory Board of PKO Bank Hipoteczny SA since 6 October 2014. He was awarded by President of the NBP with an honour distinction 'For The Merits For Polish Banking'; he is also the winner of the 'IT Leader 1997', 'IT Leader 2010' and 'IT Leader 2012' competition.
Bartosz Drabikowski – Vice-President of the Bank's Management Board in charge of Finance and Accounting **Member of the Management Board** from 20 May 2008. On 8 January 2014 reappointed for the current term of the Management Board.	A graduate of the Technical University of Łódź, the Polish National School of Public Administration, Warsaw School of Economics, the Polish Institute of International Affairs and the Executive MBA Programme at the University of Illinois at Urbana - Champaign. He attended numerous academic trainings: at Deutsche Bundesbank, Deutsche Börse AG, Deutsche Ausgleichsbank and Rheinische Hypothekenbank. He received scholarship from the German Marshall Fund of the United States and participated in many trainings organised i.a. by the European Commission and the International Monetary Fund. He started his professional career at the Ministry of Finance, where he was responsible i.a. for regulation of and supervision over financial market institutions, the banking sector and the capital market in the particular. He also prepared development strategies for the financial services sector both for Poland and the European Union common market. At the Ministry of Finance he was subsequently employed as Advisor to the Minister, Deputy Director and Financial Institutions Department Director. In the years 2006-2008 he served as Member of the Management Board of the National Clearing Chamber Ltd., where he was responsible for finance, new electronic payment products, security and risk management as well as analysis and administration. For several years he served as member of the Commission for Banking Supervision, member of the Polish Securities and Exchange Commission and deputy member of the Payment System Board at the National Bank of Poland. He also served as member of many institutions of the European Union, including the Financial Services Committee

	(European Council), the European Banking Committee and the European Securities Committee (European Commission). He has a wealth of experience in managing financial institutions. He served as member of the Supervisory Board of the National Depository for Securities, member of the Bank Guarantee Fund Council, Chairman of the Supervisory Board of Inteligo Financial Services SA and member of the Supervisory Board of the Polish Security Printing Works. Currently he acts as the Chairman of the Supervisory Board of Association of Stock Exchange Issuers.
Piotr Mazur **Vice-President of the Bank's Management Board in charge of Risk Management** On 8 January 2013 appointed to the Management Board until the end of the previous term. On 8 January 2014 reappoited for the current term of the Management Board.	Graduated from Academy of Economics in Wrocław, on the field of Organisation and Management. He has over twenty-year-long experience in banking area, including 14 years on managerial positions – mainly in risk, restructuring and credit areas. He is experienced in the work in the international financial groups operating in Europe, USA and South America. The member of supervisory boards, committees of creditors, member and a president of crucial credit risk committees. He was involved in building the strategy of Bank Zachodni WBK SA, he was directly responsible for credit risk management, optimisation of debt collection and restructuring, he cooperated with supervision authorities in Poland and abroad. After studies he started his professional career in credit area at Bank BPH. Since 1992 associated with Bank Zachodni SA and next - after the merger – with Bank Zachodni WBK SA he worked in Capital Investments Department, next as a Director of Credit Quality Controlling Department. In the years 2005–2008 he was the Director of Business Intelligence and Risk Management Area, and in the years 2008–2010 was the Deputy Chief Risk Officer. Since January 2011 he was the Chief Credit Officer and since March 2012 also Deputy Chief Risk Officer. He was the President of Credit Committee in BZ WBK SA. He was also the Deputy President of Credit Risk Forum and Deputy President of Risk Model Forum.
Jarosław Myjak – **Vice-President of the Bank's Management Board** **in charge of Insurance Banking** Until 30 April 2014 in charge of Corporate Market. Member of the Management Board from 15 December 2008. On 8 January 2014 reappointed for the current term of the Management Board.	Master of Arts at the Faculty of English Philology (American Studies) at Adam Mickiewicz University in Poznań (1978) and Master of Law at the Faculty of Law and Administration (1981). Moreover, he studied at the Faculty of Economy at Toronto University (economic programme - 1976-1977). He is a graduate also, for instance, of Columbia Business School New York (Leadership for the Future), INSEAD/CEDEP Fontainebleau, France - General Management Programme (1998-1999), Sundridge Park, Great Britain - Management Development Programme. He completed a judge training programme at the Regional Court in Poznań. He is barrister and legal adviser, a member of the Warsaw Bar Council and the Warsaw Chamber of Legal Advisers. He worked as a legal adviser for law offices Altheimer & Gray and Dewey & LeBouef, where he participated in privatisation and restructuring proceedings, investment and insurance consulting, while representing both the State Treasury and foreign investors. Moreover, he was also a lecturer at the Faculty of Law and Administration at Adam Mickiewicz University in Poznań. Being one of the leaders and strategists of the Polish market of insurance and long-term savings, he was responsible for establishing and developing one of the biggest financial services groups - Commercial Union (now Aviva) in Poland and Lithuania and establishment (in 1998-2004) a cooperation model of the CU Group with bank WBK SA, later BZWBK SA that included capital and distribution participation of the Bank in CU Insurance Companies and the pension fund company, and bancassurance development. In order to enhance the offer for customers, being among pioneers who promoted the pension reform in Poland, he was responsible for the strategic vision, founding and market success of PTE Commercial Union BPH WBK, that became the market leader. His strategy of defending customer portfolio, ensuring appropriate services for customers and attracting new market segments resulted in an establishment of asset management company, investment fund company, sector of personal - property insurance, a transfer agent and a distribution company. While managing the financial group, he restructured it through introducing full holding management that used synergy effects. He participated in the merger of Commercial Union and Norwich Union (CU Europe). In 2000-2004 the President of the Commercial Union Group (now AVIVA) in Poland and Lithuania. In Commercial Union Polska Ubezpieczenia na Życie he was a member of the Management Board (1995), first Vice President of the Management Board (1996 - 1997) and then the President of the Management Board (1998 - 2004). He has twenty years of experience in shareholder supervision. In 1998-2004 he was i.a. the chairperson of the Supervisory Councils of Commercial Union companies in Poland and Lithuania, that is CU PTE, CU TFI, CU Ogólne, CU Asset Management, CU Sp. z o.o. (Transfer Agent) and CU Lithuania (Lietuvos Draudimas). Moreover, he served as a member of the Supervisory Council and the Strategic Committee of Citibank Handlowy SA, the Supervisory Council and the Steering Committee of BGŻ SA, he was responsible - on behalf of the Ministry of the State Treasury - for the bank's privatisation project and he was a member of the Supervisory Council of Polski Holding Farmaceutyczny SA, Chairman of the Supervisory Board of PKO BP Finat Sp. z o.o. and Deputy-Chairman of the Supervisory Board of PZU Życie SA. At the moment he is the Chairman of the Supervisory Boards of PKO Leasing SA and PKO BP Faktoring SA. In 2006 and from 2008 to 30 April 2014 he served as the Vice President of the Management Board of PKO Bank Polski SA in charge of corporate banking. For a few terms of office, he was a member of the Polish Business Roundtable, the vice president and member of the Management Board of the Polish Chamber of Insurance, the vice president of the Polish Confederation of Private Employers 'Lewiatan', president of the Association of Insurance Capital Group in the Polish Confederation of Private Employers 'Lewiatan' and a member of the Association of Managers in Poland. As a member of such industry associations as the Polish Chamber of Insurance and the Polish Confederation of Private Employers 'Lewiatan' he participated in the works of parliamentary committees aimed at amending the insurance law and working out the law on pension funds, investment funds and in the health system reform project teams in Poland supporting the Minister of Health, Minister of Labour and Minister of Economy. Manager of the Year 2002, he was granted the award 'For Contribution to the Polish Insurance Market' and 'Golden Cross of Merit of the Republic of Poland'.
Jacek Obłękowski – **Vice-President of the Bank's Management** **Board in charge of Retail Market** On 30 June 2011 appointed to the Management Board until the end of the previous term. On 8 January 2014 reappointed for the current term of the Management Board.	He is a graduate of the Higher School of Pedagogy (Wyższa Szkoła Pedagogiczna) in Olsztyn, speciality - history and diplomacy. He completed broker course. He also graduated from the University of Navara - AMP. He started his professional career at Powszechny Bank Gospodarczy SA in 1991, where he worked until 1998, initially as a trainee and, following several promotions, as a director of the Network Management Department. In September 1998, he started working at PKO Bank Polski SA as director of the Retail Banking Division, director of the Marketing and Sales Department, acting director of the Office for Servicing Compensation Payments and managing director of the Network Division and between December 2000 and June 2002, he acted as the director responsible for supervision of the business aspects of implementing the central IT platform at the Bank. Until 2004 was the Chairman of the Supervisory Board of Inteligo Financial Services. He was also the Chairman of Supervisory Board of KredytBank Ukraina. Since 2013 – Vice-President of the Supervisory Board of KREDOBANK SA. From 2002 to 2007 he was a Vice-President of the Bank's Management Board responsible for the retail market area and marketing. At this time he was i.a. a Chairman of the Bank's Credit Committee, the Member of the Council of Directors of VISA EUROPE and was responsible for the acquisition of Inteligo. Since 2007 he was the President of the Management Board of Dominet Bank SA and since 2009 to 2011, after merger, in BNP Paribas/Fortis Bank Polska SA he was at the position of Vice-President of the Management Board responsible for the Division of Servicing Small Enterprises and Individual Clients.
Jakub Papierski – **Vice-President of the Bank's Management** **Board in charge of Corporate and Investment Banking** Until 30 April 2014 in charge of Investment Banking and from 1 May 2014 also in charge of	He is a graduate of Warsaw School of Economics and a holder of a Chartered Financial Analyst (CFA) license. He commenced his professional career in 1993 in Pro-Invest International, a consulting company. Between 1995 and 1996, he worked for ProCapital Brokerage House and subsequently for Creditanstalt Investment Bank. In March 1996, he started working for Deutsche Morgan Grenfell/Deutsche Bank Research dealing with the banking sector in Central and Eastern Europe. Between November 2001 and September 2003, he worked for Bank Pekao SA as executive Director of the Financial Division, directly supervising financial and fiscal policy of the bank, managerial information systems, as well as the treasury and management of investment portfolios; moreover, he was a member of the Asset and Liability Management Committee in the Bank. He accepted the position of the president of the Management

Corporate Market (currently Corporate and Investment Banking) Member of the Management Board from 22 March 2010. On 8 January 2014 reappointed for the current term of the Management Board.	Board for Centralny Dom Maklerski Pekao SA in October 2003. In September 2006, he also took up the position of a deputy-chairman of the Supervisory Board of Pioneer Pekao TFI SA. From May 2009, he served as the president of the Management Board of Allianz Bank Polska SA and in October 2009 he became the Management Board's president. Between 2005 and 2009, Jakub Papierski was a Chairman in the Programme Council of Akademia Liderów Rynku Kapitałowego established at the Lesław Paga Foundation; and now he is a member of the Programme Council.

Table 36. Other functions performed by the Management Board Members of PKO Bank Polski SA (as at 31.12.2014)

No.	Member of the Bank's Management Board	Function
1.	Zbigniew Jagiełło President of the Management Board	President of the Assets and Liabilities Management Committee
		President of the IT Security Committee
		President of the Risk Committee
		President of the Strategy Committee
2.	Piotr Alicki Vice-President of the Management Board	President of the IT Architecture of PKO Bank Polski SA Committee
		Vice-President of IT Security Committee
		Member of the Strategy Committee
		1st Vice-President of the Operational Risk Committee
		Member of the Risk Committee
		Member of the Data Quality Committee
3.	Bartosz Drabikowski Vice-President of the Management Board	President of the Expenses Committee
		President of the Data Quality Committee
		1st Vice-President of the Assets and Liabilities Management Committee
		Member of the Strategy Committee
		2nd Vice-President of the Operational Risk Committee
		Member of the Risk Committee
4	Piotr Mazur Vice-President of the Management Board	President of the Bank's Loan Committee
		President of the Operational Risk Committee
		Vice-President of the Risk Committee
		2nd Vice-President of the Assets and Liabilities Management Committee
		Member of the IT Security Committee
		Member of the Strategy Committee
		Member of the Data Quality Committee
5.	Jarosław Myjak Vice-President of the Management Board	Member of the Strategy Committee
		Member of the Risk Committee
6.	Jacek Obłękowski Vice-President of the Management Board	Vice-President of the Data Quality Committee
		Member of the Risk Committee
		Member of the Strategy Committee
7.	Jakub Papierski Vice-President of the Management Board	Vice-President of the Bank's Loan Committee
		Member of the Risk Committee
		Member of the Strategy Committee
		Member of the Data Quality Committee

In addition to those mentioned above, members of the Management Board of the Bank also participated in non-permanent Committees, including the Steering Committees set up as a part of realised projects.

Changes in the composition of the Management Board in 2014

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 commenced on 30 June 2011.

Rules of operations of the Bank's Management Board

The manner of functioning of the Management Board is defined in the Internal Regulation adopted by the Management Board and approved by the Supervisory Board.
Management Board makes decisions as resolutions. The resolutions of the Management Board are passed by an absolute majority of the votes of those present at the meeting of the Management Board. In the case of a voting tie, the President of the Management Board has the casting vote.

Statements on behalf of the Bank are made by:

- President of the Management Board independently,
- two members of the Management Board together or one member of the Management Board together with a proxy, or
- proxies acting independently or jointly within the limits of granted authorisation.

The Bank's Management Board competencies

In accordance with § 20 clause 1 of the Memorandum of Association of PKO Bank Polski SA, the competences of the Management Board include all matters associated with the running of PKO Bank Polski SA's business, with the exception of those restricted for the competence of the General Shareholders' Meeting or the Supervisory Board based on generally applicable law or the provisions of the Memorandum of Association of PKO Bank Polski SA, including purchasing and disposing of real properties, shares in real properties or the perpetual usufruct of land not requiring the approval of the General Shareholders' Meeting based on § 9 clause 1 item 5 of the Memorandum of Association of PKO Bank Polski SA.
In accordance with § 20 clause 2 of the Memorandum of Association of PKO Bank Polski SA, the competences of the Management Board include making decisions on incurring liabilities or disposing of assets whose total value, in relation to one entity, exceeds 5% of own funds, with prejudice to the competences of the General Shareholders' Meeting specified in § 9 of the Memorandum of Association of PKO Bank Polski SA or the competences of the Supervisory Board specified in § 15 of the Memorandum of Association of PKO Bank Polski SA.

The Management Board passes specifically the following in the form of resolutions:

- determines the strategy of PKO Bank Polski SA,
- determines the annual financial plan, including the terms of its execution,
- passes the organisational regulations and the principles for segregation of duties,
- establishes and dissolves permanent committees of the Bank and determines their competences,
- passes the Internal Regulations of the Management Board,
- determines the internal regulations for managing the special funds set up from the net profit,
- determines the dividend payment dates in periods specified by the General Shareholders' Meeting,
- appoints proxies,
- determines bank products and other banking and financial services,
- determines the principles for participation of PKO Bank Polski SA in other companies and organisations,
- determines the principles of operation of the internal control and annual plans of internal audits,
- establishes, transforms and liquidates organisational entities of PKO Bank Polski SA in Poland and abroad,
- defines the system of efficient risk management, internal control and internal capital estimate.

Committees of the Bank's Management Board

In 2014, there were the following permanent committees in which Members of the Bank's Management Board operated:

1) The Assets and Liabilities Committee of PKO Bank Polski SA, whose purpose is managing assets and equity and liabilities by influencing the structure of PKO Bank Polski SA statement of financial position and its off-balance sheet items in a manner conducive to achieving the optimum financial result. The Committee supports the Management Board in the following areas of the Bank's operations:

- shaping the structure of the Bank's statement of financial position,
- capital adequacy management,
- managing profitability, taking into account the specific nature of the individual areas of activity and respective risks,
- managing financial risk, of which market and liquidity risks, the business and credit risk (settlement and pre-settlement) of transaction on the wholesale market.

In particular, the Committee makes decisions concerning:

- limits related to the financial risks,
- limits related to settlement and credit transaction on the wholesale market,
- investment limits,
- limits specifying the appetite for portfolio credit risk,
- the ratios adjusting the transfer prices including individual rates of these ratios, and the method of their application,
- transfer prices for items classified in the investment bank portfolio in the Treasury Department,
- liquidity profile for the purpose of establishing transfer prices and replicated interest rate risk profiles,
- portfolio models and parameters, used for establishing impairment allowances and write-downs on loan exposures,
- significant financial and business risk models and their parameters.

The Committee issues recommendations to the Management Board or the Management Board Members, especially related to:

- shaping the structure of the statement of financial position,
- risk management: financial, settlement and pre-settlement transactions on wholesale and business market,
- launching of capital-related emergency activities and the capital needs,
- pricing policy in the individual business areas and interest rate levels and minimum lending margins,
- the financial model, including the principles for determining the management results and the transfer pricing system,
- hedging strategies as part of hedge accounting,
- taking any reorganisation actions after conducted comprehensive stress-tests.

2) The Risk Committee, the objective of which is to design strategic directions and tasks in the scope of banking risk in the context of the Bank's strategy and conditions arising from the macroeconomic situation and the regulatory environment, analysing periodic reports related to the banking risks and developing appropriate guidance on their basis, as well as preparing the banking risk management strategy and its periodic verification. The tasks of the Committee include, in particular:

- monitoring the integrity, adequacy and effectiveness of the banking risk management system, capital adequacy and allocation of internal capital to individual business lines and implementing the risk management policy executed as part of the Bank's adopted Strategy,
- analysing and evaluating the utilisation of strategic risk limits set in the Banking Risk Management Strategy,
- giving opinions on cyclical risk reports submitted for approval to the Supervisory Board and taking into account the information from the reports when issuing opinions.

3) The Loan Committee of the Bank, whose objective is credit risk management and mitigating of credit risk when making lending decisions or decisions concerning the non-performing loans management in PKO Bank Polski SA, and management of risk of occurring negative financial or reputation effects as a result of making incorrect business decisions on the basis of the credit risk models. The competencies of the Loan Committee include, in particular:

- making decisions in matters relating to the segregation of competencies for making lending and selling decisions, managing non-performing loans, industry and client limits, and securing the debt of PKO Bank Polski SA,
- making decisions related to credit risk models, in particular in the range of: models and credit policy parameters used in determining the scoring or rating evaluation, models and credit risk parameters consistent with the internal ratings method, the results of the validation of significant credit risk models and related proposals for changes in models, reports on the status of implementation of recommendations after validation; insignificant credit risk models; from monitoring of significant models and the quality of loan portfolios, for which credit risk models are used.
- issuing recommendations for the Management Board of PKO Bank Polski SA in matters relating to making decisions about lending transactions and changes in the material terms and conditions of these transactions, client internal limits, non-performing loans management, credit risk models, particularly in the field of credit policy parameters, which, due to external regulations, require the approval of the Management Board or the Supervisory Board.

4) The Operational Risk Committee, whose purpose is to effectively manage operational risk, increasing safety of the Bank operating activity. The Committee's tasks include:

- determining the directions of operational risk management development,
- supervising the operation of the operational risk management,
- coordinating operational risk management,
- determining measures to be taken in case of an emergency which exposes the Bank to reputational risk and results in operating losses.

5) The Expenses Committee of PKO Bank Polski SA, whose tasks include specifically:

- granting approval, expressing opinions on overheads and administrative expenses of on-going operations, arising from new agreements or annexes to existing agreements, and granting approval to exceed the budget of overheads and other administrative expenses of on-going operations, in accordance with the Bank's internal cost management regulations,
- granting approval for further actions relating to areas identified as empty and refusing approval for new locations, in accordance with the Bank's internal real estate management regulations,
- making decisions concerning projects, including i.a. the approval of project applications, approval and recommendation of project plans, approval of significant changes in projects, making decisions to suspend project execution or close projects, approval of assessments of the objectives achieved and effects of projects, in accordance with the Bank's internal regulations on project and investment management,
- transfers of funds between the costs of on-going operations and the costs of projects or investments,
- approval of capital expenditure relating to the execution of tasks which do not meet the criteria of projects or investments.
- the Strategy Committee, the objective of which is to supervise the strategic planning process and to manage the Bank's strategy referred to in the Bank's Memorandum of Association (§22 clause 5 item 1). The tasks of the Committee include in particular,
- managing the activities related to strategy development and implementation,
- approving the strategy development schedule and strategy implementation schedule,
- making key decisions necessary to ensuring the strategy's execution, including implementation of strategic programmes,
- resolving any disputes arising during the work on individual strategic programmes.

6) The IT Architecture Committee of PKO Bank Polski SA, whose objective is to develop an IT architecture ensuring the implementation of the Bank's Strategy by performing the following tasks:

- developing the key assumptions of the IT architecture of the Bank (the principles),
- evaluating the IT architecture functioning in the Bank on a periodical basis,
- developing a target architecture model,
- initiating measures aimed at achieving the target architecture model.

7) The Committee for IT Safety, the objective of which is to increase the effectiveness of supervision and control over the information system's safety in PKO Bank Polski SA (SIB). The Committee's tasks include issuing recommendations on the SIB safety, in particular related to:

- coordinating and monitoring work related to the SIB safety,
- setting the directions for the Bank's activities within the scope of SIB safety,
- specifying the desirable activities, which in the Committee's opinion should be undertaken in the event of emergency situations which put the Bank's image at risk and cause operating or financial losses in the area of SIB safety,
- monitoring the risk related to SIB safety.

8) Data Quality Committee (established on 1 August 2014) the objective of which is to design strategic directions for the activities relating to data quality management and data architecture at the Bank in the context of the Data Management System (DMS), to supervise its operations, and to assess its effectiveness and the activities undertaken by the individual organisational teams and units. The Committee's tasks include making decisions about data management at the Bank, in particular those relating to:

- directions for the development of the DMS,
- recommendations for the organisational teams and units of the Head Office, regarding data management activities,
- detailed data management solutions,
- assessing the effectiveness of the operations of the DMS, determining priority measures as part of the DMS, and drawing up periodical action plans,
- assigning ownership to groups of data,
- resolving disputes over the DMS at the request of the Committee members,
- accepting – particularly in cases justified by the need to ensure the Bank's continued operations – deviations from data quality criteria and rules as well as data quality solutions standards.

Moreover, in addition to those mentioned above, members of the Bank's Management Board also participated in the non-permanent committees, including steering committees set up as a part of realised projects.

7.4 Additional information about managers and supervisors

7.4.1 Shares of PKO Bank Polski SA held by the Bank's authorities

The Bank's shares held by the members of the Management Board and the Supervisory Board of PKO Bank Polski SA as at 31 December 2014 are presented in the table below. The nominal value of each share is PLN 1.

Table 37. Shares of PKO Bank Polski SA held by the Bank's authorities

No.	Name	Number of shares as at 31.12.2014	Purchase	Disposal	Number of shares as at 31.12.2013
I.	**The Management Board of the Bank**				
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 Myjak, 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
II.	**The Supervisory Board of the Bank**				
1.	Jerzy Góra, Chairman of the Bank's Supervisory Board*	0	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*	0	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*	0	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 Supervisory Board who did not hold function at 31.12.2013

As at 31 December 2014, Members of the Supervisory Board and the Management Board of PKO Bank Polski SA did not hold shares in companies related to PKO Bank Polski SA defined as subsidiaries, jointly controlled entities and associates.

7.4.2 Agreements concluded between the issuer and managing persons

Within the meaning of § 2 clause 1 item 30a of the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33, item 259 with subsequent amendments), members of the Management Board are persons managing the Bank.
In 2014, two agreements were signed with each of the members of the Management Board of PKO Bank Polski SA, providing for compensation in the case of their resignation or dismissal:

- an employment contract, providing for severance pay in the event of termination from reasons other than violation of the basic obligations arising from the employment relationship, in the amount of three monthly basic salaries,
- a non-competition agreement, providing for damages for complying with the noncompetition requirement during 6 months after termination of the employment relation, amounting to 100% of the monthly basic salary received before termination of the employment relation, to be paid monthly in arrears during the non-competition period.

7.4.3 Benefits for supervisors and managers

Principles of remuneration of the Bank's Management Board members

According to principles of remuneration of the Bank's Management Board members, which came into force on 7 November 2012 and take into consideration provisions of the Resolution No. 258/2011 of PFSA, members of the Bank's Management Board are entitled to:

1) monthly remuneration at an amount determined by the Bank's Supervisory Board,
2) benefits payable to employees of the Bank (excluding benefits payable to employees under Works Collective Agreements – Zakładowe Układy Zbiorowe Pracy - ZUZP):

- under the common binding laws,
- under the Bank's internal regulations, with standardised or exceptional character, for which the grant basis is not an evaluation of the Member of the Bank's Management Board work effects or the result of the area or the Bank supervised by him,

3) variable remuneration paid in accordance with the 'Rules and regulations for variable remuneration components of the Management Board Members'.

Table 38. Remuneration for the Management Board Members (in PLN thousand)

		Remuneration from PKO Bank Polski SA		Remuneration (in cash) from PKO Bank Polski SA for the Bank's Management Board				Share-based payments settled in cash			
		received		received		potentially due		received and due*		potentially due	
Name and surname	Function	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Zbigniew Jagiełło	President of the Management Board	2 265	2 119	79	-	419	229	768	339	419	229
Piotr Alicki	Vice-President of the Management Board	1 687	1 608	59	-	274	167	572	266	274	167
Bartosz Drabikowski	Vice-President of the Management Board	1 907	1 777	65	-	334	185	669	293	334	185
Piotr Mazur	Vice-President of the Management Board	1 713	1 351	1	-	176	-	265	-	176	-
Jarosław Myjak	Vice-President of the Management Board	1 653	1 553	55	-	255	157	526	242	255	157
Jacek Obłękowski	Vice-President of the Management Board	1 694	1 577	54	-	268	152	548	241	268	152
Jakub Papierski	Vice-President of the Management Board	1 717	1 594	56	-	295	163	599	258	295	163
Total remuneration for the Management Board		**12 637**	**11 579**	**368**	**-**	**2 022**	**1 052**	**3 947**	**1 639**	**2 022**	**1 052**

*with charges

Principles of the remuneration of Supervisory Board members

Ordinary General Shareholders' Meeting of PKO Bank Polski SA by the Resolution No. 36/2010 of 25 June 2010 established the monthly salary for members of the Supervisory Board of:

- Chairman of the Supervisory Board – PLN 16 000,
- Deputy-Chairman of the Supervisory Board – PLN 14 000,
- Secretary of the Supervisory Board – PLN 12 000,
- Member of the Supervisory Board – PLN 10 000.

Supervisory Board members are entitled to remuneration regardless of the frequency of meetings convened.

Regardless of the remuneration, the Members of the Supervisory Board are entitled to reimbursement of the costs incurred in connection with performing the function, and in particular travel costs from the place of residence to the location of the Supervisory Board's meeting and back, costs of accommodation and board.

Table 39. Remuneration received by the Supervisory Board Members (in PLN thousand)

Specification	2014	2013
Supervisory Board		
Remuneration received, due or potentially due from PKO Bank Polski SA	1 157	1 222
Remuneration received, due or potentially due from related parties*	-	-
Total remuneration received, due or potentially due	**1 157**	**1 222**

* Other than the State Treasury and the State Treasury's related entities.

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 in the reporting period has been presented in the Financial Statements of PKO Bank Polski SA for the year ended 31 December 2014.

8. OTHER INFORMATION

Off-balance sheet liabilities granted

At the end of 2014, guarantees and other financial off-balance sheet liabilities granted with respect to related parties of the PKO Bank Polski SA amounted to PLN 1 269.5 million and decreased by PLN 429.6 million as compared to the end of 2013.
The largest off-balance sheet liabilities granted are related to the following entities:

- PKO Leasing SA – PLN 949.8 million,
- PKO Bankowy Leasing Sp. z o.o. – PLN 176.4 million.

All above mentioned transactions with related parties were concluded on arm's length. The details of related party transactions are presented in the financial statements of PKO Bank Polski SA for the year 2014.
At the end of 2014, guarantees and other financial off-balance sheet liabilities granted with respect to related parties of the PKO Bank Polski SA Group amounted to PLN 5.9 million and decreased by PLN 1.4 million as compared to the end of 2013. The largest off-balance sheet liability relates to Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. (PLN 5.0 million).

Reacquisition of own shares

During the period covered by this Report, PKO Bank Polski SA did not re-acquire its shares on its own account.

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

In 2014, PKO Bank Polski SA disclosed in its current reports all the agreements with clients for which the total value of services arising from long-term agreements with the given client met the criteria defined in the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33, item 259).
In 2014, the Bank did not conclude any significant agreements with the central bank or supervisory authorities.

As at the date of the financial statements, PKO Bank Polski SA is not aware of any agreements as a result of which changes may occur in the future in the proportions of shares held by the current shareholders.

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 2014. Information on significant agreements concluded as part of execution of above mentioned transaction is presented in point 3 of 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. 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.

On 12 September 2014, KREDOBANK SA concluded with the National Bank of Ukraine the 'Arrangement concerning the profitability improvement of KREDOBANK SA'. The main points of the arrangement is to reduce the share of negatively classified assets and the increase in authorised capital of KREDOBANK SA by the end of 2015.

Published forecasts related to financial results for 2014

PKO Bank Polski SA did not publish forecasts related to financial results for 2014.

Guarantees and loan commitments granted

As at 31 December 2014, the total value of guarantees and loan commitments granted amounted to PLN 52 872.6 million with loan commitments making up 72.5% of this amount. Total rate of growth of guarantees and loan commitments granted amounted to 18.6% y/y, mainly due to the increase in financial liabilities granted to non-financial entities.

Table 40. Off-balance sheet liabilities granted (in PLN million)

Items	31.12.2014	31.12.2013	Change (in PLN million)	Change (%)
Loan commitments granted:	**38 333.1**	**34 210.8**	**4 122.3**	**12.0%**
financial entities	534.0	737.5	(203.6)	-27.6%
non-financial entities	34 540.6	30 203.7	4 336.9	14.4%
public entities	3 258.6	3 269.6	(11)	-0.3%
of which: irrevocable	7 943.9	7 708.4	235.5	3.1%
Guarantees issued:	**14 539.5**	**10 387.0**	**4 152.5**	**40.0%**
financial entities	179.7	181.9	(2)	-1.2%
non-financial entities	14 282.9	10 109.4	4 173.5	41.3%
public entities	76.92	95.74	(18.8)	-19.7%
Total	**52 872.6**	**44 597.8**	**8 274.9**	**18.6%**

Loans and advances taken, guarantees and warranties agreements

In 2014, PKO Bank Polski SA did not take out any loans or advances or receive any guarantees or warranties that were not related to operating activity of PKO Bank Polski SA.
In 2014, KREDOBANK SA did not take out any loans or advances or receive any guarantees or warranties that were not related to its operating activity.

Underwriting agreements and guarantees granted to subsidiaries

As at 31 December 2014 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 31 December 2014 PKO Leasing SA issued bonds for a total of PLN 590 million, including bonds with a value of PLN 404 million sold on the secondary market and bonds with a value of PLN 186 million held in the portfolio of PKO Bank Polski SA.

In 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,
- granted a guarantee of up to PLN 900 thousand to PKO Leasing SA in favour of Tax Office in respect of securing the Company's liabilities; 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,
- as part of the merger with Nordea Bank Polska SA, took over the guarantee, granted by this Bank to PKO Życie Towarzystwo Ubezpieczeń SA, to the amount of EUR 213.1 thousand in respect of office space renting; the guarantee is valid until 30 April 2015.

Enforceable titles issued

In 2014, PKO Bank Polski SA issued 13 753 banking enforceable titles for a total amount of PLN 3 239 508 023.7 and EUR 14 310 124.31.
In the case of KREDOBANK SA, the Ukrainian law does not allow to issue enforceable titles as defined in the Polish Banking Law. In accordance with the Ukrainian law, bank liabilities are pursued in a court of law based on the provisions of the Code of Civil Procedure and Code of Economic Procedure.

Debt write-offs

In 2014, decrease of impairment allowances due to derecognition of loans and advances to customers in the PKO Bank Polski SA Group amounted to PLN 1 153.7 million.

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

As of 31 December 2014, the total value of court proceedings against the PKO Bank Polski SA Group entities (including the Bank) amounted to PLN 427 555 thousand, of which PLN 6 549 thousand concerned court proceedings in Ukraine (as at 31 December 2013 the total value of above mentioned court proceedings amounted to PLN 342 658 thousand), while the total value of court proceedings initiated by the PKO Bank Polski SA Group entities (including the Bank) as at 31 december 2014 amounted to PLN 767 505 thousand, of which PLN 110 825 thousand concerned court proceedings in Ukraine, related mainly to 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)[11].

Neither the Bank nor the other Group entities have 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.

[11] *The above mentioned value does not include the value of legal claims of KREDOBANK SA concerning taxes described in the consolidated financial statements of the PKO Bank Polski SA Group in the note on income tax.*

Proxies, Management Board meetings and execution of the resolutions of the General Shareholders' Meeting

In 2014 no proxy was appointed nor dismissed. As at 31 December 2014 there were 7 proxies of the Bank.

In 2014, the Bank's Management Board held 49 meetings and adopted 867 resolutions.

Major actions and decisions of the Management Board, which affected the Bank's financial position and operations, are presented in different parts of this Directors' Report.

Factors which will affect future financial performance of the PKO Bank Polski SA Group

In the near future, the results of the PKO Bank Polski SA Group will be affected by economic processes which will take place in Poland and in the global economy as well as by reactions of the financial markets. The interest rate policy applied by the Monetary Policy Council and by other largest central banks will also have a great impact on the future performance. Detailed predictions concerning trends in the economy are included in this report in point 2.9.
The results of the PKO Bank Polski SA Group will be impacted also by the political and economic situation in Ukraine where operate the Group entities: KREDOBANK SA and factoring and debt collection company. The parent company of the Group, PKO Bank Polski SA is continuing activities to ensure the safe operation of its entities in Ukraine in terms of the current political and macroeconomic situation, covering the strengthening of supervisory activities, including i.e. monitoring the funds transferred to those Entities by the Bank and development in the regulatory requirements of the National Bank of Ukraine. PKO Bank Polski SA is continuously analysing macroeconomic risks for KREDOBANK SA activities.

Seasonality or cyclical nature of activities in the reporting period

PKO Bank Polski SA is a universal bank, which provides services on the territory of the whole country, and thus its activities are exposed to similar 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 cyclical characteristics.

Results of changes in the entity's structure, including the effects of merger, 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 4 of this Directors' Report.

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

In 2014, PKO Bank Polski SA disclosed in its current reports all the agreements with clients for which the total value of services arising from long-term agreements with the given client met the criteria defined in the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33, item 259).

In 2014 the PKO Bank Polski SA's subsidiares did not grant any warranties on loan or advance or a guarantee to a single entity or its subsidiary that would constitute at least 10% of the Bank's own funds.

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 2014, PKO Bank Polski SA provided on an arm's length basis the following services to related (subordinated) entities on 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 and insurance 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 entities.
A list of major transactions concluded by PKO Bank Polski SA with subordinated entities, including their indebtedness in relation to the Bank as at 31 December 2014 was presented in the Standalone Financial Statements of PKO Bank Polski SA for the year ended 31 December 2014.
In 2014 the subsidiaries of PKO Bank Polski SA did not conclude any material transaction with related parties not on arm's length.
In 2014, PKO Bank Polski SA did not conclude any material transaction 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 of the date of funds transfer). Above mentioned donation in the statement of financial position of PKO Bank Polski SA, increases the purchase price of shares of this Company.

Post balance sheet significant events

1) As a result of the cessation of defence of minimum EUR/CHF rate by Swiss central bank, in January 2015 a significant appreciation of the Swiss franc against foreign currencies, including Polish zloty took place. The Group constantly analyses the impact of these events on financial results, of which on the risk of deterioration in the quality of the portfolio of housing loans denominated in CHF. This risk is partially neutralised by a decline in reference interest rates for CHF LIBOR (three-month LIBOR in February 2015 shaped up at the level of approximately -0.9%). The Group took a number of actions aiming at supporting customers and simultaneously reducing an increase in the credit risk related to an increase in CHF exchange rate – i.a. decreasing in transaction CHF/PLN exchange rates used to calculate CHF amount for payment (so-called currency spread) and application of the negative LIBOR rate for all customers. In the assessment of the Group these actions allow to maintain the borrowing capacity to current service of debt arising from housing loans in CHF at the level not lower than in December 2014.

   The PKO Bank Polski SA Group regularly monitors the volatility of CHF exchange rate, the value of housing loans portfolio denominated in CHF and the impact of changes in foreign exchange rate on the level of capital adequacy measures. The Group expects to maintain capital adequacy measures at a safe level in 2015, taking into account the volatility of CHF exchange rate.

2) In February 2015, as a result of releasing of hryvnia exchange rate by the National Bank of Ukraine, a significant depreciation of Ukrainian hryvnia against foreign currencies, including Polish zloty took place. From the beginning of March 2015, after the decision on significant increase in reference interest rates in Ukraine, decreasing of scale of hryvnia depreciation is observed. The Group regularly analyses the impact of these events on financial results, including the risk of deterioration of the Group assets' quality in Ukraine.
3) On 30 January 2015, the Extraordinary General Shareholders' Meeting of PKO Bankowy Leasing Sp. z o.o. adopted a resolution on increasing the Company's share capital of PLN 20 000 thousand. All shares in the increased capital were covered by the current sole shareholder - PKO Leasing SA.
4) On 10 February 2015, PKO Bank Polski SA established PKO Towarzystwo Ubezpieczeń SA with a share capital of PLN 20 000 thousand. The main business of the Company shall be the provision of non-life insurance.
5) On 6 March 2015 the Polish Financial Supervision Authority issued a decision, in which granted its permit to starting operations by PKO Bank Hipoteczny S.A.
6) On 10 March 2015 the Polish Financial Supervision Authority granted its permit to the establishment an insurance company operating within branch II (non-life insurance) by PKO Bank Polski SA.

Declaration of the Management Board

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

- the annual financial statements and comparative data have been prepared in accordance with binding accounting and reporting standards and present a true, fair and transparent view of financial condition and results of the PKO Bank Polski SA Group,
- the annual Directors' Report of the PKO Bank Polski SA Group presents a true view of the development and achievements as well as condition of the PKO Bank Polski SA Group, including a description of the basic risks and threats.

The Management Board of PKO Bank Polski SA certifies that the entity authorised to audit the financial statements and which is performing the audit of annual consolidated financial statements, has been elected in compliance with applicable laws. The entity as well as the certified auditors performing the audit fulfilled all criteria for providing unbiased and independent audit opinion in compliance with applicable laws and professional norms.

The PKO Bank Polski SA Group Directors' Report for the year 2014 consists of 83 subsequently numbered pages.

Signatures of all members of the Management Board

10.03.2015	Zbigniew Jagiełło	President of the Management Board	.... (signature)
10.03.2015	Piotr Alicki	Vice-President of the Management Board	.... (signature)
10.03.2015	Bartosz Drabikowski	Vice-President of the Management Board	.... (signature)
10.03.2015	Piotr Mazur	Vice-President of the Management Board	.... (signature)
10.03.2015	Jarosław Myjak	Vice-President of the Management Board	.... (signature)
10.03.2015	Jacek Obłękowski	Vice-President of the Management Board	.... (signature)
10.03.2015	Jakub Papierski	Vice-President of the Management Board	.... (signature)