



Independent Registered Auditor's Opinion To the General Meeting of Shareholders and the Supervisory Board of of Powszechna Kasa Oszczędności Bank Polski SA

We have audited the accompanying financial statements of Powszechna Kasa Oszczędności Bank Polski SA (hereinafter called "the Bank"), with its registered office at 15 Puławska Street, in Warsaw, which comprise the statement of financial position as at 31 December 2014, showing total assets and total equity and liabilities of PLN 243,760,527 thousand; the income statement for the financial year from 1 January to 31 December 2014, showing a net profit of PLN 3,079,471 thousand; the statement of comprehensive income for the period from 1 January to 31 December 2014, showing a total comprehensive income of PLN 3,295,911 thousand; the statement of changes in equity, the statement of cash flows for the financial year and additional information on accounting policies and other relevant matters.

The Management Board of the Bank is responsible for preparing the financial statements and a Directors' Report in accordance with the applicable regulations, and for the correctness of the accounting records. The Management Board and Members of the Supervisory Board are required to ensure that the financial statements and the Director's Report meet the requirements set out in the Accounting Act of 29 September 1994 ('the Accounting Act', Journal of Laws of 2013, item 330 as amended).

Our responsibility was to perform an audit of the accompanying financial statements and to express an opinion on whether, in all material respects, the financial statements comply with the applicable accounting policies, and whether they present, in all material respects, fairly the Bank's financial position and results, and whether the accounting records constituting the basis for the preparation of the financial statements are properly maintained.

We conducted our audit in accordance with the following:

- (a) the provisions of Chapter 7 of the Accounting Act;
- (b) national auditing standards issued by the National Chamber of Registered Auditors;
- (c) International Standards on Auditing.

Our audit was planned and performed to obtain reasonable assurance that the financial statements were free of material misstatements and omissions. The audit included examining, on a sample test basis, accounting documents and entries supporting the amounts and disclosures in the financial statements. The audit also included an assessment of the accounting policies applied by the Bank and significant estimates made in the preparation of the financial statements as well as an evaluation of the overall presentation thereof. We believe that our audit provides a reasonable basis for our opinion.

*PricewaterhouseCoopers Sp. z o.o.,
Al. Armii Ludowej 14, 00-638 Warszawa, Polska
T: +48 (22) 523 4000, F: +48 (22) 523 4040, www.pwc.com*



**Independent Registered Auditor's Opinion
To the General Meeting of Shareholders and the Supervisory Board of
of Powszechna Kasa Oszczędności Bank Polski SA (cont.)**

In our opinion, and in all material respects, the accompanying financial statements:

- (a) present fairly and clearly the Bank's financial position as at 31 December 2014 and the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union;
- (b) comply in form and content with the applicable laws and the Bank's Memorandum of Association;
- (c) have been prepared on the basis of properly maintained accounting records in accordance with the applicable accounting principles (policies).

The information in the Directors' Report for the year ended 31 December 2014 has been prepared in accordance with the provisions of the Decree of the Minister of Finance of 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equivalent information required by the laws of another state not being a member state ('The Decree' – Journal of Laws of 2014, item 133) and is consistent with the information presented in the audited financial statements.

Conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Firm no. 144:

Adam Celiński

Principal Registered Auditor
No. 90033

Warsaw, 16 March 2015

Powszechna Kasa Oszczędności Bank Polski SA

Auditor's Report on the financial statements as at and for the year ended 31 December 2014

**Auditor's report on the financial statements
For the year ended 31 December 2014
To the General Meeting of Shareholders and the Supervisory Board
of Powszechna Kasa Oszczędności Bank Polski SA**

This report contains 17 consecutively numbered pages and consists of:

	Page
I. General information about the Bank	2
II. Information about the audit.....	5
III. The Bank's results and financial position	6
IV. Discussion of financial statement components.....	11
V. Statements of the independent registered auditor	15
VI. Final information and comments.....	17

Powszechna Kasa Oszczędności Bank Polski SA

Auditor's report on the financial statements

as at and for the year ended 31 December 2014

I. General information about the Bank

- (a) The Bank was established in 1919 as Poczta Kasa Oszczędnościowa (Postal Savings Bank).

In 1950, the Bank began operating as Powszechna Kasa Oszczędności Bank Państwowy (state-owned bank). On 18 January 2000, on the basis of a Decree of the Council of Ministers, Powszechna Kasa Oszczędności Bank Państwowy was transformed into a joint-stock company wholly-owned by the State Treasury, under the name of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna. On 12 April 2000, the Bank was entered in the Commercial Register maintained by the District Court for the City of Warsaw, Business Court, the 16th Registration Division. Currently, the Bank is registered with the reference number KRS 0000026438, and the District Court for the City of Warsaw, the 13th Business Division of the National Court Register, is the competent registration court.

On 14 June 1993, the Bank was assigned a tax identification number (NIP) 525-00-07-738 for making tax settlements. On 18 April 2000, the Bank was assigned a REGON number 016298263 for statistical purposes.

- (b) As at 31 December 2014, the Bank's registered share capital amounted to PLN 1,250,000 thousand and consisted of 1,250,000,000 ordinary shares, each of PLN 1, including:
- 312,500,000 A-series registered shares;
 - 197,500,000 A-series bearer shares;
 - 105,000,000 B-series bearer shares;
 - 385,000,000 C-series bearer shares;
 - 250,000,000 D-series bearer shares.

- (c) As at 31 December 2014, the Bank's shareholders were:

Shareholder's name	Number of shares held	Par value of shares held (PLN'ooo)	Type of shares held	Votes (%)
State Treasury AVIVA Otwarty Fundusz	392,406,277	392,406	ordinary	31,39
Emerytalny ING Otwarty Fundusz	83,952,447	83,952	ordinary	6,72
Emerytalny	64,594,448	64,595	ordinary	5,17
Other	709,046,828	709,047	ordinary	56,72
Total	1,250,000,000	1,250,000	-	100,00

- (d) Based on art. 111 of the Act on trading in financial instruments dated 29 July 2005, the Bank conducts brokerage activities through a separate organizational unit (a branch office) of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie, in Warsaw (hereinafter called “the Brokerage House of PKO BP SA”).

The Brokerage House of PKO BP SA has existed since 1991. Based on Resolution No. 17/91 of the Polish Securities Commission dated 26 August 1991, the Brokerage House of PKO BP SA obtained a licence for public trading in securities. By Resolution No. 24/91 of Giełda Papierów Wartościowych w Warszawie SA (the Warsaw Stock Exchange) dated 26 September 1991, the Brokerage House of PKO BP SA was entered in the register of direct participants in the National Depository for Securities.

Powszechna Kasa Oszczędności Bank Polski SA

Auditor's report on the financial statements

as at and for the year ended 31 December 2014

I. General information about the Bank (cont.)

(e) In the audited year, the Bank's operations comprised, *inter alia*:

- accepting cash deposits payable on demand or on an agreed date and maintaining accounts for such deposits;
- granting loans and cash advances;
- granting and confirming bank guarantees;
- clearing cash transactions;
- issuing cards and conducting transactions with the use of cards;
- conducting forward transactions.

At the same time, the Bank conducts brokerage activities through the Brokerage House of PKO BP SA and fiduciary services through the Fiduciary Office.

(f) During the audited year, the Management Board of the Bank comprised:

Zbigniew Jagiełło	President of the Management Board	throughout the year
Piotr Alicki	Vice-President of the Management Board	throughout the year
Bartosz Drabikowski	Vice-President of the Management Board	throughout the year
Piotr Mazur	Vice-President of the Management Board	throughout the year
Jarosław Myjak	Vice-President of the Management Board	throughout the year
Jacek Obłękowski	Vice-President of the Management Board	throughout the year
Jakub Papierski	Vice-President of the Management Board	throughout the year

During the year ended 31 December 2014 there were no changes in the composition of the Bank's Management Board.

(g) As at the balance date, the Bank had the following related entities:

Bankowe Towarzystwo Kapitałowe SA	- subsidiary;
Centrum Haffnera Sp. z o.o.	- subsidiary;
Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o., Ukraine	- subsidiary;
Inter-Risk Ukraina Additional Liability Company, Ukraine	- subsidiary;
Kredobank SA, Ukraine	- subsidiary;
Merkury Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Non-Public Assets Closed-End Investment Fund)	- subsidiary;
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	- subsidiary;
PKO Bank Hipoteczny SA	- subsidiary;
PKO BP Finat Sp. z o.o.	- subsidiary;
PKO Finance AB, Sweden	- subsidiary;
PKO Towarzystwo Funduszy Inwestycyjnych SA	- subsidiary;
PKO Życie Towarzystwo Ubezpieczeń SA	- subsidiary;
PKO Leasing SA	- subsidiary;
Qualia Development Sp. z o.o.	- subsidiary;
Centrum Elektronicznych Usług Płatniczych "eService" Sp. z o.o.	- joint ventures;
Centrum Obsługi Biznesu Sp. z o.o.	- joint ventures;
Bank Pocztowy SA	- associate;
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	- associate;

Powszechna Kasa Oszczędności Bank Polski SA
Auditor's report on the financial statements
as at and for the year ended 31 December 2014

I. General information about the Bank (cont.)

and the companies that are members of the capital groups of Bankowe Towarzystwo Kapitałowe SA, PKO Leasing SA, PKO Życie Towarzystwo Ubezpieczeń SA, Qualia Development Sp. z o.o., Kredobank SA, Merkury Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych and Centrum Haffnera Sp. z o.o., and indirect associates that are members of the capital group Bank Pocztowy SA.

- (h) In 2014, the Bank 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 dues to corporate clients (the assets of the so-called Swedish portfolio). As a result of the acquisition, goodwill in the amount of PLN 863,262 thousand was created.

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 Group. The legal merger took place on 31 October 2014 and since then Nordea Bank Polska SA ceased to be a separate entity.

- (i) The Bank is an issuer of securities admitted for trading on the Warsaw Stock Exchange. In accordance with the choice of selecting accounting policies permitted by the Accounting Act, the Bank has decided to prepare its financial statements in accordance with IFRS as adopted by the European Union since 2005.

The decision to prepare the Bank's financial statements in accordance with these standards was made by the General Meeting of Shareholders in their Resolution No. 28/2005 passed on 19 May 2005.

- (j) As the Parent Company of the Group, the Bank has also prepared consolidated financial statements according to IFRS as adopted by the European Union as at 10 March 2015. To better understand the Bank's financial position and its results of operations as the Parent Company, the separate financial statements should be read in conjunction with the consolidated financial statements.

Powszechna Kasa Oszczędności Bank Polski SA
Auditor's report on the financial statements
as at and for the year ended 31 December 2014

II. Information about the audit

- (a) The audit of the financial statements as at and for the year ended 31 December 2014 was conducted by PricewaterhouseCoopers Sp. z o.o., with its seat in Warsaw, Al. Armii Ludowej 14, registered audit firm no. 144. The audit was conducted on behalf of the registered audit firm under the supervision of the principal registered auditor, Adam Celiński (no. 90033).
- (b) PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Bank by Resolution No. 3/2014 of the Supervisory Board dated 5 March 2014 in accordance with paragraph 15, clause 1, item 3 of the Bank's Memorandum of Association.
- (c) PricewaterhouseCoopers Sp. z o.o. and the principal registered auditor conducting the audit are independent of the audited entity within the meaning of art. 56, clauses 2–4 of the Act on registered auditors and their council, entities entitled to provide audit of financial statements and public supervision of 7 May 2009 (Journal of Laws No. 77, item 649, as amended).
- (d) The audit was conducted in accordance with an agreement dated 18 June 2014, in the following periods:
 - interim audit from 20 October 2014 to 22 December 2014;
 - final audit from 7 January 2015 to 16 March 2015.

Powszechna Kasa Oszczędności Bank Polski SA
Auditor's report on the financial statements
as at and for the year ended 31 December 2014

III. The Bank's results and financial position

The financial statements do not take account of the effects of deflation. The consumer price index (on a December to December basis) amounted to (-1.0%) in the audited year (inflation of 0.7% in 2013).

The observations below are based on the knowledge obtained during the audit of the financial statements.

- As at 31 December 2014, total assets amounted to PLN 243,760,527 thousand and increased by PLN 47,480,595 thousand (i.e. 24%) compared with 31 December 2013.
- This increase was financed mainly by the increase in amounts due to customers of PLN 25,962,891 thousand (i.e. 16%) – mainly as a result of an increase in deposits of retail customers and corporate entities, the increase in amounts due to banks of PLN 15,909,961 thousand (i.e. 629%) – mainly as a result of incurring a liability to Nordea AB (publ) of PLN 14,927,552 thousand, and the increase in the balance of derivative financial instruments of PLN 2,217,353 thousand (i.e. 67%) and subordinated liabilities of PLN 793,128 thousand (i.e. 49%), accompanied by the increase in equity of PLN 2,490,914 thousand (i.e. 10%).
- The main source of financing assets in 2014 were amounts due to customers (similarly to the prior year). As at the balance date, the balance of amounts due to customers amounted to PLN 185,920,562 thousand and represented 77% of total liabilities and equity (an increase of PLN 25,962,891 thousand, i.e. 16% compared with 31 December 2013). The change in the balance of amounts due to customers was mainly the effect of an increase in amounts due to retail customers (an increase of PLN 12,449,433 thousand, i.e. 11% compared with 31 December 2013), and an increase in the balance of amounts due to corporate entities (an increase of PLN 12,208,603 thousand, i.e. 30% compared with 31 December 2013).
- The balance of amounts due to banks amounted to PLN 18,439,584 thousand as at the balance date (an increase of PLN 15,909,961 thousand, i.e. 629% compared with the previous year) and comprised mainly loans and advances received of PLN 16,393,118 thousand (PLN 1,389,847 thousand as at 31 December 2013). The increase in the balance resulted mainly from incurring a liability to Nordea AB (publ) for financing the acquired foreign currency portfolio of mortgage loans of Nordea Bank Polska SA of PLN 14,927,552 thousand. There was also an increase in the balance of current accounts of PLN 492,122 thousand (i.e. 428%), repurchase agreements of PLN 260,902 thousand (i.e. 675%) and accepted interbank deposits of PLN 162,378 thousand (i.e. 17%).
- As at 31 December 2014, liabilities in respect of the negative valuation of derivatives amounted to PLN 5,545,502 thousand (PLN 3,328,149 thousand as at 31 December 2013). The increase in the balance as at the balance date was mainly the result of the higher valuation of IRS transactions whose balance grew by PLN 1,948,998 thousand (i.e. 78%) compared with 31 December 2013.

Powszechna Kasa Oszczędności Bank Polski SA
Auditor's report on the financial statements
as at and for the year ended 31 December 2014

III. The Bank's results and financial position (cont.)

- The balance of subordinated liabilities amounted to PLN 2,413,985 thousand as at the balance date (PLN 1,620,857 thousand as at 31 December 2013) and related to the valuation of bonds issued by the Bank in 2012 in the nominal amount of PLN 1,600,700 thousand and a subordinated loan acquired from Nordea Bank Polska SA with a nominal value of PLN 780,864 thousand.
- As at 31 December 2014, the balance of debt securities in issue amounted to PLN 866,087 thousand and related to short-term bonds issued to the Polish market of PLN 747,825 thousand and structured bank securities based on stock exchange indices or commodity prices of PLN 118,262 thousand. The drop in the balance of PLN 117,036 thousand (i.e. 12%) compared with 31 December 2013 resulted mainly from a drop in the volume of structured bank securities based on stock exchange indices or commodity prices (a drop of PLN 172,247 thousand, i.e. 59% compared with 31 December 2013).
- As at 31 December 2014, the balance of other liabilities amounted to PLN 2,665,058 thousand and increased by PLN 230,337 thousand (i.e. 9%) compared with the end of 2013. The increase in the balance as at the balance date was mainly due to incurring liabilities in respect of funds transferred by the Bank Guarantee Fund for the disbursements to holders of deposits with SKOK (credit union) in Wołomin of PLN 356,461 thousand, an increase in the balance of liabilities resulting from settlement of financial instruments of PLN 66,103 thousand (i.e. 0f 89%), as well as an increase in the balance of settlement of the purchases of plant, machinery and materials, work and services relating to the construction of fixed assets and maintenance activities of PLN 65,754 thousand (i.e. 642%). This increase was offset by a drop of PLN 179,370 thousand in the liability related to shares taken up by the Bank in the increased capital of Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o., as well as a drop in the balance of liabilities and settlements in respect of trading in securities (a drop of PLN 151,383 thousand) and the balance of liabilities from investing activities and internal operations (a drop of PLN 141,131 thousand).
- As at 31 December 2014, the balance of equity amounted to PLN 27,602,156 thousand (PLN 25,111,242 thousand as at 31 December 2013). The increase in the balance was mainly due to a profit of PLN 3,079,471 thousand generated by the Bank in 2014. At the same time, the Bank earmarked PLN 937,500 thousand worth of the profit for 2013 for payment of a dividend. The remaining part of the profit for 2013 was earmarked for increasing the reserve capital (PLN 2,020,000 thousand) and other reserves (PLN 5,020 thousand).
- The balance of own funds calculated on a regulatory basis was PLN 24,879,710 thousand as at 31 December 2014 (PLN 20,523,753 thousand as at 31 December 2013) and was PLN 9,989,117 thousand higher than the total capital requirement (PLN 14,890,593 thousand as at the end of 2014). The capital adequacy ratio calculated as at the balance date based on the banking portfolio and the trading portfolio was 13.37% and decreased by 0.01 pp. compared with the end of the previous year. The drop in the capital adequacy ratio was mainly due to the fact that the total capital requirement grew more dynamically than the Bank's own funds. The main reason for the increase in the balance of the total capital requirement was an

Powszechna Kasa Oszczędności Bank Polski SA
Auditor's report on the financial statements
as at and for the year ended 31 December 2014

III. The Bank's results and financial position (cont.)

increase in the portfolio of loans and advances to customers, which was mainly due to the conclusion of the merger transaction with Nordea Bank Polska SA in 2014.

- The higher level of financing mainly translated into an increase in the balance of loans and advances to customers – a change of PLN 30,185,245 thousand (i.e. 20%).
- As at the balance date, loans and advances to customers amounted to PLN 177,557,571 thousand and represented 73% of total assets (a drop of 2 pp. compared with the end of 2013). The gross loan portfolio value as at 31 December 2014 amounted to PLN 185,084,771 thousand and increased by PLN 31,331,213 thousand (i.e. 20%) compared with 31 December 2013. This increase was mainly due to an increase in the housing loans portfolio (of PLN 21,477,073 thousand, i.e. 28%) and the portfolio of corporate loans to the non-financial sector (the increase of PLN 5,029,282 thousand, i.e. 12%). This increase was mainly due to the recognition of the portfolio of loans and advances acquired as part of the merger with Nordea Bank Polska SA.
- The quality of the loan portfolio as at the balance date measured with the ratio of impaired loans to the total balance of loans and advances improved compared with the end of 2013. As at 31 December 2014, the share of impaired loans in total loans and advances decreased by 1.3 pp. and amounted to 6.7%. At the same time, the coverage ratio of impairment allowances to impaired loans and advances to customers amounted to 55.9% as at the balance date and increased by 8.7 pp.
- As at the balance date, cash and balances with the central bank amounted to PLN 11,698,248 thousand and increased by PLN 4,509,842 thousand compared with 31 December 2013. This comprised mainly an increase in the balances with the central bank (of PLN 3,754,516 thousand, i.e. 93%) and a simultaneous increase in cash in hand and in vaults of PLN (of PLN 755,565 thousand, i.e. 24%).
- The increase in amounts due from banks concerned both current accounts, which were PLN 322,309 thousand (i.e. 81%) higher as at the balance date than as at 31 December 2013, and deposits with other banks which increased by PLN 177,025 thousand (i.e. 12%) compared with the end of 2013. At the same time, there was a drop in the balance of repurchase agreements (a drop of PLN 14,033 thousand compared with 31 December 2013). As at the balance date, amounts due from banks amounted to PLN 2,608,547 thousand.
- The balance of financial assets designated at fair value through profit or loss amounted to PLN 13,417,667 thousand as at the balance date. The drop in the balance (of PLN 1,761,521 thousand, i.e. 12%) resulted mainly from a drop in short-term NBP bills (a drop of PLN 2,998,416 thousand, i.e. 21%), accompanied by an increase in the balance of Treasury bonds in PLN (an increase of PLN 1,233,713 thousand, i.e. 132%).
- The balance of investment securities available for sale amounted to PLN 22,092,136 thousand as at the balance date and was PLN 8,355,438 thousand (i.e. 61%) higher than as at the end of 2013. The increase concerned mainly Treasury bonds (an increase of PLN 3,939,898 thousand, i.e. 46%) and corporate bonds (an increase

Powszechna Kasa Oszczędności Bank Polski SA
Auditor's report on the financial statements
as at and for the year ended 31 December 2014

III. The Bank's results and financial position (cont.)

of PLN 3,266,000 thousand, i.e. 206%). As at 31 December 2014, 97% of the balance related to Polish issuers (100% as at 31 December 2013).

- Financial assets held for trading amounted to PLN 1,928,659 thousand as at 31 December 2014. Their increase of PLN 1,444,174 thousand (i.e. 298%) was mainly due to an increase in the Bank's exposure to Polish Treasury bonds – between the end of 2013 and the end of 2014, their balance increased by PLN 1,434,794 thousand (i.e. 367%).
- The Bank's liquidity ratios of up to 1 month and up to 3 months, calculated based on data about assets receivable and liabilities payable at the real term maturities, amounted to 1.99 and 1.67 respectively (2.17 and 1.84 respectively as at the end of 2013). The loans to deposits ratio (L/D) amounted to 95.5% as at the end of 2014 (92.1% as at the end of 2013).
- The share of interest-bearing assets in total assets decreased by 0.7 pp. compared with 31 December 2013 and amounted to 92.5% as at the end of 2014 (93.2% as at the end of 2013).
- The operating profit for 2014 amounted to PLN 3,810,738 thousand and was PLN 149,107 thousand (i.e. 4%) lower than the result for 2013. It comprised mainly: net interest income of PLN 6,948,853 thousand (an increase of PLN 368,403 thousand, i.e. 6%), net fee and commission income of PLN 2,614,589 thousand (a drop of PLN 40,893 thousand, i.e. 2%) and other operating income of PLN 154,452 thousand (a drop of PLN 485,163 thousand, i.e. 76%). At the same time, the operating profit was reduced by administrative expenses of PLN 4,467,584 thousand (an increase of PLN 246,818 thousand, i.e. 6%) and net impairment allowance and write-downs of PLN 1,980,723 thousand (a drop of PLN 106,844 thousand, i.e. 5%).
- The net interest income for 2014 of PLN 6,948,853 thousand was PLN 368,403 thousand (i.e. 6%) higher than the result for 2013. The main reason for the increase was lower expenses on amounts due to customers (a drop of PLN 959,654 thousand, i.e. 26%). This increase was offset with lower income on loans and advances to customers (by PLN 425,857 thousand, i.e. 5%). In 2014, the interest margin calculated as the ratio of net interest result to interest income grew by 7 pp. compared with 2013 and amounted to 70%. The interest spread, calculated as the difference between the profitability ratio on interest-bearing assets and the cost of borrowings, was 3.3% and dropped by 0.1 pp. compared with 2013.
- The net fee and commission income for 2014 was lower than in 2013 and amounted to PLN 2,614,589 thousand (a drop of PLN 40,893 thousand, i.e. 2%). Compared with 2013, fee and commission income dropped by PLN 37,182 thousand (i.e. 1%) to PLN 3,613,576 thousand, mainly as a result of a decrease in commission income from cards (a drop of PLN 47,403 thousand, i.e. 4%). At the same time, there was an increase in fee and commission expense (of PLN 3,711 thousand) to PLN 998,987 thousand, which mainly concerned other expenses (an increase of PLN 18,387 thousand, i.e. 19%), accompanied by a drop in commission expenses on cards (a drop of PLN 17,209 thousand, i.e. 3%).

Powszechna Kasa Oszczędności Bank Polski SA
Auditor's report on the financial statements
as at and for the year ended 31 December 2014

III. The Bank's results and financial position (cont.)

- In 2014, other operating income dropped by PLN 485,163 thousand and amounted to PLN 154,452 thousand. This drop was mainly due to the fact that in 2013 the Bank recognized income on the sale of a majority block of shares in the subsidiary Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. of PLN 346,932 thousand, and income from fair value measurement of PLN 178,722 thousand in 2013.
- In 2014, administrative expenses were PLN 246,818 thousand (i.e. 6%) higher than in the prior year and amounted to PLN 4,467,584 thousand. This increase was mainly due to the increase in amortization and depreciation of PLN 111,793 thousand (i.e. 21%), the costs of fees and payments to the Bank Guarantee Fund of PLN 47,590 thousand (i.e. 28%), costs of employee benefits of PLN 38,812 thousand (i.e. 2%) and overheads of PLN 33,349 thousand (i.e. 3%). The overall business effectiveness, calculated as the costs to income ratio (C/I), deteriorated in 2014 (C/I increased by 2.4 pp. to 43.5%). The adverse change in this ratio was due to the fact that income was lower than in 2013, and was accompanied by an increase in administrative expenses.
- In 2014, net impairment allowance amounted to PLN 1,980,723 thousand (PLN 2,087,567 thousand in 2013). The drop in net impairment allowance (recognized in the income statement) concerned mainly consumer loans (a drop of PLN 191,603 thousand, i.e. 47%), corporate loans (a drop of PLN 169,911 thousand, i.e. 14%), and investments in subsidiaries, joint ventures and associates (a drop of PLN 63,204 thousand, i.e. 36%) and was offset by an increase in net impairment allowance relating to equity securities classified as investment securities available for sale (an increase of PLN 112,535 thousand, i.e. 904%), and an increase in net impairment allowance relating to housing loans (an increase of PLN 82,613 thousand, i.e. of 34%). The cost of risk amounted to 1.0% in 2014 (1.2% in 2013).
- Gross profitability (calculated as profit before income tax to total income) amounted to 26.6% in the audited year and increased by 0.6 pp. compared with the previous year.
- In 2014, income tax expense amounted to PLN 731,267 thousand (PLN 726,083 thousand in 2013). The effective tax rate amounted to 19.2% in 2014 and increased by 0.9 pp. compared with 2013.
- As a result, in 2014 the Bank generated a net profit of PLN 3,079,471 thousand, which was PLN 154,291 thousand (i.e. 5%) lower than the net profit for 2013. Net profitability (calculated as net profit to total income) amounted to 21.5% in 2014 (21.2% in 2013).
- The return on assets (calculated as net profit to average total assets) amounted to 1.4% in 2014 and dropped by 0.3 pp. compared with 2013. In the audited year, the return on equity amounted to 11.7% and was 1.4 pp. lower than in 2013.

The Bank's financial statements have been prepared in accordance with the going concern principle.

Powszechna Kasa Oszczędności Bank Polski SA
Auditor's report on the financial statements
as at and for the year ended 31 December 2014

IV. Discussion of financial statement components

STATEMENT OF FINANCIAL POSITION as at 31 December 2014

ASSETS	31.12.2014	31.12.2013	Change	Change	31.12.2014	31.12.2013
	PLN'000	PLN'000	PLN'000	(%)	Structure	Structure
					(%)	(%)
Cash and balances with the central bank	11,698,248	7,188,406	4,509,842	63	5	4
Amounts due from banks	2,608,547	2,089,087	519,460	25	1	1
Trading assets	1,928,659	484,485	1,444,174	298	1	-
Derivative financial instruments	5,483,508	3,002,220	2,481,288	83	2	2
Financial assets designated upon initial recognition at fair value through profit and loss	13,417,667	15,179,188	(1,761,521)	(12)	6	8
Loans and advances to customers	177,557,571	147,372,326	30,185,245	20	73	75
Investment securities available for sale	22,092,136	13,736,698	8,355,438	61	9	7
Investments in subsidiaries, joint ventures and associates	1,813,774	1,578,926	234,848	15	1	1
Non-current assets held for sale	416,760	145,657	271,103	186	-	-
Intangible assets	2,898,612	1,944,132	954,480	49	1	1
Tangible fixed assets	2,251,373	2,296,981	(45,608)	(2)	1	1
Current income tax receivables	94,343	201,212	(106,869)	(53)	-	-
Deferred income tax assets	671,404	387,192	284,212	73	-	-
Other assets	827,925	673,422	154,503	23	-	-
Total assets	243,760,527	196,279,932	47,480,595	24	100	100

Powszechna Kasa Oszczędności Bank Polski SA
Auditor's report on the financial statements
as at and for the year ended 31 December 2014

IV. Discussion of financial statement components (cont.)

STATEMENT OF FINANCIAL POSITION as at 31 December 2014 (cont.)

LIABILITIES AND EQUITY	31.12.2014	31.12.2013	Change	Change	31.12.2014	31.12.2013
	PLN'000	PLN'000	PLN'000	(%)	Structure	Structure
					(%)	(%)
Amounts due to the central bank	4,427	4,065	362	9	-	-
Amounts due to banks	18,439,584	2,529,623	15,909,961	629	8	1
Derivative financial instruments	5,545,502	3,328,149	2,217,353	67	2	2
Amounts due to customers	185,920,562	159,957,671	25,962,891	16	77	81
Debt securities in issue	866,087	983,123	(117,036)	(12)	-	1
Subordinated liabilities	2,413,985	1,620,857	793,128	49	1	1
Other liabilities	2,665,058	2,434,721	230,337	9	1	1
Provisions	303,166	310,481	(7,315)	(2)	-	-
Total liabilities	216,158,371	171,168,690	44,989,681	26	89	87
Share capital	1,250,000	1,250,000	-	-	1	1
Other capital	23,139,892	20,898,722	2,241,170	11	9	11
Unappropriated profits/ (Accumulated losses)	132,793	(271,242)	404,035	(149)	-	-
Net profit for the year	3,079,471	3,233,762	(154,291)	(5)	1	1
Total equity	27,602,156	25,111,242	2,490,914	10	11	13
Total liabilities and equity	243,760,527	196,279,932	47,480,595	24	100	100

Powszechna Kasa Oszczędności Bank Polski SA

Auditor's report on the financial statements as at and for the year ended 31 December 2014

IV. Discussion of financial statement components (cont.)

INCOME STATEMENT for the financial year ended 31 December 2014

	2014	2013	Change	Change	2014	2013
	PLN'000	PLN'000	PLN'000	(%)	Structure	Structure
					(%)	(%)
Interest and similar income	9,908,359	10,487,279	(578,920)	(6)	69	69
Interest expense and similar charges	(2,959,506)	(3,906,829)	947,323	(24)	28	35
Net interest income	6,948,853	6,580,450	368,403	6		
Fee and commission income	3,613,576	3,650,758	(37,182)	(1)	26	24
Fee and commission expense	(998,987)	(995,276)	(3,711)	0	9	9
Net fee and commission income	2,614,589	2,655,482	(40,893)	(2)		
Dividend income	91,465	96,049	(4,584)	(5)	1	1
Net income from financial instruments designated at fair value	57,967	54,389	3,578	7	-	-
Gains less losses from investment securities	161,651	66,909	94,742	142	1	-
Net foreign exchange gains	324,895	237,638	87,257	37	2	2
Other operating income	154,452	639,615	(485,163)	(76)	1	4
Other operating expense	(94,827)	(62,354)	(32,473)	52	1	1
Net impairment allowance and write-downs	(1,980,723)	(2,087,567)	106,844	(5)	19	18
Administrative expenses	(4,467,584)	(4,220,766)	(246,818)	6	43	37
Operating profit / Profit before income tax	3,810,738	3,959,845	(149,107)	(4)		
Income tax expense	(731,267)	(726,083)	(5,184)	1		
Net profit	3,079,471	3,233,762	(154,291)	(5)		
Total income	14,312,365	15,232,637	(920,272)	(6)	100	100
Total expenses	(10,501,627)	(11,272,792)	771,165	(7)	100	100
Profit before income tax	3,810,738	3,959,845	(149,107)	(4)		

Powszechna Kasa Oszczędności Bank Polski SA

Auditor's report on the financial statements as at and for the year ended 31 December 2014

IV. Discussion of financial statement components (cont.)

Selected ratios characterizing the Bank's financial position and results

The following ratios characterize the Bank's activities, its results of operations for the financial year and its financial position as at the balance date compared with the previous year ⁽¹⁾:

	2014	2013
Profitability ratios		
Gross profitability (profit before income tax / total income)	26.6%	26.0%
Net profitability (net profit / total income)	21.5%	21.2%
ROE (net profit / average net assets) ⁽²⁾	11.7%	13.1%
ROA (net profit / average total assets) ⁽²⁾	1.4%	1.7%
Cost to income ratio (administrative expenses / profit on banking activities) ⁽³⁾	43.5%	41.1%
Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) ⁽²⁾	4.9%	5.8%
Cost of borrowings (interest expense / average interest-bearing liabilities) ⁽²⁾	1.6%	2.4%
Asset quality ratios		
Interest-bearing assets to total assets ⁽⁴⁾	92.5%	93.2%
Impaired loans to total gross loans and advances to customers	6.7%	8.0%
Coverage with impairment allowances of impaired loans and advances to customers	55.9%	47.2%
Cost of risk ⁽⁵⁾	1.0%	1.2%
Liquidity ratios		
Liquidity up to 1 month ⁽⁶⁾	1.99	2.17
Liquidity up to 3 months ⁽⁶⁾	1.67	1.84
Loans to deposits	95.5%	92.1%
Other ratios		
Capital adequacy ratio	13.37%	13.38%
Bank's own funds (PLN '000)	24,879,710	20,523,753
Total capital requirement (PLN '000)	14,890,593	12,272,008

(1) The values of the individual ratios may differ from the values presented in the financial statements due to a different calculation method being used.

(2) The average balances of balance sheet items were calculated on the basis of the balances of individual items at the beginning and end of the current financial year and the prior financial year.

(3) The profit on banking activities understood as operating profit less administrative expenses and net impairment allowances.

(4) Interest-bearing assets are defined as balances with the central bank (excluding cash), amounts due from banks, loans and advances to customers, investment securities designated at fair value through profit and loss and securities held for trading.

(5) The cost of risk calculated by dividing net impairment allowances for loans and advances to customers for the period by the average balance of gross loans and advances to customers.

(6) Liquidity ratios are understood as the ratio of assets receivable to liabilities payable at the real term maturities as at the balance date.

Powszechna Kasa Oszczędności Bank Polski SA
Auditor's report on the financial statements
as at and for the year ended 31 December 2014

V. Statements of the independent registered auditor

- (a) The Management Board of the Bank provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the accounting records and the disclosure of all contingent liabilities and subsequent events which occurred up to the date on which that letter was signed.
- (b) The scope of the audit was not limited.
- (c) The Bank has up-to-date documentation of its accounting policies, approved by the Management Board. The Bank's accounting policies were tailored to its needs and ensured the recognition of all events with a material effect on the assessment of its financial position and results, taking into consideration the prudence principle. There were no changes to the accounting policies compared with the previous year.
- (d) The closing balances as at the end of the previous year were correctly brought forward as the opening balances of the current financial year in all material respects, taking account of the change to the accounting policies referred to above.
- (e) The counts of assets and equity & liabilities were carried out and reconciled in accordance with the Accounting Act, and the results were included in the accounting records for the audited year.
- (f) The financial statements of the Bank as at and for the year ended 31 December 2013 were approved by Resolution No. 3/2014 passed by the General Meeting of Shareholders on 26 June 2014 and filed with the National Court Register in Warsaw on 8 July 2014.
- (g) On 26 June 2014, the General Meeting of Shareholders passed Resolution No. 7/2014 relating to the appropriation of profit for 2013, in the amount of PLN 3,233,762 thousand, according to which PLN 2,020,000 thousand was to be transferred to reserve capital, PLN 5,020 thousand was to be transferred to other reserves, PLN 937,500 thousand was to be paid out as a dividend and PLN 271,242 thousand was to be earmarked for offsetting the accumulated losses.
- (h) The financial statements for the previous year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.
- (i) We have assessed the operation of the accounting system. Our assessment covered in particular:
 - the accuracy of the documentation relating to business transactions;
 - the fairness, accuracy and verifiability of the books of account, including computerized books of account;
 - the methods used for controlling access to data and the computerized data processing system;
 - the safeguarding of the accounting documentation, books of account, and financial statements.

Powszechna Kasa Oszczędności Bank Polski SA
Auditor's report on the financial statements
as at and for the year ended 31 December 2014

V. Statements of the independent registered auditor (cont.)

This assessment, together with our verification of individual items of the financial statements, provides the basis for expressing a general and comprehensive opinion on these financial statements. The audit was not intended to provide a comprehensive opinion on the operations of the said system.

- (j) We determined the materiality levels at the planning stage. Materiality levels specify the limits up to which identified irregularities may be left unadjusted without any detriment to the quality of the financial statements and to the correctness of the underlying books of account, since failing to make such adjustments will not be misleading for the readers of the financial statements. Materiality measures both the quantity and quality of audited items and that is why it varies for different statement of financial position and income statement items. Due to the complexity and quantity of the materiality levels adopted for audit purposes, they are included in the audit documentation.
- (k) The notes to the financial statements present all significant information required by IFRS as adopted by the European Union.
- (l) The information in the Directors' Report for the year ended 31 December 2014 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws 2014, item 133) and is consistent with the information presented in the audited financial statements.
- (m) The total capital requirement, together with the requirement concerning the risk of excessive capital exposure, amounted to PLN 14,890,593 thousand as at the balance date. The capital adequacy ratio as at 31 December 2014 amounted to 13.37%. As at the balance date, the Bank complied with the prudence principle in all material respects.



VI. Final information and comments

This report has been prepared in connection with our audit of the financial statements of Powszechna Kasa Oszczędności Bank Polski SA with its registered office in Warsaw, 15 Puławska Street. The financial statements were signed by the Banks's Management Board and the person entrusted with maintaining the books of account on 10 March 2015.

This report should be read in conjunction with the Independent Registered Auditor's unqualified Opinion to the General Meeting of Shareholders and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA dated 16 March 2015, concerning the said financial statements. The opinion on the financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements as a whole.

Conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Firm no. 144:

Adam Celiński

Principal Registered Auditor
No. 90033

Warsaw, 16 March 2015