Bank Polski

# Consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2015

Report publication date:
7 March 2016

Bank Polski

## SELECTED FINANCIAL DATA DERIVED FROM THE FINANCIAL STATEMENTS

| SELECTED CONSOLIDATED FINANCIAL DATA | PLN thousand | | EUR thousand | |
|---|---|---|---|---|
| | period from 01.01.2015 to 31.12.2015 | period from 01.01.2014 to 31.12.2014 | period from 01.01.2015 to 31.12.2015 | period from 01.01.2014 to 31.12.2014 |
| Net interest income | 7 028 595 | 7 522 931 | 1 679 553 | 1 795 749 |
| Net fee and commission income | 2 850 628 | 2 933 506 | 681 186 | 700 238 |
| Operating profit | 3 152 635 | 4 002 753 | 753 354 | 955 471 |
| Profit before income tax | 3 190 750 | 4 034 563 | 762 462 | 963 064 |
| Net profit (including non-controlling shareholders) | 2 601 253 | 3 242 816 | 621 596 | 774 071 |
| Net profit attributable to equity holders of the parent company | 2 609 564 | 3 254 122 | 623 582 | 776 770 |
| Earnings per share for the period – basic (in PLN/EUR) | 2,09 | 2,60 | 0,50 | 0,62 |
| Earnings per share for the period – diluted (in PLN/EUR) | 2,09 | 2,60 | 0,50 | 0,62 |
| Net comprehensive income | 2 649 362 | 3 398 726 | 633 092 | 811 287 |
| Net cash flows used in operating activities | 15 394 800 | 2 024 410 | 3 678 742 | 483 233 |
| Net cash flows used in investing activities | (4 597 473) | (7 703 122) | (1 098 612) | (1 838 761) |
| Net cash flows from / used in financing activities | (7 787 480) | 11 048 828 | (1 860 897) | 2 637 392 |
| Total net cash flows | 3 009 847 | 5 370 116 | 719 233 | 1 281 865 |

| SELECTED CONSOLIDATED FINANCIAL DATA | PLN thousand | | EUR thousand | |
|---|---|---|---|---|
| | as at 31.12.2015 | as at 31.12.2014 | as at 31.12.2015 | as at 31.12.2014 |
| Total assets | 266 939 919 | 248 700 589 | 62 639 897 | 58 348 917 |
| Total equity | 30 264 913 | 27 615 551 | 7 101 939 | 6 479 026 |
| Capital and reserves attributable to equity holders of the parent company | 30 283 285 | 27 625 566 | 7 106 250 | 6 481 375 |
| Share capital | 1 250 000 | 1 250 000 | 293 324 | 293 269 |
| Number of shares (in thousand) | 1 250 000 | 1 250 000 | 1 250 000 | 1 250 000 |
| Book value per share (in PLN/EUR) | 24.21 | 22.09 | 5.68 | 5.18 |
| Diluted number of shares (in thousand) | 1 250 000 | 1 250 000 | 1 250 000 | 1 250 000 |
| Diluted book value per share (in PLN/EUR) | 24.21 | 22.09 | 5.68 | 5.18 |
| Capital adequacy ratio | 14.61% | 12.96% | 14.61% | 12.96% |
| Basic funds (Tier 1) | 24 608 318 | 22 348 472 | 5 774 567 | 5 243 289 |
| Supplementary funds (Tier 2) | 2 483 126 | 2 394 713 | 582 688 | 561 836 |

The selected financial statements positions were translated into EUR using the following exchange rates:

- the income statement, the statement of comprehensive income and the statement of cash flows items – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month of 2015 and 2014, respectively: EUR 1 = PLN 4.1848 and EUR 1 = PLN 4.1893,

- the statement of financial position items – average NBP exchange rate as at 31 December 2015: EUR 1 = PLN 4.2615 and as at 31 December 2014: EUR 1 = PLN 4.2623.

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# CONSOLIDATED INCOME STATEMENT

| | Note | 2015 | 2014 |
|---|---|---|---|
| Continuing operations | | | |
| Interest and similar income | 7 | 9 657 763 | 10 737 431 |
| Interest expense and similar charges | 7 | (2 629 168) | (3 214 500) |
| **Net interest income** | | **7 028 595** | **7 522 931** |
| Fee and commission income | 8 | 3 598 330 | 3 901 936 |
| Fee and commission expense | 8 | (747 702) | (968 430) |
| **Net fee and commission income** | | **2 850 628** | **2 933 506** |
| Dividend income | 9 | 10 658 | 6 511 |
| Net income from financial instruments measured at fair value | 10 | 40 577 | 75 188 |
| Gains less losses from investment securities | 11 | 87 747 | 150 050 |
| Net foreign exchange gains (losses) | | 369 094 | 235 797 |
| Other operating income | 12 | 574 640 | 570 779 |
| Other operating expense | 12 | (297 116) | (348 198) |
| **Net other operating income and expense** | | **277 524** | **222 581** |
| Net impairment allowance and write-downs | 13 | (1 475 918) | (1 898 670) |
| Administrative expenses | 14 | (6 036 270) | (5 245 141) |
| Operating profit | | 3 152 635 | 4 002 753 |
| Share in profit (loss) of associates and joint ventures | | 38 115 | 31 810 |
| **Profit before income tax** | | **3 190 750** | **4 034 563** |
| Income tax expense | 15 | (589 497) | (791 747) |
| Net profit (including non-controlling shareholders) | | 2 601 253 | 3 242 816 |
| Profit (loss) attributable to non-controlling shareholders | | (8 311) | (11 306) |
| **Net profit attributable to equity holders of the parent company** | | **2 609 564** | **3 254 122** |

| | | | |
|---|---|---|---|
| Earnings per share | 16 | | |
| – basic earnings per share for the period (PLN) | | 2.09 | 2.60 |
| – diluted earnings per share for the period (PLN) | | 2.09 | 2.60 |
| Weighted average number of ordinary shares during the period (in thousand) | | 1 250 000 | 1 250 000 |
| Weighted average diluted number of ordinary shares during the period (in thousand) | | 1 250 000 | 1 250 000 |

**Discontinued operations**

In 2015 and 2014, no discountinued operations were conducted by the PKO Bank Polski SA Group.

(IN PLN THOUSAND)

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | 2015 | 2014 |
|---|---|---|---|
| Net profit (including non-controlling shareholders) | | 2 601 253 | 3 242 816 |
| Other comprehensive income | | 48 109 | 155 910 |
| Items that may be reclassified to the income statement | | 51 692 | 157 210 |
| Cash flow hedges (gross) | 22 | (77 607) | 161 478 |
| Deferred tax on cash flow hedges | 15 | 14 746 | (30 681) |
| Cash flow hedges (net) | | (62 861) | 130 797 |
| Unrealised net gains on financial assets available for sale (gross) | 25 | 171 281 | 110 437 |
| Deferred tax on unrealised net gains on financial assets available for sale | 15 | (31 681) | (21 594) |
| Unrealised net gains on financial assets available for sale (net) | | 139 600 | 88 843 |
| Currency translation differences from foreign operations | | (23 855) | (63 490) |
| Share in other comprehensive income of an associate | 27 | (1 192) | 1 060 |
| **Items that may not be reclassified to the income statement** | | **(3 583)** | **(1 300)** |
| Actuarial gains and losses / Shares settlement (net) | | (3 583) | (1 300) |
| Actuarial gains and losses (gross) | | (4 491) | (1 537) |
| Deferred tax | 15 | 908 | 237 |
| **Total net comprehensive income** | | **2 649 362** | **3 398 726** |
| Total net comprehensive income, of which attributable to: | | 2 649 362 | 3 398 726 |
| equity holders of PKO Bank Polski SA | | 2 657 719 | 3 410 250 |
| non-controlling shareholders | | (8 357) | (11 524) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | 31.12.2015 | 31.12.2014 |
|---|---|---|---|
| ASSETS | | | |
| Cash and balances with the central bank | 18 | 13 743 864 | 11 738 371 |
| Amounts due from banks | 19 | 4 552 972 | 2 486 686 |
| Trading assets | 20 | 783 199 | 1 924 426 |
| Derivative financial instruments | 21 | 4 347 269 | 5 494 822 |
| Financial assets designated upon initial recognition at fair value through profit and loss | 23 | 15 154 100 | 15 723 148 |
| Loans and advances to customers | 24 | 190 413 708 | 179 497 384 |
| Investment securities available for sale | 25 | 28 309 515 | 22 279 225 |
| Investment securities held to maturity | 26 | 210 330 | 233 358 |
| Investments in associates and joint ventures | 27 | 391 871 | 322 486 |
| Non-current assets held for sale | 28 | 220 020 | 624 992 |
| Inventories | 29 | 400 948 | 138 716 |
| Intangible assets | 30 | 3 270 983 | 3 379 501 |
| Tangible fixed assets, of which: | 31 | 2 782 186 | 2 653 555 |
| investment properties | | 141 813 | 129 693 |
| Current income tax receivables | 15 | 46 532 | 118 810 |
| Deferred income tax asset | 15 | 901 645 | 863 677 |
| Other assets | 32 | 1 410 777 | 1 221 432 |
| TOTAL ASSETS | | 266 939 919 | 248 700 589 |
| | | | |
| LIABILITIES AND EQUITY | | | |
| Liabilites | | | |
| Amounts due to the central bank | 33 | 4 219 | 4 427 |
| Amounts due to banks | 34 | 18 288 797 | 19 394 482 |
| Derivative financial instruments | 21 | 4 624 767 | 5 545 141 |
| Amounts due to customers | 35 | 195 758 461 | 174 386 766 |
| Liabilities due to insurance operations | 36 | 2 400 493 | 2 679 722 |
| Liabilities associated with assets classified as held for sale | | - | 34 964 |
| Debt securities in issue | 37 | 9 432 973 | 13 300 610 |
| Subordinated liabilities | 38 | 2 499 163 | 2 413 985 |
| Other liabilities | 39 | 3 356 170 | 2 954 603 |
| Current income tax liabilities | 15 | 26 057 | 17 453 |
| Deferred income tax liability | 15 | 31 812 | 29 047 |
| Provisions | 40 | 252 094 | 323 838 |
| TOTAL LIABILITIES | | 236 675 006 | 221 085 038 |
| Equity | | | |
| Share capital | 41 | 1 250 000 | 1 250 000 |
| Other capital | 41 | 25 417 809 | 23 374 794 |
| Currency translation differences from foreign operations | 41 | (216 501) | (192 692) |
| Undistributed profits | 41 | 1 222 413 | (60 658) |
| Net profit for the year | 41 | 2 609 564 | 3 254 122 |
| Capital and reserves attributable to equity holders of the parent company | 41 | 30 283 285 | 27 625 566 |
| Non-controlling interest | 41 | (18 372) | (10 015) |
| TOTAL EQUITY | | 30 264 913 | 27 615 551 |
| TOTAL LIABILITIES AND EQUITY | | 266 939 919 | 248 700 589 |
| | | | |
| Capital adequacy ratio | 74 | 14.61% | 12.96% |
| Book value (in PLN thousand) | | 30 264 913 | 27 615 551 |
| Number of shares (in thousand) | 1 | 1 250 000 | 1 250 000 |
| Book value per share (in PLN) | | 24.21 | 22.09 |
| Diluted number of shares (in thousand) | | 1 250 000 | 1 250 000 |
| Diluted book value per share (in PLN) | | 24.21 | 22.09 |

(IN PLN THOUSAND)

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| 2015 | Share capital | Other capital | | | | | | | | Currency translation differences from foreign operations | Undistributed profits | Net profit for the period | Total capital and reserves attributable to equity holders of the parent company | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Reserves | | | Other comprehensive income | | | | Total other capital | | | | | | |
| | | Reserve capital | General banking risk fund | Other reserves | Share in other comprehensive income of an associate | Financial assets available for sale | Cash flow hedges | Actuarial gains and losses / Shares settlement | | | | | | | |
| Note 41 | | | | | | | | | | | | | | | |
| As at 1 January 2015 | 1 250 000 | 18 802 387 | 1 070 000 | 3 474 127 | 1 006 | 31 046 | 5 204 | (8 976) | 23 374 794 | (192 692) | (60 658) | 3 254 122 | 27 625 566 | (10 015) | 27 615 551 |
| Transfer of net profit from previous years | - | - | - | - | - | - | - | - | - | - | 3 254 122 | (3 254 122) | - | - | - |
| Total comprehensive income, of which: | - | - | - | - | (1 192) | 139 600 | (62 861) | (3 583) | 71 964 | (23 809) | - | 2 609 564 | 2 657 719 | (8 357) | 2 649 362 |
| Net profit | - | - | - | - | - | - | - | - | - | - | - | 2 609 564 | 2 609 564 | (8 311) | 2 601 253 |
| Other comprehensive income | - | - | - | - | (1 192) | 139 600 | (62 861) | (3 583) | 71 964 | (23 809) | - | - | 48 155 | (46) | 48 109 |
| Transfer from undistributed profits | - | 1 908 787 | - | 62 264 | - | - | - | - | 1 971 051 | - | (1 971 051) | - | - | - | - |
| As at 31 December 2015 | 1 250 000 | 20 711 174 | 1 070 000 | 3 536 391 | (186) | 170 646 | (57 657) | (12 559) | 25 417 809 | (216 501) | 1 222 413 | 2 609 564 | 30 283 285 | (18 372) | 30 264 913 |

| 2014 | Share capital | Other capital | | | | | | | | Currency translation differences from foreign operations | Undistributed profits | Net profit for the period | Total capital and reserves attributable to equity holders of the parent company | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Reserves | | | Other comprehensive income | | | | Total other capital | | | | | | |
| | | Reserve capital | Gerenral banking risk fund | Other reserves | Share in other comprehensive income of an associate | Financial assets available for sale | Cash flow hedges | Actuarial gains and losses / Shares settlement | | | | | | | |
| Note 41 | | | | | | | | | | | | | | | |
| As at 1 January 2014 | 1 250 000 | 16 760 686 | 1 070 000 | 3 469 107 | (54) | (57 797) | (125 593) | (7 676) | 21 108 673 | (129 420) | (306 230) | 3 229 793 | 25 152 816 | 1 509 | 25 154 325 |
| Transfer of net profit from previous years | - | - | - | - | - | - | - | - | - | - | 3 229 793 | (3 229 793) | - | - | - |
| Total comprehensive income, of which: | - | - | - | - | 1 060 | 88 843 | 130 797 | (1 300) | 219 400 | (63 272) | - | 3 254 122 | 3 410 250 | (11 524) | 3 398 726 |
| Net profit | - | - | - | - | - | - | - | - | - | - | - | 3 254 122 | 3 254 122 | (11 306) | 3 242 816 |
| Other comprehensive income | - | - | - | - | 1 060 | 88 843 | 130 797 | (1 300) | 219 400 | (63 272) | - | - | 156 128 | (218) | 155 910 |
| Transfer from undistributed profits | - | 2 041 701 | - | 5 020 | - | - | - | - | 2 046 721 | - | (2 046 721) | - | - | - | - |
| Dividends paid | - | - | - | - | - | - | - | - | - | - | (937 500) | - | (937 500) | - | (937 500) |
| As at 31 December 2014 | 1 250 000 | 18 802 387 | 1 070 000 | 3 474 127 | 1 006 | 31 046 | 5 204 | (8 976) | 23 374 794 | (192 692) | (60 658) | 3 254 122 | 27 625 566 | (10 015) | 27 615 551 |

(IN PLN THOUSAND)

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | 2015 | 2014 |
|---|---|---|---|
| Net cash flows from operating activities | | | |
| **Profit before income tax** | | **3 190 750** | **4 034 563** |
| **Adjustments:** | | **12 204 050** | **(2 010 153)** |
| Amortisation and depreciation | | 818 588 | 747 164 |
| (Gains) losses from investing activities | 44 | (13 524) | (17 629) |
| Interest and dividends | 44 | (110 471) | (70 072) |
| Change in amounts due from banks | 44 | (1 029 176) | 516 391 |
| Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss | 44 | 1 710 275 | 3 636 624 |
| Change in derivative financial instruments (asset) | 44 | 1 147 553 | (2 465 578) |
| Change in loans and advances to customers | 44 | (10 609 636) | (6 368 592) |
| Change in other assets, inventories and non-current assets held for sale | 44 | (78 971) | 22 298 |
| Change in amounts due to banks | 44 | 1 590 296 | (10 148 916) |
| Change in derivative financial instruments (liability) | 44 | (920 374) | 2 205 844 |
| Change in amounts due to customers | 44 | 20 695 190 | 9 077 138 |
| Change in liabilities classified as held for sale | | (34 964) | 32 084 |
| Change in debt securities in issue | 44 | 651 916 | 797 462 |
| Change in provisions and impairment allowances | 44 | (63 327) | 1 298 353 |
| Change in other liabilities, liabilities due to insurance operations and subordinated liabilities | 44 | 201 744 | 315 877 |
| Income tax paid | | (544 111) | (842 623) |
| Other adjustments | 44 | (1 206 958) | (745 978) |
| **Net cash generated from/used in operating activities** | | **15 394 800** | **2 024 410** |
| | | | |
| Net cash flows from investing activities | | | |
| Inflows from investing activities | | 45 852 887 | 44 158 212 |
| Proceeds from sale and interest on investment securities | | 45 423 694 | 44 056 862 |
| Proceeds from sale of intangible assets and tangible fixed assets | | 113 656 | 73 451 |
| Subsidies from acquisitions | | 279 309 | - |
| Other investing inflows (dividends) | | 36 228 | 27 899 |
| Outflows from investing activities | | (50 450 360) | (51 861 334) |
| Purchase of subsidiaries, net of cash acquired | | - | (1 797 972) |
| Purchase of investment securities | | (49 618 982) | (49 249 230) |
| Purchase of intangible assets and tangible fixed assets | | (831 378) | (814 132) |
| **Net cash used in investing activities** | | **(4 597 473)** | **(7 703 122)** |
| Net cash flows from financing activities | | | |
| Proceeds from debt securities in issue | | 3 646 201 | 3 569 624 |
| Repurchase of issued debt securities | | (5 365 160) | - |
| Redemption of debt securities in issue | | (2 800 594) | (1 612 922) |
| Dividends paid | | - | (937 500) |
| Repayment of interest from issued debt securities and subordinated loans | | (544 630) | (475 673) |
| Long-term borrowings | | 240 628 | 15 287 591 |
| Repayment of long-term interest | | (2 963 925) | (4 782 292) |
| **Net cash generated from/used in financing activities** | | **(7 787 480)** | **11 048 828** |
| **Net cash flows** | | **3 009 847** | **5 370 116** |
| of which currency translation differences on cash and cash equivalents | | 45 152 | 125 680 |
| Cash and cash equivalents at the beginning of the period | | 14 254 855 | 8 884 739 |
| Cash and cash equivalents at the end of the period | 44 | 17 264 702 | 14 254 855 |
| of which restricted | 18 | 15 909 | 11 440 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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# NOTES TO THE CONSOLIDATED INCOME STATEMENT

## 1. General information

### Basic information on the Group and the Bank

Consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group ('the PKO Bank Polski SA Group', 'the Group') have been prepared for the year ended 31 December 2015 and include comparative data for the year ended 31 December 2014. Financial data has been presented in Polish zloty (PLN), rounded to thousand zloty, unless indicated otherwise.

The parent company of the Group is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski SA' or 'the Bank').

The Bank was established in 1919 as Pocztowa Kasa Oszczędnościowa. In 1950 it started operating as the Powszechna Kasa Oszczędności State-owned bank. Pursuant to the Decree of the Council of Ministers dated 18 January 2000 (Journal of Laws of 2000 No. 5, item 55 with subsequent amendments) Powszechna Kasa Oszczędności (a State-owned bank) was transformed into a State-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its Head Office in Warsaw, Puławska 15, 02-515 Warsaw, Poland.

On 12 April 2000, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was registered and entered into the Register of Companies by the District Court for the capital city of Warsaw, Commercial Court XVI Registration Department. At present, the appropriate court is the District Court for the capital city of Warsaw, XIII Economic Department of the National Court Register. The Bank was registered under entry No. KRS 0000026438 and was granted a statistical REGON No. 016298263. The paid share capital amounts to PLN 1 250 000 000.

According to the Warsaw Stock Exchange Bulletin (Cedułą Giełdowa), the Bank is classified under the macro-sector 'Finance', sector 'Banks'.

Business activities of the Group

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.

Moreover, through its subsidiaries, the Group offers mortgage loans, provides financial services relating to leasing, factoring, investment funds, pension funds, insurance and services of transfer agent, outsourcing of IT specialists and support services in the field of running a business by other entities, it conducts real estate development activities and manages real estate, and also through its entities in Ukraine it conducts banking, provides financial and debt collection services.

The scope of activities of each of the Group entities is set out in the item 'Structure of the PKO Bank Polski SA Group'.

The Group operates in the Republic of Poland and through its subsidiaries: KREDOBANK SA, 'Inter-Risk Ukraina' 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.

Moreover, on 7 December 2015 branch of PKO Bank Polski SA in Germany (the Branch in Germany) commenced its operational activities. The strategy of the Branch consists in offering the key corporate clients and theirs subsidiaries with their registered offices in Germany banking services and products on the German market.

(IN PLN THOUSAND)

Structure of the PKO Bank Polski SA Group

The PKO Bank Polski SA Group consists of the following direct and indirect subsidiaries:

| NAME OF ENTITY | HEAD OFFICE | RANGE OF ACTIVITY | % SHARE IN EQUITY * | |
|---|---|---|---|---|
| | | | 31.12.2015 | 31.12.2014 |
| **PKO Towarzystwo Funduszy Inwestycyjnych SA** | **Warsaw** | **investment funds management** | **100.00** | **100.00** |
| **PKO BP BANKOWY PTE SA** | **Warsaw** | **pension funds management** | **100.00** | **100.00** |
| **PKO Leasing SA** | **Łódź** | **leasing services** | **100.00** | **100.00** |
| PKO Bankowy Leasing Sp. z o.o. | Łódź | leasing services | 100.00 | 100.00 |
| PKO Leasing Sverige AB | Stockholm, Sweden | leasing services | 100.00 | 100.00 |
| PKO BP Faktoring SA[1] | Warsaw | factoring services | 100.00 | - |
| **PKO BP Finat Sp. z o.o.** | **Warsaw** | **services, including transfer agent services and outsourcing of IT specialists** | **100.00** | **100.00** |
| **PKO Życie Towarzystwo Ubezpieczeń SA** | **Warsaw** | **life insurance** | **100.00** | **100.00** |
| Ubezpieczeniowe Usługi Finansowe Sp. z o.o. | Warsaw | services | 100.00 | 100.00 |
| **PKO Towarzystwo Ubezpieczeń SA** | **Warsaw** | **other personal and property insurance** | **100.00** | - |
| **PKO Bank Hipoteczny SA** | **Gdynia** | **banking activities** | **100.00** | **100.00** |
| **PKO Finance AB** | **Stockholm, Sweden** | **financial services** | **100.00** | **100.00** |
| **KREDOBANK SA** | **Lviv, Ukraine** | **banking activities** | **99.5655** | **99.5655** |
| Finansowa Kompania „Idea Kapitał" Sp. z o.o. | Lviv, Ukraine | financial services | 100.00 | 100.00 |
| **„Inter-Risk Ukraina" Spółka z dodatkową odpowiedzialnością** | **Kiev, Ukraine** | **debt collection services** | **100.00** | **100.00** |
| **Finansowa Kompania „Prywatne Inwestycje" Sp. z o.o.[2]** | **Kiev, Ukraine** | **factoring services** | **95.4676** | **95.4676** |
| **Qualia Development Sp. z o.o.[3]** | **Warsaw** | **real estate development** | **100.00** | **100.00** |
| Qualia 3 Sp. z o.o. | Warsaw | general partner in limited partnerships of the Qualia 3 spółka z ograniczoną odpowiedzialnością – - Neptun Park Sp. k. | 100.00 | - |
| Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.[4] | Warsaw | real estate development | 99.9975 | 99.9975 |
| Qualia 2 Sp. z o.o. | Warsaw | general partner in limited partnerships of the Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wianów Sp.k. | 100.00 | - |
| Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.[5] | Warsaw | real estate development | 99.9750 | 99.9750 |
| Qualia Sp. z o.o. | Warsaw | general partner in limited partnerships of other entities of the Qualia Development Group | 100.00 | 100.00 |
| Qualia sp. z o.o. – Sopot Sp. k. | Warsaw | real estate development | 99.9902 | 99.9811 |
| Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k. | Warsaw | real estate development | 99.9770 | 99.9770 |
| Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k. | Warsaw | real estate development | 99.9123 | 99.9123 |
| Qualia spółka z ograniczoną odpowiedzialnością – Pomeranka Sp. k. | Warsaw | real estate development | 99.8951 | 99.8951 |
| Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k. | Warsaw | real estate development | 50.00 | 50.00 |
| Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Sp. k. | Warsaw | real estate development | 50.00 | 50.00 |
| Qualia Hotel Management Sp. z o.o. | Warsaw | real estate development | 100.00 | 100.00 |
| Qualia - Residence Sp. z o.o. | Warsaw | real estate development | 100.00 | 100.00 |
| Qualia – Rezydencja Flotylla Sp. z o.o. | Warsaw | real estate development | 100.00 | 100.00 |
| „Fort Mokotów Inwestycje" Sp. z o.o. | Warsaw | real estate development | 100.00 | 100.00 |
| Sarnia Dolina Sp. z o.o. | Warsaw | real estate development | 100.00 | 100.00 |
| Giełda Nieruchomości Wartościowych Sp. z o.o. | Warsaw | intermediation in the sale of real estate | 100.00 | 100.00 |
| FORT MOKOTÓW Sp. z o.o. w likwidacji | Warsaw | in liquidation | 51.00 | 51.00 |
| **Merkury - fiz an[6]** | **Warsaw** | **placement of funds collected from fund members** | **100.00** | **100.00** |
| „Zarząd Majątkiem Górczewska" Sp. z o.o. | Warsaw | real estate management | 100.00 | 100.00 |
| Molina Sp. z o.o. | Warsaw | general partner in limited joint-stock partnership entities of the Fund | 100.00 | 100.00 |
| Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A. | Warsaw | purchase and sale of real estate for own account, real estate management | 100.00 | 100.00 |
| Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A. | Warsaw | purchase and sale of real estate for own account, real estate management | 100.00 | 100.00 |
| Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A. | Warsaw | purchase and sale of real estate for own account, real estate management | 100.00 | 100.00 |
| Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A. | Warsaw | purchase and sale of real estate for own account, real estate management | 100.00 | 100.00 |
| Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A. | Warsaw | purchase and sale of real estate for own account, real estate management | 100.00 | 100.00 |
| Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A. | Warsaw | purchase and sale of real estate for own account, real estate management | 100.00 | 100.00 |
| **NEPTUN - fizan[6]** | **Warsaw** | **placement of funds collected from fund members** | **100.00** | - |
| Bankowe Towarzystwo Kapitałowe SA[7] | Warsaw | services | 100.00 | - |
| „CENTRUM HAFFNERA" Sp. z o.o.[8] | Sopot | subsidiaries' real estate management | 72.9766 | - |
| „Sopot Zdrój" Sp. z o.o. | Sopot | real estate management | 100.00 | - |
| „Promenada Sopocka" Sp. z o.o. | Sopot | rental services and real estate management | 100.00 | - |

* Share in equity of direct parent entity
1) The Entity was a subsidiary of Bankowe Towarzystwo Kapitałowe SA at the end of 2014
2) The second shareholder of the Entity is 'Inter-Risk Ukraina' Additional Liability Company.
3) For limited partnership entities of Qualia Development Group the total contribution made by the limited partner - Qualia Development Sp. z o.o. is presented in the position 'Share in equity'.
4) Formerly: Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.
5) Formerly: Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.
6) PKO Bank Polski SA has investment certificates of the Fund; the share of possessed investment certificates of the Fund is presented in the position 'Share in equity'
7) As at the end of 2014 The Entity was a subsidiary of PKO Bank Polski SA.
8) As at the end of 2014 the Entity was subsidiary of PKO Bank Polski SA, and its subsidiaries are indirect subsidiaries of PKO Bank Polski SA.

The core business of subsidiaries

| | |
|---|---|
| PKO Towarzystwo Funduszy Inwestycyjnych SA | The core business of PKO Towarzystwo Funduszy Inwestycyjnych SA is the creation, representation towards third parties and the management of open and closed investment funds and management of clients portfolio, which include one or more financial instruments. The company also offers specialized investment programs and conducts employee pension programs (PPE). |
| PKO BP BANKOWY PTE SA | PKO BP BANKOWY PTE SA operates in the area of pension funds. Manages PKO BP Bankowy Otwarty Fundusz Emerytalny (OFE) and PKO Dobrowolny Fundusz Emerytalny (DFE), within which Individual Retirement Account and Individual Retirement Security Account is offered. |
| PKO Bank Hipoteczny SA | PKO Bank Hipoteczny SA specializes in mortgage lending. Based on the strategic cooperation with PKO Bank Polski SA these loans are offered to retail clients in Poland's largest network of branches, brokers and agents.<br>Additionally PKO Bank Hipoteczny SA is an issuer of mortgage bonds, which are a major source of long-term financing granted by the Company loans secured by real estate. |
| PKO Leasing SA | The Company together with its subsidiaries, PKO Bankowy Leasing Sp. z o.o. and PKO Leasing Sverige AB provides leasing services. Companies offer financial and operating leasing: cars, trucks, machinery and equipment, real estate, IT hardware and software, ships, aircraft and railway equipment. The offer includes a fleet management service.<br>The Group PKO Leasing SA also includes PKO BP Faktoring SA, which provides services to domestic and export factoring with assuming the risk and without assuming the risk, reverse factoring and service of reverse factoring program for the suppliers. |
| PKO BP Finat Sp. z o.o. | PKO BP Finat Sp. z o.o. provides comprehensive services to companies in the financial sector – including transfer agent, fund and companies accounting. It also specializes in competency outsourcing of IT specialists, project teams and IT processes. On the basis of the authorization of the Polish Financial Supervision Authority, the Company also provides services as a national payment institution. Its clients are both companies of the PKO Bank Polski SA, including PKO Towarzystwo Funduszy Inwestycyjnych SA, PKO BANKOWY PTE SA, PKO Życie Towrzystwo Ubezpieczeń SA and PKO Bank Hipoteczny SA, as well as companies outside the Group. |
| PKO Życie Towarzystwo Ubezpieczeń SA | The company offers a wide range of protection and savings-investments products in the area of life insurance. Insurance is tailored to the needs of customers, dedicated to both young people, families and people of mature age. The insurance covers life and health of insured. |
| PKO Towarzystwo Ubezpieczeń SA | The core business of the Company is an insurance activity within the scope of section II of insurance – other personal insurance and property insurance. The Company commenced operating activities in January 2016 by launching the first offer of life insurance for individual customers of PKO Bank Polski SA, who are holders of credit cards. |
| PKO Finance AB | The core business of the Company is the acquisition of the Bank's financial resources from international markets through bond issues. |
| Qualia Development Sp. z o.o. | The core business of the Group companies Qualia Development SP. z o.o. is to carry out developer activity and in particular the implementation of construction projects connected with carrying buildings, construction of building installations and finishing construction works. Moreover, the Group is engaged in the hotel business and brokerage activity in real estate turnover. |
| KREDOBANK SA | KREDOBANK SA is a universal bank, focused on customer service and retail clients of small and medium-sized enterprises running the business mainly in the western part of Ukraine and in Kiev. At the same time Company strives to attract corporate customers with high creditworthiness.<br>The company offers services including maintaining bank accounts of individuals and businesses, collecting deposits, lending, issuing warrantees and guarantees, checks and bills trading, operations on the currency market, as well as operations on the securities market.<br>The core business of Finansowa Kompania „Idea Kapitał" Sp z .o.o. – a subsidiary of KREDOBANK SA – is providing various financial services, including, including factoring services consisting in, according to Ukrainian law, the acquisition of rights to the assignment of monetary claims under the loan agreements. The company together with the company "Inter-Risk Ukraina" Sp. with D.O. conducts debt collection of credit receivables purchased from KREDOBANK SA. |

(IN PLN THOUSAND)

| | |
|---|---|
| „Inter-Risk Ukraina" Spółka z dodatkową odpowiedzialnością | The company operates in the area of debt collection in Ukraine, ie. it carries out activities to recover the debts of other entities without acquiring them on their own account (negotiations with debtors, restructuring activities, litigation and enforcement proceedings and participation in the process of taking over assets in debt). Its customers are Finansowa Kompania "Prywatne Inwestycje" Sp z .o.o. and companies from KREDOBANK SA Group. The company also manages commercial real estate in Lviv, including the building of the KREDOBANK SA headquarter. |
| Finansowa Kompania „Prywatne Inwestycje" Sp. z o.o. | The Company's business is to provide various financial services, including factoring services which according to Ukrainian law, consisting of the acquisition of rights to the assignment of monetary claims under the loan agreements. The company together with the company "Inter-Risk Ukraina" Sp. d.o. conducts debt collection of credit receivables purchased from KREDOBANK SA. |
| Merkury - fiz an | The core business of the Fund is to invest in the funds collected by non-public offering of investment certificates. The Fund is managed by PKO Towarzystwo Funduszy Inwestycyjnych SA.<br>Fund conducts investment activities through subsidiaries which business is buying and selling real estate for its own account and property management. |
| NEPTUN - fizan | The core business of the Fund is to invest in the funds collected by non-public offering of investment certificates. The Fund is managed by PKO Towarzystwo Funduszy Inwestycyjnych SA.<br>PKO Bank Polski SA sells shares (to the Fund) of companies which business is not complementary to the offer of financial services of the Bank. |

Additionally, the Bank holds the following associates and joint ventures included in the consolidated financial statements:

| NAME OF ENTITY | HEAD OFFICE | RANGE OF ACTIVITY | % SHARE IN EQUITY * | |
|---|---|---|---|---|
| | | | 31.12.2015 | 31.12.2014 |
| **Join ventures of PKO Bank Polski SA** | | | | |
| **Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.** | **Warsaw** | **activities supporting financial services, including servicing of transactions made by payment instruments** | **34.00** | **34.00** |
| EVO Payments International Sp. z o.o. | Warsaw | activities supporting financial services | 100.00 | - |
| EVO Payments International s.r.o. | Prague, Czech Republic | activities supporting financial services | 100.00 | - |
| **Join ventures of NEPTUN - fizan** | | | | |
| **„Centrum Obsługi Biznesu" Sp. z o.o.[1]** | **Poznań** | **hotel management** | **41.44** | - |
| **Associates of PKO Bank Polski SA** | | | | |
| **Bank Pocztowy SA** | **Bydgoszcz** | **banking activities** | **25.0001** | **25.0001** |
| Centrum Operacyjne Sp. z o.o. | Bydgoszcz | activities supporting financial services | 100.00 | 100.00 |
| Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. | Warsaw | intermediary financial services | 100.00 | 100.00 |
| **„Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o** | **Poznań** | **guarantees** | **33.33** | **33.33** |
| **FERRUM SA** | **Katowice** | **production of welded steel pipes, production of structural hollow section and delivering coating services** | **20.97** | - |
| Zakład Konstrukcji Spawanych FERRUM SA | Katowice | production of steel structures and their component | 100.00 | - |
| FERRUM MARKETING Sp. z o.o. | Katowice | marketing services | 100.00 | - |

* Share in equity of direct parent entity.
1) The Entity was a joint venture of PKO Bank Polski SA at the end of 2014.

Information on changes in share capital of subsidiaries is included in the note 50 'Changes to the entities of the Group'.

(IN PLN THOUSAND)

## Information on members of the Supervisory and Management Board of the Bank

As at 31 December 2015, the Bank's Supervisory Board consisted of:

| | |
|---|---|
| • Jerzy Góra | Chairman of the Supervisory Board |
| • Mirosław Czekaj | Deputy-Chairman of the Supervisory Board |
| • Małgorzata Dec-Kruczkowska | Secretary of the Supervisory Board |
| • Zofia Dzik | Member of the Supervisory Board |
| • Krzysztof Kilian | Member of the Supervisory Board |
| • Piotr Marczak | Member of the Supervisory Board |
| • Elżbieta Mączyńska – Ziemacka | Member of the Supervisory Board |
| • Marek Mroczkowski | Member of the Supervisory Board |

On 25 June 2015 the Ordinary General Shareholders' Meeting of the Bank dismissed as of that day the member of the Supervisory Board of PKO Bank Polski SA - Mr Jarosław Klimont, appointed Mrs Małgorzata Dec-Kruczkowska, and Mr Krzysztof Kilian as members of the Supervisory Board of the Bank. Simultaneously Mr Tomasz Zganiacz resigned as of that day from his function as a member of the Supervisory Board. On 23 September 2015 Mrs Mirosława Boryczka resigned as of 30 September 2015 from her function as a member of the Supervisory Board.

On 25 February 2016 the Extraordinary General Shareholders' Meeting of the Bank on the basis of Article 385 § 1 of the Commercial Companies Code dismissed from the Supervisory Board of the Bank: Mr Jerzy Góra, Mr Mirosław Czekaj, Mr Piotr Marczak, Mr Marek Mroczkowski, Mr Krzysztof Kilian and Mrs Zofia Dzik.

Moreover the Extraordinary General Shareholders' Meeting of the Bank on the basis of Article 385 § 1 of the Commercial Companies Code appointed the Supervisory Board: Mr Mirosław Barszcz, Mr Adam Budnikowski, Mr Wojciech Jasiński, Mr Andrzej Kisielewicz, Mr Janusz Ostaszewski, Mr Piotr Sadownik and Mrs Agnieszka Winnik – Kalemba as Vice-President of the Supervisory Board.

The State Treasury, as the Entitled Shareholder on the basis of § 12 clause 1 of the Bank's Statue appointed Mr Piotr Sadownik as Chairman of the Supervisory Board of the Bank and Mrs Agnieszka Winnik – Kalemba as Deputy-Chairman of the Supervisory Board of the Bank.

As at 31 December 2015 the Bank's Management Board consisted of:

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

During the year ended 31 December 2015 no changes took place in the composition of the Bank's Management Board.

## Approval of financial statements

Consolidated financial statements, reviewed by the Bank's Supervisory Board's Audit Committee on 3 March 2016, have been approved for issuance by the Bank's Management Board on 1 March 2016 and will be accepted by the Supervisory Board of the Bank on 3 March 2016.

# 2. Summary of significant accounting policies

## 2.1 Compliance with accounting standards

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) as at 31 December 2015, and in the areas not regulated by these standards, in accordance with the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330, uniform text with subsequent amendments) and the respective secondary legislation issued on its basis, as well as the requirements relating to issuers of securities registered or applying for registration on an official quotations market.

The European Commission has adopted IAS 39 'Financial Instruments: Recognition and Measurement' except some decisions concerning hedge accounting. Due to the fact that the Bank applies IFRS as adopted by the European Union ('EU'), the Bank has applied the IAS 39 OS.99C in the form adopted by the EU, which allows to designate as a hedged item a portion of cash flows from variable rate deposits for which the effective interest rate is lower than the reference interest rate (not including margins). The IAS 39 as issued by the International Accounting Standards (IAS) Board introduces limitations in that respect.

## 2.2 Going concern

The consolidated financial statements of the PKO Bank Polski SA Group have been prepared on the basis that the Group will continue as a going concern for at least the period of 12 months from the issue date, i.e. since 7 March 2016. As at the date of signing these consolidated financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the continuing activity (of the PKO Bank Polski SA Group for 12 months following the issue date as a result of any intended or compulsory withdrawal or significant limitation in the activities of the PKO Bank Polski SA Group).

## 2.3 Basis of preparation of the financial statements

These financial statements have been prepared on a fair value basis in respect of financial assets and liabilities measured at fair value through profit and loss, including derivatives and financial assets available for sale, with the exception of those for which the fair value cannot be reliably estimated. Other financial assets and liabilities (including loans and advances) are measured at amortized cost impairment or at price impaired. Non-current assets are stated at acquisition cost less accumulated depreciation and impairment allowances. Non-current assets (or groups of the above-mentioned assets) classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

## 2.4 Basis of consolidation

### 2.4.1. Subsidiaries

Subsidiaries are entities (including entities which are not incorporated, such as general partnerships) controlled by the parent company, which means that the parent company has a direct or indirect impact on the financial and operating policy of the given entity in order to gain economic benefits from its operations. The definition of control provides that:

1. an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee,
2. therefore, an investor controls an investee if and only if the investor has all of the following elements:
   - power over the investee,
   - exposure, or rights, to variable returns from its involvement with the investee, and
   - the ability to use its power over the investee to affect the amount of the investor's returns.
3. to have power over an investee, an investor must have existing rights that give it the current ability to direct the relevant activities; for the purpose of assessing power, only substantive rights and rights that are not protective shall be considered,
4. the determination as to whether an investor has power depends on the relevant activities, the way decisions about the relevant activities are made and the rights the investor and other parties have in relation to the investee.

The 'full' method of consolidation requires the adding up of all full amounts of the individual items of statement of financial position, income statement and other comprehensive income of the parent company and the subsidiaries, and making appropriate consolidation adjustments and eliminations. The carrying amount of the Bank's investments in subsidiaries and the equity of these entities at the date of their acquisition are eliminated at consolidation. The following items are eliminated in full at consolidation:

1) inter-company receivables and payables, and any other settlements of a similar nature, between the consolidated entities,
2) revenue and costs arising from business transactions conducted between the consolidated entities,
3) gains or losses from business transactions conducted between consolidated entities, included in the carrying amount of the assets of the consolidated entities, except for losses indicating impairment,
4) dividends accrued or paid by the subsidiaries to the parent company and to other consolidated entities,
5) inter-company cash flows in the statement of cash flows.

The consolidated statement of cash flows has been prepared on the basis of the consolidated statement of financial position, consolidated income statement and the additional notes and explanations.

The parent company and consolidated subsidiaries reporting periods for the financial statements are co-terminous. Consolidation adjustments are made in order to eliminate any differences in the accounting policies applied by the Bank and its subsidiaries.

All entities of the PKO Bank Polski SA Group are consolidated using the 'full' consolidation method.

### 2.4.2. Acquisition method

The acquisition of subsidiaries by the Group is accounted for under the acquisition method in accordance with IFRS 3:

identifiable assets taken over, liabilities taken over and all non-controlling shares in the acquired entity are recognised separately from goodwill.

Identifiable assets and liabilities acquired are initially designated at fair value as at the acquisition date. In each and every business combination, all non-controlling shares in the acquired entity are designated at fair value or on a pro rata basis in respect of the share of the non-controlling shares in the identifiable net assets of the target entity.

Goodwill is recognised as at the acquisition date and measured as the excess of the total of:

1) the consideration provided, designated at fair value as at the date of the acquisition,
2) value of all non-controlling shares in the acquired entity, measured in accordance with the above rules and
3) in the event of a business combination performed in stages, at fair value as at the date of acquiring interest in the capital of the acquired entity, which had been previously owned by the Bank,

over the net amount of the value of identifiable assets and liabilities acquired, designated at fair value as at the acquisition date, determined as at the acquisition date. In the opposite case the difference is recognised directly in the income statement.

In the case of mergers between companies of the Group ie. transaction under common accounting control rule is the use of so-called method "of its predecessor" ("predecessor accounting") that is inclusion of the acquired subsidiary at the carrying value of assets and liabilities recognized in the consolidated financial statement of the Group in relation to the subsidiary including the goodwill arising on acquisition of subsidiary.

### 2.4.3. Associates and joint ventures

Associates are entities (including entities which are not incorporated, such as general partnerships) on which the Group exerts significant influence but whose financial and operating policies it does not control, which usually accompanies having from 20% to 50% of the total number of votes in the decision-making bodies of the entities.

Joint ventures are trade companies or other entities, which are partly controlled by parent company or a significant investor and other shareholders or partners on the basis of the Memorandum of Association, company's agreement or an agreement concluded for a period longer than one year.

Investments in associates and joint ventures are accounted in accordance with the equity method and are initially stated at cost. The Group's investment in associates and joint ventures includes goodwill determined as at the acquisition date, net of any potential accumulated impairment allowances.

The Group's share in the results of the associates and joint ventures from the date of purchase has been recorded in the income statement and its share in changes of other comprehensive income from the date of purchase has been recorded in other comprehensive income. The carrying amount of investments is adjusted by the total movements in particular equity items from the date of their purchase. When the Group's share in the losses of an associate or joint ventures becomes equal or higher than the Group's share in the associate or joint ventures, which covers potential unsecured receivables, the Group discontinues recognising further losses unless it has assumed the obligation or has made payments on behalf of the given associate or joint ventures.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated in proportion to the Group's share in the above-mentioned entities. Unrealised losses are also eliminated unless the transaction proves that the given asset transferred has been impaired.

At each balance sheet date, the Group makes an assessment of whether there are any indicators of impairment in the value of investments in associates and joint ventures. If any such indicators exist, the Group estimates recovery value, i.e. the value in use of the investment or the fair value of the investment less costs to sale, depending on which of these values is higher. If carrying amount of the asset exceeds its recovery value, the Group recognises an impairment allowance in the income statement.

## 2.5 Foreign currencies

### 2.5.1. Functional and presentation currency

Items presented in the financial statements of the individual Group entities operating outside of Poland are measured in functional currency i.e. in the currency of the basic economic environment in which the given entity operates. The functional currency of the parent company and other entities included in these financial statements, except for the Branch in Germany entities conducting their activities outside of the Republic of Poland is the Polish zloty. The functional currency of the entities operating in Ukraine is the Ukrainian hryvnia, and the functional currency of the branch in Germany and in Sweden is Euro. Consolidated financial statements are presented in the Polish zloty, which is the functional and presentation currency of the Group.

### 2.5.2. Transactions and balances denominated in foreign currencies

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At each balance sheet date items are translated by the Group using the following principles:

(IN PLN THOUSAND)

1) monetary assets denominated in foreign currency using a closing rate i.e. the average rate announced by the National Bank of Poland prevailing as at the balance sheet date,
2) non-monetary assets measured at historical acquisition cost in foreign currency using exchange rate as of the date of the transaction,
3) non-monetary assets designated at fair value in foreign currency using exchange rates prevailing as at the date of the determination of fair value.

Gains and losses on settlements of these transactions and the carrying amount of monetary and non-monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

| UAH | 2015 | 2014 |
|---|---|---|
| Rate prevailing on the last day of the period | 0.1622 | 0.2246 |
| Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period | 0.1722 | 0.2637 |
| The highest rate in the period | 0.2381 | 0.3630 |
| The lowest rate in the period | 0.1096 | 0.2238 |

| EUR | 2015 | 2014 |
|---|---|---|
| Rate prevailing on the last day of the period | 4.2615 | 4.2623 |
| Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period | 4.1848 | 4.1893 |
| The highest rate in the period | 4.2652 | 4.2623 |
| The lowest rate in the period | 4.0337 | 4.1420 |

## 2.6 Financial assets and liabilities

### 2.6.1. Classification

Financial assets are classified by the Group into the following categories: financial assets designated at fair value through profit and loss, financial assets available for sale, loans, advances and other receivables, financial assets held to maturity. Financial liabilities are classified as follows: financial liabilities designated at fair value through profit and loss and other financial liabilities. The classification of financial assets and liabilities is determined by the Group on initial recognition.

#### 2.6.1.1. Financial assets and liabilities designated at fair value through profit and loss

Financial assets and liabilities designated at fair value through profit and loss are financial assets and liabilities that meet either of the following conditions:

1) they are classified as held for trading. Financial assets or financial liabilities are classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, is a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-making. Derivatives are also classified as held for trading except for derivatives that are designated and effective hedging instruments,
2) upon initial recognition they are classified as designated at fair value through profit and loss. The Group may use this designation only when:
    a) the designated financial asset or liability is a hybrid instrument which includes one or more embedded derivatives qualifying for separate recognition, and the embedded derivative financial instrument cannot significantly change the cash flows resulting from the host contract or its separation from the hybrid instrument is forbidden,
    b) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch' that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different basis),
    c) a group of financial assets, liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with the written risk management principles or investment strategy of the Group.
3) The Group has a policy of financial assets and liabilities management according to which financial assets and liabilities classified as held for trading and financial assets and liabilities portfolio designated upon initial recognition at fair value through profit and loss are managed separately.

#### 2.6.1.2. Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are designated as available for sale or are not classified as financial assets:

1) designated by the Group upon initial recognition at fair value through profit and loss,
2) held to maturity,
3) those that meet the definition of loans and advances.

#### 2.6.1.3. Loans, advances and other receivables

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

1) financial assets that the Group intends to sell immediately or in the near term, which are classified as held for trading, and those that were upon initial recognition designated as at fair value through profit and loss,
2) financial assets that the Group designates upon initial recognition as available for sale,
3) financial assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

#### 2.6.1.4. Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity other than:

1) those that the Group designates upon initial recognition at fair value through profit and loss,
2) those that the Group designates as available for sale,
3) those that meet the definition of loans and advances.

#### 2.6.1.5. Other financial liabilities

Other financial liabilities are financial liabilities other than designated at fair value through profit and loss which have the nature of a deposit, or a loan or an advance received.

#### 2.6.1.6. Reclassification of financial assets

A financial asset classified as available for sale, which meets the definition of loans and advances, can be reclassified by the Group from the category of financial assets available for sale to the category of loans and advances, if the Group has the intention and ability to hold that financial asset in the foreseeable future or to maturity.

The Group can reclassify financial instruments classified as held for trading, other than derivative financial instruments and financial instruments designated upon initial recognition at fair value through profit or loss, to loans, advances and other receivables category, if they meet criteria described in the note 2.6.1.1.

### 2.6.2. Accounting for transactions

Financial assets and financial liabilities, including forward transactions giving rise to an obligation or a right to acquire or sell in the future a given number of specified financial instruments at a given price, are recognised in the books of account under trade date, irrespective of the settlement date provided in the contract.

### 2.6.3. Derecognition of financial instruments from a statement of financial position

Financial assets are derecognised from the statement of financial position when contractual rights to the cash flows from the financial asset expire, or when the financial asset is transferred by the Group to another entity. The financial asset is transferred when the Group:

1) the contractual rights to receive the cash flows from the financial asset are transferred, or
2) retains the contractual rights to receive cash flows from the financial asset, but assumes a contractual obligation to pay cash flows to an entity outside the Group.

When the Group transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. In such a case:

1) if all the risks and rewards of ownership of the financial asset are substantially transferred, then the Group derecognises the financial asset from the statement of financial position,
2) if all the risks and rewards of ownership of the financial asset are substantially retained by the Group, then the financial asset continues to be recognised in the statement of financial position,
3) if substantially all the risks and rewards of ownership of the financial asset are neither transferred nor retained by the Group, then a determination is made as to whether control of the financial asset has been retained.

If the Group has retained control, it continues to recognise the financial asset in the statement of financial position to the extent of its continuing involvement in the financial asset, if control has not been retained, then the financial asset is derecognised from the statement of financial position.

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when the obligation specified in the contract is discharged or cancelled or expires.

The Group derecognises loans when they have been extinguished, when they are expired, or when they are not recoverable. Loans, advances and other amounts due are written off against impairment allowances that were recognised for these accounts. In the case where no allowances were recognised against the account or the amount of the allowance is less than the amount of the loan, advance or other receivable, the loan, advance or receivable is written off after, the amount of the impairment allowance is increased by the difference between the value of the receivable and the amount of the allowances that have been recognised to date.

### 2.6.4. Valuation

When a financial asset or liability is initially recognised, it is measured at its fair value plus, in the case of a financial asset or liability not designated at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or the issue of the financial asset or liability.

The fair value is the price that would be received for the sale of an asset item or paid for transfer a liability in a transaction carried out under regular conditions on the main (or most advantageous) market at the valuation date in the current market conditions (i.e. output price), regardless of whether this price is directly observable or estimated using another valuation technique.

Subsequent to the initial recognition financial instruments are valued as follows:

#### 2.6.4.1. Financial assets and liabilities designated at fair value through profit and loss

They are designated at fair value through profit and loss to the item net income from financial instruments at fair value through profit and loss.

#### 2.6.4.2. Financial assets available for sale

They are designated at fair value, and gains and losses arising from changes in fair value (except for impairment allowances and currency translation differences) are recognised in other comprehensive income until the amount included in other comprehensive income is reclassified to the income statement when the asset is derecognised from the statement of financial position under the net investment securities. Interest determined using effective interest rate from financial assets available for sale is presented in the net interest income. Allowances for impairment losses are recognized in the net write-downs for impairment losses and provisions.

#### 2.6.4.3. Loans, advances and investments held to maturity

They are measured at amortised cost with the use of an effective interest rate with an allowance for impairment losses. In case of loans and advances for which it is not possible to reliably estimate the future cash flows and the effective interest rate, loans advances and investments held to maturity are measured at cost to pay.

#### 2.6.4.4. Other financial liabilities including liabilities resulting from the issue of securities

They are measured at amortised cost. If the time schedule of cash flows from a financial liability cannot be determined, and thus the effective interest rate cannot be determined fairly, this liability is measured at cost to pay.

Debt instruments issued by the Group are recognised as financial liabilities and measured at amortised cost.

### 2.6.5. Derivative instruments

#### 2.6.5.1. Recognition and measurement

Derivative financial instruments are recognised at fair value from the trade date. A derivative instrument becomes an asset if its fair value is positive and it becomes a liability if its fair value is negative. In the valuation of these instruments assumptions about the contractor's credit risk and the Bank's own credit risk are taken into account.

When the estimated fair value is lower or higher than the fair value as of the preceding balance sheet date (for transactions concluded in the reporting period – initial fair value), the Group includes the difference, respectively, in the net income from financial instruments designated at fair value through profit and loss or in the net foreign exchange gains in correspondence with 'Derivative financial instruments'. The above-mentioned recognition method applies to derivative instruments which do not qualify to the application of hedge accounting. The method of recording hedging derivatives is presented in the note 2.6.6.

The result of the ultimate settlement of derivative instruments transactions is reflected in the result from financial instruments designated at fair value through profit and loss or in the net foreign exchange gains.

The notional amounts of the underlying derivative instruments are presented in off-balance sheet items from the date of the transaction until maturity.

#### 2.6.5.2. Embedded derivative instruments

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract (both of a financial or non-financial nature), with the effect that some of the cash flows of the combined instrument vary in a way similar to the cash flow of a standalone derivative.

An embedded derivative causes some or all of the cash flows required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, or other variable, provided that the non-financial variable is not specific to a party to the contract.

An assessment of whether a given contract contains an embedded derivative instrument is made at the date of entering into a contract. A reassessment can only be made when there is a change in the terms of the contract that significantly modifies the cash flows required under the contract.

Derivative instruments separated from host contracts and recognised separately in the account books are designated at fair value. Valuation is presented in the statement of financial position under 'Derivative Financial Instruments'. Changes in the valuation at fair value of derivative instruments are recorded in the income statement under the 'Net income from financial instruments measured at fair value' or 'Net foreign exchange gains'.

Derivative instrument is recognised separately, if all of the following conditions are met:

1) the hybrid (combined) instrument is not designated at fair value through profit and loss,
2) the economic characteristics and risks related to the embedded instrument are not closely related to the economic characteristics of the host contract and related risks,
3) a separate instrument with the same characteristics as the embedded derivative instrument would meet the definition of a derivative.

In case of contracts which are not financial instruments and which include an instrument that fulfils the above conditions, embedded derivatives are recorded in the income statement under the position 'Net income from financial instruments measured at fair value through profit and loss' or 'Net foreign exchange gains'.

### 2.6.6. Hedge accounting

#### 2.6.6.1. Hedge accounting criteria

The Group applies hedge accounting when all the terms and conditions below, specified in IAS 39, have been met:

1) upon setting up the hedge, a hedge relationship, the purpose of risk management by the entity, and the hedging strategy were officially established. The documentation includes the identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk and the manner in which the entity will assess the effectiveness of the hedging instrument in compensating the threat of changes in fair value of the hedged item or the cash flows related to the hedged risk,
2) a hedge is expected to be highly effective in compensating changes to the fair value or cash flows resulting from the hedged risk in accordance with the initially documented risk management strategy relating to the specific hedge relationship,
3) in respect of cash flow hedges, the planned hedged transaction must be highly probable and must be exposed to changes in cash flows which may, as a result, have an impact on the income statement,
4) the effectiveness of a hedge may be reliably assessed, i.e. the fair value or cash flows related to the hedged item and resulting from the hedged risk, and the fair value of the hedging instrument, may be reliably measured,
5) the hedge is assessed on a current basis and its high effectiveness in all reporting periods for which the hedge had been established is determined.

#### 2.6.6.2. Discontinuing hedge accounting

The Group discontinues hedge accounting when:

1) instrument a hedge instrument expires, is sold, released or exercised (replacing one hedge instrument with another or extending the validity of a given hedge instrument is not considered to be expiration or release if the replacement or extension of period to maturity is part of the documented hedging strategy adopted by the entity). In such an instance accumulated gains or losses related to the hedging instrument which were recognised directly in other comprehensive income over the period in which the hedge was effective are recognised in a separate item in other comprehensive income until the planned transaction is effected,
2) the hedge ceases to meet the hedge accounting criteria. In such an instance accumulated gains or losses related to the hedging instrument which were recognised directly in other comprehensive income over the period in which the hedge was effective are recognised in a separate item in other comprehensive income until the planned transaction is effected,
3) the planned transaction is no longer considered probable, therefore, all the accumulated gains or losses related to the hedging instrument which were recognised directly in other comprehensive income over the period in which the hedge was effective, are recognised in the income statement,
4) the Group invalidates a hedge relationship.

#### 2.6.6.3. Fair value hedge

As at 31 December 2015 and 2014 respectively, the Group did not apply fair value hedge accounting.

#### 2.6.6.4. Cash flow hedges

A cash flow hedge is a hedge against the threat of cash flow volatility which can be attributed to a specific type of risk related to a recorded asset or a liability (such as the whole or a portion of future interest payments on variable interest rate debt) or a highly probable planned transaction, and which could affect the income statement.

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognised directly in other comprehensive income in respect of the portion constituting the effective portion of the hedge. The ineffective portion of a hedge is recognised in the income statement in 'Net income from financial instruments designated at fair value'.

Amounts transferred directly to other comprehensive income are transferred to the income statement in the same period or periods in which the hedged planned transaction affects the income statement.

The effectiveness tests comprise the valuation of hedging transactions, net of interest accrued and currency translation differences on the nominal value of the hedging transactions (in case of CIRS transactions). They are recognised in the income statement, in 'Net interest income' and 'Net foreign exchange gains' respectively.

### 2.7 Offsetting financial instruments

The Group offsets financial assets and liabilities, and presents them in the consolidated statement of financial position on a net basis, when there is a legally enforceable right to offset of the recognised amounts and the intention to settle them on a net basis or simultaneous realisation of particular asset and liability settlement.

### 2.8 Transactions with a commitment to sell or buy back

Sell-buy back and buy-sell back transactions are sale or purchase operations of a collateral with a commitment to buy or sell back the collateral at an agreed date and price.

Sell-buy back securities transactions are recognised at the date of the transaction under amounts due to other banks or amounts due to customers in respect of deposits, depending on the counterparty of transaction.

Buy-sell back securities are recognised under amounts due from banks or loans and advances to customers, depending on the counterparty of transaction.

Sell-buy back, buy-sell back transactions are measured at amortised cost, whereas securities which are an element of a sell-buy back transaction are not derecognised from the statement of financial position and are measured at the terms and conditions specified for particular securities portfolios. The difference between the sale price and the repurchase price is recognised as interest expense/income, as appropriate, and it is settled over the term of the contract using the effective interest rate.

### 2.9 Impairment of financial assets

#### 2.9.1 Assets measured at amortised cost

At each balance sheet date for credit and loan, the Group assesses whether there is objective evidence that a given financial asset or a group of financial assets is impaired. If such evidence exists, the Group determines the amounts of impairment losses. An impairment loss is incurred when there is objective evidence of impairment due to one or more events that occurred after the initial recognition of the asset ('a loss event'), and the loss has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets.

Objective evidence that a financial asset or group of assets is impaired includes information that comes to the attention of the Group particularly about the following events:

1) significant financial difficulties of the issuer or the debtor,
2) breach of a contract by the issuer or the debtor, such as a default or a delinquency in contracted payments of interest or principal,
3) granting of a concession by the lender to the issuer or the borrower, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would not otherwise consider (detailed description for forbearance practices is presented in the note 56.4. "Forbearance practices"),
4) high probability of bankruptcy or reorganisation of the issuer or the debtor,
5) evidence that there is a measurable reduction in the estimated future cash flows from a group of financial assets, including collectability of these cash flows.

Credit exposures, in respect of which no objective evidence of individual impairment was identified, or in spite of their occurrence no impairment loss was recognised, are assessed for impairment as a group of exposures with the same characteristics.

Loan receivables are classified by the Group on the basis of the amount of exposure.

In individually significant credit exposures portfolio, each individual credit exposure is subjected to individual assessment of the evidence of impairment and the level of recognised loss. For individually insignificant exposures recognition and measurement of loss are made using portfolio risk parameters estimated with statistical methods. If loss is recognised for individual credit exposure, the adequate impairment allowance is made. If for individual credit exposure loss is not recognised, the exposure is classified to a portfolio of assets with similar characteristics which is assessed on a group basis and is a subject of impairment allowance set up for the certain group for incurred but not reported loss (IBNR allowance).

IBNR allowance is estimated using the portfolio parameters. These parameters are estimated for the group of exposures with the same characteristics, that meet certain evidences of loss at the group level (not reported at the individual level) – IBNR evidence.

IBNR evidences are in particular:

1) delay in payment of principal or interests no longer than 90 days,
2) unrecognised deterioration of the economic and financial situation of the debtor in the assessment of risk associated with its financing (in spite of keeping the existing procedures for monitoring the situation and updating the assessment),
3) receiving information about potential credit extortion.

The amount of the impairment allowance and IBNR allowance is the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred), discounted using the effective interest rate.

The calculation of the present value of estimated cash flows relating to financial assets for which collateral is held takes into account cash flows arising from the realisation of the collateral, less costs to acquire and sell.

When determining the impairment allowance on an individual basis, future cash flows are estimated taking into account the nature of the case and possible scenarios for exposure management.

In determining impairment allowances for exposures not assessed on an individual basis, portfolio parameters are used:

1) recovery rates assessed for the group of exposures with certain characteristics,
2) probability of reporting loss on the individual level (in relation to exposures from IBNR portfolio).

Future cash flows of a group of financial assets assessed for impairment on a collective basis are estimated on the basis of cash flows generated from contracts and historical recovery parameters generated from assets with similar risk characteristics.

Historical recovery parameters are adjusted on the basis of data from current observations, so as to take into account the impact of current conditions and exclude factors that were relevant in the past but which currently do not occur. In subsequent period, if the amount of impairment loss is reduced because of an event subsequent to the impairment being recognised (e.g. improvement in debtor's credit rating), the impairment loss that was previously recognised is reversed by making an appropriate adjustment to impairment allowances. The amount of the reversal is recorded in the income statement.

The Group plans that the adopted methodology used for estimating impairment allowances will be developed in line with the further accumulations of acquiring impairment data from the existing and implemented applications and information systems. As a consequence, new data obtained by the Group could influence the level of impairment allowances in the future.

The methodology and assumptions used in the estimates are reviewed on a regular basis to minimise the differences between the estimated and actual loss amounts.

### 2.9.2 Assets available for sale

At each balance sheet date, the Group makes an assessment, whether there is objective evidence that a given financial asset classified to financial assets available for sale is impaired. If such evidence exists, the Group determines the amounts of impairment allowances.

Objective evidence that a financial asset or group of assets available for sale is impaired includes the following events:

1) significant financial difficulties of the issuer,
2) breach of a contract by the issuer, such as lack of contracted payments of interest or principal or late payments,
3) granting of a concession by the lender to the issuer, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would not otherwise consider (detailed description for forbearance practices is presented in the note 56.4 ‘Forbearance practices’),
4) deterioration of the issuer’s financial condition in the period of maintaining the exposure,
5) high probability of bankruptcy or other financial reorganisation of the issuer,
6) increase in risk of a certain industry in the period of maintaining a significant exposure, in which the borrower operates, reflected by the industry being qualified by the Bank as elevated risk industry.

The Group firstly assesses if impairment on an individual basis for significant receivables exists.

If there is objective evidence of impairment on financial assets classified as debt securities available for sale not issued by the State Treasury, an impairment allowance is calculated as the difference between the asset’s carrying amount and the present fair value estimated as value of future cash flows discounted using the market interest rates based on yield curves for Treasury bonds moved by risk margins.

Impairment of a financial asset classified as available for sale is recognised in the income statement, which results in the necessity to transfer the effects of accumulated losses from other comprehensive income to the income statement.

In subsequent periods, if the fair value of debt securities increases, and the increase may be objectively related to an event subsequent to the impairment being recognised in the income statement, the impairment loss is reversed and the amount of the reversal is recorded in the income statement.

Impairment losses recognised against equity instruments are not reversed through profit and loss.

## 2.10 Leasing

The Group is a party to lease agreements, based on which it conveys in return for payment to use and take profits (the lessor) from tangible assets during a fixed period (the rights).

The Group is also a party to lease agreements, based on which it receives tangible fixed assets for an agreed period of time (the lessee).

The classification of lease agreements by the Group is based on the extent to which risks and rewards incidental to ownership of an asset lie with the lessor or the lessee.

### 2.10.1 The Group as a lessor

As regards finance lease agreements, the Group, as a lessor, has receivables of the present value of contractual lease payments, increased by a possible unguaranteed residual value assigned to the lessor, fixed at the date of the lease agreement. These receivables are disclosed under 'Loans and advances to customers'. Finance lease payments are apportioned between the interest income and the reduction of balance of receivables in a way that provide fixed interest rate from an outstanding debt.

As regards operating lease agreements, initial direct costs that are incremental and directly attributable to negotiating and arranging a lease, are added to the carrying value of the leased asset during the period fixed in the lease agreement, on the same basis as in the case of contracts for hire. Conditional lease payments constitute income when they are due. Lease payments due from agreements, which do not meet the finance lease criteria (operating lease agreements) constitute income in the income statement and are recognised on a straight-line basis during the lease term.

### 2.10.2 The Group as a lessee

Lease payments under an operating lease and subsequent instalments are recognised as an expense in the income statement and are recognized on a straight-line basis over the lease term.

## 2.11 Tangible fixed assets and intangible assets

### 2.11.1 Intangible assets

Intangible assets are identifiable non-monetary assets which do not have a physical form.

As a result of a settlement of the transaction in accordance with IFRS 3, two components of intangible assets that are recognised separately from goodwill, i.e. customer relationships and value in force, representing the present value of future profits from concluded insurance contracts, were identified. These components of intangible assets are amortised by declining balance method based on the rate of economic benefits consumption arising from their use. In addition, they are subject to impairment test on the annual basis, as at 31 December.

### 2.11.2 Goodwill

Goodwill arising on acquisition of a business entity is initially recognised at the value determined according to the Note 2.4.2. Following the initial recognition, goodwill is stated at the initial value less any cumulative impairment allowances.

Goodwill arising on acquisition of subsidiaries is recognised under 'Intangible assets' and goodwill arising on acquisition of associates and joint ventures is recognised under 'Investments in associates and joint ventures'.

The test for goodwill impairment is carried out at least at the end of each year. Impairment is calculated by estimating the recoverable amount of the cash-generating unit to which the given goodwill relates. If the recoverable amount of the cash-generating unit is lower than its carrying amount, an impairment allowance is recognised.

### 2.11.3 Software

Acquired computer software licenses are capitalised in the amount of costs incurred on the purchase and preparation of the software for use, taking into consideration accumulated amortisation and impairment allowances.

Further expenditure related to the maintenance of the computer software is recognised in costs when incurred.

### 2.11.4 Other intangible assets

Other intangible assets acquired by the Group are recognised at acquisition cost or production cost, less accumulated amortisation and impairment allowances.

### 2.11.5 Development costs

Research and development costs are included in intangible assets in connection with future economic benefits and meeting specific terms and conditions, i.e. if there is a possibility and intention to complete and use the internally generated intangible asset, there are appropriate technical and financial resources to finish the development and to use the asset and it is possible to measure reliably the expenditure attributable to the intangible asset during its development which can be directly associated to the creation of the intangible asset.

### 2.11.6 Tangible fixed assets

Tangible fixed assets are stated at the end of the reporting period at acquisition cost or production cost, less accumulated depreciation and impairment allowances.

Properties accounted for investment properties are valued according to accounting principles applied to tangible fixed assets.

### 2.11.7 Capital expenditure accrued

Carrying amount of tangible fixed assets and intangible assets is increased by additional expenditures incurred during their maintenance, when:

1) probability exists that the Group will achieve future economic benefits which can be assigned to the particular tangible fixed asset or intangible asset (higher than initially assessed, measured e.g. by useful life, improvement of service quality, maintenance costs),
2) acquisition price or production cost of tangible fixed assets and intangible assets can be reliably estimated.

(IN PLN THOUSAND)

### 2.11.8 Depreciation/amortisation

Depreciation/amortisation is charged on all non-current assets, whose value decreases due to usage or passage of time, using the straight-line method over the estimated useful life of the given asset. The adopted depreciation/amortisation method and useful lives are reviewed at least on an annual basis.

Depreciation of tangible fixed assets, investment properties and amortisation of intangible assets begins on the first day of the month following the month in which the asset has been brought into use, and ends no later than at the time when:

1) the amount of depreciation or amortisation charges becomes equal to the initial cost of the asset, or
2) the asset is designated for liquidation, or
3) the asset is sold, or
4) the asset is found to be missing, or
5) it is found - as a result of verification - that the expected residual value of the asset exceeds its (net) carrying amount.

For non-financial non-current assets it is assumed that the residual value is nil, unless there is an obligation of a third party to buy back the asset, or if there is an active market which will continue to exist at the end of the asset's period of use and when it is possible to determine the value of the asset on this market.

Depreciation/amortisation periods for basic groups of tangible fixed assets, investment properties and intangible assets applied by the Group:

| **Tangible fixed assets** | **Periods** |
|---|---|
| Buildings, premises, cooperative rights to premises (including investment properties) | from 10 to 75 years |
| Leaseholds improvements (buildings, premises) | from 1 to 20 years<br>(or the period of the lease, if shorter) |
| Machinery and equipment | from 2 to 15 years |
| Computer hardware | from 2 to 10 years |
| Means of transport | from 3 to 8 years |

| **Intangible assets** | **Periods** |
|---|---|
| Software | from 2 to 20 years |
| Other intangible assets | from 1 to 20 years |

Costs relating to acquisition or construction of buildings are allocated to significant parts of the building (components), when such components have different useful lives or when each of the components generates benefits for the Group in a different manner. Each component of the building is depreciated separately.

Intangible assets with indefinite useful lives, which are subject to an annual impairment test in accordance with Note 2.11.9., are not amortised.

### 2.11.9 Impairment allowances of non-financial non-current assets

At each balance sheet date, the Group makes an assessment of whether there are any indicators of impairment of any of non-financial non-current assets (or cash-generating units). If any indicator exists and annually, in case of intangible assets which are not subject to amortisation and goodwill, the Group estimates the recoverable amount being the higher of the fair value less costs to sell and the value in use of a non-current asset (or a cash generating unit), if the carrying amount of an asset exceeds its recoverable amount, the Group recognises an impairment loss in the income statement. The projection for the above-mentioned values requires making assumptions, e.g. about future expected cash flows that the Group may receive from the continued use or disposal of the non-current asset (or a cash-generating unit). The adoption of different assumptions with reference to the projected cash flows could affect the carrying amount of certain non-current assets.

If there are indications for impairment for common assets, which do not generate cash inflows irrespective of other assets or asset groups, and the recoverable amount of a single asset included in common assets cannot be determined, the Group determines the recoverable amount at the level of the cash generating unit to which the asset belongs.

An impairment allowance is recognised if the book value of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment allowances in respect of cash generating units first and foremost reduce the goodwill relating to those cash generating units (groups of units), and then they reduce proportionally the book value of other assets in the unit (group of units).

An impairment allowance in respect of goodwill cannot be reversed. In respect of other assets, the impairment allowance may be reversed if there was a change in the estimates used to determine the recoverable amounts. An impairment allowance may be reversed only to the level at which the book value of an asset does not exceed the book value – less depreciation/amortisation – which would be determined should the impairment allowances not have been recorded.

## 2.12 Other items in the statement of financial position

### 2.12.1 Non-current assets held for sale and discontinued operations

Non-current assets held for sale include assets which carrying amount is to be recovered as a result of sale and not due to continued use. Such assets only include assets available for immediate sale in the current condition, when such sale is highly probable, i.e. the entity has determined to sell the asset, started to seek actively for a buyer and finish the sale process. In addition, such assets are offered for sale at a price which is reasonable with respect to their current fair value and it is expected that the sale will be recognised as completed within one year from the date of classification of the asset into this category.

Non-current assets held for sale are stated at the lower of their carrying amount or fair value less costs to sell. Impairment allowances for non-current assets held for sale are recognised in the income statement for the period, in which these allowances are made. These assets are not depreciated.

In case of non-current assets, for which qualification criteria for the group of non-current assets held for sale are no longer fulfilled, the Group makes reclassification from non-current assets held for sale to the proper category of assets. Non-current assets withdrawn from assets held for sale are valued at lower of two values:

1) carrying amount before the moment of qualification to non-current assets held for sale, less depreciation, which would have been included if the asset (or group of assets to be sold) would not have been qualified as held for sale,
2) recoverable amount for the day of decision of sales abandonment.

### 2.12.2 Accruals and deferred income

This item mainly comprise fee and commission income recognised using the straight-line method and other income received in advance, which will be recognised in the income statement in future reporting periods. Accruals and deferred income are shown in the statement of financial position under ‘Other liabilities’.

Prepayments and deferred costs include particular kinds of expenses which will be recognised in the income statement in future reporting periods. Prepayments and deferred costs are shown in the statement of financial position under ‘Other assets’.

## 2.13 Provisions

Provisions are liabilities of uncertain timing or amount. They are accrued when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

If the effect of the time value of money is material, the amount of the provision is determined by discounting the forecast future cash flows to their present value, using the discount rate before tax which reflects the current market assessments of the time value of money and the potential risk related to a given obligation.

The Group creates provisions for:

- legal claims with employees, counterparties, customers and external institutions (e.g. UOKiK) after obtaining information from the right person in DPR or any other person representing Bank before courts and other adjudicating authorities in the connection with provision of legal adviser of high probability of losing a court case (refer to note 43 “Legal disputes”)
- provisions for retirement benefits (look 2.14 “Employee benefits”),
- provisions for liabilities of financial and guarantee nature,
- other provisions, in particular restructuring provision and provision for potential claims on impaired loans portfolios sold.

A detailed description of the changes is presented in note 40 “Provisions”

Provisions for loan commitments and guarantees granted are recognised in accordance with IAS 37. In order to determine the expected value of exposure in the statement of financial position, which will arise as a result of off-balance sheet liability granted, a credit conversion factor (ccf) is used - estimated to portfolio of exposures with similar characteristics. Value calculated in such a way is then the basis for determining the amount of the provision, either by comparing it to the present value of expected future cash flows from the exposure in the statement of financial position, arising from commitments granted, determined on an individual basis, or using of portfolio parameters estimated using statistical methods (a portfolio and group basis). All provisions are recognised in the income statement, except for actuarial gains and losses recognised in the other comprehensive income. A detailed description of the adopted policies is presented in the note 2.9.1 ‘Impairment of financial assets’ - ‘Assets measured at amortised cost’ and note 56.9. ‘Off-balance sheet exposures provisions’.

A restructuring provision is set up when general criteria for recognising provisions are met as well as the detailed criteria related to the legal or constructive obligation to set up provisions for restructuring costs specified in IAS 37 are met. Precisely, the constructive obligation of restructuring and recognising provisions arises only when the Group has a detailed, official restructuring plan and has raised justified expectations of the parties to which the plan relates that it will carry out restructuring by starting to implement the plan or by announcing the key elements of the plan to the above-mentioned parties.

A detailed restructuring plan specifies at least activities or part of the activities to which the plan relates, the basic locations covered by the plan, the place of employment, functions and estimated number of employees who are to be compensated due to their contract termination, the amount of expenditure which is to be incurred and the date when the plan will be implemented.

The restructuring provision covers only such direct expenditures arising as a result of the restructuring which at the same time. Necessarily result from the restructuring and are not associated with the ongoing activities of the Group. The restructuring provision does not cover future operating losses.

All provisions are recorded to the profit and loss account, in addition to actuarial gain and losses recognized in the other comprehensive income.

## 2.14 Employee benefits

According to the Labour Code (Kodeks Pracy), employees of the Group are entitled to retirement or pension benefits upon retirement or pension. The Group periodically performs an actuarial valuation of provisions for future liabilities to employees.

The provision for retirement and pension benefits resulting from the Labour Code is created individually for each employee on the basis of an actuarial valuation performed periodically by an independent actuary. The basis for calculation of these provisions is internal regulations, and especially the Collective Labour Agreements being in force at the Group entities. Valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all retirement and pension benefits expected to be paid in the future. The provision was created on the basis of a list including all the necessary details of employees, in particular the length of their service, age and gender. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period beginning on the balance sheet date. Gains or losses resulting from actuarial calculations are recognised in other comprehensive income.

The Group creates provisions for future liabilities arising from damages and severance payments made to those employees whose employment contracts are terminated for reasons independent of the employee and periodical settlements for the employee compensation costs incurred in the current period which will be paid out in future periods, including bonuses and from unused annual leave, taking into account all outstanding unused holiday days.

Employee benefits include also employee pension programme being a defined contribution plan recognised as an expense in position 'Wages and salaries' as well as variable remuneration components programme for persons holding managerial positions, part of which is recognised as a liability due to cash-settled share-based payments pursuant to IFRS 2 'Share -based payments'.

## 2.15 Contingent liabilities

As regards operating activities, the Group concludes transactions, which, at the time of their inception, are not recognised in the statement of financial position as assets or liabilities, however they give rise to contingent liabilities. In accordance with IAS 37 contingent liability is:

1) a possible obligation that arises from past events and whose existence will be confirmed only at the time of occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group entities,
2) a present obligation resulting from past events, but not recognised in the statement of financial position, because it is not probable that an outflow of cash or other assets will be required to fulfil the obligation, or the amount of the obligation cannot be estimated reliably.

Except the possibility of an outflow of funds related to the fulfilment of the obligation is negligible, in respect of each type of contingent liabilities, the entity discloses a short description of the type of the contingent liability at the balance sheet date and, where practicable, discloses:

a) estimated value of its financial effects,
b) indications of the uncertainty as to the amount or date of funds outflow, and
c) possibility of obtaining any reimbursement.

Detailed information is presented in the Note 42 'Contingent liabilities and off-balance sheet liabilities received'.

In accordance with IAS 37 upon initial recognition, a financial guarantee is stated at fair value. Following the initial recognition, the financial guarantee is measured at the higher of:

1) the amount determined in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets' and
2) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 'Revenue'.

## 2.16 Determination of a financial result

The Group recognises all significant expenses and income in accordance with the following policies: accrual basis, matching principle, policies for recognition and valuation of assets and liabilities, policies for recognition of impairment losses.

### 2.16.1. Interest income and expense

Interest income and expense comprise interest, including premiums and discounts in respect of financial instruments measured at amortised cost and instruments at fair value, with the exception of derivative financial instruments. Interest income in case of financial assets or group of similar financial assets for which an impairment allowance was recognised is calculated from present values of receivables (that is net of impairment allowance) by using current interest rate used for discounting future cash flows for the purposes of estimating losses due to impairment.

Interest income/expense in respect of derivative financial instruments are recognised in 'Net income from financial instruments measured at fair value' or 'Net foreign exchange gains (losses)' (applied to CIRS), with the exception of derivative instruments classified as hedging instruments into hedge accounting, which have been presented in interest income. Interest income also includes deferred fee and commission received and paid accounted for using effective interest rate, which are part of the financial instrument.

Interest income and interest expense are recognised on an accrual basis using the effective interest rate method.

The effective interest rate is the rate that discounts estimated future cash inflows and payments made through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the asset or financial liability. Calculation of the effective interest rate includes all commissions paid and received by parties to an agreement, transaction costs and all other premiums and discounts constituting an integral part of the effective interest rate.

The effect of fair value measurement of financial assets of the acquired Nordea Group entities and taken over SKOK Wesoła was also recognised in interest income.

### 2.16.2. Fee and commission income and expense

Fee and commission income is generally recognised on an accrual basis at the time when the related service is performed. Fee and commission income includes one-off amounts charged by the Group for services not related directly to creation of loans, advances and other receivables, as well as amounts charged by the Group for services performed over a period exceeding 3 months, which are recognised on a straight-line basis. Fee and commission income also includes deferred fee and commission recognised on a straight-line basis, received on loans and advances granted with unspecified schedule of future cash flows for which the effective interest rate cannot be determined.

#### 2.16.2.1. Income and expense from sale of insurance products related to loans and advances

Due to the fact that the Group offers insurance products along with loans and advances and there is no possibility of purchasing from the Group the identical insurance product as to the legal form, conditions and economic content without purchasing a loan or an advance, fees received by the Group from sale of insurance products are treated as an integral part of the remuneration from the offered financial instruments.

Remuneration received and due to the Group from offering insurance products for the products directly associated with the financial instruments is settled using the effective interest rate method and recognised in interest income.

Remuneration received and due to the Group for performing intermediary services is recognised in commission income upon the sale of an insurance product or its renewal.

Distribution of remuneration for a commission and an interest part is made in the proportion of the fair value of a financial instrument and the fair value of intermediary service in relation to the sum of these two values.

Costs directly related to the sale of insurance products are settled in a similar manner to the settlement of revenues, according to the principle of matching revenues and expenses, i.e. as part of the amortised cost of a financial instrument or on a one-off basis.

The Group makes a periodically estimation of the compensation amount that will be recoverable in the future due to the early termination of the insurance agreement and accordingly reduces the recognised interest or commission income

### 2.16.3. Dividend income

Dividend income is recognised in the income statement of the Group at the date on which shareholders' rights to receive the dividend have been established.

### 2.16.4. Net income from financial instruments measured at fair value

Net income from financial instruments measured at fair value through profit and loss includes gains and losses arising from the disposal of financial instruments classified as financial assets/liabilities at fair value through profit and loss as well as the effect of their fair value measurement. This position includes also an ineffective portion related to cash flow hedges, as described in the note 2.6.6.4.

### 2.16.5. Gains less losses from investment securities

Gains less losses from investment securities include gains and losses arising from disposal of financial instruments classified as available for sale and held to maturity.

### 2.16.6. Net foreign exchange gains (losses)

Net foreign exchange gains (losses) comprise foreign exchange gains and losses, both realised and unrealised, resulting from daily revaluation of assets and liabilities denominated in foreign currency using the National Bank of Poland average exchange rates at the balance sheet date, and from the fair value valuation of outstanding derivatives (FX forward, FX swap, CIRS and currency options).

The Group recognises in net foreign exchange gains (losses) both realised and unrealised foreign exchange gains and losses on fair value measurement of unrealised currency options. From an economic point of view, the method of presentation of net gains/losses on currency options applied allows the symmetrical recognition of net gains/losses on currency options and on spot and forward transactions concluded to hedge such options (transactions hedging the currency position generated as a result of changes in the market parameters affecting the currency option position).

The effects of changes in fair value and the result realised on the Gold Index option are also included in the net foreign exchange gains (losses) due to the fact that the Bank treats gold as one of the currencies, in line with the provisions of 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.

Monetary assets and liabilities presented by the Group in the statement of financial position and off-balance sheet items denominated in foreign currency are translated into Polish zloty using the National Bank of Poland average exchange rate prevailing for a given currency as at the balance sheet date.

Impairment allowances on loans and advances and other receivables denominated in foreign currencies, which are created in Polish zloty, are updated in line with a change in the valuation of the foreign currency assets for which these impairment allowances are created. Realised and unrealised currency translation differences are recorded in the income statement.

### 2.16.7. Other operating income and expense

Other operating income and expense includes income and expense not related directly to banking activity. Other operating income mainly includes gains from sale of housing investments, sale or liquidation of non-current assets and assets possessed in exchange for debts, sale of subsidiary, recovered non-performing loans, legal damages, fines and penalties, income from lease/rental of properties. Other operating expense mainly includes losses from sale or liquidation of non-current assets, including assets possessed in exchange for debts, costs of debt collection and donations.

Other operating income and expense in relation to the Group entities include also income from sale of finished goods, goods for resale and raw materials, and the corresponding costs of their production.

Income from construction services (real estate development activities) is recognised on a completed contract basis, which involves recognition of all costs related to the housing investments that are incurred during the period of construction as work-in-progress. Payments received on account of a purchase of apartments are shown within deferred income.

## 2.17 Income tax

The income tax expense is classified into current and deferred income tax. The current income tax is recognised in the income statement. Deferred income tax, depending on the source of the temporary differences, is recorded in the income statement or in the item 'Other comprehensive income' in the statement of comprehensive income.

### 2.17.1. Current income tax

Current income tax is calculated on the basis of gross accounting profit adjusted by non-taxable income, taxable income that does not constitute accounting income, non-tax deductible expenses and tax costs which are not accounting costs, in accordance with tax regulations. These items mainly include income and expenses relating to accrued interest receivable and payable, allowances on receivables and provisions for off-balance sheet liabilities.

While calculating corporate income tax base, regulations being in force within particular tax jurisdiction with regard to corporate income tax of the Group entities are taken into consideration. Simultaneously, the regulations of Decree of the Minister of Finance dated 7 May 2001 on extending the deadlines for paying corporate income tax and prepayments for corporate income tax for banks granting housing loans (Journal of Laws of 2001, No. 43, item 482) are taken into consideration. According to the above-mentioned Decree, taxation of capitalised interest not paid by the borrower and not subject to temporary redemption by the State budget is deferred to the date of actual repayment or redemption of such interest. Therefore, the Group recognises the deferred income tax liability on income due to capitalised interest on housing loans, as described in the Decree.

### 2.17.2. Deferred income tax

The amount of deferred income tax is calculated as the difference between the tax base and book value of assets and liabilities for financial reporting purposes. The Group recognises deferred income tax assets and liabilities. An amount of deferred income tax is determined as a difference between carrying amounts and tax bases of assets and liabilities calculated with the use of appropriate tax rate. Deferred income tax assets and deferred income tax liabilities of the Group are presented in the statement of financial position respectively as assets or liabilities. The change in the balance of a deferred income tax liability or a deferred income tax asset is included in obligatory net profit expense (position: 'Income ax expense' in the income statement), except for the effects of valuation of financial assets and actuarial gains and losses recognised in other comprehensive income, where changes in the balance of a deferred income tax liability or deferred income tax asset are accounted for in correspondence with other comprehensive income. The calculation of deferred income tax takes into account the balance of the deferred income tax asset and deferred income tax liability at the beginning and at the end of the reporting period.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or a part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured using tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

For deferred income tax calculation the Group uses the 19% tax rate for entities operating on the territory of Poland, 18% tax rate for entities operating in Ukraine and 22% tax rate for entities operating in Sweden.

Deferred income tax assets are offset by the Group with deferred income tax liabilities only when the enforceable legal entitlement to offset current income tax receivables with current income tax liabilities exists and deferred income tax is related to the same taxpayer and the same tax authority.

(IN PLN THOUSAND)

## 2.18 Changes in accounting policies

The Group prepares its consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union in the form of the Decrees of the European Union Commission ('the EU Commission').

1) Amendments to published standards and interpretations which have come into force and have been applied by the Group since 1 January 2015

| **Standard/ interpretation** | **Introduction/ publication date by the IASB** | **Application date** | **Description of potential changes** |
|---|---|---|---|
| Decree of the EU Commission No. 634/2014 of 13 June 2014 | | | |
| IFRIC 21 'Levies' (interpretation of IAS 37 'Provisions, contingent liabilities and contingent assets') | 05.2013 | Financial year beginning on 1.01.2014 or later<br><br>In the EU, obligatory use with the start of the first financial year on 17.06.2014 or later | IFRIC 21 determines how an entity should account for, in its financial statements, the obligation to pay the levies imposed by governments (other than income tax liabilities). The main issue is when an entity should recognise a liability to pay the levy. IFRIC 21 sets out the criteria for the recognition of the liability. One of these criteria is the requirement of an obligation arising from past events (so-called the obligating event). The interpretation explains that an obligating event that give a rise to the obligation to pay a levy, are relevant legislations that triggers the payment of the levy. The interpretation does not apply to payments under the scope of IAS 12 'Income Taxes', as well as fines and penalties. Its scope also does not include payments to the government in respect of services or acquisition of assets under the contract.<br><br>In practice, for banks in Poland IFRIC 21 applies to fees paid by banks to the Bank Guarantee Fund, that is, annual fee and prudential fee. According to IFRIC 21 due to the fact, that an obligating event to pay the levies to the BGF is to be covered by the BGF guarantee system in a given year, fees in this respect must be recognised as liability already as at 1 January 2015. |
| Decree of the EU Commission No. 1361/2014 of 18 December 2014 | | | |
| Improvements to IFRS 2011-2013 | 12.2013 | Financial year starting on or after 1.07.2014.<br><br>In the European Union mandatory application from the beginning of its financial year on or after 22.12.2014 | The improvements include changes in presentation, recognition and measurement, as well as terminology and editorial changes.<br>• IFRS 3 'Business Combinations' - clarified that the standard is not applicable to the settlement of the establishment of joint venture in the financial statements of this joint venture (these provisions are defined in IFRS 11);<br>• IFRS 13 'Fair Value Measurement' - clarified that the exception contained in IFRS 13, concerning the possibility of measurement of the entire portfolio at fair value, rather than any single asset or liability (as a general rule), should be applied to all contracts in terms of IAS 39/IFRS 9;<br>• IAS 40 'Investment Property' - change concerns the situation of the acquisition of the company from the real estate sector and aims to clearly specify that the classification of the acquisition as a purchase of assets or business combination occurs only on the basis of IFRS 3. Whereas, the classification of the asset as an investment property or property for own purposes is made separately according to IAS 40.<br>The above-mentioned amendments had no impact on the financial statements of the Group for 2015. |

(IN PLN THOUSAND)

New standards and interpretations for above listed, that were published and accepted by the EU, but not by the Group, and finally were not introduced.

2) Applicable for the first time for financial statements of the Group for 2016

| Standard/ interpretation | Introduction/ publication date by the IASB | Application date | Description of potential changes |
|---|---|---|---|
| Decree of the EU Commission No. 2015/29 of 17 December 2014 | | | |
| Amendments to IAS 19 'Employee Benefits' | 11.2013 | Financial year starting on 1.07.2014 or later. In the EU, obligatory use with the start of the first financial year on 1.02.2015 or later | The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.<br>These changes had no impact on the financial statements of the Group for 2015. |
| Decree of the EU Commission No. 2015/28 of 17 December 2014 | | | |
| Improvements to IFRS 2010-2012 | 12.2013 | Financial year starting on 1.07.2014 or later. In the EU, obligatory use with the start of the first financial year on 1.02.2015 or later | Improvements to IFRSs 2010-2012, concerning 7 standards and include changes in presentation, recognition and measurement, as well as terminology and editorial changes.<br>• IFRS 2 'Share-based payments'- clarified the definitions of terms: 'market condition', 'performance condition', 'service condition' and 'vesting condition';<br>• IFRS 3 'Business combinations' – amended provisions concerning the recognition of change in fair value of other contingent considerations, currently the standard allow to recognise them only in the income statement;<br>• IFRS 8 'Operating Segments' – obligation to disclose a judgement made by management in aggregating operating segments;<br>• IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' – amended provisions concerning the revaluation model;<br>• IAS 24 'Related Party Disclosures' – an entity, that provides services of key management personnel, was added as a related party. A requirement to disclose the amounts paid for management services to this entity was introduced;<br>• IAS 37 'Provisions, contingent liabilities and contingent assets' and 'IAS 39 'Financial instruments: recognition and measurement' amending in accordance with amendments to IFRS 3.<br>The above-mentioned amendment will possibly apply for the first time for the financial statements of the Group for the year 2016 and they will have a presentation character, requiring a possible extension of disclosures. |
| Decree of the EU Commission No. 2015/2173 of 24 November 2015 | | | |
| IFRS 11 'Joint Arrangements' | 05.2014 | Financial year starting on or after 1.01.2016<br>In the EU, obligatory use with the start of the first financial year on 1.01.2016 or later | In accordance with implemented amendments, the acquisition of shares in joint operations constituting a business will be subject to the same principles as a business combination. This means i.a.:<br>• The valuation of additional acquired shares at fair value;<br>• The recognition of deferred income tax assets or liabilities;<br>• The presentation of similar to those disclosures required in business combinations.<br>The above-mentioned amendments will possibly apply for the first time for the financial statements of the Group for the year 2016 and it will have a presentation character, requiring a possible extension of disclosures. |

(IN PLN THOUSAND)

| Standard/ interpretation | Introduction/ publication date by the IASB | Application date | Description of potential changes |
|---|---|---|---|
| Decree of the EU Commission No. 2015/2231 of 2 December 2015 | | | |
| Amendments of IAS 16 ‘Property, plant and equipment’ and IAS 38 ‘Intangible assets’ concerning amortisation and depreciation | 05.2014 | Financial year starting on or after 1.01.2016<br>In the EU, obligatory use with the start of the first financial year on 1.01.2016 or later | The amendment relates to amortisation/depreciation methods, in particular those other than straight-line that are based on benefiting from asset over time. Unequivocally prohibited is an amortisation/depreciation method that is based on the revenues generated directly or indirectly from an asset, due to the fact that many factors, other than amortisation/depreciation, affect revenues. Additionally, price fall should not result in reduction of amortisation/depreciation – it is rather indication of an impairment.<br>The above-mentioned amendments will not have an impact on the Group. |
| Decree of the EU Commission No. 2015/2343 of 15 December 2015 | | | |
| IFRS 5 ‘Non-current assets held for sale and discontinued operations’ | 09.2014 | Financial year starting on or after 1.01.2016<br>In the EU, obligatory use with the start of the first financial year on 1.01.2016 or later | Amendments introduced based on the ‘Improvements to IFRSs 2012-2014’ consist of guidelines clarifications for the reclassification of assets between categories - ‘held for sale’ and ‘held for distribution to owners’ and the situation when assets cease to be treated as ‘held for distribution to owners’.<br>These amendments will not have an impact on the Group. |
| IFRS 7 ‘Financial instruments: disclosures’ | 09.2014 | Financial year starting on or after 1.01.2016<br>In the EU, obligatory use with the start of the first financial year on 1.01.2016 or later | Amendments introduced based on the “Improvements to IFRS 2012-2014” relate to the following issues:<br>(i) service of agreements - additional guidance on, whether the entity continues involvement in the transferred component of financial assets by an agreement for servicing the transferred component of financial assets, was added;<br>(ii) application of amendments to IFRS 7 - clarifies the issue of disclosures in relation to offsetting financial assets and financial liabilities in preparing the condensed interim financial statements.<br>These amendments will not have an impact on the Group. |
| IAS 19 ‘Employee Benefits’ | 09.2014 | Financial year starting on or after 1.01.2016In the EU, obligatory use with the start of the first financial year on 1.01.2016 or later | Amendments introduced based on the “Improvements to IFRS 2012-2014” clarify the approach to determine the discount rate for currencies, for which there is no developed market of corporate bonds with high creditworthiness;<br>These amendments will not have an impact on the Group. |
| IAS 34 ‘Interim financial reporting’ | 09.2014 | Financial year starting on or after 1.01.2016.In the EU obligatory use with the start of the first financial year on 1.01.2016 or later | Amendments introduced based on the “Improvements to IFRS 2012-2014” explain the term ‘elsewhere in the interim financial report’ concerning the disclosure of information on significant events and transactions.<br>These amendments will not have an impact on the Group. |

(IN PLN THOUSAND)

| Standard/ interpretation | Introduction/ publication date by the IASB | Application date | Description of potential changes |
|---|---|---|---|
| Decree of the EU Commission No. 2015/2406 of 18 December 2015 | | | |
| IAS 1 - 'Presentation of the financial statements' | 12.2014 | Financial year starting on or after 1.01.2016. In the EU, obligatory use with the start of the first financial year on 1.01.2016 or later | The introduced amendments clarify that the principle of materiality applies to both the primary part of the financial statements and explanatory notes, also indicate that it is required to disclose only the information that is relevant.<br><br>The Group has reviewed the financial statements for significance and relevance of disclosure in the notes. |
| Decree of the EU Commission No. 2015/2441 of 18 December 2015 | | | |
| Amendments to IAS 27 'Separate Financial Statements' | 08.2014 | Financial year starting on or after 1.01.2016<br>In the EU, obligatory use with the start of the first financial year on 1.01.2016 or later | The amendments allow reporting entity the application of the equity method for accounting for its investments in subsidiaries, associates and joint ventures in separate financial statements.<br>The amendments precise also that if a parent company is no longer an investment entity, it should account for its investments in subsidiaries at cost or using the equity method or in accordance with IRFS 9.<br>These amendments will not have an impact on the Group. |

(IN PLN THOUSAND)

3) Not yet approved by the EU

| Standard/ interpretation | Introduction/ publication date by the IASB | Application date | Description of potential changes |
|---|---|---|---|
| IFRS 15, 'Revenue from contracts with customers' | 05.2014 | Date of implementation moved on financial year starting 1.01.2018 or later (according to the IASB from 9.2015) | IFRS 15 replaces IAS 11 'Construction contracts', IAS 18 'Revenue', IFRIC 13 'Customer Loyalty Programmes', IFRIC 15 'Agreements for the construction of real estate', IFRIC 18 'Transfers of Assets from Customers', SIC 31 'Revenue – barter transactions involving advertising services'.<br>Main principle is the recognition of revenue in such way as to reflect the transaction transfer of goods or services in the amount that reflects the value of wages, which the company expects in exchange for those goods or services, on a customer.<br>For a purpose of recognising revenue and its amount at the appropriate moment, the standard presents five-level analysis model, consisting of: the identification of an agreement with a customer and binding commitment, the determination of transaction price, its appropriate allocation and the recognition of revenue at the moment of an obligation.<br>The above-mentioned amendment may result in changes in the settlement of deferred revenue and will require additional disclosures in the financial statements. |
| IFRS 9, 'Financial instruments' | 07.2014 | Financial year starting on or after 1.01.2018 | In 2014 IASB finished the works on IFRS 9. The issues of impairment allowances on financial assets were added to the parts concerning classification and measurement (2009) and hedge accounting (2013) published in previous years, and thus the standard replaces existing IAS 39 completely. The new standard introduces:<br>• An impairment model based on expected loss,<br>• Changes in the classification of financial assets and financial liabilities,<br>• Changes in the approach to hedge accounting.<br>The classification of financial assets is based on a business model of an entity and the characteristic of cash flows generated by these assets. The standard introduces new category of measurement at fair value through other comprehensive income (FVOCI), which will concern debt instruments used within business model for collecting contractual cash flows as well as a sale of financial assets. Impairment allowance will cover losses expected either during a period of 12 months or through the whole contractual period. Interest income for so-called IBNR portfolio will be calculated from the gross value.<br>The new standard increases the range of items that can be designated as hedged items, as well as allows designating as a hedging instrument financial assets or liabilities measured at fair value through profit or loss. The obligation of retrospective measurement of hedge effectiveness together with previously applicable threshold of 80%-125% were eliminated (the condition to the application of hedge accounting is the economic relationship between the hedging instrument and the hedged item). In addition, the scope of required disclosures regarding risk management strategies, cash flows arising from hedging transactions and the impact of hedge accounting on the financial statements was extended.<br>These amendment will have an impact on the financial statements of the Bank because of the large portfolio of financial assets carried at amortized cost. Currently the Bank finalizes the process of selecting a consultant in the design gap analysis in the preparation of the Bank for the implementation of IFRS 9. The aim of the project is to conduct a review containing defined information needs, gaps, concepts and how addressing identified gaps , recommendations and capabilities ( solutions ) in respect of the Bank's adjustment to changes resulting from IFRS 9, including: Module on the measurement of impairment, module on recognition, classification and measurement of financial instruments , hedge accounting, and reporting. |

(IN PLN THOUSAND)

| Standard/ interpretation | Introduction/ publication date by the IASB | Application date | Description of potential changes |
|---|---|---|---|
| Amendments to IFRS 10 ‘Consolidated Financial Statements’ and IAS 28 ‘Associates and joint ventures’ concerning the sale or contribution of assets by an investor to its joint venture or associate | 09.2014 | Date of implementation moved from 12.2015 to the moment of finishing the research project, which object is consolidation within the equity method | In the case of a transaction involving an associate or joint venture, the extent of the gains or losses recognised is dependent upon whether the assets sold or contributed constitute a business.<br>If an entity:<br>• sells or contributes assets constituting a business to an associate or joint venture or<br>• loses control over a subsidiary that contains a business but retains joint control or significant influence;<br>gains or losses relating to the transaction are recognised in the full amount.<br>These amendments will not have an impact on the Group. |
| Amendments to IFRS 10 ‘Consolidated Financial Statements’, IFRS 12 ‘Disclosure of interests in other entities’ and IAS 28 ‘Associates and joint ventures’ | 12.2014 | Financial year starting on or after 1.01.2016 | The amendments concern the application of the exception from the consolidation of investment entities. The ability to exclude subsidiaries of investment entities from the consolidation was confirmed, even if the parent company of an investment entity measures all its subsidiaries at fair value. In addition, the amendments clarify when an investment entity should consolidate a subsidiary providing services related to investment activities instead of measuring it at fair value and to facilitate the use of the equity method for an entity, which is not an investment entity itself but has shares in an associated investment entity.<br>The above-mentioned amendments will not have an impact on the Group. |
| IFRS 16 „Leases” | 1.2016 | Financial year starting on or after 1.01.2019 | The new standard will replace the current IAS 17, " Leases". Under the new standard lessee are obliged to recognize the right to use the asset and liabilities (the obligation to pay for that right, that is, financing) in the balance sheet for all lease contracts (and not, as previously only in the case of financial leasing ). The exceptions are short-term lease agreement with a term of 12 months.<br>Impact of these changes on the Group is yet to be estimated. |
| IFRS 12 „Income tax” | 1.2016 | Financial year starting on or after 1.01.2017 | The amendments concern the clarification of how to account for deferred tax assets concerning debt instruments measured at fair value.<br>Impact of these changes on the Group is yet to be estimated. |
| IAS 7 „Statement of cash flows” | 1.2016 | Financial year starting on or after 1.01.2017 | The changes were made as a result of IAS work to improve the quality of disclosures in the financial statements and relate to the requirement to make disclosures to enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes resulting from cash flows and non-monetary.<br>Impact of these changes on the Group is yet to be estimated. |

In conclusion, the Management Board does not expect the adoption of the above-mentioned standards and interpretations to have a significant influence on the accounting policies applied by the Group with the exception of IFRS 9 (an influence of IFRS 9 on accounting principles applied by the Bank have not been assessed yet). The Bank intends to apply them in the periods indicated in the relevant standards and interpretations (without early adoption), provided that they are adopted by the EU.

## 3. Critical estimates and judgements

While preparing financial statements, the Group makes certain estimates and assumptions, which have a direct influence on both the financial statements presented and the notes to the financial statements.

The estimates and assumptions that are used by the Group in determining the value of its assets and liabilities as well as revenues and costs, are made based on historical data and other factors which are available and are considered to be proper in the given circumstances.

Assumptions regarding the future and the data available are used for assessing carrying amounts of assets and liabilities which cannot be determined interchangeably using other sources. In making estimates the Group takes into consideration the reasons and sources of the uncertainties that are anticipated at the balance sheet date. Actual results may differ from estimates.

Estimates and assumptions made by the Group are subject to periodic reviews. Adjustments to estimates are recognised in the periods in which the estimates were adjusted, provided that these adjustments affect only the given period. If the adjustments affect both the period in which the adjustment was made as well as future periods, they are recognised in the period in which the adjustments were made and in the future periods.

The most significant areas in which the Group performs critical estimates are presented below:

### 3.1. Impairment of loans and advances

An impairment loss is incurred when there is objective evidence of impairment due to events that occurred after the initial recognition of the asset ('a loss event') and when the loss event has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets. Future cash flows are assessed by the Group on the basis of estimates based on historical parameters.

The methodology and assumptions used in the estimates of impairment allowances are reviewed on a regular basis to minimise the differences between the estimated and actual loss amounts.

The impact of an increase/decrease of cash flows for the Group's loans and advances portfolio assessed for impairment on the basis of individual analysis of future cash flows arising both from own payments and realisation of collaterals, i.e. the exposures for which an individual method is applied and the impact of an increase/decrease of the amount of portfolio parameters for the Group's loans and advances portfolio assessed on a portfolio and group basis is presented in the table below (in PLN million):

| Estimated change in impairment of loans and advances resulting from: | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | +10% scenario | -10% scenario | +10% scenario | -10% scenario |
| change in the present value of estimated cash flows for the Bank's loans and advances portfolio assessed on an individual basis (individually determined to be impaired) | (204) | 364 | (260) | 405 |
| change in probability of default | 60 | (60) | 84 | (84) |
| change in recovery rates | (435) | 435 | (478) | 479 |

More on impairment of loans and advances is described in Note 56 Credit Risk Management

### 3.2. Valuation of derivatives and non-listed debt securities available for sale

The fair value of non-option derivatives is determined using valuation models based on discounted cash flows expected to be received from the given financial instrument. Options are valued using option pricing models. The variables and assumptions used in a valuation include, where available, data derived from observable markets.

The fair value of derivatives includes own credit risk as well as counterparty credit risk. In case of derivative instruments adjustment of the valuation of derivatives reflecting counterparty credit risk CVA (credit value adjustment) and adjustment of the valuation of derivatives reflecting own credit risk DVA (debit value adjustment) is calculated. The process of calculation of the CVA and DVA adjustments includes a selection of method determining the spread of a counterparty's or the Bank's credit risk (e.g. a market price method based on the constant price quotations of debt instruments issued by the counterparty, a method of spread implied from Credit Default Swap contracts), an estimation of the probability of default of the counterparty or the Bank and the recovery rate and calculation of the amount of CVA and DVA adjustments. As at 31 December 2015 the amount relating to CVA and DVA amounted to PLN 2 million (As at 31 December 2014 it amounted to PLN 4 million.)

The fair value of non-listed debt securities available for sale is determined using valuation models based on discounted cash flows expected to be received from the given financial instrument. In the valuation of non-listed debt securities available for sale, assumptions are also made about the counterparty's credit risk, which may have an impact on the pricing of the instruments. The credit risk of the securities, for which there is no reliable market price available, is included in the margin, for which the valuation methodology is consistent with the calculation of credit spreads to determine the CVA and DVA adjustments.

The valuation techniques used by the Bank for non-option derivative instruments are based on yield curves based on available market data (deposit rates on interbank market, IRS quotations). The Group conducted a simulation to assess the potential influence of changes of the yield curves on the transaction valuation.

The tables below present the outcomes of estimated changes in valuation of non-option derivative instruments due to parallel movements of yield curves:

a) for the whole portfolio of non-option derivative instruments (in PLN million):

| Estimated change in valuation due to parallel movement of yield curve by: | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | +50 b.p. scenario | -50 b.p. scenario | +50 b.p. scenario | -50 b.p. scenario |
| IRS | (34) | 34 | (44) | 44 |
| CIRS | (95) | 99 | (99) | 104 |
| other derivatives | (1) | 1 | (2) | 2 |
| Total | (130) | 134 | (145) | 150 |

b) for instruments under hedge accounting (in PLN million):

| Estimated change in valuation due to parallel movement of yield curve by: | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | +50 b.p. scenario | -50 b.p. scenario | +50 b.p. scenario | -50 b.p. scenario |
| IRS | (61) | 63 | (67) | 68 |
| CIRS | (95) | 99 | (99) | 104 |
| Total | (156) | 162 | (166) | 172 |

## 3.3. Calculation of provision for employee benefits

The provision for retirement benefits is created on the basis of an actuarial valuation performed periodically by an external independent actuary. Valuation of the employee benefit provisions is performed using actuarial techniques and assumptions.

The calculation of the provision includes retirement and pension benefits expected to be paid in the future. The Group performed a reassessment of its estimates as at 31 December 2015, on the basis of calculation conducted by an independent external actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance sheet date. An important factor affecting the amount of the provision is the adopted financial discount rate, which was adopted by the Bank at the level of 2.75%, similarly to the last year.

A contribution of an increase/decrease in the financial discount rate and main actuarial assumptions by 1 pp. to a decrease/increase in the amount of the provision for retirement benefits as at 31 December 2015 and as December 2014 is presented in the table below (in PLN million):

| Estimated change in provision as at 31.12.2015 | Financial discount rate | | Planned increase in base salaries | |
|---|---|---|---|---|
| | +1 pp. scenario | -1 pp. scenario | +1 pp. scenario | -1 pp. scenario |
| Provision for retirement and pension benefits | (5) | 6 | 6 | (5) |

| Estimated change in provision as at 31.12.2014 | Financial discount rate | | Planned increase in base salaries | |
|---|---|---|---|---|
| | +1 pp. scenario | -1 pp. scenario | +1 pp. scenario | -1 pp. scenario |
| Provision for retirement and pension benefits | (4) | 5 | 5 | (4) |

Gains and losses of the calculations conducted by an actuary are recognised in other comprehensive income.

The Group creates provisions for future liabilities arising from unused annual leave (taking into account all outstanding unused holiday days), from damages and severance payments made to those employees whose employment contracts are terminated for reasons independent of the employee, and for the employee compensation costs incurred in the current period which will be paid out in future periods, including bonuses.

## 3.4. Useful economic lives of tangible fixed assets, intangible assets and investment properties

In estimating useful economic lives of particular types of tangible fixed assets, intangible assets and investment properties, the following factors are considered:

1) expected physical wear and tear, estimated based on the average period of use recorded to date, reflecting the normal physical wear and tear rate, intensity of use etc.,
2) technical or market obsolescence,
3) legal and other limitations on the use of the asset,
4) expected use of the asset assessed based on the expected production capacity or volume,
5) other factors affecting useful lives of such assets.

When the period of use of a given asset results from a contract term, the useful life of such an asset corresponds to the period defined in the contract. If the estimated useful life is shorter than the period defined in the contract, the estimated useful life is applied.

The impact of change in useful economic lives of assets being subject to depreciation and classified as land and buildings on the change of financial result is presented in the table below (in PLN million):

| Change in useful economic lives of assets being subject to depreciation and classified as land and buildings | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | +10 years scenario | -10 years scenario | +10 years scenario | -10 years scenario |
| Depreciation costs | (38) | 233 | (47) | 237 |

## 4. Explanation of differences between previously published financial statements and current financial statements

Starting from the second quarter of 2015, the Group changed the presentation approach in net commission income and expenses in respect of insurance brokerage (bancassurance). So far, revenues and expenses from insurance were presented as separate items ie. received and due remuneration of the Group for the performance of brokerage services were recognized in revenues from commissions and expenses related to the sale of insurance products in the cost of commission income. After the change, revenues and expenses from insurance brokerage are presented in the net formation ie. in income from insurance premiums are received and due remuneration to the Group for the performance of brokerage services, net of costs incurred by the Group directly related to the sales of insurance products.

Above changes are only presentational and have no impact on the financial result

The tables below present the impact of changes in range of presentation for comparative data

| | 01.01-31.12.2014 data before conversion | Change in recognition of the result under the bancassurance | 01.01-31.12.2014 converted |
|---|---|---|---|
| Continuing operations | | | |
| Interest and similar income | 10 737 431 | - | 10 737 431 |
| Interest expense and similar charges | (3 214 500) | - | (3 214 500) |
| Net interest income | 7 522 931 | - | 7 522 931 |
| Fee and commission income | 4 002 155 | (100 219) | 3 901 936 |
| Fee and commission expense | (1 068 649) | 100 219 | (968 430) |
| Net fee and commission income | 2 933 506 | - | 2 933 506 |
| Operating result | 4 002 753 | - | 4 002 753 |
| Profit before income tax | 4 034 563 | - | 4 034 563 |
| Income tax expense | (791 747) | - | (791 747) |
| Net profit (including non-controlling shareholders) | 3 242 816 | - | 3 242 816 |
| Profit (loss) attributable to non-controlling shareholders | (11 306) | - | (11 306) |
| Net profit attributable to equity holders of the parent company | 3 254 122 | - | 3 254 122 |

The Group has changed the method of presentation for assets for taken over liabilities in subsidiaries

| | data as of 31.12.2014 before conversion | Change in recognition of the result under the bancassurance | data as of 31.12.2014 converted |
|---|---|---|---|
| Stock | 237 883 | (99 167) | 138 716 |
| Other Assets | 1 122 265 | 99 167 | 1 221 432 |
| TOTAL | 248 700 589 | - | 248 700 589 |

(IN PLN THOUSAND)

## 5. The takeover of the Spółdzielcza Kasa Oszczędnościowo- Kredytowa "Wesoła" in Mysłowice by PKO Bank Polski SA on 01 August 2015

On 18 June 2015, Bank agreed to participate in the restructuring of the Spółdzielcza Kasa Oszczędnościowo- Kredytowa Wesoła in Mysłowice (SKOK "Wesoła"). On this basis, also on 18 June 2015, Polish Financial Supervision Authority('PFSA') made a decision about takeover of SKOK Wesoła by the Bank.

This decision has been taken in accordance with article 74c clause 4 of the Act of 5 November 2009 on Credit Unions (the "Act on Credit Unions") According to this article, if it impossible to take over the credit union by the other union, PFSA taking into account the need to safeguard financial market stability and safety of funds held on accounts of the union, can decide whether to accept the takeover of the credit union or the takeover of some property rights or union's obligations, by a domestic bank with its consent, or to liquidate the credit union. According to the decision of the Polish Financial Supervision Authority, since 19 June 2015 the management of property of SKOK "Wesoła" has been taken over by the Management Board of Bank, and 1 August 2015 has been set as the date of the takeover of SKOK "Wesoła" by Bank. According to the PFSA decision, the credit union conducted activities and offered services to its members in the full current range, until the date of the takeover.

The takeover was settled in accordance with IFRS 3. According to IFRS 3.45 Bank has 12 months – ie. until 31 July 2016. to determine the final values. The takeover of SKOK "Wesoła" did not involve a transfer of the payment by the Bank. Whereas the takeover of SKOK "Wesoła" was conducted with the financial support granted by the ( BFG ) pursuant to art. 20g of the Act of14 December 1994 on the Bank Guarantee Fund. The Bank received support from the BFG in the form of subsidies to cover the difference between the value of the taken over property rights and liabilities from guaranteed funds in the accounts of depositors in the amount of PLN 278 858 thousand and guarantees to cover losses arising from the risks associated with the taken over property rights of SKOK "Wesoła".

As a result of the transaction settlement, there is no non-controlling shares in the taken over entity.

| ASSETS | Assets recorded in the books of SKOK "Wesoła" as at 31.07.2015 | Deferred income tax netting | Assets according to IFRS | Adjustment to measure fair value | Fair value of assets acquired |
|---|---|---|---|---|---|
| Cash and balances with the central bank | 6 628 | - | 6 628 | - | 6 628 |
| Amounts due from banks | 33 050 | - | 33 050 | - | 33 050 |
| Loans and advances to customers | 188 690 | - | 188 690 | 50 270 | 238 960 |
| Investment securities available for sale | 50 | - | 50 | - | 50 |
| Intangible assets | 691 | - | 691 | - | 691 |
| Tangible fixed assets | 17 838 | - | 17 838 | - | 17 838 |
| Deferred income tax asset | 11 | (11) | - | - | |
| Other assets | 45 833 | - | 45 833 | - | 45 833 |
| TOTAL ASSETS | 292 791 | (11) | 292 780 | 50 270 | 343 050 |

| LIABILITIES | Assets recorded in the books of SKOK "Wesoła" as at 31.07.2015 | Deferred income tax netting | Liabilities according to IFRS | Adjustment to measure fair value | Fair value of liabilities assumed |
|---|---|---|---|---|---|
| Amounts due to customers | 595 128 | - | 595 128 | - | 595 128 |
| Other liabilities | 5 772 | - | 5 772 | - | 5 772 |
| Current income tax liability | 383 | - | 383 | - | 383 |
| Deferred income tax liability | 9 188 | (11) | 9 177 | 9 551 | 18 728 |
| Provisions | 2 348 | - | 2 348 | - | 2 348 |
| TOTAL LIABILITIES | 612 819 | (11) | 612 808 | 9 551 | 622 359 |

The following balance sheet items were analysed in terms of valuation:

- credit and loan portfolio;
- deposit portfolio;
- properties.

### Loans and advances to customers measured at fair value

| | Data in accordance with IFRS | Adjustment to measure fair value | Fair value of assets acquired |
|---|---|---|---|
| Loans and advances to customers, gross | 521 150 | 50 270 | 571 420 |
| Impairment allowances on loans and advances to customers | (332 460) | - | (332 460) |
| Loans and advances to customers, net | 188 690 | 50 270 | 238 960 |

(IN PLN THOUSAND)

| Loans and advances to customers by method of calculating allowances | Data in accordance with IFRS | Adjustment to measure fair value | Fair value of assets acquired |
|---|---|---|---|
| Assessed on an individual basis | 211 612 | 16 205 | 227 817 |
| Impaired | 211 612 | 16 205 | 227 817 |
| Assessed on an portfolio basis | 173 528 | 13 864 | 187 392 |
| Impaired | 173 528 | 13 864 | 187 392 |
| Assessed on a group basis (IBNR) | 136 010 | 20 201 | 156 211 |
| Loans and advances to customers, gross | 521 150 | 50 270 | 571 420 |
| Allowances on exposures assessed on an individual basis | (179 367) | - | (179 367) |
| Impaired | (179 367) | - | (179 367) |
| Allowances on exposures assessed on a portfolio basis | (153 093) | - | (153 093) |
| Allowances on exposures assessed on a group basis (IBNR) | - | - | - |
| Allowances - total | (332 460) | - | (332 460) |
| Loans and advances to customers, net | 188 690 | 50 270 | 238 960 |

| Loans and advances to customers, by sector | Data in accordance with IFRS | Adjustment to measure fair value | Fair value of assets acquired |
|---|---|---|---|
| Loans and advances to customers, gross, of which: | 521 150 | 50 270 | 571 420 |
| non-financial sector | 521 150 | 50 270 | 571 420 |
| consumer | 521 150 | 50 270 | 571 420 |
| Impairment allowances on loans and advances to customers | (332 460) | - | (332 460) |
| Loans and advances to customers, net | 188 690 | 50 270 | 238 960 |

| Loans and advances to customers, by client segment | Data in accordance with IFRS | Adjustment to measure fair value | Fair value of assets acquired |
|---|---|---|---|
| Loans and advances granted, gross, of which: | 521 150 | 50 270 | 571 420 |
| retail and private banking | 521 150 | 50 270 | 571 420 |
| Impairment allowances on loans and advances | (332 460) | - | (332 460) |
| Loans and advances to customers, net | 188 690 | 50 270 | 238 960 |

Fair value measurement of the loan portfolio was conducted by discounted cash flow method, which consists of the following steps:

- loan portfolio was divided into sub-portfolios of loan contracts with a similar risk profile; sub-portfolios have been separated on the basis of the period of granted financing. (vintage), as well as the type of product (retail or high volume). A feature differentiating the risk of the loans was also the distribution channel, retail loans were also divided on the internal and external retail loans segment;
- future expected cash flows were estimated based on the analysis of monthly cash flows of capital instalments and interest payments adjusted for the rate of prepayment, the estimated cost of risk and the value of other costs and revenues associated with the portfolio (eg. the fees and charges and the costs of operating the portfolio);
- the sum of above mentioned cash flows was then discounted using the appropriate discount rate, estimated on the basis of interest rates for risk-free instruments plus the premium over the risk-free rate reflecting the cost of capital of the Bank, the cost of financing the typical buyer, as well as capital requirements and risk weight for the given type of assets. Cash flows of not functioning loans portfolio were discounted at the risk-free rate enlarged by premium, determined as the weighted average yields on Polish companies from the debt collection market;
- the sum of the discounted cash flows set the fair value of the portfolio of loans.

As part of the Fair value measurement of the loan portfolio the effect of guarantee to cover losses was included. Losses arise from the risks associated with the taken over property rights of SKOK "Wesoła" granted by the Bank Guarantee Fund to support the restructuring of SKOK "Wesoła" and the tax effect in the form of a provision for deferred income tax.

As part of the settlement of the purchase transaction no additional intangible assets were recognized.

The position of tangible fixed assets consists primarily of real estate in the carrying value of PLN 12 127 thousand, which reflects their fair value. Real estate values reported by the Credit Unions in the position of tangible fixed assets and other assets were adjusted to the value of the current estimates prepared by an external, independent property valuation experts.

(IN PLN THOUSAND)

For an insubstantial part of the assets, where the value of the estimate exceeded the gross book value, the property was carried in the gross book value.

The balance due to customers including current accounts and term deposits amounts to PLN 595 128 thousand, of which the value of non-interest bearing current accounts to approximately PLN 9 899 thousand . The remaining balance are term deposits, of which approximately 90% falls within one year from the takeover date according to the following table. The difference between the fair value of the portfolio in relation to its book value is not significant due to the short maturity of the contracts. Therefore it is assumed that the fair value of the portfolio of liabilities may be reflected by its book value.

| Maturity | Capital share | Weighted average interest rate |
|---|---|---|
| up to half a year | 59% | 3.31% |
| over half a year to one year | 31% | 3.42% |
| over one year | 10% | 4.09% |

As at 31 July 2015 conditional liabilities the SKOK "Wesoła" consisted of:

a) liabilities granted: financial: arising from unutilized credit lines and overdrafts amounted to PLN 216 thousand, and guarantee: in respect of guarantees issued by the SKOK "Wesoła" due to insuring works performed for the General Directorate for National Roads and Motorways amounted to PLN 47.6 thousand,

b) liabilities received: guarantee: in respect of received guarantees of loans granted by the Credit Union amounted to PLN 45 017 thousand.

As of 31 July 2015 SKOK "Wesoła" did not have the promises of the loan.

As a result of the takeover , the Bank recognized goodwill in the amount of PLN 451 thousand calculated as the difference between the fair value of the net identifiable assets taken over and liabilities valued in accordance with IFRS (PLN -279 309 thousand), and the amount of grants received from BFG (PLN 278 858 thousand). The test for recoverability of goodwill resulted in impairment recognition. As a result, on 31 December 2015, the Bank wrote-off in other operating expenses the full amount of goodwill. This write-down is not deductible for the purposes of tax law.

According to the reached agreement and applicable law, the takeover and restructuring of SKOK "Wesoła" is realized with the support of the (BFG). In accordance with the aid scheme of an orderly liquidation of the cooperative savings and credit unions (SKOK), BFG gave the Bank guarantees to cover losses arising from the taken over property rights, ie. loans and advances, means in the Kasa Krajowa arising from the contributions to the stabilization fund, real estates and other, assets arising from intangible assets and other receivables, including commercial, created in the period from the takeover date to 30 June 2020.

## 6. Information on the segments of activites and about geographical areas

### 6.1. Information on the segments of activities

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 segments are divided ensures consistency with the sales management model and offers the customers a comprehensive product mix comprising both traditional banking products and more complex investment products, as well as services provided by the PKO Bank Polski SA Group entities. The segment note below is recognised in an internal reporting system, i.e. information presented to the Management Board of PKO Bank Polski SA, used to assess achieved results and to allocate resources. The segment report below presents an internal organisational structure of the PKO Bank Polski SA Group.

In 2014, changes were made to the functioning of the existing segments: the corporate segment and the investment segment, 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. At present, the PKO Bank Polski SA Group comprises three basic segments: retail, corporate and investment, and transfer centre:

1. 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, amongst others: 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.
2. The corporate and investment segment includes transactions concluded with large corporate clients and financial institutions. This segment comprises, i.a., the following products and services: current accounts, term deposits, depositary services, currency and derivative products, corporate loans, leases and factoring. Within this segment, PKO Bank Polski SA also enters, individually or in a consortium with other banks, into loan agreements financing large investment projects and issuance of non-Treasury securities. This segment also comprises the Bank’s portfolio activity on its own account i.e. investing and brokerage activities, interbank transactions, derivative instruments and debt securities. The results of corporate and investment segment comprise results of activities of PKO Bank Polski SA’s subsidiaries.
3. The transfer centre comprises the result on internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting. Internal funds transfer is based on transfer pricing dependant on market rates. The transactions between business segments are conducted at arms’ length. Long-term external financing includes the issuance of securities, subordinated liabilities and amounts due to financial institutions.

The PKO Bank Polski SA Group typically settles inter-segment transactions as if they were concluded between unrelated parties, using internal settlement rates. The transactions between business segments are conducted at arms’ length.

Accounting policies applied in the segment report are consistent with accounting policies described in Note 2 of these financial statements.

Disclosed values of assets and liabilities are operating assets and liabilities applied by segment in operating activities. Values of assets, liabilities, income and expenses of particular segments are based on internal management information. Assets and liabilities as well as income and costs related to these assets and liabilities are assigned to particular segments.

The income tax expense in respect of the presentation of the financial result, and deferred income tax asset, current income tax receivables, current income tax liabilities and deferred income tax liability in respect of the statement of financial position presentation were recognised at the Group level.

(IN PLN THOUSAND)

The tables below present data relating to income and results of individual business segments of the PKO Bank Polski SA Group for the twelve-month periods ended 31 December 2015 and 31 December 2014 and assets and liabilities as at 31 December 2015 and 31 December 2014.

| For the period ended 31 December 2015 | Continuing operations | | | |
|---|---|---|---|---|
| | Retail segment | Corporate and investment segment | Transfer centre | Total activity of the PKO Bank Polski SA Group |
| Net interest income | 6 171 873 | 1 167 382 | (310 660) | 7 028 595 |
| Net fee and commission income | 2 141 862 | 708 784 | (18) | 2 850 628 |
| Other net income | 252 840 | 531 293 | 1 467 | 785 600 |
| Net result from financial operations | 5 738 | 131 756 | (9 170) | 128 324 |
| Net foreign exchange gains (losses) | 182 911 | 175 546 | 10 637 | 369 094 |
| Dividend income | - | 10 658 | - | 10 658 |
| Net other operating income and expense | 38 073 | 239 451 | - | 277 524 |
| Income/expenses relating to internal customers | 26 118 | (26 118) | - | - |
| Net impairment allowance and write-downs | (1 095 665) | (380 253) | - | (1 475 918) |
| Administrative expenses, of which: | (4 898 244) | (1 138 026) | - | (6 036 270) |
| amortisation and depreciation | (692 287) | (126 301) | - | (818 588) |
| Share of profit (loss) of associates and joint ventures | - | - | - | 38 115 |
| Segment gross profit | 2 572 666 | 889 180 | (309 211) | 3 190 750 |
| Income tax expense (tax burden) | - | - | - | (589 497) |
| Profit (loss) attributable to non-controlling shareholders | - | - | - | (8 311) |
| **Net profit attributable to equity holders of the parent company** | **2 572 666** | **889 180** | **(309 211)** | **2 609 564** |

| As at 31 December 2015 | Continuing operations | | | |
|---|---|---|---|---|
| | Retail segment | Corporate and investment segment | Transfer centre | Total activity of the PKO Bank Polski SA Group |
| Assets | 140 811 660 | 111 565 843 | 13 614 239 | 265 991 742 |
| Unallocated assets | - | - | - | 948 177 |
| **Total assets** | **140 811 660** | **111 565 843** | **13 614 239** | **266 939 919** |
| Liabilities | 150 189 893 | 63 454 513 | 22 972 731 | 236 617 137 |
| Unallocated liabilities | - | - | - | 57 869 |
| **Total liabilities** | **150 189 893** | **63 454 513** | **22 972 731** | **236 675 006** |

(IN PLN THOUSAND)

| For the period ended 31 December 2014 | Continuing operations | | | |
|---|---|---|---|---|
| | Retail segment | Corporate and investment segment | Transfer centre | Total activity of the PKO Bank Polski SA Group |
| Net interest income | 6 254 818 | 1 122 952 | 145 161 | 7 522 931 |
| Net fee and commission income | 2 215 021 | 720 564 | (2 079) | 2 933 506 |
| Other net income | 230 527 | 502 850 | (43 250) | 690 127 |
| Net result from financial operations | 8 438 | 233 733 | (16 933) | 225 238 |
| Net foreign exchange gains (losses) | 161 740 | 100 374 | (26 317) | 235 797 |
| Dividend income | - | 6 511 | - | 6 511 |
| Net other operating income and expense | 34 285 | 188 296 | - | 222 581 |
| Income/expenses relating to internal customers | 26 064 | (26 064) | - | - |
| Net impairment allowance and write-downs | (1 185 795) | (712 875) | - | (1 898 670) |
| Administrative expenses, of which: * | (4 137 148) | (1 107 993) | - | (5 245 141) |
| amortisation and depreciation | (609 341) | (137 823) | - | (747 164) |
| Share of profit (loss) of associates and joint ventures | - | - | - | 31 810 |
| Segment gross profit | 3 377 423 | 525 498 | 99 832 | 4 034 563 |
| Income tax expense (tax burden) | - | - | - | (791 747) |
| Profit (loss) attributable to non-controlling shareholders | - | - | - | (11 306) |
| **Net profit attributable to equity holders of the parent company** | **3 377 423** | **525 498** | **99 832** | **3 254 122** |

*Beginning from the data for 2015 the methodology of cost allocation was changed. The data for 2014 were transformed to be comparable i.e. recalculated in accordance to the new methodology.

| As at 31 December 2014 | Continuing operations | | | |
|---|---|---|---|---|
| | Retail segment | Corporate and investment segment | Transfer centre | Total activity of the PKO Bank Polski SA Group |
| Assets | 134 683 184 | 101 519 005 | 11 515 913 | 247 718 102 |
| Unallocated assets | - | - | - | 982 487 |
| **Total assets** | **134 683 184** | **101 519 005** | **11 515 913** | **248 700 589** |
| Liabilities | 141 576 058 | 57 145 886 | 22 316 594 | 221 038 538 |
| Unallocated liabilities | - | - | - | 46 500 |
| **Total liabilities** | **141 576 058** | **57 145 886** | **22 316 594** | **221 085 038** |

(IN PLN THOUSAND)

## 6.2. Information about geographical areas

Complementary, the PKO Bank Polski SA Group applies geographical areas distribution. The PKO Bank Polski SA Group conducts activities in the Republic of Poland and in Ukraine through the KREDOBANK SA Group, 'Inter-Risk Ukraina' Sp. z d.o. and Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., as well as in Sweden through subsidiaries: PKO Finance AB and PKO Leasing Sverige AB and the Branch in Germany through corporate branch of PKO Bank Polski SA (PKO Bank Polski Niederlassung Deustchland). For presentation purposes, the results of companies operating in Sweden and results of the Branch operating in the Germany, which from the point of view of the scale of operations of the PKO Bank Polski SA Group are not significant, are included in the segment of Poland.

| For the period ended 31 December 2015 | Poland | Ukraine | Total |
|---|---|---|---|
| Net interest income | 6 926 013 | 102 582 | 7 028 595 |
| Net fee and commission income | 2 807 961 | 42 667 | 2 850 628 |
| Other net income | 832 557 | (46 957) | 785 600 |
| Administrative expenses | (5 935 783) | (100 487) | (6 036 270) |
| Net impairment allowance | (1 439 935) | (35 983) | (1 475 918) |
| Share of profit (loss) of associates and joint ventures | - | - | 38 115 |
| Profit (loss) before income tax | 3 190 813 | (38 178) | 3 190 750 |
| Income tax expense (tax burden) | - | - | (589 497) |
| Profit (loss) attributable to non-controlling shareholders | - | - | (8 311) |
| **Net profit (loss) attributable to equity holders of the parent company** | **3 190 813** | **(38 178)** | **2 609 564** |

| As at 31 Decemer 2015 | Poland | Ukraine | Total |
|---|---|---|---|
| Assets of which: | 265 572 205 | 1 367 714 | 266 939 919 |
| non-financial fixed assets | 6 388 189 | 65 928 | 6 454 117 |
| deferred tax assets and current income tax receivable | 936 113 | 12 064 | 948 177 |
| Liabilities | 235 382 254 | 1 292 752 | 236 675 006 |

| For the period ended 31 December 2014 | Poland | Ukraine | Total |
|---|---|---|---|
| Net interest income | 7 457 960 | 64 971 | 7 522 931 |
| Net fee and commission income | 2 881 882 | 51 624 | 2 933 506 |
| Other net income | 765 991 | (75 864) | 690 127 |
| Administrative expenses | (5 128 226) | (116 915) | (5 245 141) |
| Net impairment allowance | (1 824 026) | (74 644) | (1 898 670) |
| Share of profit (loss) of associates and joint ventures | - | - | 31 810 |
| Profit (loss) before income tax | 4 153 581 | (150 828) | 4 034 563 |
| Income tax expense (tax burden) | - | - | (791 747) |
| Profit (loss) attributable to non-controlling shareholders | - | - | (11 306) |
| **Net profit (loss) attributable to equity holders of the parent company** | **4 153 581** | **(150 828)** | **3 254 122** |

| As at 31 December 2014 | Poland | Ukraine | Total |
|---|---|---|---|
| Assets of which: | 247 272 349 | 1 428 240 | 248 700 589 |
| non-financial fixed assets* | 6 086 703 | 85 069 | 6 171 772 |
| deferred tax assets and current income tax receivable | 959 110 | 23 377 | 982 487 |
| Liabilities | 219 733 533 | 1 351 505 | 221 085 038 |

*Data for 2014 were made comparable. The change in presentation method consist in taking into account non-financial fixed assets.

(IN PLN THOUSAND)

# NOTES TO THE CONSOLIDATED INCOME STATEMENT

## 7. Interest income and expense

| Interest income and similar income | 2015 | 2014 |
|---|---|---|
| Income from loans and advances to customers, of which: | 8 111 716 | 9 146 594 |
| from impaired loans | 349 341 | 467 098 |
| Income from loans to banks | 12 226 | 7 229 |
| Income from investment securities | 703 115 | 641 242 |
| Income from placements with banks | 98 515 | 140 097 |
| Other | 3 321 | 9 706 |
| Other income, of which: | 728 870 | 792 563 |
| Income from financial assets designated upon initial recognition at fair value through profit and loss | 222 791 | 388 234 |
| Income from derivative hedging instruments | 450 929 | 343 316 |
| Income from trading assets | 55 150 | 61 013 |
| Total | 9 657 763 | 10 737 431 |

In 2015, the amount of tax income reduction in respect of the negative LIBOR is PLN 443 thousand and was recognized as income from loans and advances to customers.

| Interest expense and similar charges | 2015 | 2014 |
|---|---|---|
| Interest expense on amounts due to customers | (1 955 195) | (2 541 207) |
| Interest expense on loans from banks | (64 918) | (86 052) |
| Interest expense on debt securities in issue and subordinated liabilities | (508 982) | (512 676) |
| Premium expense on debt securities available for sale | (57 230) | (40 927) |
| Interest expense on deposits from banks | (9 088) | (11 397) |
| Interest expense on financial assets designated upon initial recognition at fair value through profit and loss | (15 178) | (10 234) |
| Interest expense on trading assets | (18 577) | (12 007) |
| Total | (2 629 168) | (3 214 500) |

## 8. Fee and commission income and expense

| Fee and commission income | 2015 | 2014 |
|---|---|---|
| income from loans and advances granted | 636 918 | 603 852 |
| payment cards | 945 904 | 1 271 459 |
| maintenance of bank accounts | 899 043 | 922 206 |
| loans insurance | 40 466 | 138 078 |
| maintenance of investment and open pension funds (including management fees) | 468 480 | 444 980 |
| cash transactions | 101 229 | 114 053 |
| securities transactions | 98 670 | 95 549 |
| servicing foreign mass transactions | 74 435 | 68 652 |
| providing services of an agent for the issue of Treasury bonds | 23 218 | 23 037 |
| sale and distribution of court fee stamps | 12 265 | 9 613 |
| insurance operations | 105 839 | 60 471 |
| Income from insurance intermediary | 7 375 | 2 313 |
| Income from policies administration | 6 536 | 5 328 |
| Income from fund management | 74 324 | 45 130 |
| Other | 17 604 | 7 700 |
| other (comissions of Brokerage House for service of the prmiray issue and comissions for the administraiting the borrowers debt to the state budget) | 187 593 | 145 600 |
| From fiduciary activities | 4 270 | 4 386 |
| Total | 3 598 330 | 3 901 936 |

(IN PLN THOUSAND)

| Fee and commission expense | 2015 | 2014 |
|---|---|---|
| payment cards | (471 737) | (669 758) |
| acquisition services | (67 843) | (112 432) |
| settlement services | (29 928) | (27 845) |
| assets management expenses | (10 699) | (18 827) |
| fee and commissions for operating services provided by banks | (18 884) | (15 927) |
| Other (cost of fees incurrd by the Brokerage House to WSE and NDFS ). | (148 611) | (123 641) |
| Total | (747 702) | (968 430) |

## 9. Dividend income

| Dividend income | 2015 | 2014 |
|---|---|---|
| Investment securities available for sale | 8 298 | 5 677 |
| Trading assets | 2 360 | 834 |
| Total | 10 658 | 6 511 |

## 10. Net income from financial instruments measured at fair value

| Net income from financial instruments measured at fair value | 2015 | 2014 |
|---|---|---|
| Derivative instruments, of which: | 35 868 | 692 |
| an ineffective portion related to cash flow hedges | (2 685) | (6 078) |
| Structured bank securities measured at fair value through profit and loss | (4 722) | (8 616) |
| Debt securities | 9 034 | 80 540 |
| Equity instruments | (5 856) | 1 162 |
| Other | 6 253 | 1 410 |
| Total | 40 577 | 75 188 |

## 11. Gains less losses from investment securities available for sale

| Gains | 2015 | 2014 |
|---|---|---|
| Equity securities | 1 811 | 78 |
| issued by other financial institutions, shares PLN | 685 | - |
| issued by other financial institutions, shares in investment funds PLN | 572 | - |
| issued by non-financial institutions, shares PLN | 554 | 78 |
| Debt Securities | 99 081 | 170 289 |
| issued by the State Treasury, of which: | 91 457 | 156 980 |
| Treasury bonds PLN | 88 446 | 155 802 |
| Treasury bonds EUR | 2 461 | - |
| Treasury bonds USD | 306 | 552 |
| Treasury bonds UAH | 244 | 626 |
| issued by local government bodies, municipal bonds PLN | 5 647 | 5 636 |
| issued by non-financial institutions, corporate bonds PLN | 107 | 1 184 |
| issued by non-financial institutions, corporate bonds UAH | - | 6 443 |
| issued by other financial institutions, corporate bonds PLN | 1 841 | - |
| issued by other financial institutions, corporate bonds UAH | 29 | 46 |
| Total | 100 892 | 170 367 |

(IN PLN THOUSAND)

| Losses | 2015 | 2014 |
|---|---|---|
| Equity securities | (217) | (3 204) |
| issued by non-financial institutions, shares PLN | (217) | (3 204) |
| Debt Securities | (12 928) | (17 113) |
| issued by the State Treasury, of which: | (12 794) | (15 705) |
| Treasury bonds PLN | (11 109) | (2 930) |
| Treasury bonds USD | (1 394) | (12 775) |
| Treasury bonds UAH | (291) | - |
| issued by local government bodies, municipal bonds PLN | (111) | (2) |
| issued by non-financial institutions, corporate bonds PLN | (5) | (1 176) |
| issued by other financial institutions, corporate bonds UAH | (18) | (230) |
| Total | (13 145) | (20 317) |
| | | |
| Result on investment securities available for sale | 87 747 | 150 050 |

## 12. Other operating income and expense

| Other operating income | 2015 | 2014 |
|---|---|---|
| Net income from sale of products and services | 200 420 | 249 015 |
| Income from sale of majority stake in a subsidiary | - | 3 421 |
| Sale and disposal of tangible fixed assets, intangible assets and assets held for sale | 103 686 | 126 086 |
| Damages, penalties and fines received | 53 693 | 35 541 |
| Sundry income | 23 295 | 18 591 |
| Recovery of expired and written-off receivables | 43 070 | 18 135 |
| Other includes: Net income from insurance operations | 150 476 | 119 990 |
| Total | 574 640 | 570 779 |

| Other operating expense | 2015 | 2014 |
|---|---|---|
| Costs of sale of products and services | (91 227) | (146 945) |
| Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale | (90 162) | (110 136) |
| Donations | (11 378) | (14 969) |
| Sundry expenses | (7 537) | (4 332) |
| Other | (96 812) | (71 816) |
| Total | (297 116) | (348 198) |

(IN PLN THOUSAND)

## 13. Net impairment allowance and write-downs

| For the period ended 31 December 2015 | Note | Value at the beginning of the period | Increases | | | Decreases | | | | Value at the end of the period | Net – impact on the income statement |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Due to the business combination | Recognised during the period | Other | Derecognition of assets and settlement | Reversed during the period | Currency translation differences | Other | | |
| Investment securities available for sale | 25 | 129 369 | | 61 360 | 523 | 54 912 | 3 601 | 249 | - | 132 490 | (57 759) |
| Debt securities available for sale | | - | | 56 635 | 523 | - | - | 233 | - | 56 925 | (56 635) |
| Equity securities | | 129 369 | | 4 725 | - | 54 912 | 3 601 | 16 | - | 75 565 | (1 124) |
| Amounts due from banks | 19 | 111 | | 2 165 | 378 | - | 2 238 | 9 | 2 | 405 | 73 |
| Loans and advances to customers measured at amortised cost | 24 | 8 022 477 | 332 460 | 4 889 428 | 195 970 | 1 503 313 | 3 494 235 | 85 231 | 70 347 | 8 287 209 | (1 395 193) |
| Non-financial sector | | 7 812 724 | 332 460 | 4 698 458 | 194 245 | 1 491 384 | 3 350 445 | 84 181 | 68 960 | 8 042 917 | (1 348 013) |
| corporate loans | | 4 089 160 | | 2 513 295 | 36 316 | 726 272 | 1 771 464 | 60 973 | 12 671 | 4 067 391 | (741 831) |
| consumer loans | | 1 322 907 | 332 460 | 1 045 174 | - | 396 307 | 707 154 | 7 596 | 20 166 | 1 569 318 | (338 020) |
| housing loans | | 2 307 712 | | 1 137 312 | 157 846 | 368 805 | 846 169 | 15 612 | 35 060 | 2 337 224 | (291 143) |
| debt securities | | 92 945 | | 2 677 | 83 | - | 25 658 | - | 1 063 | 68 984 | 22 981 |
| Financial sector | | 9 483 | | 54 534 | 923 | 1 953 | 52 994 | 1 050 | 1 319 | 7 624 | (1 540) |
| corporate loans | | 9 483 | | 54 534 | 923 | 1 953 | 52 994 | 1 050 | 1 319 | 7 624 | (1 540) |
| Public sector | | 15 462 | | 33 190 | 802 | 1 603 | 13 183 | - | 68 | 34 600 | (20 007) |
| corporate loans | | 12 639 | | 33 190 | 802 | 1 603 | 13 123 | - | - | 31 905 | (20 067) |
| debt securities | | 2 823 | | - | - | - | 60 | - | 68 | 2 695 | 60 |
| Finance lease receivables | | 184 808 | | 103 246 | - | 8 373 | 77 613 | - | - | 202 068 | (25 633) |
| Non-current assets held for sale | 28 | 93 430 | | 12 383 | - | - | 150 | - | 105 478 | 185 | (12 233) |
| Tangible fixed assets | 31 | 10 080 | | 53 295 | 33 819 | - | 35 369 | 2 911 | 1 908 | 57 006 | (17 926) |
| Intangible assets | 30 | 139 726 | | 186 | 51 612 | 186 | - | - | - | 191 338 | (186) |
| Investments in associates and joint ventures | 27 | 108 715 | | 2 735 | - | - | 21 624 | - | - | 89 826 | 18 889 |
| Inventories | 29 | 29 164 | | 72 | 36 719 | - | - | - | 28 703 | 37 252 | (72) |
| Other receivables | | 154 897 | | 84 649 | 90 099 | 20 031 | 43 698 | 860 | - | 265 056 | (40 951) |
| Provision for legal claims, loan commitments and guarantees granted | 40 | 151 324 | 2 343 | 307 787 | 13 716 | 29 303 | 337 639 | 95 | 3 026 | 105 107 | 29 852 |
| Provision for future liabilities | | 11 192 | | 1 172 | - | 124 | 760 | - | 9 404 | 2 076 | (412) |
| Total | | 8 850 485 | 334 803 | 5 415 232 | 422 836 | 1 607 869 | 3 939 314 | 89 355 | 218 868 | 9 167 950 | (1 475 918) |

(IN PLN THOUSAND)

| For the period ended 31 December 2014 | Note | Value at the beginning of the period | Increases | | | Decreases | | | | Value at the end of the period | Net – impact on the income statement |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Due to acquisition of Nordea Polska's entities and so called 'Swedish Portfolio' | Recognised during the period | Other | Derecognition of assets and settlement | Reversed during the period | Currency translation differences | Other | | |
| Investment securities available for sale | 25 | 33 455 | - | 126 675 | - | - | - | 40 | 30 721 | 129 369 | (126 675) |
| Debt securities available for sale | | 3 296 | - | 123 | - | - | - | - | 3 419 | - | (123) |
| Equity securities | | 30 159 | - | 126 552 | - | - | - | 40 | 27 302 | 129 369 | (126 552) |
| Amounts due from banks | 19 | 28 583 | 1 | 18 | 2 265 | 5 956 | 24 800 | - | - | 111 | 24 782 |
| Loans and advances to customers measured at amortised cost | 24 | 6 650 780 | 578 917 | 5 851 762 | 264 345 | 1 153 655 | 4 118 083 | 45 541 | 6 048 | 8 022 477 | (1 733 679) |
| Non-financial sector | | 6 501 046 | 546 877 | 5 755 884 | 255 601 | 1 144 624 | 4 050 682 | 45 503 | 5 875 | 7 812 724 | (1 705 202) |
| corporate loans | | 3 329 352 | 273 898 | 2 882 323 | 173 041 | 689 631 | 1 845 868 | 33 916 | 39 | 4 089 160 | (1 036 455) |
| consumer loans | | 1 413 349 | 4 036 | 1 272 347 | 13 914 | 337 492 | 1 033 206 | 7 033 | 3 008 | 1 322 907 | (239 141) |
| housing loans | | 1 731 258 | 267 944 | 1 536 294 | 65 278 | 117 501 | 1 170 871 | 4 554 | 136 | 2 307 712 | (365 423) |
| debt securities | | 27 087 | 999 | 64 920 | 3 368 | - | 737 | - | 2 692 | 92 945 | (64 183) |
| Financial sector | | 5 524 | 867 | 12 472 | 8 401 | 21 | 17 722 | 38 | - | 9 483 | 5 250 |
| corporate loans | | 5 524 | 867 | 12 472 | 8 401 | 21 | 17 722 | 38 | - | 9 483 | 5 250 |
| Public sector | | 11 527 | 3 036 | 2 776 | 343 | 54 | 1 993 | - | 173 | 15 462 | (783) |
| corporate loans | | 10 549 | 1 616 | 2 624 | - | 54 | 1 923 | - | 173 | 12 639 | (701) |
| debt securities | | 978 | 1 420 | 152 | 343 | - | 70 | - | - | 2 823 | (82) |
| Finance lease receivables | | 132 683 | 28 137 | 80 630 | - | 8 956 | 47 686 | - | - | 184 808 | (32 944) |
| Non-current assets held for sale | 28 | 365 340 | - | 23 179 | 92 566 | 31 604 | 22 719 | 144 071 | 189 261 | 93 430 | (460) |
| Tangible fixed assets | 31 | 12 084 | - | 3 193 | - | 20 | - | 5 177 | - | 10 080 | (3 193) |
| Intangible assets | 30 | 153 011 | - | 41 067 | - | - | 3 851 | - | 50 501 | 139 726 | (37 216) |
| Investments in associates and joint ventures | 27 | 116 532 | - | 214 | - | 6 234 | 1 797 | - | - | 108 715 | 1 583 |
| Inventories | 29 | 53 805 | - | 17 550 | - | 9 573 | 218 | - | 32 400 | 29 164 | (17 332) |
| Other receivables | | 158 752 | 1 755 | 50 122 | - | 17 746 | 33 076 | 1 480 | 3 430 | 154 897 | (17 046) |
| Provision for legal claims, loan commitments and guarantees granted | 40 | 151 603 | 20 271 | 394 981 | 3 223 | 625 | 410 408 | 180 | 7 541 | 151 324 | 15 427 |
| Provision for future liabilities | | 6 945 | 3 329 | 7 029 | - | 614 | 2 168 | - | 3 329 | 11 192 | (4 861) |
| Total | | 7 730 890 | 604 273 | 6 515 790 | 362 399 | 1 226 027 | 4 617 120 | 196 489 | 323 231 | 8 850 485 | (1 898 670) |

(IN PLN THOUSAND)

## 14. Administrative expenses

| | 2015 | 2014 |
|---|---|---|
| Employee benefits | (2 766 486) | (2 672 435) |
| Overheads | (1 462 748) | (1 485 414) |
| Amortisation and depreciation, of which: | (818 588) | (747 164) |
| tangible fixed assets | (346 918) | (317 886) |
| intangible assets | (467 669) | (427 614) |
| investment properties | (4 001) | (1 664) |
| Taxes and other charges | (63 297) | (106 322) |
| Contribution and payments to the Bank Guarantee Fund | (445 254) | (233 806) |
| Additional payment to the BFG (SBRiR Wołomin bankruptcy) | (337 932) | - |
| Borrower Support Fund | (141 965) | - |
| **Total** | **(6 036 270)** | **(5 245 141)** |

On 23 November 2015 the Group received from the BFG information, pursuant to which the Group will be obliged to make – according to Article 26a.2 Act on Bank Guarantee Fund – the obligatory payment for the purpose of payments of the funds guaranteed for the deposits in the Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin (SBRiR). On 26 November 2015 the BFG published its resolution No. 87/DGD/2015 concerning the payment of the guaranteed deposits held by the depositors of SBRiR, and informed the Group that it is obliged to make a payment in the amount of PLN 337 932 thousand until 30 November 2015. The Bank made the payment on 30 November 2015.

According to Article 25 of the Act from 9 October 2015 on support for borrowers in a difficult financial situation who took out mortgage loans, Guarantee Fund Council, basing on information from the Polish Financial Supervision Authority (PFSA), set out for the Group the amount of payment to PLN 141 965 thousand and the day of payment until 18 February 2016. As at 31 December 2015 the Bank recognized provision/liability charged as costs of 2015.

Employee benefits

| **Employee benefits** | **2015** | **2014** |
|---|---|---|
| Wages and salaries, of which: | (2 310 736) | (2 249 319) |
| expenses on employee pension programme | (44 738) | (38 549) |
| Social Insurance, of which: | (375 402) | (352 581) |
| contributions to retirement pay and pensions | (308 805) | (303 955) |
| Other employee benefits | (80 348) | (70 535) |
| **Total** | **(2 766 486)** | **(2 672 435)** |

In 2013 the Employee Pension Programme was launched. Entry into the register EPP kept by the PFSA was completed on 5 July 2013. According to the provisions of the Company Pension Agreement, employees got an opportunity to join the Programme from 15 July 2013. Principles of the EPP operations in PKO Bank Polski SA were specified in the Company Pension Agreement signed by the Employer with the company trade unions.

Within the EPP (for employees who joined the Programme), the Group charges a basic fee of 3% of salary components from which social security contributions are calculated. Employees have the right to declare additional contributions that are paid to the Programme through a Employer and deducted from the salary of an Employee. EPP is managed by PKO Towarzystwo Funduszy Inwestycyjnych SA.

Operating lease – lessee

Rental and tenancy agreements concluded by the Group in the course of its normal operating activities meet the criteria of operating leases. All of the above are arm's length agreements.

The table below presents data on operating lease agreements concluded by the Group.

| **Total value of future lease payments under irrevocable operating lease for the period:** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| up to 1 year | 233 589 | 218 584 |
| from 1 year to 5 years | 466 383 | 394 358 |
| over 5 years | 150 333 | 81 402 |
| **Total** | **850 305** | **694 344** |

Lease and sub-lease payments recognised as an expense of a given period, from 1 January 2015 to 31 December 2015 amounted to PLN 243 399 thousand and they are included in tangible cost (in the period from 1 January 2014 to 31 December 2014 PLN 237 708 thousand).

(IN PLN THOUSAND)

## 15. Income tax expense

| | 2015 | 2014 |
|---|---|---|
| | | |
| Current income tax expense | (647 928) | (962 625) |
| Deferred income tax related to creating and reversal of temporary differences | 58 431 | 170 878 |
| **Tax expense in the consolidated income statement** | **(589 497)** | **(791 747)** |
| Deferred tax expense in other comprehensive income related to creating and reversal of temporary differences | (16 027) | (52 038) |
| **Total** | **(605 524)** | **(843 785)** |

| | 2015 | 2014 |
|---|---|---|
| Profit before income tax | 3 190 750 | 4 034 563 |
| Corporate income tax calculated using the enacted tax rate (19%) in force in Poland | (606 243) | (766 567) |
| Effect of other tax rates of foreign entities | 138 | (2 112) |
| Permanent differences between profit before income tax and taxable income, of which: | (12 786) | (19 531) |
| Recognition/reversal of provisions and revaluation not constituting taxable expense/income | (17 049) | (34 136) |
| Other non-tax-deductible expenses | (3 398) | (2 325) |
| Other permanent differences | 7 661 | 16 930 |
| Other differences between profit before income tax and taxable income, including donations | 28 066 | (4 721) |
| Tax loss settlement | 1 328 | 1 184 |
| Income tax in the consolidated income statement | (589 497) | (791 747) |
| Effective tax rate | 18,48% | 19,62% |
| Temporary difference due to the deferred tax presented in the income statement | 58 431 | 170 878 |
| **Total current income tax expense in the income statement** | **(647 928)** | **(962 625)** |
| Corporate income tax calculated using the enacted tax rate (19%) in force in Poland | (648 019) | (962 751) |
| Effect of other tax rates of foreign entities | 91 | 126 |

The Group entities are subject to corporate income tax. The amount of current tax liability of the Entities is transferred to the appropriate tax authorities. The final settlement of the corporate income tax liabilities of the Group entities for the year 2015 is made within the statutory deadline. According to regulations on considering tax liabilities as past due, tax authorities can verify the correctness of income tax settlements within 5 years from the end of the accounting year in which the tax declaration was submitted.

(IN PLN THOUSAND)

Deferred income tax asset/liability

| DEFFERED INCOME TAX LIABILITY | Consolidated statement of financial position | | Effect of take-over of SKOK 2015 | The effect of control take-over of subsidiaries | Consolidated income statement | |
|---|---|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | | | 2015 | 2014 |
| Interest accrued on receivables (loans) | 260 743 | 238 026 | 28 671 | - | 5 954 | 3 260 |
| Capitalised interest on performing housing loans | 129 021 | 142 227 | - | - | 13 206 | 13 058 |
| Interest on securities | 27 592 | 37 627 | - | - | 10 035 | (14 406) |
| Valuation of derivative financial instruments, of which: | 7 879 | 3 062 | - | - | - | - |
| recognised in the income statement | 21 404 | 1 841 | - | - | (19 563) | (444) |
| recognised in other comprehensive income | (13 525) | 1 221 | - | - | - | - |
| Valuation of securities | - | 7 891 | - | - | - | - |
| recognised in the income statement | - | - | - | - | - | 900 |
| recognised in other comprehensive income | - | 7 891 | - | - | - | - |
| Difference between carrying amount and tax value of tangible fixed assets and intangible assets | 342 761 | 348 433 | 852 | - | 6 524 | (10 200) |
| Temporary positive differences concerning Group entities, of which: | 31 812 | 29 047 | - | - | - | - |
| recognised in the income statement | 25 054 | 28 350 | - | - | 3 296 | 11 971 |
| recognised in other comprehensive income | 6 758 | 697 | - | - | - | - |
| Gross deferred income tax liability, of which: | 799 808 | 806 313 | 29 523 | - | 19 452 | 4 139 |
| recognised in the income statement | 731 564 | 751 016 | - | - | 19 452 | 4 139 |
| recognised in other comprehensive income | (6 767) | 9 809 | - | - | - | - |
| The effect of control take-over of subsidiaries (with no impact on income statement) | 75 011 | 45 488 | 29 523 | - | - | - |

| DEFFERED INCOME TAX ASSET | Consolidated statement of financial position | | Effect of take-over of SKOK 2015 | The effect of control take-over of subsidiaries | Consolidated income statement | |
|---|---|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | | | 2015 | 2014 |
| Interest accrued on liabilities | 161 382 | 214 153 | 1 834 | - | (54 605) | 49 755 |
| Interest on securities | - | - | - | - | - | (1 212) |
| Valuation of derivative financial instruments, of which: | - | 8 062 | - | - | - | - |
| recognised in income statement | - | 8 062 | - | - | (8 062) | 26 991 |
| recognised in other comprehensive income | - | - | - | - | - | - |
| Valuation of securities, of which: | (26 734) | 16 673 | - | - | - | - |
| recognised in income statement | 7 201 | 16 673 | - | - | (9 472) | 15 196 |
| recognised in other comprehensive income | (33 935) | - | - | - | - | - |
| Provision for employee benefits | 84 824 | 86 746 | - | - | - | - |
| recognised in income statement | 81 878 | 84 710 | - | - | (2 832) | 2 771 |
| recognised in other comprehensive income | 2 946 | 2 036 | - | - | - | - |
| Impairment allowances on credit exposures | 579 135 | 575 238 | 1 923 | - | 1 974 | 15 166 |
| Influence of measurement at amortised cost | 509 816 | 449 916 | 2 102 | - | 57 798 | 28 298 |
| Other temporary negative differences | 104 185 | 97 882 | 4 937 | - | 1 366 | 3 077 |
| Temporary negative differences concerning Group entities, of which: | 257 033 | 192 273 | - | (6 487) | - | - |
| recognised in income statement | 238 598 | 192 273 | - | (6 487) | 52 812 | 26 697 |
| recognised in other comprehensive income | 614 | - | - | - | - | - |
| change in presentation as result of the reclassification of the assets held for sale | 17 821 | - | 17 821 | - | - | - |
| Gross deferred income tax asset, of which: | 1 669 641 | 1 640 943 | 28 617 | (6 487) | 38 979 | 166 739 |
| recognised in income statement | 1 432 201 | 1 393 222 | - | - | 38 979 | 166 739 |
| recognised in other comprehensive income | (30 375) | 2 036 | - | - | - | - |
| The effect of acquisitions and obtaining control of subsidiaries (without the impact on the profit and loss account) | 249 994 | 245 685 | 10 796 | (6 487) | - | - |
| change in presentation as result of the reclassification of the assets held for sale | 17 821 | - | 17 821 | - | - | - |

| | Consolidated statement of financial position | | Effect of take-over of SKOK 2015 | The effect of control take-over of subsidiaries | Consolidated income statement | |
|---|---|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | | | 2015 | 2014 |
| Total deferred tax impact, of which: | 869 833 | 834 630 | (906) | (6 487) | - | - |
| recognised in income statement | 700 637 | 642 206 | - | - | 58 431 | 170 878 |
| recognised in other comprehensive income | (23 608) | (7 773) | - | - | - | - |
| recognised at the date of the merger with a subsidiary (no impact on the income statement) | 174 983 | 200 197 | (18 727) | (6 487) | - | - |
| change in presentation as result of the reclassification of the company | 17 821 | - | 17 821 | - | - | - |
| | | | | | | |
| Deferred income tax asset (presented in statement of financial position) | 901 645 | 863 677 | - | - | - | - |
| | | | | | | |
| Deferred income tax liability (presented in statement of financial position) | 31 812 | 29 047 | - | - | - | - |
| Deferred income tax liability | 31 812 | 29 047 | - | - | - | - |
| | | | | | | |
| Net deferred tax impact on the income statement | - | - | - | - | 58 431 | 170 878 |

KREDOBANK SA

The legal claim concerns the results of tax audit, which covered the period from 1 April 2011 to 30 September 2012. Legal claims mainly concern recognition of the costs related to the transaction of selling loans in the period covered by the inspection as tax deductible expenses, the adequacy of recognition of impairment allowances on loans, the correctness of the settlement of VAT on property sales and withholding tax for the payment of fees for services.

The value of disputed claims amounted to UAH 877 thousand (PLN 142 thousand) and the amount of reducing tax loss from previous years - UAH 626 282 thousand (PLN 101 583 thousand). In February 2013, KREDOBANK SA paid a part of the legal claims in the total amount of UAH 439 thousand (PLN 71 thousand). This value was included in subsequent appeal claims.

KREDOBANK SA appealed against the above-mentioned tax decision consecutive to the Regional State Tax Service and The Ministry of Revenue and Duties of Ukraine, and these appeals were rejected.

On 2 August 2013, KREDOBANK SA filed a claim against the results of the inspection and applying for annulling the above-mentioned tax decision. On 5 November 2013 the court of first instance issued a favourable verdict for KREDOBANK SA, which accepted a position of the Company, except the correctness of calculation of tax depreciation on tangible fixed assets in the total amount of UAH 336 thousand (PLN 54 thousand).

On 26 November 2013, the tax authority appealed to the court of second instance. On 2 April 2014 the court of appeal upheld the decision of the court of first instance favourable for KREDOBANK SA. On 15 April 2014 the tax authority filed a motion for cassation of this judgement to the Higher Administrative Court.

On 10 February 2015 Higher Administrative Court issued a favourable verdict for KREDOBANK SA, maintaining above-mentioned decisions of the court of the first and second instance. The judgement is legally valid. There is possible to appeal to the tax authority to Supreme Court of Ukraine.

All values were translated using the average NBP rate as at 31 December 2015 (0.1622 PLN/UAH).

PKO Leasing SA

As at 31 December 2015 entity PKO Bankowy Leasing Sp. z o.o. presented receivables in the amount of PLN 20 400 thousand resulting from the excessive VAT payment and penalty interest on tax arrears in connection with submitted in December 2014 corrections of VAT declaration for settlement periods from January 2011 to June 2013. On 7 January 2015 the Company settled the tax debt with penalty interest, and at the same time, applied on 26 January 2015 for recognition of excessive tax payment and tax refund.

On 6 February 2015 the Internal Revenue Service issued an unfavourable resolution for the Company on the settlement of excessive VAT payment and VAT refunds for settlement periods from January 2011 to June 2013, deciding that settlement of VAT refunds and excessive VAT payment on account of VAT arrears, according to art. 76a cl. 2 of the Tax Ordinance, is carried out on the date of submitting corrections of VAT declarations and filling a request for recognition of excessive tax payment.

On 19 February 2015 the Company filed a complaint to Head of the Tax Chamber and then, on 14 August 2015 filled a complaint to the Regional Administrative Court against the decision of the Internal Revenue Service of 6 February 2015 on the method of settlement of excessive tax payments and tax refunds on account of tax arrears, indicating on the contravention of the Tax Ordinance resulting in misinterpretation and incorrect application of the Ordinance's articles (art. 59 § 1 sub-cl. 4 and art. 76 § 1, art. 76a § 1 in accordance with art. 76b § 1 of the Tax Ordinance) and non-application of the principle of proportionality for charging interest on tax debts (non-application of art. 53 § 1-2 and § 5 sub-cl. 1 of the Tax Ordinance in accordance with art. 273 subpara. 1 of Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax and art. 2 of the Polish Constitution of 2 April 1997).

On 30 December 2015 the Regional Administrative Court issued a favourable verdict for the Company, repealing the appealed resolution of the Internal Revenue Service of 6 February 2015 and sustaining Company's objections to misinterpretation of the Ordinance's articles and non-application of the principle of proportionality by the tax authorities. The court verdict is not binding. On 19 February 2015 Head of the Tax Chamber in Łódź filled the cassation complaint to the Supreme Administrative Court. Date of the trial is not appointed yet.

On the basis of the opinion of tax consultants and the Regional Administrative Court's verdict of 30 December 2015, as at 31 December 2015 no evidence of impairment has been found for receivables from the excessive VAT payment and the receivables were not covered by impairment allowance.

## 16. Earnings per share

| | 2015 | 2014 |
|---|---|---|
| Profit per ordinary shareholders (in PLN thousand) | 2 609 564 | 3 254 122 |
| Weighted average number of ordinary shares during the period (in thousand) | 1 250 000 | 1 250 000 |
| Earnings per share (in PLN per share) | 2.09 | 2.60 |

In 2015 as well as in 2014 there were no dilutive instruments in the Bank. Therefore the amount of diluted earnings per share is equal to basic earnings per share.

## 17. Dividends paid divided by shares

On 31 March 2015 the Management Board of PKO Bank Polski SA adopted the new text of "Principles for managing the capital adequacy and the internal capital in PKO Bank Polski SA and in the PKO Bank Polski Capital Group", including among others the dividend policy.

The general assumption of the Bank's dividend policy is to maintain a stable level of dividend payments in the long term, in compliance with the principle of prudent management of the Bank's and the Bank's Capital Group and with consideration of the financial capacity of the Bank and the Bank's Capital Group as determined on the basis of the adopted criteria. The aim of the dividend policy is an optimization of the own funds of the Bank and the Bank's Capital Group, taking into account the return on capital and its cost, capital needs for development, while ensuring an appropriate level of capital adequacy ratios. The dividend policy assumes the possibility of the Bank's net profit distribution to shareholders in the long-term perspective in the amount of the surplus of capital above minimal capital adequacy ratios considering the additional capital buffer. The dividend policy takes into account factors related to the operations of the Bank and the Bank's Capital Group companies, in particular, the requirements and supervisory recommendations concerning capital adequacy. Capital adequacy ratios specifying the criteria for the dividend payment are as follows:

- total capital ratio above 12.5 per cent and
- common equity Tier 1 ratio above 12  per cent.

The above mentioned Principles were approved by the Bank's Supervisory Board on 6 May 2015.

On 31 March 2015 the Bank also received from the Polish Financial Supervision Authority (PFSA) the recommendation to withhold the entire net profit earned by PKO Bank Polski SA for the period from 1 January 2014 till 31 December 2014  - until the supervision authority determines the additional capital requirement for the Bank. The PFSA expects the statement of the Bank's Management Board and Supervisory Board position.

On 7 April 2015 the Management Board and on 8 April 2015 the Bank's Supervisory Board adopted the resolution on going by the Recommendation of the PFSA in the scope concerning the their competences. The Bank also informed that according to article 395 §2.2 of the commercial companies code the decision of the net profit distribution is determined by the Annual General Meeting.

On 25 June 2015, the Bank's Annual General Meeting decided to appropriate the Bank's profit for financial year 2014 and unappropriated profit of previous years, allocating it (in line with Bank's Management Board recommendation) for the reserve capital, other reserves and unappropriated part of the profit in an amount of PLN 1 250 000 thousand, without any amount for the dividend payment. The resolution of the Bank's Annual General Meeting on the distribution of the profit for 2014, is comprehensive with the Recommendation of the PFSA.

On 23 October, 2015, the Management Board received from the Financial Supervision Authority ( "PFSA") recommendation on the amount of the additional requirement of the own funds. The PFSA recommended the maintenance of the Bank's own funds to cover the additional capital requirement at the level of 0.76 p.p. in order to hedge risk arising from foreign currency mortgage loans, which should consist of at least 75% of Tier1 capital (equivalent to 0.57 pp.). This means that:

- Minimum capital ratios of the Bank including the additional capital requirement recommended by the PFSA are:
  (Tier1) T1=9+0.57= 9.57%
  (Total Capital Requirement) TCR =12+0.76=12.76%
- Capital ratios of the Bank including the additional capital requirement in the context of dividend policy recommended by the PFSA are:
  - criteria for the payment up to 50% of the profit for 2014 year::
    (Common Equity Tier 1) CET1=12+0.57=12.57%
    (Total Capital Requirement) TCR=12.5+0.76=13.26%
  - criteria for the payment up to 100% of the profit for 2014 year:
    (Common Equity Tier 1) CET1=12+0.57=12.57%
    (Total Capital Requirement) TCR=15.5+0.76=16.26%.

This recommendation should be respected by the Bank from the date of receiving to the day of cancellation - ie. until the PFSA considers - based on the analysis and supervisory evaluation - the risks associated with foreign currency mortgage loans, being cause of the imposition of the Bank additional capital requirement changed significantly. PFSA also recommended the retention by the Bank at least 50% of the profit generated in the period from 1 January 2014 to 31 December 2014.

Moreover, banks have been informed in a separate letter of recommendation to maintain – from the 1 January 2016 - capital ratios of at least T1=10.25%, TCR=13.25%.

(IN PLN THOUSAND)

# NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## 18. Cash and balances with the central bank

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Current account in the central bank | 9 854 137 | 7 772 859 |
| Cash | 3 889 658 | 3 965 456 |
| Other funds | 69 | 56 |
| **Total** | **13 743 864** | **11 738 371** |

**Obligatory reserve**

During the course of the working day, the Bank may use funds from the obligatory reserve accounts for ongoing payments, on the basis of an instruction submitted to the Central Bank of Poland (NBP). However, the Bank must ensure that the average monthly balance on this account complies with the requirements set in the obligatory reserve declaration.

Funds on the obligatory reserve account bear interest of 0.9 of the reference rate. As at 31 December 2015, this interest rate was 1.35% and as at 31 December 2014 amounted to 1.8%.

**Restricted cash:**

Cash in the amount of PLN 15 909 thousand including PLN 5 792 thousand constituting a currency SWAP collateral in KREDOBANK and PLN 10 117 thousand (PLN 11 440 thousand as at 31 December 2014) pledged as collateral for securities' transactions conducted by the Brokerage House of PKO Bank Polski SA are deposited in the Central Securities Depository of Poland (KDPW_CCP), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant who holds the status of settlement-making participant is obliged to make payments to the settlement fund which guarantees a proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of transactions made by each participant and is updated by KDPW_CCP on a daily basis.

In the statement of cash flows, these cash are presented as restricted cash.

**Cash and cash equivalents**

The amount on the current account in the Central Bank, cash and other are entirely treated as cash and cash equivalents for the purposes of the statement of cash flows.

## 19. Amounts due from banks

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Deposits with banks | 2 484 467 | 1 630 832 |
| Current accounts | 951 480 | 835 582 |
| Receivables due from repurchase agreements | 134 180 | 16 146 |
| Loans and advances granted | 980 630 | - |
| Cash in transit | 2 620 | 4 237 |
| **Total** | **4 553 377** | **2 486 797** |
| Impairment allowances on receivables | (405) | (111) |
| Impairment allowances on receivable from a foreign bank | (146) | - |
| **Net Total** | **4 552 972** | **2 486 686** |

Details on risk related to amounts due from banks were presented in the note 56 'Credit risk management'.

**Liabilities from negative valuation of derivative instruments**

Cash deposits with banks include assets held as collateral for own liabilities, in this case settlements due to negative valuation of derivative instruments. The amount of these assets as at 31 December 2015 amounted to PLN 1 313 091 thousand (as at 31 December 2014 PLN 1 051 625 thousand).

**Cash and cash equivalents**

Current amounts due from banks as well as other cash equivalents with maturities up to 3 months from the date of acquisition, amounting to PLN 3 520 838 thousand are entirely treated as cash and cash equivalents for the purposes of the statement of cash flows (as at 31 December 2014 amounted to PLN 2 516 484 thousand).

(IN PLN THOUSAND)

## 20. Trading assets

| By carrying amount | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Debt securities | 766 641 | 1 915 120 |
| issued by the State Treasury, of which: | 648 695 | 1 825 454 |
| Treasury bonds PLN | 640 009 | 1 825 454 |
| Treasury bonds EUR | 8 686 | - |
| issued by local government bodies, municipal bonds PLN | 48 596 | 50 563 |
| issued by non-financial institutions, of which: | 46 122 | 22 146 |
| corporate bonds PLN | 46 052 | 22 137 |
| corporate bonds EUR | 70 | 9 |
| issued by other financial institutions, of which: | 5 344 | 2 326 |
| bonds issued by WSE PLN | 5 238 | 2 248 |
| corporate bonds PLN | 106 | 78 |
| issued by banks | 17 884 | 14 631 |
| Shares in other entities – listed on stock exchanges | 9 910 | 5 137 |
| Investment certificates | 6 648 | 3 891 |
| Allotment certificates | - | 278 |
| Total | 783 199 | 1 924 426 |

| Debt securities by nominal value | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Treasury bonds PLN | 630 764 | 1 741 972 |
| Municipal bonds PLN | 46 156 | 48 067 |
| Corporate bonds PLN | 69 992 | 38 323 |
| Corporate bonds EUR | 75 | 9 |
| Treasury bonds EUR | 8 630 | - |

| The average yield on debt securities issued by the State Treasury | 31.12.2015 | 31.12.2014 |
|---|---|---|
| | 2,1472% | 1,9975% |

| Change in trading assets | 2015 | 2014 |
|---|---|---|
| Balance at the beginning of the period | 1 924 426 | 479 881 |
| Currency translation differences | 14 919 | 58 |
| Increases | 153 956 971 | 204 794 395 |
| Decreases | (155 112 529) | (203 348 345) |
| Changes in fair value | (588) | (1 563) |
| Balance at the end of the period | 783 199 | 1 924 426 |

As at 31 December 2015 and as at 31 December 2014 the Group did not have transferred financial assets, which are derecognised from the financial statements for which the Group would continue involvement in those assets.

Transferred financial assets which the Group does not derecognise from the financial statements include the assets pledged as collateral for liabilities due to sell-buy-back transactions (treasury bonds).

| Carrying amount | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Trading assets | 831 303 | 926 977 |
| Liabilities due to sell-buy-back transactions | 829 114 | 927 553 |

(IN PLN THOUSAND)

**Initial Settlement Deposit of the** Central Securities Depository of Poland **(KDPW)**

The Brokerage House of PKO Bank Polski SA holds bonds in the Central Securities Depository of Poland pledged as collateral for settlement of transactions with the Clearing House.

| Carrying amount/fair value | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Value of the deposit | 7 998 | 7 998 |
| Nominal value of the pledge | 8 000 | 8 000 |
| Type of the pledge | treasury bonds | treasury bonds |
| Carrying amount of the pledge | 8 038 | 8 112 |

| Debt securities by maturity as at 31 December 2015 (by carrying amount) | up to 1 month | 1 - 3 months | 3 months – 1 year | 1 - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| Debt securities | | | | | | |
| issued by the State Treasury | 188 761 | - | 267 575 | 98 281 | 94 078 | 648 695 |
| issued by local government bodies | - | - | 3 587 | 2 940 | 42 069 | 48 596 |
| issued by other financial institutions | - | - | 5 768 | 31 322 | 9 032 | 46 122 |
| issued by non-financial institutions | - | - | 47 | 4 287 | 1 010 | 5 344 |
| issued by banks | - | - | 40 | 14 498 | 3 346 | 17 884 |
| Total | 188 761 | - | 277 017 | 151 328 | 149 535 | 766 641 |

| Debt securities by maturity as at 31 December 2014 (by carrying amount) | up to 1 month | 1 - 3 months | 3 months – 1 year | 1 - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| Debt securities | | | | | | |
| issued by the State Treasury | 54 632 | 7 281 | 488 236 | 709 697 | 565 608 | 1 825 454 |
| issued by local government bodies | - | 255 | 596 | 7 535 | 42 177 | 50 563 |
| issued by other financial institutions | - | - | 183 | 20 226 | 1 737 | 22 146 |
| issued by non-financial institutions | 34 | - | - | 2 292 | - | 2 326 |
| issued by banks | 102 | - | - | 11 949 | 2 580 | 14 631 |
| Total | 54 768 | 7 536 | 489 015 | 751 699 | 612 102 | 1 915 120 |

## 21. Derivative financial instruments

The Bank and the other Group entities use various types of derivatives in order to manage risk involved in its business activities. The most frequently used types of derivatives in the Group's activity are: IRS, CIRS, FX Swap, FRA, Options, Forwards. The remaining Group's subsidiaries may enter into transactions in derivatives exclusively for the purpose of hedging against the risk resulting from their core activities.

| Type of hedging instruments | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Hedging instruments | 508 665 | 998 527 | 599 841 | 494 961 |
| Other derivative instruments | 3 838 604 | 3 626 240 | 4 894 981 | 5 050 180 |
| Total | 4 347 269 | 4 624 767 | 5 494 822 | 5 545 141 |

(IN PLN THOUSAND)

| Type of contract | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| IRS | 3 206 281 | 3 053 133 | 4 591 519 | 4 439 830 |
| CIRS | 472 355 | 1 210 159 | 340 972 | 616 841 |
| FX Swap | 309 954 | 85 953 | 227 857 | 237 542 |
| Options | 237 919 | 177 513 | 185 366 | 133 912 |
| FRA | 16 226 | 22 192 | 59 078 | 63 505 |
| Forward | 104 534 | 72 588 | 89 113 | 52 838 |
| Other | - | 3 229 | 917 | 673 |
| Total | 4 347 269 | 4 624 767 | 5 494 822 | 5 545 141 |

| Nominal amounts of underlying instruments as at 31.12.2015 | | | | | | |
|---|---|---|---|---|---|---|
| | up to 1 month | 1- 3 months | 3 months - 1 year | 1 - 5 years | over 5 years | Total |
| Currency transactions | | | | | | |
| FX Swap | 31 379 492 | 10 782 600 | 7 271 374 | 2 218 167 | - | 51 651 633 |
| Purchase of currency | 15 725 974 | 5 432 226 | 3 668 250 | 1 137 414 | - | 25 963 864 |
| Sale of currency | 15 653 518 | 5 350 374 | 3 603 124 | 1 080 753 | - | 25 687 769 |
| FX forward | 4 674 755 | 2 128 625 | 5 855 274 | 3 353 261 | - | 16 011 915 |
| Purchase of currency | 2 337 607 | 1 075 483 | 2 926 778 | 1 657 658 | - | 7 997 526 |
| Sale of currency | 2 337 148 | 1 053 142 | 2 928 496 | 1 695 603 | - | 8 014 389 |
| Options | 2 026 608 | 3 215 545 | 10 167 256 | 8 121 441 | 153 990 | 23 684 840 |
| Purchase | 1 087 980 | 1 787 204 | 5 413 169 | 4 123 394 | 76 995 | 12 488 742 |
| Sale | 938 628 | 1 428 341 | 4 754 087 | 3 998 047 | 76 995 | 11 196 098 |
| Cross Currency (CIRS) | 1 719 726 | 168 970 | 1 899 495 | 25 454 347 | 12 779 312 | 42 021 850 |
| Purchase | 797 283 | 84 485 | 914 645 | 12 436 092 | 6 436 317 | 20 668 822 |
| Sale | 922 443 | 84 485 | 984 850 | 13 018 255 | 6 342 995 | 21 353 028 |
| Interest rate transactions | | | | | | |
| Interest Rate Swap (IRS) | 17 405 750 | 44 348 814 | 82 712 826 | 225 911 426 | 41 427 214 | 411 806 030 |
| Purchase | 8 702 875 | 22 174 555 | 41 356 846 | 112 955 713 | 20 713 607 | 205 903 596 |
| Sale | 8 702 875 | 22 174 259 | 41 355 980 | 112 955 713 | 20 713 607 | 205 902 434 |
| Forward Rate Agreement (FRA) | 16 313 000 | 17 500 000 | 18 215 000 | 750 000 | - | 52 778 000 |
| Purchase | 8 824 000 | 8 625 000 | 7 155 000 | 750 000 | - | 25 354 000 |
| Sale | 7 489 000 | 8 875 000 | 11 060 000 | - | - | 27 424 000 |
| Other transactions | | | | | | |
| Other (including stockmarket index derivatives) | 2 309 481 | 8 373 | 17 393 | 1 000 | - | 2 336 247 |
| Purchase | 834 315 | 43 | 16 098 | - | - | 850 456 |
| Sale | 1 475 166 | 8 330 | 1 295 | 1 000 | - | 1 485 791 |
| Total derivative instruments | 75 828 812 | 78 152 927 | 126 138 618 | 265 809 642 | 54 360 516 | 600 290 515 |

(IN PLN THOUSAND)

| Nominal amounts of underlying instruments as at 31.12.2014 | | | | | | |
|---|---|---|---|---|---|---|
| | up to 1 month | 1- 3 months | 3 months - 1 year | 1 - 5 years | over 5 years | Total |
| Currency transactions | | | | | | |
| FX Swap | 33 083 683 | 5 081 541 | 6 685 243 | 1 956 | - | 44 852 423 |
| Purchase of currency | 16 567 911 | 2 549 927 | 3 300 566 | 972 | - | 22 419 376 |
| Sale of currency | 16 515 772 | 2 531 614 | 3 384 677 | 984 | - | 22 433 047 |
| FX forward | 1 923 619 | 3 856 935 | 5 868 067 | 2 492 142 | - | 14 140 763 |
| Purchase of currency | 961 724 | 1 931 692 | 2 929 934 | 1 248 425 | - | 7 071 775 |
| Sale of currency | 961 895 | 1 925 243 | 2 938 133 | 1 243 717 | - | 7 068 988 |
| Options | 1 674 263 | 1 685 847 | 5 169 592 | 9 643 722 | - | 18 173 424 |
| Purchase | 839 372 | 838 616 | 2 579 685 | 4 784 088 | - | 9 041 761 |
| Sale | 834 891 | 847 231 | 2 589 907 | 4 859 634 | - | 9 131 663 |
| Cross Currency (CIRS) | 2 667 659 | - | 9 081 656 | 19 181 620 | 19 870 929 | 50 801 864 |
| Purchase | 1 330 822 | - | 4 434 648 | 9 513 434 | 10 032 464 | 25 311 368 |
| Sale | 1 336 837 | - | 4 647 008 | 9 668 186 | 9 838 465 | 25 490 496 |
| Interest rate transactions | | | | | | |
| Interest Rate Swap (IRS) | 15 563 390 | 27 969 212 | 99 850 642 | 241 827 138 | 39 423 204 | 424 633 586 |
| Purchase | 7 781 695 | 13 984 922 | 49 925 893 | 120 913 987 | 19 711 602 | 212 318 099 |
| Sale | 7 781 695 | 13 984 290 | 49 924 749 | 120 913 151 | 19 711 602 | 212 315 487 |
| Forward Rate Agreement (FRA) | 21 823 000 | 22 975 000 | 47 575 000 | 10 850 000 | - | 103 223 000 |
| Purchase | 11 544 000 | 9 605 000 | 22 200 000 | 5 725 000 | - | 49 074 000 |
| Sale | 10 279 000 | 13 370 000 | 25 375 000 | 5 125 000 | - | 54 149 000 |
| Other transactions | | | | | | |
| Other (including stockmarket index derivatives) | 3 274 082 | 130 246 | 1 672 853 | 1 035 139 | - | 6 112 320 |
| Purchase | 1 296 588 | 67 802 | 662 743 | 552 384 | - | 2 579 517 |
| Sale | 1 977 494 | 62 444 | 1 010 110 | 482 755 | - | 3 532 803 |
| Total derivative instruments | 80 009 696 | 61 698 781 | 175 903 053 | 285 031 717 | 59 294 133 | 661 937 380 |

## 22. Derivative hedging instruments

The Capital Group applies the following hedging strategies:

### 22.1. Hedges against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and in foreign exchange rates, using CIRS transactions

**Description of hedge relationship** - elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in foreign exchange rates CHF/PLN during the hedged period.

**Hedged risk** - currency risk and interest rate risk.

**Hedging instrument** - CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively.

**Hedged position** - the portfolio of floating interest rate mortgage loans denominated in CHF and the portfolio of short-term negotiated term deposits, including renewals in the future (high probability of occurrence). The Group designated the hedged position according to the regulations of IAS. 39.AG.99C as adopted by the European Union.

**Periods in which cash flows are expected and in which they should have an impact on the financial result – January 2016 - October 2026**.

### 22.2. Hedges against fluctuations in cash flows from floating interest rate loans in PLN, resulting from the risk of fluctuations in interest rates, using IRS transactions

**Description of hedge relationship** - elimination of the risk of cash flow fluctuations generated by floating interest rate PLN loan portfolio resulting from the interest rate risk in the period covered by the hedge.

**Hedged risk** - interest rate risk.

**Hedging instrument** - IRS transactions where the Bank pays coupons based on floating 3M WIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded.

**Hedged position** - the portfolio of loans in PLN indexed to the floating 3M WIBOR rate.

**Periods in which cash flows are expected and in which they should have an impact on the financial result – January 2016 - June 2020.**

### 22.3. Hedges against fluctuations in cash flows from floating interest rate loans in EUR, resulting from the risk of fluctuations in interest rates, using IRS transactions

**Description of hedge relationship:**

Elimination of the risk of cash flow fluctuations generated by floating interest rate EUR loan portfolio resulting from the interest rate risk in the period covered by the hedge.

**Hedged risk** - interest rate risk.

**Hedging instrument** - IRS transactions, where the Bank pays coupons based on floating 3M EURIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded.

**Hedged position** - the portfolio of loans in EUR indexed to the floating EURIBOR rate.

**Periods in which cash flows are expected and in which they should have an impact on the financial result – January 2016 - July 2016.**

### 22.4. Hedges against fluctuations in cash flows from floating interest rate loans in CHF, resulting from the risk of fluctuations in interest rates, using IRS transactions

**Description of hedge relationship** - elimination of the risk of cash flow fluctuations generated by floating interest rate CHF loan portfolio resulting from the interest rate risk in the period covered by the hedge.

**Hedged risk** - interest rate risk.

**Hedging instrument** - IRS transactions where the Bank pays coupons based on floating 3M CHF LIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded.

**Hedged position** - the portfolio of loans in CHF indexed to the floating LIBOR CHF 3M rate.

**Periods in which cash flows are expected and in which they should have an impact on the financial result – January 2016 - July 2016.**

(IN PLN THOUSAND)

### 22.5. Hedges against fluctuations in cash flows from floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk and hedges against fluctuations in cash flows from fixed interest rate financial liability in foreign currencies, resulting from foreign exchange rate risk, using CIRS transactions

**Description of hedge relationship** - elimination of the risk of cash flow fluctuations of floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk and elimination of the risk of cash flow fluctuations of fixed interest rate financial liability in foreign currency, resulting from foreign exchange rate risk, using CIRS transactions.

**Hedged risk** - currency risk and interest rate risk.

**Hedging instrument** - CIRS transactions, where the Bank pays coupons based on floating 3M CHF LIBOR rate, and receives coupons based on a fixed USD rate on the nominal value, for which they were concluded.

**Hedged position** - the portfolio of floating interest rate mortgage loans denominated in CHF and fixed interest rate financial liability denominated in USD.

**Periods in which cash flows are expected and in which they should have an impact on the financial result – January 2016 - September 2022.**

### 22.6. Hedges against fluctuations in cash flows from mortgage loans in other foreign currencies than CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and in foreign exchange rates, using CIRS transactions

**Description of hedge relationship** - elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in EUR and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates in EUR and PLN, and changes in foreign exchange rates EUR/PLN during the hedged period.

**Hedged risk** - currency risk and interest rate risk.

**Hedging instrument** - CIRS transactions where the Bank pays coupons based on EURIBOR 3M, and receives coupons based on 3M WIBOR on the nominal value defined in EUR and PLN respectively.

**Hedged position** - the portfolio of floating interest rate mortgage loans denominated in EUR and the portfolio of short-term negotiated term deposits, including renewals in the future (high probability of occurrence). The Bank designated the hedged position according to the regulations of IAS. 39.AG.99C as adopted by the European Union.

**Periods in which cash flows are expected and in which they should have an impact on the financial result – January 2016 - December 2019.**

As at 31 December 2015 and as at 31 December 2014, the Group did not use the fair value hedge.

In 2015 the Group adopted new hedging strategy ‘Hedges against fluctuations in cash flows from mortgage loans in other foreign currencies than CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and in foreign exchange rates, using CIRS transactions’.

All types of hedging relationships applied by the Group are cash flow hedge accounting (macro cash flow hedge).

Hedge effectiveness is verified through the use of prospective and retrospective effectiveness tests. Tests are performed monthly.

| Type of instrument: | Carrying amount/fair value of derivative instruments constituting cash flow hedges related to the interest rate and/or exchange rate | | | |
|---|---|---|---|---|
| | 31.12.2015 | | 31.12.2014 | |
| | Assets | Liabilities | Assets | Liabilities |
| IRS | 269 122 | - | 421 101 | - |
| CIRS | 239 543 | 998 527 | 178 740 | 494 961 |
| Total | 508 665 | 998 527 | 599 841 | 494 961 |

(IN PLN THOUSAND)

| Type of instrument: | Nominal value as at 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | up to 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | Over 5 years | Total |
| IRS PLN fixed - float | 1 680 000 | 2 910 000 | 984 000 | 4 670 000 | - | 10 244 000 |
| IRS EUR fixed – float: | | | | | | |
| translated into PLN | 149 153 | 1 568 232 | 247 167 | - | - | 1 964 552 |
| EUR (original currency) | 35 000 | 368 000 | 58 000 | - | - | 461 000 |
| IRS CHF fixed – float: | | | | | | |
| translated into PLN | - | - | 984 850 | - | - | 984 850 |
| CHF (original currency) | - | - | 250 000 | - | - | 250 000 |
| CIRS float CHF/float PLN | | | | | | |
| float CHF | 150 000 | - | 250 000 | 1 520 000 | 300 000 | 2 220 000 |
| float PLN | 465 750 | - | 914 645 | 5 421 616 | 1 039 037 | 7 841 048 |
| CIRS fixed CHF/float CHF | | | | | | |
| fixed USD | - | - | - | - | 814 481 | 814 481 |
| float CHF | - | - | - | - | 875 000 | 875 000 |
| CIRS float EUR/float PLN | | | | | | |
| float EUR | - | - | - | 200 000 | - | 200 000 |
| float PLN | - | - | - | 851 650 | - | 851 650 |

| Type of instrument: | Nominal value as at 31 December 2014 | | | | | |
|---|---|---|---|---|---|---|
| | up to 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | Over 5 years | Total |
| IRS PLN fixed - float | - | 2 540 000 | 3 264 000 | 6 114 000 | - | 11 918 000 |
| IRS EUR fixed – float: | | | | | | |
| translated into PLN | - | - | 1 538 690 | 473 115 | - | 2 011 806 |
| EUR (original currency) | - | - | 361 000 | 111 000 | - | 472 000 |
| IRS CHF fixed – float: | | | | | | |
| translated into PLN | - | - | - | 886 175 | - | 886 175 |
| CHF (original currency) | - | - | - | 250 000 | - | 250 000 |
| CIRS float CHF/float PLN | | | | | | |
| float PLN | 525 690 | - | 3 598 193 | 4 079 294 | 2 664 515 | 10 867 691 |
| float CHF | 150 000 | - | 1 075 000 | 1 195 000 | 775 000 | 3 195 000 |
| CIRS fixed CHF/float CHF | | | | | | |
| fixed USD | - | - | - | - | 875 000 | 875 000 |
| float CHF | - | - | - | - | 814 481 | 814 481 |

The nominal values were translated using the average NBP rate as at 31 December 2015 and as at 31 December 2014 respectively.

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Other comprehensive income at the beginning of the period, gross | 6 425 | (155 053) |
| Gains/losses transferred to other comprehensive income in the period | (689 075) | 330 221 |
| Amount transferred from other comprehensive income to the income statement | 611 468 | (168 743) |
| - interest income | (450 929) | (343 316) |
| - net foreign exchange gains (losses) | 1 062 397 | 174 573 |
| Accumulated other comprehensive income at the end of the period, gross | (71 182) | 6 425 |
| Tax effect | 13 525 | (1 221) |
| Accumulated other comprehensive income at the end of the period, net | (57 657) | 5 204 |
| Effect on other comprehensive income in the period, gross | (77 607) | 161 478 |
| Deferred tax on cash flow hedges | 14 746 | (30 681) |
| Effect on other comprehensive income in the period, net | (62 861) | 130 797 |
| The ineffective portion of cash flow hedges recognized in the profit and loss account | (2 685) | (6 078) |

(IN PLN THOUSAND)

## 23. Financial instruments designated upon initial recognition at fair value through profit and loss

| By carrying amount | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Debt securities | 13 337 373 | 13 804 860 |
| issued by central banks, NBP money market bills | 10 036 898 | 10 998 812 |
| issued by the State Treasury, of which: | 3 052 701 | 2 478 708 |
| Treasury bonds PLN | 1 934 817 | 2 452 213 |
| Treasury bonds EUR | 91 634 | - |
| Treasury bonds CHF | 993 615 | - |
| Treasury bonds UAH | 32 635 | 26 495 |
| issued by local government bodies, of which: | 247 263 | 253 817 |
| municipal bonds EUR | 131 341 | 139 882 |
| municipal bonds PLN | 115 922 | 113 935 |
| issued by non-financial institutions, corporate bonds PLN | 511 | 511 |
| issued by banks, structured bonds PLN | - | 73 012 |
| Participation units in ICF (insurance capital funds) related to insurance products belonging to the group of products where the investment risk is borne by the policyholder | 1 816 727 | 1 918 288 |
| Total | 15 154 100 | 15 723 148 |

| Debt securities by nominal value | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Treasury notes NBP PLN | 10 040 000 | 11 000 000 |
| Treasury bonds PLN | 1 916 493 | 2 371 934 |
| Treasury bonds EUR | 98 015 | - |
| Treasury bonds CHF | 984 850 | - |
| Treasury bonds UAH | 11 192 | 15 497 |
| municipal bonds EUR | 106 538 | 106 558 |
| municipal bonds PLN | 100 000 | 100 000 |
| Corporate bonds PLN | 500 | 500 |
| Structured bonds PLN | - | 74 141 |

| The average yield on debt securities issued by the State Treasury | 31.12.2015 | 31.12.2014 |
|---|---|---|
| | 0.9975% | 1.9612% |

| Change in financial instruments designated upon initial recognition at fair value through profit and loss | 2015 | 2014 |
|---|---|---|
| Balance at the beginning of the period | 15 723 148 | 15 204 756 |
| Take of control over subsidiary | - | 5 599 561 |
| Currency translation differences | (56 020) | (5 792) |
| Increases | 586 857 662 | 637 674 906 |
| Decreases | (587 480 734) | (642 818 356) |
| Change in fair value | 110 044 | 68 073 |
| Balance at the end of the period | 15 154 100 | 15 723 148 |

As at 31 December 2015 and as at 31 December 2014 in the Group's portfolio there were no financial assets upon initial recognition at fair value through profit and loss as collateral for liabilities from sell-buy-back (Treasury bonds) and related liabilities.

As at 31 December 2015 and as at 31 December 2014 the Group did not have any transferred financial assets, which are derecognised from the statement of financial position in their entirety, but the Bank continues involvement in those assets.

(IN PLN THOUSAND)

| As at 31 December 2015 | up to 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| Debt securities | | | | | | |
| issued by central banks | 10 036 898 | - | - | - | - | 10 036 898 |
| issued by the State Treasury | 36 072 | 5 992 | 371 951 | 2 262 929 | 375 757 | 3 052 701 |
| issued by local government bodies | - | - | - | 247 263 | - | 247 263 |
| issued by non-financial institutions | - | 511 | - | - | - | 511 |
| Total | 10 072 970 | 6 503 | 371 951 | 2 510 192 | 375 757 | 13 337 373 |

| As at 31 December 2014 | up to 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| Debt securities | | | | | | |
| issued by central banks | 10 998 812 | - | - | - | - | 10 998 812 |
| issued by the State Treasury | 411 437 | - | 150 515 | 1 441 084 | 475 672 | 2 478 708 |
| issued by local government bodies | - | - | - | 253 817 | - | 253 817 |
| issued by banks | 10 124 | 14 068 | 48 820 | - | - | 73 012 |
| issued by non-financial institutions | - | - | - | 511 | - | 511 |
| Total | 11 420 373 | 14 068 | 199 335 | 1 695 412 | 475 672 | 13 804 860 |

## 24. Loans and advances to customers

| Loans and advances to customers by sector and type of product | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Loans and advances to customers, gross, of which: | 198 700 917 | 187 519 861 |
| financial sector | 4 834 177 | 1 630 191 |
| corporate, of which: | 391 286 | 1 319 339 |
| finance lease receivables | 101 | - |
| deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee Fund and initial deposit | 10 217 | 11 440 |
| receivables due from repurchase agreements | 4 432 239 | 310 852 |
| International financial organisations | 10 652 | - |
| non-financial sector | 183 864 042 | 175 789 529 |
| housing | 103 005 812 | 98 105 676 |
| corporate of which: | 54 668 212 | 53 930 247 |
| finance lease receivables | 5 664 209 | 5 154 057 |
| consumer | 23 529 145 | 21 644 625 |
| debt securities (corporate) | 2 660 873 | 2 108 981 |
| public sector | 10 002 698 | 10 100 141 |
| corporate of which: | 7 307 327 | 7 277 642 |
| finance lease receivables | 71 584 | 75 267 |
| debt securities (municipal) | 2 695 371 | 2 822 499 |
| Impairment allowances on loans and advances of which | (8 287 209) | (8 022 477) |
| impairment allowances on receivable from leasing | (202 068) | (184 807) |
| Loans and advances to customers, net | 190 413 708 | 179 497 384 |

(IN PLN THOUSAND)

| Loans and advances to customers by method of calculating impairment allowances | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Assessed on an individual basis, of which: | 7 549 635 | 7 377 955 |
| impaired of which: | 5 412 768 | 5 615 878 |
| finance lease receivables | 407 063 | 344 975 |
| not impaired of which: | 2 136 867 | 1 762 077 |
| finance lease receivables | 332 905 | 300 021 |
| Assessed on a portfolio basis, impaired | 7 688 142 | 7 361 432 |
| impaired of which: | 7 688 142 | 7 361 432 |
| finance lease receivables | 96 732 | 106 401 |
| Assessed on a group basis (IBNR) | 183 463 140 | 172 780 474 |
| finance lease receivables | 4 899 194 | 4 477 927 |
| Loans and advances to customers, gross | 198 700 917 | 187 519 861 |
| Impairment allowances on exposures assessed on an individual basis, of which: | (2 895 857) | (2 963 733) |
| finance lease receivables | (111 165) | (95 057) |
| impaired of which: | (2 882 352) | (2 948 025) |
| finance lease receivables | (109 504) | (95 057) |
| Impairment allowances on exposures assessed on a portfolio basis of which: | (4 822 183) | (4 426 869) |
| finance lease receivables | (77 804) | (75 273) |
| Impairment allowances on exposures assessed on a group basis (IBNR) of which: | (569 169) | (631 875) |
| finance lease receivables | (13 099) | (14 477) |
| Impairment allowances - total | (8 287 209) | (8 022 477) |
| Loans and advances to customers, net | 190 413 708 | 179 497 384 |

A detailed description of changes in allowances has been presented in the note 13 'Net impairment allowance, write-downs and provisions'.

As at 31 December 2015, the share of impaired loans amounted to 6.6% (as at 31 December 2014: 6.9%), whereas the coverage ratio for impaired loans as at 31 December 2015 (calculated as total impairment allowances on loans and advances to customers divided by gross carrying amount of impaired loans) amounted to 63.3% (as at 31 December 2014: 61.8%).

As at 31 December 2015, the share of loans overdue by more than 90 days in the gross amount of loans and advances was 4.9% (as at 31 December 2014: 5.2%).

| Loans and advances to customers by customer segment | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Loans and advances granted, gross, of which: | 198 700 917 | 187 519 861 |
| mortgage banking | 96 060 668 | 90 768 711 |
| corporate | 51 160 753 | 50 661 094 |
| retail and private banking | 23 529 145 | 21 644 625 |
| small and medium enterprises | 23 497 243 | 24 123 139 |
| International financial organisations | 10 652 | - |
| receivables due from repurchase agreements | 4 432 239 | 310 852 |
| other receivables | 10 217 | 11 440 |
| Impairment allowances on loans and advances | (8 287 209) | (8 022 477) |
| Loans and advances granted, net | 190 413 708 | 179 497 384 |

The structure of loans and advances presented in the note includes the following segmentation:

- corporate loans of financial institutions (ie. leasing companies, insurance companies, investment companies) include corporate banking,
- housing loans include loans of mortgage banking and housing market clients, corporate client segment and small and medium enterprises as regards to products intended for housing purposes,
- corporate loans of non-financial entities, depending on the size of the entity, include loans for small and medium enterprises, housing market loans and corporate loans granted to corporate entities for non-housing purposes,
- consumer loans include retail and private banking,
- corporate loans of public entities include corporate banking loans,
- reclassified debt securities are included in the corporate client segment.

(IN PLN THOUSAND)

| Debt securities in the loans and advances to customers portfolio | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Debt securities reclassified to the loans and advances to customers portfolio, gross | 1 339 721 | 1 494 983 |
| Debt securities directly classified to the loans and advances to customers portfolio, gross | 4 016 523 | 3 436 497 |
| Impairment allowances | (71 679) | (94 704) |
| Total debt securities, net | 5 284 565 | 4 836 776 |

## Securities reclassification

In 2012 due to the change of intention as regards holding of the selected portfolio of non-Treasury securities classified upon initial recognition as available for sale, the Group reclassified them to loans and advances to customers category. As a result of the reclassification of the portfolio, the valuation methods for the portfolio have changed, i.e. from measured at fair value to measured at amortised cost.

Debt securities reclassified from financial assets available for sale to loans and advances to customers, as at the date of reclassification:

| Portfolio reclassified in the 3rd quarter of 2012 | nominal value | fair value | carrying amount |
|---|---|---|---|
| Municipal bonds | 778 233 | 807 275 | 807 275 |
| Corporate bonds | 632 160 | 632 013 | 632 013 |
| Total | 1 410 393 | 1 439 288 | 1 439 288 |

| Portfolio reclassified in the 4th quarter of 2012 | nominal value | fair value | carrying amount |
|---|---|---|---|
| Municipal bonds | 440 950 | 430 124 | 430 124 |
| Corporate bonds | 656 630 | 661 546 | 661 546 |
| Total | 1 097 580 | 1 091 670 | 1 091 670 |

Debt securities reclassified from financial assets available for sale to loans and advances to customers as at:

| As at 31 December 2015 | nominal value | fair value | carrying amount |
|---|---|---|---|
| Municipal bonds | 745 362 | 741 656 | 747 693 |
| Corporate bonds | 582 000 | 591 416 | 537 703 |
| Total | 1 327 362 | 1 333 072 | 1 285 396 |

| As at 31 December 2014 | nominal value | fair value | carrying amount |
|---|---|---|---|
| Municipal bonds | 850 183 | 847 435 | 853 129 |
| Corporate bonds | 631 640 | 640 689 | 568 483 |
| Total | 1 481 823 | 1 488 124 | 1 421 612 |

Change in fair value which would have been recognised in the income statement and/or in other comprehensive income if there was no reclassification, would amount to PLN (4 700) thousand for the period from the date of reclassification until 31 December 2015 (31 December 2014 PLN (5 720) thousand). As at 31 December 2015, the average effective interest rate for the debt securities portfolio was 3.2558% (as at 31 December 2014 was 3.632%).

(IN PLN THOUSAND)

**Finance lease agreements**

The Group conducts lease activities through the entities from the PKO Leasing SA Group.

| Gross lease investment value and minimal lease payments as at 31 December 2015 | Gross lease investment | Present value of the minimal lease payments | Unrealised income |
|---|---|---|---|
| Gross lease receivables | | | |
| up to 1 year | 2 317 051 | 2 100 243 | 216 808 |
| from 1 year to 5 years | 3 483 688 | 3 204 114 | 279 574 |
| over 5 years | 477 436 | 431 537 | 45 899 |
| Gross total | 6 278 175 | 5 735 894 | 542 281 |
| Impairment allowances | (202 068) | (202 068) | - |
| **Net total** | **6 076 107** | **5 533 826** | **542 281** |

| Gross lease investment value and minimal lease payments as at 31 December 2014 | Gross lease investment | Present value of the minimal lease payments | Unrealised income |
|---|---|---|---|
| Gross lease receivables | | | |
| up to 1 year | 2 117 836 | 1 899 603 | 218 233 |
| from 1 year to 5 years | 3 153 066 | 2 862 421 | 290 645 |
| over 5 years | 527 165 | 467 300 | 59 865 |
| Gross total | 5 798 067 | 5 229 324 | 568 743 |
| Impairment allowances | (184 808) | (184 808) | - |
| **Net total** | **5 613 259** | **5 044 516** | **568 743** |

As at 31 December 2015 and 31 December 2014, there are no unguaranteed residual values attributable to the lessor.

(IN PLN THOUSAND)

## 25. Investment securities available for sale

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Debt securities available for sale, gross | 27 661 838 | 21 961 102 |
| issued by the State Treasury | 18 358 006 | 12 781 051 |
| Treasury bonds PLN | 17 920 035 | 12 601 236 |
| Treasury bonds eur | 310 620 | - |
| Treasury bonds USD | 77 375 | 149 582 |
| Treasury bonds UAH | 49 976 | 30 233 |
| issued by local government bodies, municipal bonds PLN | 4 613 726 | 4 480 325 |
| issued by non-financial institutions | 3 171 012 | 3 475 594 |
| corporate bonds PLN | 2 626 682 | 2 960 217 |
| corporate bonds EUR | 320 712 | 315 965 |
| corporate bonds USD | 223 618 | 199 412 |
| issued by banks, corporate bonds | 1 519 094 | 1 224 132 |
| corporate bonds PLN | 1 470 753 | 1 112 705 |
| corporate bonds EUR | 44 569 | 90 867 |
| corporate bonds UAH | 3 772 | 20 560 |
| Impairment allowances on debt securities available for sale | (56 925) | - |
| corporate bonds PLN | (22 959) | - |
| corporate bonds USD | (30 194) | - |
| corporate bonds UAH | (3 772) | - |
| Total net debt securities available for sale | 27 604 913 | 21 961 102 |
| Equity securities available for sale, gross | 567 346 | 243 475 |
| Equity securities not admitted to public trading | 346 941 | 209 286 |
| Equity securities admitted to public trading | 220 405 | 34 189 |
| Shares in investment funds | (75 565) | (129 369) |
| Impairment allowances on equity securities available for sale | 491 781 | 114 106 |
| Total net equity securities available for sale | 212 821 | 204 017 |
| Total net investment securities available for sale | 28 309 515 | 22 279 225 |

On 2 November 2015 PKO Bank Polski SA was notified about the contract of acquisition of shares of Visa Europe Limited by Visa Inc. ("Transaction"). The Bank as a member of Visa Europe Limited is among the beneficiaries of the Transaction. The Management Board of the PKO Bank Polski SA approved the conditions of the Bank's participation in the transaction, according to which the total pre-estimated Bank's share in revenues (excluding the potential deferred payment of "earn-out") is expected to amount EUR 88 875 thousand (which is equivalent to PLN 378 741 thousand (according to the NBP average exchange rate of 31 December 2015), including EUR 66 167 thousand that will be paid in cash and EUR 22 708 thousand with shares of Visa Inc. These amounts are not final and may change due to the complaint filed by the Bank subject to the proposed method of determining the Bank's participation in the settlement of the Transaction and possible objections of the remaining members of Visa Europe Limited, costs of the Transaction, as well as in the cases indicated in the documentation relating to the Transaction (the so-called "leakage"). The amounts due to the Bank should be settled by 30 June 2016. In accordance with the Transaction's framework, additional deferred payment of "earn-out" is possible. It would be paid in cash after sixteen quarters from the date of transaction settlement, but its real value is currently not possible to determine. The transaction is subject to receipt of applicable regulatory approvals.

As at 31 December 2015, a portion of the anticipated as described above, remuneration in the amount of EUR 76 840 (i.e PLN 327 453 thousand) has been included in the valuation of shares in Visa Europe Limited (in other comprehensive income – in position of the revaluation of financial assets available for gross sales). So far Visa Europe Limited shares were valued at cost amounting to PLN 42.62 due to the inability to fair value measurement.

(IN PLN THOUSAND)

| Debt securities by nominal value | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Treasury Bonds PLN | 17 907 268 | 12 348 504 |
| municipal bonds PLN | 4 498 391 | 4 388 019 |
| corporate bonds PLN | 4 090 736 | 4 058 660 |
| Treasury Bonds EUR | 304 697 | - |
| Treasury Bonds UAH | 49 976 | 35 666 |
| Treasury Bonds USD | 77 375 | 146 088 |
| corporate bonds UAH | 3 731 | 19 091 |
| corporate bonds EUR | 362 228 | 404 919 |
| corporate bonds USD | 223 572 | 200 998 |

| Average yield of debt securities in issue | 31.12.2015 | 31.12.2014 |
|---|---|---|
| in Poland | 2,2939% | 2,1232% |
| on Ukraine | | |
| in USD | 12,5778% | 10,9500% |
| in UAH | 17,9630% | 22,6800% |

| Change in investment securities available for sale | 2015 | 2014 |
|---|---|---|
| At the beginning of the period | 22 279 225 | 14 073 078 |
| Control take-over of subsidiaries | - | 1 680 696 |
| Currency translation differences | (30 306) | 23 111 |
| Increases | 51 081 847 | 50 734 768 |
| Decreases | (45 192 532) | (44 342 865) |
| including change in impairment | 61 360 | 126 675 |
| Change in fair while, which is recognized in other comprehensive income | 171 281 | 110 437 |
| At the end of the period | 28 309 515 | 22 279 225 |

| Debt securities available for sale by maturity as of 31 December 2015 | up to 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| Debt securities available for sale | | | | | | |
| issued by the State Treasury | 80 059 | 2 624 | 220 940 | 6 882 091 | 11 172 292 | 18 358 006 |
| issued by local government bodies | 366 | 4 399 | 269 987 | 1 640 552 | 2 698 422 | 4 613 726 |
| issued by non-financial institutions | - | 81 146 | 56 215 | 2 289 796 | 690 702 | 3 117 859 |
| issued by banks | - | - | 44 569 | 1 470 753 | - | 1 515 322 |
| Total | 80 425 | 88 169 | 591 711 | 12 283 192 | 14 561 416 | 27 604 913 |

| Debt securities available for sale by maturity as of 31 December 2014 | up to 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| Debt securities available for sale | | | | | | |
| issued by the State Treasury | 373 065 | 55 508 | 270 605 | 7 865 617 | 4 216 256 | 12 781 051 |
| issued by local government bodies | 524 | 5 324 | 253 275 | 1 523 879 | 2 697 323 | 4 480 325 |
| issued by non-financial institutions | 290 339 | 84 458 | 498 351 | 1 429 631 | 1 172 815 | 3 475 594 |
| issued by banks | 7 735 | 52 139 | 10 459 | 1 153 799 | - | 1 224 132 |
| Total | 671 663 | 197 429 | 1 032 690 | 11 972 926 | 8 086 394 | 21 961 102 |

As at 31 December 2015 and as at 31 December 2014 the Bank did not have transferred financial assets, which are derecognised from the financial statements in their entirety for which the Bank would continue involvement in those assets.

(IN PLN THOUSAND)

Bank Deposit Guarantee Fund

In accordance with Article 25 of the Act on the Bank Guarantee Fund dated 14 December 1994 (uniform text Journal of Laws of 2014, item 1866 with subsequent amendments) the following assets are pledged as collateral for liabilities of the Bank Guarantee Fund:

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Fund's value | 608 499 | 901 339 |
| Nominal value of the pledge | 650 000 | 930 000 |
| Kind of pledge | treasury bonds | treasury bonds |
| Pledge repurchase date | 25.01.2024 | 25.01.2025 |
| Carrying value of the pledge | 627 367 | 915 957 |

Assets represent Treasury bonds with maturities sufficient to secure their carrying amount over the period defined by the Act. The Fund is increased or decreased on 1 July of each year, in proportion to the amount providing the basis for calculation of mandatory reserve deposits. Those funds are treated as assets held as collateral for own liabilities.

In connection with suspension of activities and filled bankruptcy motion by Polish Financial Supervision Authority (PFSA) on 21 November 2015 of the Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin (the Co-operative Crafts and Agriculture Bank in Wołomin), the Bank Guarantee Fund obliged the parent company of the Group to make payment in amount of PLN 337 932 thousand, intended for the payment of the guaranteed deposits held by the depositors of this Bank.

The parent company of the Group made the abovementioned payment on 30 November 2015 and then decreased the value of deposit guarantee fund by the value of transferred assets:

- value of the deposit guarantee fund as at the II half year 2015 PLN 946 431 thousand
- assets transferred to the Bank Guarantee Fund PLN 337 932 thousand
- value of the deposit guarantee fund at 31.12.2015: PLN 608 499 thousand

## 26. Investments securities held to maturity

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Debt securities | | |
| issued by the State Treasury, of which: | 210 330 | 233 358 |
| issued by the Treasury State USD | 170 265 | 193 020 |
| issued by the Treasury State PLN | 37 436 | 37 709 |
| issued by the Treasury State EUR | 2 629 | 2 629 |
| Total | 210 330 | 233 358 |

| Debt securities nominal value | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Treasury bonds PLN | 37 436 | 36 717 |
| Treasury bonds EUR (translated into PLN) | 2 629 | 2 557 |
| Treasury bonds USD (translated into PLN) | 168 197 | 189 951 |

| The average yield on debt securities in issue: | 31.12.2015 | 31.12.2014 |
|---|---|---|
| in Poland | 4,33% | 5,17% |
| in Ukraine | 10,16% | 9,68% |

| Change in investment securities available for sale | 2015 | 2014 |
|---|---|---|
| Balance at the beginning of the period | 233 358 | 38 005 |
| Take of control over subsidiaries | - | 40 953 |
| Increases | 121 346 | 1 386 037 |
| Decreases | (157 204) | (1 263 970) |
| Currency translation differences | 12 830 | 32 333 |
| Balance at the end of the period | 210 330 | 233 358 |

(IN PLN THOUSAND)

| Debt securities held to maturity as at 31 December 2015 | up to 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| Debt securities | | | | | | |
| issued by the State Treasury | 23 114 | 61 193 | 101 024 | 11 532 | 13 467 | 210 330 |
| Total | 23 114 | 61 193 | 101 024 | 11 532 | 13 467 | 210 330 |

| Debt securities held to maturity as at 31 December 2014 | up to 1 month | 3 months - 1 year | 1 - 5 years | over 5 years | Total |
|---|---|---|---|---|---|
| Debt securities | | | | | |
| issued by the State Treasury | 17 943 | 123 214 | 74 410 | 17 791 | 233 358 |
| Total | 17 943 | 123 214 | 74 410 | 17 791 | 233 358 |

## 27. Investments in associates and joint ventures

1) the value of the Group's investments in joint ventures measured using the equity method

| Entity name | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 'Centrum Obsługi Biznesu' Sp. z o.o. | - | 3 460 |
| Purchase price | 17 498 | 17 498 |
| Change in share of net assets | (14 819) | (14 038) |
| Impairment allowance | (2 679) | - |
| Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. | 206 228 | 201 380 |
| Fair value of the remaining part of shares as at the date of obtaining joint control | 197 320 | 197 320 |
| Change in share of net assets | 8 908 | 4 060 |
| Total | 206 228 | 204 840 |

2) the value of the Group's investments in associates measured using the equity method

| Equity name | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Bank Pocztowy SA Group | 161 500 | 117 646 |
| Purchase price | 161 500 | 146 500 |
| Change in valuation with equity method | 81 372 | 74 142 |
| Impairment allowance | (81 372) | (102 996) |
| 'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o. | - | - |
| Purchase price | 1 500 | 1 500 |
| Change in valuation with equity method | 4 275 | 4 219 |
| Impairment allowance | (5 775) | (5 719) |
| FERRUM SA GROUP* | 24 143 | - |
| Purchase price | 24 143 | - |
| Total | 185 643 | 117 646 |

*considering that the shares were acquired on 28 December 2015, the Company is a public company and the date of preparation of this report has not published data for 2015, the valuation takes into account only the purchase price.

| Change of the investment value in joint ventures | 2015 | 2014 |
|---|---|---|
| Investments in joint ventures at the beginning of the period | 204 840 | 202 972 |
| Share in profit (loss) | 29 638 | 23 527 |
| Net impairment allowance | (2 679) | - |
| Dividends | (25 571) | (21 387) |
| Other | - | (272) |
| Investments in joint ventures at the end of the period | 206 228 | 204 840 |

(IN PLN THOUSAND)

| Change of the value of investments in associates | 2015 | 2014 |
|---|---|---|
| Investments in associates at the beginning of the period | 117 646 | 106 720 |
| Net impairment allowance | 21 568 | 1 583 |
| Share in profit (loss) | 8 477 | 8 283 |
| Share in other comprehensive income of an associate | (1 191) | 1 060 |
| Dividends paid | - | - |
| Increased capital involvment in associates | 39 143 | - |
| **Change of the value of investments in associates at the end of period** | **185 643** | **117 646** |

In 2015, the Group decreased impairment allowances against shares of Bank Pocztowy SA by PLN 21 624 thousand and increased impairment allowances against shares of 'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o. by PLN 56 thousand.

The value of shares of Bank Pocztowy SA, owned by PKO Bank Polski SA in the Group's balance sheet was incorporated in the amount equal to the Bank's involvement in the Company, based on the impairment test made using the discounted dividends.

As at 31 December 2015 and 31 December 2014, the parent company had no share in contingent liabilities of associates acquired jointly with other investor.

**Financial data separately for joint venture and each associate of the PKO Bank Polski SA Group.**

The disclosed amounts are derived from the financial statements of particular entities prepared in accordance with the IFRS or PAS (Polish Accounting Standards).

| Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Current assets | 103 372 | 132 100 |
| Non-current assets | 132 733 | 59 069 |
| Short-term liabilities | 70 476 | 72 219 |
| Long-term liabilities | 37 259 | 3 780 |
| | **2015** | **2014** |
| Revenues | 456 530 | 401 429 |
| Profit (loss) from continuing operations | 88 408 | 73 912 |
| Profit (loss) for the year | 88 408 | 73 912 |
| Total comprehensive income | 88 408 | 73 912 |
| Dividends received from an entity classified as joint venture | 25 571 | 21 387 |

The data presented are derived from the audited financial statements of the company, prepared in accordance with IFRS.

PKO Bank Polski SA together with its Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. offers comprehensive services in the field of acquiring and operating of entities for the foundation of POS terminals and settlement of transactions made with payments instruments with a use of these terminals.

Both entities jointly participate in tenders and regulate their cooperation with an agreements.

- marketing cooperation in the field of services of fundamental importance for the functioning of products and services offered by both the Bank and the Company,
- the provision of services related to the payment of cash in the agencies and the Bank's branches and post offices with payment cards Visa and MasterCard with the use of POS terminals,
- cooperation in the provision of services related to the acquisition of outlets accepting payment instruments,
- operating cashless transactions using payment instruments for bilateral agreements with merchants.

The company has two subsidiaries in which it exercises control.

| „Centrum Obsługi Biznesu" Sp. o.o. | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Current assets | 9 589 | 13 002 |
| Non-current assets | 87 378 | 90 889 |
| Short-term liabilities | 12 888 | 10 236 |
| Long-term liabilities | 77 615 | 84 103 |
| | **2015** | **2014** |
| Revenues | 20 461 | 19 942 |
| Profit (loss) for the year | (3 087) | (3 631) |

The data presented are derived from the Company's financial statements prepared in accordance with Polish Accounting Standards, including the 2014 of audited statement.

(IN PLN THOUSAND)

„Centrum Obsługi Biznesu" Sp. z o.o. is a joint venture of PKO Bank Polski SA, Buldico Poznań SA and City of Poznań involving the construction of the hotel in Poznań. PKO Bank Polski is a member of bank consortium, which granted the company an investment loan for the realisation of this project. Hotel was built and commenced operating in February 2007. Achieved by the Company results of operations are not able to provide a current, full service of liabilities under the credit agreement. In this situation, the Company requested the banks – members of the consortium for the restructuring of credit debt, which at the date of this report is subject to an analysis by the consortium of banks and conversations with the Company.

As at 31 December 2015 on the shares of the Company in financial statement of the Group, the impairment was created in the full amount of commitment.

In June 2015, the following shares of the Company were sold to NEPTUN – fizan a subsidiary of the Bank (the above-mentioned fund where shares of companies are gradually sold, whose business is not complementary to the offer of financial services of the Bank)

| **Bank Pocztowy SA** | **30.09.2015** | **30.09.2014** |
|---|---|---|
| Total assets | 6 880 000 | 7 028 000 |
| Total liabilities | 5 567 000 | 5 925 000 |
| | **9 months 2015** | **9 months 2014** |
| Revenues | 245 500 | 256 800 |
| Profit (loss) from continuing operations | 33 700 | 34 600 |
| Profit (loss) for the year | | **2014** |
| Other comprehensive income | - | 43 639 |

The data presented are derived from the consolidated financial statements of the Bank Pocztowy SA Group prepared in accordance with IFRS. Given that the company conducts works related to the initial public offering here we present its financial data publicly available and comparable for the same period of 2014.

Bank Pocztowy SA specializes in standard banking products offered to retail customers (including individuals engaged in business activity), and institutional clients, also operates in the segment of accounting and tax. As part of the strategic partnership with Poczta Polska SA (shareholder with 75% stake minus 10 shares of the Company) uses a potential of a shareholder and develops a range of products in collaboration with stakeholders across the Poczta Polska Group. Bank Pocztowy Sa is also a client of PKO Bank Polski SA and uses the selected services provided by the Bank.

In 2015, Bank Pocztowy SA conducted preparatory works to raise capital through an initial public offering and listing on the Stock Exchange in Warsaw. PKO Bank Polski SA participated in the process as a potential selling shareholder, ie. considering selling of part of the package of shares of the Company by the above-mentioned offer. Given the current status of the work on offer, the Bank ceased to demonstrate shares of Bank Pocztowy SA in the position of non-current assets held for sale (in which position the Company shares were recorded from 31 March 2015). Shares of the Company as at 31 December 2015 are recognised in investments in associates and joint ventures.

The company has two subsidiaries in which it maintains control.

| **„Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Current assets | 23 242 | 22 353 |
| Non-current assets | 48 | 46 |
| Short-term liabilities | 4 021 | 4 084 |
| Long-term liabilities | 1 631 | 1 298 |
| | **2015** | **2014** |
| Revenues | 2 440 | 2 772 |
| Profit (loss) for the year | 620 | 6 |

The data presented are derived from the audited financial statements of the Company prepared in accordance with Polish Accounting Standards.

"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o. is a specialized entity supporting the development of small and medium-sized enterprises by providing guarantees and advisory services, in the preparation of business plans, financial statements and forecasts of financial statements in connection with applying for a loan. The company guarantees loans, advances and the guarantees granted by bank including PKO Bank Polski SA, as well as leasing and factoring transaction. Cooperates with PKO Leasing SA.

The Company's offer also includes guarantees for small and medium-sized enterprises, under the JEREMIE (Join European Resources for Micro to Medium Enterprises), which are re-underwritten at 70% or 80% from the Wielkopolski Regionalny Program Operacyjny, managed by the Bank Gospodarstwa Krajowego.

Under the agreement, the Company, the company's profit is entirely allocated to cover potential losses from previous years and for statutory purposes, including to increase the capital.

FERRUM SA

PKO Bank Polski SA holds shares of FERRUM SA, which is an associate of the Bank. The Company's shares were taken up in 28 December 2015 under the debt recovery actions (acquisition of ownership of the collateral).

The Company is a public company whose shares are listed on the Stock Exchange in Warsaw and at the date of the report the company did not publish its financial data for 2015.

The Company's business is the production of steel pipes, production of closed profiles (sections) and pipe isolation.

The Company has two subsidiaries in which maintains full control.

(IN PLN THOUSAND)

## 28. Non-current assets held for sale

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Assets of a subsidiary (Qualia Development Sp. z o.o.) | - | 373 174 |
| Land and buildings | 217 359 | 251 599 |
| Other | 2 661 | 219 |
| Total | 220 020 | 624 992 |

## 29. Inventories

| Carrying amount of inventories by kind | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Building investments for sale | 201 468 | - |
| Goods | 150 401 | 143 336 |
| Finished goods | 63 872 | - |
| Materials | 22 459 | 24 544 |
| Impairment allowances on inventories | (37 252) | (29 164) |
| Total | 400 948 | 138 716 |

Inventories are valued at the lower of two values: the purchase price/cost of production and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less costs of completion and the estimated costs necessary to make the sale. The value of inventories disbursement is determined by specific identification of individual purchase prices or production costs of components, which relate to realisation of specific projects.

## 30. Intangible assets

| For the year ended 31 December 2015 | Software | Goodwill | Future income from insurance contracts concluded | Relations with customers | Other, including capital expenditure | Total |
|---|---|---|---|---|---|---|
| Gross carrying amount at the beginning of the period | 3 699 962 | 1 311 960 | 140 555 | 86 499 | 429 368 | 5 668 344 |
| Increases, of which: | 39 707 | 56 425 | - | - | 353 062 | 449 194 |
| purchase | 28 935 | - | - | - | 351 204 | 380 139 |
| classification to assets held for sale | 1 141 | 56 425 | - | - | 730 | 58 296 |
| other | 9 631 | - | - | - | 1 128 | 10 759 |
| Decreases, of which: | (25 987) | - | - | - | (106 792) | (132 779) |
| sole,disposal | - | - | - | - | (55 208) | (55 208) |
| classification to assets held for sale | (16 994) | - | - | - | - | (16 994) |
| currency translation differences | (6 372) | - | - | - | (271) | (6 643) |
| other | (2 621) | - | - | - | (51 313) | (53 934) |
| Transfers from capital expenditure on software | 354 650 | - | - | - | (354 650) | - |
| Gross carrying amount at the end of the period | 4 068 332 | 1 368 385 | 140 555 | 86 499 | 320 988 | 5 984 759 |
| Accumulated amortisation at the beginning of the period | (1 972 687) | - | (18 253) | (19 247) | (138 930) | (2 149 117) |
| Increases, of which: | (419 711) | - | (23 095) | (19 138) | (8 762) | (470 706) |
| amortisation for the period | (417 919) | - | (22 358) | (19 138) | (8 254) | (467 669) |
| classification to assets held for sale | (843) | - | - | - | (508) | (1 351) |
| other | (949) | - | (737) | - | | (1 686) |
| Decreases, of which: | 12 621 | - | - | - | 84 764 | 97 385 |
| sole,disposal | 3 843 | - | - | - | 52 760 | 56 603 |
| currency translation differences | 3 329 | - | - | - | 16 | 3 345 |
| other | 5 449 | - | - | - | 31 988 | 37 437 |
| Accumulated amortisation at the end of the period | (2 379 777) | - | (41 348) | (38 385) | (62 928) | (2 522 438) |
| Impairment allowances at the beginning of the period | (15 373) | (118 232) | - | - | (6 121) | (139 726) |
| Increases, of which: | (287) | (51 511) | - | - | - | (51 798) |
| recognised during the period | (186) | - | - | - | - | (186) |
| other | (101) | (51 511) | - | - | - | (51 612) |
| Decreases, of which: | 186 | - | - | - | - | 186 |
| derecognition of assets | 186 | - | - | - | - | 186 |
| Impairment allowances at the end of the period | (15 474) | (169 743) | - | - | (6 121) | (191 338) |
| Net carrying amount at the beginning of the period | 1 711 902 | 1 193 728 | 122 302 | 67 252 | 284 317 | 3 379 501 |
| Net carrying amount at the end of the period | 1 673 081 | 1 198 642 | 99 207 | 48 114 | 251 939 | 3 270 983 |

(IN PLN THOUSAND)

| For the year ended 31 December 2014 | Software | Goodwill | Future income from insurance contracts concluded | Relations with customers | Other, including capital expenditure | Total |
|---|---|---|---|---|---|---|
| Gross carrying amount at the beginning of the period | 3 355 468 | 347 312 | - | - | 372 625 | 4 075 405 |
| Increases, of which: | 64 954 | 1 021 074 | 140 555 | 86 499 | 368 145 | 1 681 227 |
| take of control over subsidiaries | 40 646 | 1 021 074 | 140 555 | 86 499 | 9 324 | 1 298 098 |
| purchase | 11 927 | - | - | - | 357 722 | 369 649 |
| other | 12 381 | - | - | - | 1 099 | 13 480 |
| Decreases, of which: | (26 239) | (56 426) | - | - | (5 623) | (88 288) |
| sole,disposal | (1 248) | - | - | - | (237) | (1 485) |
| classification to non-current assets held for sale | (1 126) | (56 426) | - | - | (710) | (58 262) |
| currency translation differences | (16 348) | - | - | - | (249) | (16 597) |
| other | (7 517) | - | - | - | (4 427) | (11 944) |
| Transfers from capital expenditure on software | 305 779 | - | - | - | (305 779) | - |
| Gross carrying amount at the end of the period | 3 699 962 | 1 311 960 | 140 555 | 86 499 | 429 368 | 5 668 344 |
| Accumulated amortisation at the beginning of the period | (1 576 520) | - | - | - | (115 652) | (1 692 172) |
| Increases, of which: | (406 624) | - | (18 253) | (19 247) | (24 314) | (468 438) |
| take of control over subsidiaries | (32 782) | - | - | - | (7 582) | (40 364) |
| amortisation for the period | (373 395) | - | (18 253) | (19 247) | (16 719) | (427 614) |
| other | (447) | - | - | - | (13) | (460) |
| Decreases, of which: | 10 457 | - | - | - | 1 036 | 11 493 |
| sole,disposal | 203 | - | - | - | 228 | 431 |
| classification to assets held for sale | 843 | - | - | - | 507 | 1 350 |
| currency translation differences | 6 958 | - | - | - | 23 | 6 981 |
| other | 2 453 | - | - | - | 278 | 2 731 |
| Accumulated amortisation at the end of the period | (1 972 687) | - | (18 253) | (19 247) | (138 930) | (2 149 117) |
| Impairment allowances at the beginning of the period | (15 373) | (128 462) | - | - | (9 176) | (153 011) |
| Increases, of which: | - | (40 271) | - | - | (796) | (41 067) |
| recognised during the period | - | (40 271) | - | - | (796) | (41 067) |
| Decreases, of which: | - | 50 501 | - | - | 3 851 | 54 352 |
| released during the period | - | - | - | - | 3 851 | 3 851 |
| classificaton of assets held for sale | - | 50 501 | - | - | - | 50 501 |
| Impairment allowances at the end of the period | (15 373) | (118 232) | - | - | (6 121) | (139 726) |
| Net carrying amount at the beginning of the period | 1 763 575 | 218 850 | - | - | 247 797 | 2 230 222 |
| **Net carrying amount at the end of the period** | **1 711 902** | **1 193 728** | **122 302** | **67 252** | **284 317** | **3 379 501** |

To the Group, a significant item of intangible assets relates to expenditures on the Integrated Information System (IIS). The total capital expenditures incurred for the IIS system during the years 2005-2015 amounted to PLN 1 185 473 thousand. Net carrying amount amounted to PLN 717 414 thousand as at 31 December 2015 (PLN 735 623 thousand as at 31 December 2014). The expected useful life of the IIS system is 17 years. As at 31 December 2015, the remaining useful life is 8 years.

The right to manage the fund by the acquisition of OFE POLSAT in 2015 in the net amount of PLN 47 296 thousand is recognised in the position 'Other, including capital expenditure' as at 31 December 2015 (in 2014: in the net amount of PLN 50 630 thousand).

In 2015 the Group did not generate internally patents and licences (in 2014 the Group generated internally patents and licences in the amount of PLN 1 404 thousand). In 2015 the Group incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 787 252 thousand (2014 in the amount of PLN 716 620 thousand).

In the years ended 31 December 2015 and 31 December 2014 respectively, there were no restrictions on the Group's rights to use its intangible assets as a result of pledges.

Goodwill

| **Net goodwill** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Nordea Polska entities | 985 221 | 985 221 |
| PKO Towarzystwo Funduszy Inwestycyjnych SA | 149 564 | 149 564 |
| PKO BP BANKOWY PTE SA | 51 158 | 51 158 |
| Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp.k.* | 4 914 | - |
| Goodwill related to assets taken over from Centrum Finansowe Puławska Sp. z o.o. | 7 785 | 7 785 |
| **Total** | **1 198 642** | **1 193 728** |

* As at 31 December 2014 assets of Qualia Development Sp. z o.o. were classified as non-current assets held for sale.

As at December 2015, the Group conducted mandatory testing for impairment of goodwill in accordance with the models developed under the guidance in IAS 36, taking into account the specificities of each of the assets and activities of individual companies.
The Group carried out compulsory impairment test for goodwill arising from the acquisition of Nordea Bank Polska SA, according to the model developed based on the guidance in IAS 36.

The impairment test is performed by comparing the carrying value of cash-generating units (CGU) to their recoverable value.

Two CGU were distinguished to which the value of goodwill was assigned arising from the acquisition of Nordea Bank Polska SA – retail and corporate.

The recoverable amount is estimated on the basis of value in use of the CGU. Value in use is the present value of the future cash flows for the period of 10 years, taking into account the residual value of the CGU. Residual value of the CGU has been calculated by extrapolating the cash flow projections beyond the forecast period, using the growth rates adopted at the level of 1.5%. Cash flow projections are based on the assumptions contained in the financial plan of the Bank for 2015. For discounting of the future cash flows the discount rate of 7.6% was used, taking into account the risk-free rate and risk premium.

The impairment test performed as at 31 December 2015 showed a surplus of the recoverable amount over the carrying amount of each CGU and therefore no impairment CGU was recognized.

The remaining goodwill arising from the acquisition of companies Nordea Polska concerns the acquisition of the company „Nordea Polska Towarzystwo Ubezpieczeń SA" (currently PKO Życie Towarzystwo Ubezpieczeń SA) and the acquisition of Nordea Finance Polska SA. This value was assigned to the corporate segment and investment – cash generating units are as follow: entire company of PKO Życie Towarzystwo Ubezpieczeń SA, and the entire company PKO Leasing SA – as the direct superior who in connection took over the assets of Nordea Finance Polska SA.

The impairment test of PKO Życie Towarzystwo Ubezpieczeń SA has been developed on the basis of the present value of expected future cash flows for PKO Bank Polska SA including the residual value. Future cash flows are estimated on the basis prepared by the Company's 10 year financial forecast.

The impairment test of PKO Leasing SA was carried out on the basis of the present value of expected future cash flows for five years including blanking operations after this period, developed on the basis of the financial projections of the Company.

The impairment test of goodwill arising from the acquisition of PKO Towarzystwo Funduszy Inwestycyjnych SA was carried out on the basis of the present value of expected future cash flows for PKO Bank Polski SA, prepared by the Company's management on the basis of three-year financial forecast. The test takes into account the 2 variants of financial flows: sole dividend and also dividend and distribution fee for the sale of fund units of PKO TFI SA in the network of PKO Bank Polski SA, which in both cases is covered by the residual value.

The impairment test of the company PKO BP BANKOWY PTE SA was conducted using the method of embedded value, according to which the utility value of the Company's share was established. The key parameters that determine the value of goodwill as at 31 December 2015 were the underlying assumptions, and introduced from 1 February 2014 with the reform of the pension system, in particular the transfer on 3 February 2014, of 51.5% of Open Pension Funds' assets to Social Security, the voluntary continuation of the discharge of the part of pension contributions to Open Pension Fund, retirement slider mechanism and reduced contribution fee. The model has a time horizon to year 2066.

The test for impairment of goodwill related to the assets of the acquired company Centrum Finansowe Puławska Sp. z o.o was carried out based on the fair value of the acquired property as a cash-generating unit to which goodwill has been allocated.

The above-mentioned tests indicated no need for the creation of impairment.

At the same time in 2015, consistently as in previous years, an impairment loss of goodwill was recognised resulting from the acquisition of shares of the company Qualia 2 Sp. z .o. – Nowy Wilanów Sp. k. in the amount of PLN 1 010 thousand ie. in proportion to the sold part of the cash-generating units to which goodwill has been allocate.

(IN PLN THOUSAND)

## 31. Tangible fixed assets

| For the year ended 31 December 2015 | Land and buildings | Machinery and equipment | Means of transport | Assets under construction | Investment properties | Other | Total |
|---|---|---|---|---|---|---|---|
| Gross value of tangible fixed assets at the beginning of the period | 2 574 292 | 2 042 418 | 106 772 | 171 047 | 132 789 | 585 340 | 5 612 658 |
| Increases, of which: | 212 133 | 22 573 | 75 511 | 355 014 | 26 144 | 32 679 | 724 054 |
| purchase and other changes, of which: | 30 727 | 17 746 | 69 246 | 337 319 | 25 589 | 12 554 | 493 181 |
| merger of entities | 28 029 | 5 236 | 1 484 | 52 | - | 7 580 | 42 381 |
| classification from non-current assets held for sale | 174 648 | 4 335 | 587 | 329 | - | 19 940 | 199 839 |
| other | 6 758 | 492 | 5 678 | 17 366 | 555 | 185 | 31 034 |
| Decreases, of which: | (151 654) | (331 523) | (68 647) | (14 547) | (2 349) | (34 417) | (603 137) |
| disposal and sale | (91 598) | (240 370) | (2 098) | (530) | (1 900) | (28 395) | (364 891) |
| currency translation differences | (16 489) | (14 296) | (1 251) | (1 763) | - | (5 755) | (39 554) |
| classification to non-current assets held for sale | (26 755) | (2 227) | - | - | (108) | (6) | (29 096) |
| classification to inventories | - | - | - | - | - | - | - |
| other | (16 812) | (74 630) | (65 298) | (12 254) | (341) | (261) | (169 596) |
| Transfers from capital expenditures to tangible fixed assets | 77 923 | 116 360 | - | (246 769) | - | 52 486 | - |
| Gross value of tangible fixed assets at the end of the period | 2 712 694 | 1 849 828 | 113 636 | 264 745 | 156 584 | 636 088 | 5 733 575 |
| Accumulated depreciation at the beginning of the period | (967 020) | (1 542 479) | (27 199) | - | (3 096) | (409 229) | (2 949 023) |
| Increases, of which: | (101 291) | (181 328) | (17 997) | (6) | (4 001) | (62 757) | (367 380) |
| depreciation for the period | (99 072) | (175 593) | (15 881) | - | (4 001) | (56 372) | (350 919) |
| classification from non-current assets held for sale | - | (1 450) | (637) | (6) | - | (1 270) | (3 363) |
| others,of which: | (2 219) | (4 285) | (1 479) | - | - | (5 115) | (13 098) |
| merger of entities | (2 219) | (2 792) | (1 458) | - | - | (3 741) | (10 210) |
| Decreases, of which: | 62 484 | 304 062 | 21 193 | - | 886 | 33 395 | 422 020 |
| disposal and sale | 54 586 | 236 183 | 1 748 | - | (3) | 26 785 | 319 299 |
| classification to non-current assets held for sale | - | - | - | - | 10 | - | 10 |
| currency translation differences | 2 510 | 8 535 | 618 | - | - | 3 210 | 14 873 |
| other | 5 388 | 59 344 | 18 827 | - | 879 | 3 400 | 87 838 |
| Accumulated depreciation at the end of the period | (1 005 827) | (1 419 745) | (24 003) | (6) | (6 211) | (438 591) | (2 894 383) |
| Impairment allowances at the beginning of the period | (4 511) | (109) | - | (5 460) | - | - | (10 080) |
| Increases, of which: | (66 425) | (3 307) | - | - | (8 560) | (8 822) | (87 114) |
| recognised during the period | (45 962) | (3 194) | - | - | (2 826) | (1 313) | (53 295) |
| classification from assets held for sale | (6 626) | (97) | | | | (6 848) | (13 571) |
| other, of which: | (13 837) | (16) | | | (5 734) | (661) | (20 248) |
| merger of entities | (13 683) | - | - | - | - | (651) | (14 334) |
| Decreases, of which: | 37 586 | 791 | - | 1 517 | - | 294 | 40 188 |
| released during the period | 34 284 | 791 | - | | - | 294 | 35 369 |
| currency translation differences | 2 911 | - | - | - | - | - | 2 911 |
| other | 391 | - | - | 1 517 | - | - | 1 908 |
| Impairment allowances at the end of the period | (33 350) | (2 625) | - | (3 943) | (8 560) | (8 528) | (57 006) |
| **Net carrying amount at the beginning of the period** | **1 602 761** | **499 830** | **79 573** | **165 587** | **129 693** | **176 111** | **2 653 555** |
| **Net carrying amount at the end of the period** | **1 673 517** | **427 458** | **89 633** | **260 796** | **141 813** | **188 969** | **2 782 186** |

(IN PLN THOUSAND)

Off-balance sheet value of machinery and equipment used under operating lease agreements and operating leases with purchase options contracts amounted to PLN 74 930 thousand as at 31 December 2015 (as at 31 December 2014: PLN 66 705 thousand). In the years ended 31 December 2015 and 31 December 2014, respectively, there were no restrictions on the Group's right to use its tangible fixed assets as a result of pledges as collateral for liabilities.

| For the year ended 31 December 2014 | Land and buildings | Machinery and equipment | Means of transport | Assets under construction | Investment properties | Other | Total |
|---|---|---|---|---|---|---|---|
| Gross value of tangible fixed assets at the beginning of the period | 2 521 878 | 2 056 907 | 102 115 | 145 435 | 114 605 | 530 807 | 5 471 747 |
| Increases, of which: | 326 886 | 83 505 | 30 034 | 290 753 | 106 326 | 55 213 | 892 717 |
| take of control over subsidiaries | 299 832 | 69 829 | 1 859 | 1 629 | 63 652 | 48 569 | 485 370 |
| purchase and other changes | 133 | 13 453 | 27 915 | 288 850 | 42 674 | 6 500 | 379 525 |
| classification from non-current assets held for sale | 16 405 | 145 | 128 | - | - | - | 16 678 |
| other | 10 516 | 78 | 132 | 274 | - | 144 | 11 144 |
| Decreases, of which: | (332 879) | (235 662) | (5 388) | (8 290) | (88 142) | (61 456) | (751 806) |
| disposal and sale | (35 375) | (200 178) | (1 773) | - | (8 971) | (45 713) | (292 010) |
| currency translation differences | (36 867) | (30 214) | (2 453) | (4 308) | - | (12 511) | (86 353) |
| classification to non-current assets held for sale | (260 507) | - | - | - | - | (72) | (260 579) |
| classification to inventories | - | - | (19 989) | - | (79 171) | - | (99 160) |
| other | (130) | (5 270) | (1 162) | (3 982) | - | (3 160) | (13 704) |
| Transfers from capital expenditures to tangible fixed assets | 58 407 | 137 668 | - | (256 851) | - | 60 776 | - |
| Gross value of tangible fixed assets at the end of the period | 2 574 292 | 2 042 418 | 106 772 | 171 047 | 132 789 | 585 340 | 5 612 658 |
| Accumulated depreciation at the beginning of the period | (887 122) | (1 559 677) | (26 112) | - | (16) | (375 503) | (2 848 430) |
| Increases, of which: | (177 168) | (204 553) | (15 289) | - | (3 080) | (87 685) | (487 775) |
| take of control over subsidiaries | (86 467) | (42 703) | (660) | - | (1 416) | (32 998) | (164 244) |
| depreciation for the period | (90 482) | (161 595) | (14 581) | - | (1 664) | (51 228) | (319 550) |
| classification from non-current assets held for sale | - | (116) | (48) | - | - | - | (164) |
| other | (219) | (139) | - | - | - | (3 459) | (3 817) |
| Decreases, of which: | 97 270 | 221 751 | 14 202 | - | - | 53 959 | 387 182 |
| disposal and sale | 19 449 | 198 667 | 1 400 | - | - | 43 402 | 262 918 |
| classification to non-current assets held for sale | 70 949 | - | - | - | - | 72 | 71 021 |
| currency translation differences | 6 769 | 18 728 | 1 373 | - | - | 7 622 | 34 492 |
| other | 103 | 4 356 | 11 429 | - | - | 2 863 | 18 751 |
| Accumulated depreciation at the end of the period | (967 020) | (1 542 479) | (27 199) | - | (3 096) | (409 229) | (2 949 023) |
| Impairment allowances at the beginning of the period | (7 447) | (109) | - | (4 528) | - | - | (12 084) |
| Increases, of which: | - | (4) | - | (3 189) | - | - | (3 193) |
| recognised during the period | - | (4) | - | (3 189) | - | - | (3 193) |
| Decreases, of which: | 2 936 | 4 | - | 2 257 | - | - | 5 197 |
| write-down of assets | 16 | 4 | - | - | - | - | 20 |
| currency translation differences | 2 920 | - | - | 2 257 | - | - | 5 177 |
| Impairment allowances at the end of the period | (4 511) | (109) | - | (5 460) | - | - | (10 080) |
| **Net carrying amount at the beginning of the period** | **1 627 309** | **497 121** | **76 003** | **140 907** | **114 589** | **155 304** | **2 611 233** |
| **Net carrying amount at the end of the period** | **1 602 761** | **499 830** | **79 573** | **165 587** | **129 693** | **176 111** | **2 653 555** |

In 2015 and 2014, the Group received compensation from third parties for impairment or loss of tangible fixed assets in the amount of PLN 18 993 thousand and PLN 14 986 thousand respectively recognised in the income statement.

In the year ended 31 December 2015 a significant item is the amount of PLN 46 243 thousand, concerning the organization costs of the new center’s activities (in 2014 it amounted to PLN 50 988 thousand and concerned a purchase of IT infrastructure components).

(IN PLN THOUSAND)

Operating lease – lessor

| Total value of future lease payments under irrevocable operating lease for the period: | 31.12.2015 | 31.12.2014 |
|---|---|---|
| For the period: | | |
| up to 1 year | 43 351 | 30 021 |
| from 1 year to 5 years | 16 415 | 17 166 |
| over 5 years | 4 902 | 8 875 |
| Total | 64 668 | 56 062 |

The average agreement period for operating lease agreements where the Group is a lessor is usually 36 months. The lessee bears service and insurance costs.
As at the balance sheet date the assets in lease under operating lease are as follows:

| for the year ended 31 December 2015 | Means of transport under operating lease | Properties under operating lease | Machinery and equipment under operating lease | Total |
|---|---|---|---|---|
| Gross value at the beginning of the period | 39 112 | 4 970 | 867 | 44 949 |
| Changes during the period | (5 393) | (2 264) | - | (7 657) |
| Gross value | 33 719 | 2 706 | 867 | 37 292 |
| Accumulated depreciation at the beginning of the period | (6 026) | (363) | (235) | (6 624) |
| Depreciation for the period | (5 334) | (32) | (217) | (5 583) |
| Other changes in deprectiation, including currency translation differences | 12 174 | 221 | - | 12 395 |
| Accumulated depreciation | 814 | (174) | (452) | 188 |
| Impairment allowances at the beginning of the period | - | (628) | - | (628) |
| Impairment recognized during the period | - | (327) | - | (327) |
| Impairment allowances | - | (955) | - | (955) |
| Net book value | 34 533 | 1 577 | 415 | 36 525 |

| for the year ended 31 December 2014 | Means of transport under operating lease | Properties under operating lease | Machinery and equipment under operating lease | Total |
|---|---|---|---|---|
| Gross value at the beginning of the period | 37 485 | 6 510 | 867 | 44 862 |
| Changes during the period | 1 627 | (1 540) | - | 87 |
| Gross value | 39 112 | 4 970 | 867 | 44 949 |
| Accumulated depreciation at the beginning of the period | (5 436) | (525) | (18) | (5 979) |
| Depreciation for the period | (5 251) | (89) | (217) | (5 557) |
| Transfers | 4 464 | - | - | 4 464 |
| Other changes in deprectiation, including currency translation differences | 197 | 251 | - | 448 |
| Accumulated depreciation | (6 026) | (363) | (235) | (6 624) |
| Impairment allowances at the beginning of the period | - | (1 036) | - | (1 036) |
| Currency translation differences | - | 408 | - | 408 |
| Impairment allowances | - | (628) | - | (628) |
| Net book value | 33 086 | 3 979 | 632 | 37 697 |

(IN PLN THOUSAND)

## 32. Other assets

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Settlements of payment cards transactions | 384 342 | 267 879 |
| Accruals and prepayments | 264 331 | 230 388 |
| Trade receivables | 149 962 | 122 922 |
| Settlements of financial instruments | 178 687 | 191 950 |
| Receivables from other transactions with financial and non-financial institutions | 8 790 | 100 030 |
| Assets for sale | 178 146 | 170 194 |
| Receivables from the State budget due to court fee stamps' distribution carried out by the Bank | 10 191 | 10 588 |
| Receivables and settlements of securities turnover | 140 369 | 9 995 |
| Receivables from unsettled transactions related to derivatives | 2 854 | 6 985 |
| Other* | 93 105 | 110 501 |
| Total | 1 410 777 | 1 221 432 |
| of which financial assets** | 875 195 | 710 349 |

* Item 'Other' includes i.a.: 'Receivables from internal operations', 'Receivables from fee and commissions', 'Receivables from bails and guarantees'.
** Financial assets include all items of 'Other assets', with the exception of 'Accruals and prepayments', 'Assets for sale' and 'Other'.

## 33. Amounts due to the central bank

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Up to 1 month | 4 219 | 4 427 |
| Total | 4 219 | 4 427 |

## 34. Amounts due to banks

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Loans and advances received | 16 418 082 | 17 643 643 |
| Nordea Bank AB (publ)* | 16 371 687 | 14 927 552 |
| Bank deposits | 1 168 407 | 823 815 |
| Amounts due from repurchase agreements | 473 738 | 609 836 |
| Current accounts | 197 023 | 299 530 |
| Other money market deposits | 31 547 | 17 658 |
| Total | 18 288 797 | 19 394 482 |

* Financing the loans portfolio acquired through the merger with Nordea Bank Polska.

## 35. Amounts due to customers

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Amounts due to retail clients | 135 410 367 | 128 675 561 |
| Term deposits | 71 079 630 | 69 228 283 |
| Current accounts and overnight deposits | 64 039 511 | 59 219 213 |
| Other liabilities | 291 226 | 228 065 |
| Amounts due to corporate entities | 51 213 728 | 40 932 868 |
| Current accounts and overnight deposits | 23 032 660 | 16 068 233 |
| Term deposits | 22 447 227 | 19 416 337 |
| Loans and advances received | 3 924 099 | 3 421 704 |
| Amounts due from repurchase agreements | 829 114 | 856 124 |
| Other liabilities | 980 628 | 1 170 470 |
| Amounts due to public entities | 9 134 366 | 4 778 337 |
| Current accounts and overnight deposits | 5 679 394 | 4 018 030 |
| Term deposits | 3 435 443 | 740 995 |
| Other liabilities | 19 529 | 19 312 |
| Total | 195 758 461 | 174 386 766 |

(IN PLN THOUSAND)

| By client segment | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Amounts due to customers, of which: | | |
| retail and private banking | 128 269 113 | 122 331 368 |
| corporate | 42 606 510 | 30 295 632 |
| small and medium enterprises | 20 122 652 | 17 475 288 |
| loans and advances received | 3 924 099 | 3 421 704 |
| amounts due from repurchase agreements | 829 114 | 856 124 |
| other liabilities | 6 973 | 6 650 |
| Total | 195 758 461 | 174 386 766 |

The structure of liabilities presented in the note includes the following segmentation:

- amounts due to retail clients include retail and private banking,
- amounts due to corporate entities include corporate client segment (excluding public entity), small and medium enterprises segment, housing market clients segment,
- amounts due to public entities include corporate client segment – public entity.

## 36. Liabilities due to insurance operations

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Technical provisions | 114 597 | 176 441 |
| Liabilities due to insurer's investment contracts divided into: | 2 285 896 | 2 503 281 |
| Structured products | 37 051 | 252 184 |
| Products combining policy and deposit | 2 788 | 3 732 |
| Unit-linked insurance financial products | 2 246 057 | 2 247 365 |
| Total | 2 400 493 | 2 679 722 |

Vast majority of insurance products refer to investment products, in which risk is borne by a policyholder. Detailed information on insurance risk is included in the note 71 'Insurance risk management'.

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Liabilities due to insurance operations, gross, of which: | | |
| Provisions for life insurance | 110 239 | 188 099 |
| Provisions for unpaid claims and benefits | 85 504 | 67 316 |
| Technical provisions for life insurance if a policyholder bears the deposit (investment) risk | 2 088 955 | 2 284 839 |
| Provisions for premiums and provisions for unexpired risk | 115 992 | 138 909 |
| Provisions for the bonuses and rebates for the insured | 48 | 691 |
| Other technical provisions defined in the memorandum | - | 1 |
| Total liabilities due to insurance operations, gross | 2 400 738 | 2 679 855 |
| Reinsurer's share | (245) | (133) |
| Liabilities due to insurance operations, net | 2 400 493 | 2 679 722 |

## 37. Debt securities in issue

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Debt securities in issue | | |
| Financial instruments measured at amortised cost | 9 361 229 | 13 182 348 |
| bonds issued by PKO Finance AB | 7 332 263 | 12 032 368 |
| bonds issued by PKO Bank Polski SA | 1 645 917 | 747 825 |
| bonds issued by PKO Leasing SA | 363 130 | 402 155 |
| mortgage-backed securities issued by Bank Hipoteczny SA | 19 919 | - |
| Financial instruments measured at fair value through profit and loss - bank securities issued by PKO Bank Polski SA | 71 744 | 118 262 |
| Total | 9 432 973 | 13 300 610 |

(IN PLN THOUSAND)

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Debt securities in issue by maturity: | | |
| up to 1 month | 46 411 | 557 314 |
| from 1 month to 3 months | 482 538 | 635 363 |
| from 3 months to 1 year | 2 649 916 | 5 313 454 |
| from 1 year to 5 years | 2 149 637 | 3 085 517 |
| over 5 years | 4 104 471 | 3 708 962 |
| Total | 9 432 973 | 13 300 610 |

In 2015 the Bank issued bank bonds with a nominal value of PLN 2 800 thousand classified respectively as measured at amortized cost, as well as bank bonds in EUR with a nominal value of PLN 852 300 thousand, classified as liability measured at amortized cost. In 2015, bank securities and bank bonds with a nominal value of PLN 2 800 594 thousand were redeemed.

Change in fair value in respect of credit risk on bank securities issued amounts to PLN 5 thousand as at 31 December 2015 (as at 31 December 2014 it amounted to PLN 649 thousand).

In 2015 PKO Leasing SA issued bonds at a nominal value of PLN 2 045 000 thousand and redeemed bonds at nominal value of PLN 2 270 000 thousand. As at 31 December 2015, the Company's debt in respect of the bonds issued amounted to PLN 365 000 thousand (at nominal value) of which the debt due to the Bank amounted to PLN 240 thousand (at nominal value).

Bonds issued by PKO Finance AB:

| Issuance date | Nominal value | Currency | Maturity date | Carrying amount as at 31.12.2015 | Carrying amount as at 31.12.2014 |
|---|---|---|---|---|---|
| 21.10.2010* | 800 000 | EUR | 21.10.2015 | - | 3 427 536 |
| 07.07.2011 | 250 000 | CHF | 07.07.2016 | 1 003 047 | 901 443 |
| 25.07.2012 | 50 000 | EUR | 25.07.2022 | 214 573 | 213 768 |
| 21.09.2012 | 500 000 | CHF | 21.12.2015 | - | 1 772 805 |
| 26.09.2012 | 1 000 000 | USD | 26.09.2022 | 3 938 519 | 3 540 943 |
| 23.01.2014 | 500 000 | EUR | 23.01.2019 | 2 176 124 | 2 175 873 |
| Total | | | | 7 332 263 | 12 032 368 |

* Elimination of bonds held in the Brokerage House of PKO Bank Polski SA portfolio was taken into consideration.

## 38. Subordinated liabilities

| As at 31 December 2015 | Nominal value in currency | Nominal value in PLN | Currency | Maturity date | Liability balance in PLN |
|---|---|---|---|---|---|
| Subordinated bonds | 1 600 700 | 1 600 700 | PLN | 14.09.2022 | 1 616 619 |
| Subordinated loan | 224 000 | 882 426 | CHF | 24.04.2022 | 882 544 |
| Total | x | 2 483 126 | x | x | 2 499 163 |

| As at 31 December 2014 | Nominal value in currency | Nominal value in PLN | Currency | Maturity date | Liability balance in PLN |
|---|---|---|---|---|---|
| Subordinated bonds | 1 600 700 | 1 600 700 | PLN | 14.09.2022 | 1 619 833 |
| Subordinated loan | 224 000 | 780 013 | CHF | 24.04.2022 | 794 152 |
| Total | x | 2 380 713 | x | x | 2 413 985 |

As at 31 December 2015, the Bank had subordinated liabilities arising from:

- Own issue performed on 14 September 2012, subordinated bonds with ten-year maturity, with the Bank's right to a premature redemption of all debt securities from this programme, during 5 years from the issue date. A nominal value of the bonds is PLN 1 600 700 thousand. The proceeds obtained from new issue were, with the approval of the Polish Financial Supervision Authority, used for increasing the Bank's supplementary funds.
- Subordinated loan acquired by PKO Bank Polski SA from Nordea Bank Polska SA with a nominal value of CHF 224 000 thousand received from Nordea Bank AB (publ) under an agreement signed in April 2012, with 10 years maturity. The loan is included in the Bank's supplementary capital, in accordance with the decision of the Polish Financial Supervision Authority issued on 27 December 2012

(IN PLN THOUSAND)

| Change in subordinated liabilities | 2015 | 2014 |
|---|---|---|
| As at the beginning of the period | 2 413 985 | 1 620 857 |
| Increases (of which): | 168 033 | 870 178 |
| take of control over a subsidiary | - | 783 583 |
| accrued interest | 111 744 | 13 410 |
| currency translation differences | 56 204 | 73 062 |
| other | 85 | 123 |
| Decreases (of which): | (82 855) | (77 050) |
| repayment of interest | (82 854) | (76 569) |
| other | (1) | (481) |
| **Subordinated liabilities as at the end of the period** | **2 499 163** | **2 413 985** |

## 39. Other liabilities

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Accounts payable | 658 230 | 542 514 |
| Deferred income | 501 124 | 400 345 |
| Other liabilities (of which): | 2 196 816 | 2 011 744 |
| liabilities arising from funds transferred by BGF for the payments for depositors of SKOK in Wołomin | - | 356 461 |
| interbank settlements | 245 428 | 313 318 |
| liabilities relating to investment activities and internal operations | 141 782 | 235 231 |
| liabilities due to suppliers | 242 561 | 228 955 |
| liabilities and settlements of securities turnover | 484 925 | 228 550 |
| financial instruments settlements | 135 549 | 139 971 |
| liabilities due to social and legal settlements | 103 146 | 114 077 |
| liabilities arising from foreign currency activities | 198 571 | 88 609 |
| settlement of acquisition of machines, equipment, materials, works and services regarding construction of tangible assets and investing activity | 141 868 | 75 990 |
| liabilities relating to payment cards | 11 517 | 33 344 |
| liabilities due to transactions with financial and non-financial entities | 28 373 | 25 627 |
| liabilities due to insurance companies | 22 349 | 24 529 |
| liabilities from interest temporarily redeemed from the State budget | 18 662 | 18 603 |
| liabilities due to distribution of court fee stamps | 10 989 | 10 059 |
| BH liabilities araising from share subscriptions | 306 549 | - |
| other* | 104 547 | 118 420 |
| **Total** | **3 356 170** | **2 954 603** |
| of which financial liabilities ** | 2 340 804 | 2 321 761 |

* Item 'other' includes i.e. liabilities related to bails and guarantees.

** Financial liabilities include all items of 'Other liabilities' with the exception of 'Deferred income', 'Social and legal settlements', 'Liabilities of Brokerage House due to tender offer' and 'Other'.

As at 31 December 2015 and as at 31 December 2014, the Group had no overdue contractual liabilities.

(IN PLN THOUSAND)

## 40. Provisions

Provisions for legal claims are described in note 43 "Litigation".

Details on the provisions for off-balance sheet loan commitments granted are described in the note 56.9 'Off-balance sheet exposures provisions' and note 2.15 "Contingent liabilities".

Other provisions mainly include restructuring provision, and provisions for potential claims on impaired loans portfolios sold more on which has been presented in the note 75 'Information on loan bundle sale'.

| For the period ended 31 December 2015 | Provision for legal claims | Provisions for retirement benefits and anniversary bonuses | Provisions for loan commitments and guarantees granted | Other provisions* | Total |
|---|---|---|---|---|---|
| As at 1 January 2015, of which: | 47 480 | 39 847 | 103 844 | 132 667 | 323 838 |
| Short term provision | 47 165 | 3 141 | 73 707 | 132 667 | 256 680 |
| Long term provision | 315 | 36 706 | 30 137 | - | 67 158 |
| Take of control over subsidiaries | 2 343 | 128 | - | - | 2 471 |
| Increase/reassessment of provisions | 21 577 | 3 497 | 286 210 | 3 454 | 314 738 |
| Release of provisions | (33 406) | (1 764) | (304 233) | (7 655) | (347 058) |
| Use of provisions | (29 303) | (38) | - | (27 532) | (56 873) |
| Currency translation differences | (38) | - | (57) | - | (95) |
| Other changes and reclassifications | 13 716 | 4 363 | (3 026) | 20 | 15 073 |
| As at 31 December 2015, of which: | 22 369 | 46 033 | 82 738 | 100 954 | 252 094 |
| Short term provision | 22 054 | 3 575 | 64 045 | 100 954 | 190 628 |
| Long term provision | 315 | 42 458 | 18 693 | - | 61 466 |

* Included in 'Other provisions' are i.e.: restructuring provision of PLN 67 410 thousand and provision for potential claims on impaired loan portfolios sold in the amount of PLN 2 069 thousand, provisions for litigation, including judicial, which are the subject of compensation in the amount of PLN 479 thousand.

| For the period ended 31 December 2014 | Provision for legal claims | Provisions for retirement benefits and anniversary bonuses | Provisions for loan commitments and guarantees granted | Other provisions* | Total |
|---|---|---|---|---|---|
| As at 1 January 2014, of which: | 36 289 | 35 739 | 115 314 | 133 528 | 320 870 |
| Short term provision | 36 289 | 2 458 | 88 464 | 133 528 | 260 739 |
| Long term provision | - | 33 281 | 26 850 | - | 60 131 |
| Take of control over subsidiaries | 11 798 | 12 570 | 8 473 | 3 329 | 36 170 |
| Increase/reassessment of provisions | 11 472 | 4 693 | 383 509 | 10 380 | 410 054 |
| Release of provisions | (3 782) | (7 520) | (406 626) | (7 530) | (425 458) |
| Use of provisions | (625) | (6 881) | - | (3 047) | (10 553) |
| Currency translation differences | (131) | - | (49) | - | (180) |
| Other changes and reclassifications | (7 541) | 1 246 | 3 223 | (3 993) | (7 065) |
| As at 31 December 2014, of which: | 47 480 | 39 847 | 103 844 | 132 667 | 323 838 |
| Short term provision | 47 165 | 3 141 | 73 707 | 132 667 | 256 680 |
| Long term provision | 315 | 36 706 | 30 137 | - | 67 158 |

* Included in 'Other provisions' are i.a.: restructuring provision of PLN 93 557 thousand and provision of PLN 1 785 thousand for potential claims on impaired loan portfolios sold.

Provisions for legal claims were recognised in the amount of expected outflow of economic benefits.

(IN PLN THOUSAND)

## 41. Equity and shareholding structure of the Bank

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Share capital** | **1 250 000** | **1 250 000** |
| Reserve capital | 20 711 174 | 18 802 387 |
| General banking risk fund | 1 070 000 | 1 070 000 |
| Other reserves | 3 536 391 | 3 474 127 |
| Total reserves | 100 244 | 28 280 |
| Financial assets available for sale | (186) | 1 006 |
| Cash flow hedges | 170 646 | 31 046 |
| Actuarial gains and losses | (57 657) | 5 204 |
| Other comprehensive income | (12 559) | (8 976) |
| Currency translation differences from foreign operations | (216 501) | (192 692) |
| Undistributed profits | 1 222 413 | (60 658) |
| Net profit for the period | 2 609 564 | 3 254 122 |
| Non-controlling interests | (18 372) | (10 015) |
| **Total equity** | **30 264 913** | **27 615 551** |

Equity constitutes capital and reserves created in accordance with the legal regulations. The classification to particular components, discussed below, results from the Polish Commercial Companies' Code, the Banking Law and the requirements of IAS 1.7, IAS 1.78.e, IAS 1.54.q-r and IAS 1.79.b. Equity components of the subsidiaries, other than share capital, in a proportion equal to the interest in the subsidiary held by the parent company, are added to respective equity components of the parent company. The Group's equity includes only those parts of the equity of the subsidiaries which arose after the acquisition of shares by the parent company. In accordance with the legislations which are in force in Poland, only the equity of the parent company and the equity of specific subsidiaries, determined on the basis of stand-alone financial statements, are distributable.

Components of the equity:

- Share capital comprises solely the share capital of the parent company and is stated at nominal value in accordance with Memorandum of Association and entry to the Register of Entrepreneurs.
- Reserve capital is created according to the Memorandum of Association of the Group entities, from the distribution of net profits and from share premium less issue costs and it is to cover the potential losses of Group entities.
- General banking risk fund in PKO Bank Polski SA is created from net profit write-down according to 'The Banking Law' dated 29 of August 1997 (Journal of Laws 2015, item 128 with subsequent amendments), hereinafter referred to 'The Banking Law' and it is to cover unidentified risks of the Bank.
- Other reserves are created from the appropriation of net profits. It is uniquely to cover the potential losses in the statement of financial position.
- Non-controlling interests represent the part of capital in a subsidiary, which cannot be directly or indirectly assigned to the parent company.
- Other comprehensive income comprises the effects of valuation of financial assets available for sale and the amount of the related deferred tax, the effective part of cash flow hedging resulting from hedge accounting and the related deferred tax as well as actuarial gains and losses and the amount of the related deferred tax. Moreover, the item includes the share of the parent company in the revaluation reserve of associated entities and foreign exchange differences on translation to polish currency of the net result of the foreign operation as a rate constituting the arithmetical average of foreign exchange rates for the currency as at the day ending each of the months in the financial year published by the National Bank of Poland, and foreign exchange differences arising on the measurement of net assets in the foreign operation.

(IN PLN THOUSAND)

The Bank's shareholding structure

According to information available as at 31 December 2015 the Bank's shareholding structure is as follows:

| Name of entity | Number of shares | Number of votes % | Nominal value of 1 share | Share in equity % |
|---|---|---|---|---|
| As at 31 December 2015 | | | | |
| The State Treasury | 367 918 980 | 29,43 | 1 zł | 29,43 |
| Aviva Otwarty Fundusz Emerytalny[1] | 83 952 447 | 6,72 | 1 zł | 6,72 |
| Nationale-Nederlanden OFE | 64 594 448 | 5,17 | 1 zł | 5,17 |
| Other shareholders[2] | 733 534 125 | 58,68 | 1 zł | 58,68 |
| Total | 1 250 000 000 | 100,00 | --- | 100,00 |
| As at 31 December 2014 | | | | |
| The State Treasury | 392 406 277 | 31,39 | 1 zł | 31,39 |
| Aviva Otwarty Fundusz Emerytalny[1] | 83 952 447 | 6,72 | 1 zł | 6,72 |
| Nationale-Nederlanden OFE | 64 594 448 | 5,17 | 1 zł | 5,17 |
| Other shareholders | 709 046 828 | 56,72 | 1 zł | 56,72 |
| Total | 1 250 000 000 | 100,00 | --- | 100,00 |

1) Number of shares held as at 29 January 2013, reported by Aviva OFE after exceeding 5% of share 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) Including Bank Gospodarstwa Krajowego, which at the publication date of the report for the third quarter of 2015 held 24 487 297 shares, which entitles to 1.96% of votes at the General Shareholders' Meeting.

All the shares of PKO Bank Polski SA carry the same rights and obligations. Shares are not preference shares, in relation to voting rights and dividends. However, 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 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.

The Bank's shares are listed on the Warsaw Stock Exchange.

The structure of PKO Bank Polski SA's share capital:

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

In 2015 and in 2014, there were no changes in the amount of the share capital of PKO Bank Polski SA. Issued shares of PKO Bank Polski SA are not preferred shares and are fully paid.

(IN PLN THOUSAND)

# OTHER NOTES

## 42. Contingent liabilities and off-balance sheet liabilities received

### 42.1. Securities covered with underwriting agreements (maximum liability of the Group to acquire securities):

| Issuer of securities underwritten | Type of underwritten securities | Off-balance sheet liabilities | Contract period |
|---|---|---|---|
| As at 31 December 2015 | | | |
| Company A | corporate bonds | 1 950 000 | 31.12.2020 |
| Company B | corporate bonds | 1 055 000 | 31.07.2020 |
| Company C | corporate bonds | 342 700 | 15.06.2022 |
| Company D | corporate bonds | 80 600 | 31.12.2022 |
| Company E | corporate bonds | 60 000 | 23.11.2021 |
| Company F | corporate bonds | 28 224 | 31.12.2029 |
| Company G | corporate bonds | 17 900 | 31.12.2026 |
| Company H | corporate bonds | 4 424 | 31.01.2016 |
| Company I | corporate bonds | 3 403 | 30.09.2030 |
| Total | | 3 542 251 | |
| As at 31 December 2014 | | | |
| Company B | corporate bonds | 1 055 000 | 31.07.2020 |
| Company C | corporate bonds | 1 049 000 | 15.06.2022 |
| Company D | corporate bonds | 91 700 | 31.12.2022 |
| Company J | corporate bonds | 50 000 | 19.12.2022 |
| Total | | 2 245 700 | |

All contracts relates to the Agreement for Organisation, Conducting and Servicing of the Bond Issuance Programme.

All securities of the Bank under the sub-issue (underwriting) programme have an unlimited transferability, are not listed on the stock exchange and are not traded on a regulated OTC market.

### 42.2. Contractual commitments

As at 31 December 2015 the value of contractual commitments concerning intangible assets amounted to PLN 178 899 thousand (as at 31 December 2014 it amounted to PLN 200 662 thousand).

As at 31 December 2015 the value of contractual commitments concerning tangible fixed assets amounted to PLN 50 278 thousand (as at 31 December 2014 it amounted to PLN 96 772 thousand).

### 42.3. Loan commitments granted

| by nominal value | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Credit lines and limits | | |
| to financial entities | 2 306 177 | 533 975 |
| to non-financial entities | 36 157 856 | 34 540 558 |
| to public entities | 4 080 379 | 3 258 574 |
| Total | 42 544 412 | 38 333 107 |
| of which: irrevocable loan commitments | 30 513 878 | 27 730 846 |

(IN PLN THOUSAND)

## 42.4. Guarantee liabilities granted

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Guarantees in domestic and foreign trading | 7 555 837 | 9 248 321 |
| to financial entities | 85 504 | 160 298 |
| to non-financial entities | 7 463 037 | 9 066 109 |
| to public entities | 7 296 | 21 914 |
| Guarantees and pledges granted – domestic corporate bonds | 5 430 649 | 4 516 150 |
| to non-financial entities | 4 930 649 | 4 514 050 |
| to financial entities | 500 000 | 2 100 |
| Letters of credit granted | 1 838 101 | 702 768 |
| to non-financial entities | 1 838 000 | 702 768 |
| to public entities | 101 | - |
| Guarantees and pledges granted – payment guarantee to financial entities | 143 646 | 17 278 |
| Guarantees and pledges granted – domestic municipal bonds to public entities | 59 320 | 55 008 |
| Total | 15 027 553 | 14 539 525 |
| of which: good performance guarantees granted | 2 378 395 | 1 942 582 |

In the years ended on 31 December 2015 and 31 December 2014 respectively, the Bank and its subsidiaries did not issue any guarantees in respect of loans or advances and did not issue any guarantees to a subsidiary or other entity thereof with a total value accounting for 10% of the Group's equity.

Information on provisions for off-balance sheet financial liabilities and guarantees is included in the note 40 'Provisions'.

## 42.5. Liabilities granted by maturity

31 December 2015

| | up to 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Financial liabilities granted | 28 969 262 | 814 785 | 3 746 741 | 2 897 444 | 6 116 180 | 42 544 412 |
| Guarantee liabilities granted | 1 415 091 | 1 604 025 | 2 220 096 | 9 113 673 | 674 668 | 15 027 553 |
| Total | 30 384 353 | 2 418 810 | 5 966 837 | 12 011 117 | 6 790 848 | 57 571 965 |

31 December 2014

| | up to 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Financial liabilities granted | 23 931 316 | 958 392 | 4 627 057 | 3 832 809 | 4 983 533 | 38 333 107 |
| Guarantee liabilities granted | 225 396 | 1 336 294 | 2 552 934 | 8 595 674 | 1 829 227 | 14 539 525 |
| Total | 24 156 712 | 2 294 686 | 7 179 991 | 12 428 483 | 6 812 760 | 52 872 632 |

## 42.6. Off-balance sheet liabilities received

| By nominal value | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Financial | 505 350 | 2 004 673 |
| Guarantees* | 6 831 132 | 4 725 751 |
| Total | 7 336 482 | 6 730 424 |

* The position off-balance sheet guarantees received includes mainly guarantees under the programme to support micro, small and medium-sized enterprises - a guarantee of de minimis.

Due to the provisions of the Agreement which require 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 excess over the annual cost of risk set at 40 basis points for each year of the above-mentioned four-year contract period of the Special Indemnity Agreement.

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As a part of works related to the settlement of the transaction, the Bank has made a valuation of the Special Indemnity Agreement on the basis of conducted analysis of probability of cash flows arising from the Agreement. The estimated expected value is zero.

Right to sell or pledge collateral established for the Group

As at 31 December 2015 and as at 31 December 2014, there was no collateral established for the Group which the Group was entitled to sell or encumber with another pledge in the event of fulfilment of all obligations by the owner of the collateral.

## 43. Legal claims

As at 31 December 2015, the total value of court proceedings in which the PKO Bank Polski SA Group entities (including the Bank) are a defendant was PLN 638 019 thousand, of which PLN 45 792 thousand refers to court proceedings in Ukraine (as at 31 December 2014 the total value of the above-mentioned court proceedings was PLN 427 555 thousand), while as at 31 December 2014 the total value of court proceedings in which the entities of the PKO Bank Polski SA Group (including the Bank) are the plaintiff was PLN 697 041 thousand, of which PLN 92 680 thousand referred to court proceedings in Ukraine, mainly related to collection of dues from loans granted by KREDOBANK SA (as at 31 December 2014 the total value of the above-mentioned court proceedings was PLN 767 505 thousand).

The most significant legal claims of the PKO Bank Polski SA Group are described below:

**a) Unfair competition proceeding**

- **Proceedings against practices that restrict competition in the payments market using cards in Poland**

The Bank is a party to proceeding initiated by President of the Competition and Consumer Protection Office (Urząd Ochrony Konkurencji I Konsumentów - UOKiK) on the basis of a decision dated 23 April 2001 upon the request of the Polish Trade and Distribution Organisation – Employers' association (Polska Organizacja Handlu i Dystrybucji - Związek Pracodawców) against the operators of the Visa and Europay payment systems and the banks issuing Visa and Europay/Eurocard/Mastercard banking cards. The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed 'interchange' fees for transactions made using mentioned above cards as well as limiting access to this market by external entities. On 29 December 2006, UOKiK decided that the practices, consisting of joint establishment of 'interchange' fee, did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among others, PKO Bank Polski SA, in the amount of PLN 16 597 thousand.

The Bank appealed against the decision of the President of UOKiK to Court for the Competition and Consumer Protection (Sąd Ochrony Konkurencji i Konsumentów - SOKiK) and on 20 December 2011 a hearing was held during which no factual resolution of the appeals was reached. The SOKiK obligated MasterCard to submit explanations concerning the issue and scheduled the date of the next meeting  for 9 February 2012. The date was postponed for 24 April 2012, and next SOKiK postponed proceedings with a motion of suspension until 8 May 2012. On 8 May 2012, SOKiK suspended proceedings until the final conclusion of proceedings before the European Union Court in the case MasterCard against the European Commission. On 24 May 2012, the European Union Court upheld the decision of the European Commission banning multilaterally agreed 'interchange' fees applied by MasterCard. On 28 May 2012 the participant to the proceedings, Visa Europe Ltd, and on 29 May 2012 the plaintiffs' attorney, including PKO Bank Polski SA, filed a complaint against the decision of SOKiK dated 8 May 2012. In August 2012, the European Court of Justice received the appeal of MasterCard against the verdict of the EU Court of 24 May 2012 rejecting the appeal of mentioned above. On 25 October 2012, the Court of Appeal in Warsaw changed the decision of 8 May 2012 and dismissed the motion of MasterCard for suspending the proceedings. In January 2013 the Bank's attorney received the court's decision in this case and in February 2013, court files were transferred to the court of first instance. The matter is currently the subject of a reinvestigation by the SOKiK.

The hearing was on 29 October 2013 and on 21 November 2013 the judgment was announced, by which SOKiK reduced the penalty imposed on the Bank to the amount of PLN 10 085 thousand. The verdict is not binding. On 7 February 2014 the judgment was appealed on behalf of the Bank and eight plaintiffs represented by the Bank's attorney. The judgment was also appealed by other participants of the proceedings, i.e. by the President of the Competition and Consumer Protection Office (UOKiK) and of the Polish Trade and Distribution Organisation (POHiD) (appeals aimed to impose on the participants of the agreements stricter financial penalties), and: Visa Europe Limited, Bank Pocztowy S.A., Bank Gospodarki Żywnościowej S.A., mBank S.A. (formerly: BRE Bank S.A.), Deutsche Bank PBC S.A., HSBC Bank Polska S.A. (appeals aimed at imposing more strict fines on participants to the agreement). Copies of these appeals have been delivered to the Bank's attorney, who responded to them. The court files was transferred from SOKiK to the Court of Appeal in Warsaw. After hearing the parties' attorneys and stakeholders at the hearing on 22 September 2015, the Court postponed pronouncing the judgment until 6 October of 2015. In its verdict of 6 October 2015, the court dismissed the appeal of banks and Visa, while the appeal of the UOKiK. The Court restored the original amount of the imposed penalties stipulated in the decision of the OCCP, i.e. the penalty in the amount of PLN 16 597 thousand – penalty imposed on PKO Bank Polski SA instead of the penalty in the amount of PLN 10 359 thousand stipulated in the Court's judgment of 21 November 2013 and the penalty in the amount of PLN 4 825 thousand – penalty imposed on Nordea Bank Polska SA instead of the penalty in the amount of PLN 2 586 thousand stipulated in the court judgment mentioned above. The penalties were paid by the Bank in October 2015. The Bank has not received the judgment with justification from the Court of Appeal yet.

As at 31 December 2015 the Group (the Bank) is also a party to i.a. following proceedings:

- <u>Before the Court of Appel – as a result of an appeal from the verdict of SOKiK issued in result of the complaint from the President of UOKiK</u>

1) due to suspicion of unfair proceedings violating collective interests of consumers in the presentation in advertising campaigns of consumer loan under the marketing name 'Max pożyczka Mini Ratka', information that might not be clear for an average consumer and mislead him as to the availability of loans on promoted conditions.

   On 28 December 2012, the President of UOKiK imposed a fine on the Bank in the amount of PLN 2 845 thousand. The Bank appealed against the decision of the President of UOKiK on 16 January 2013. On 13 January 2015 SOKiK issued a verdict , which annulled in full the decision of the President of the UOKiK, ie. cancelled also financial penalty imposed on the Bank. On 26 February 2015 the President of the UOKiK filed an appeal against the verdict. On 20 March 2015, the Bank answered the appeal seeking to dismiss the appeal in its entirety as unfounded. No trial date has been set. The appeal proceeding is pending. The case is in progress. As at 31 December 2015 the Bank has a provision in the same amount (the position 'Provisions' in the statement of financial position). ,

2) due to suspicion of using of unfair contractual provisions in forms of consumer loan agreements, with the exclusion of credit card agreements.

   In accordance to decision from 31 December 2013, the Bank's activities were considered as practices violating collective interests of consumers and a fine in the amount of PLN 29 064 thousand. The Bank appealed against this decision. By judgment of 9 July 2015 SOKiK fully annulled the decision of the President of the UOKiK. On 28 August 2015 the President of UOKiK appealed against that judgment. On 11 September 2015 the Bank responded to the appeal rejecting the allegations of the President of the UOKiK. No trial date has been set. The appeal proceeding is pending As at 31 December 2015 the Bank had no provision in this respect.

**initiated by Bank - at the conclusion of the appeal proceeding brought by the Bank to SOKiK against the decision of the president of UOKiK in connection with the use of unfair contractual terms in patterns of individual contracts (IKE)**

On 19 December 2012, the President of UOKiK imposed a fine on the Bank in a total amount of PLN 14 697 thousand, of which:

1) PLN 7 111 thousand for not indicating in the IKE agreements responsibilities of the Bank for timely and proper carrying out the monetary settlements and compensation for the delay in execution of a holder instruction,
2) PLN 4 741 thousand for application in the form of IKE agreements, an open list of termination conditions,
3) PLN 2 845 thousand for application a clause, entered in the register, defining for disputes with customers a court with jurisdiction over the seat of PKO Bank Polski SA's branch, carrying the IKE deposit account.

The Bank appealed against the decision of the President of UOKiK on 2 January 2013. SOKiK reduced the penalty imposed on the Bank to the amount of PLN 4 000 thousand by the court judgement of 25 November 2014, as regards to:

- the practice described in the point 1 above, it reduced the penalty to the amount of PLN 2.5 million,
- the practice described in the point 2 above, it reduced the penalty to the amount of PLN 1.5 million,
- the practice described in the point 3 above, the penalty was repealed, as the Court considered that the practice of the Bank did not violate collective interests of consumers.

In January 2015 both the Bank and the President of the UOKiK appealed against the judgment . No trial date has been set. The appeal proceeding is in progress. As at 31 December 2015 the Bank had a provision for the above-mentioned amounts in the amount of PLN 4 000 thousand (the position 'Provisions' in the statement of financial position).

- **before SOKiK initiated by on individual:**

1) on the recognition as abusive and prohibiting the respondent from using in trading with customers the provisions in forms of agreements for loans denominated in CHF, indicating that the currency conversion rules used by the Bank for the purpose of loan payment were against good practice and highly violated consumer interests. The lawsuit was delivered to the Bank on 20 April 2015 and on 20 May 2015 the Bank replied to the lawsuit. On 20 November 2015 the individual proxy's answer for a response to the claim of the Bank was delivered. The case is in progress.
2) on the recognition as abusive and prohibiting the respondent from using in trading with customers the provisions in forms of agreements for loans denominated in CHF, indicating that the currency conversion rules used by the Bank for the purpose of loan payment and for the purpose of conversion of installments as well as decisions concerning the amount of interest rate were against good practice and highly violated consumer interest. The lawsuit was delivered to the Bank on 4 February 2015. On 6 March 2015 the Bank replied to the lawsuit, filling motion for its dismissal. The Court ordered the delivery of the Bank's response to the plaintiff, requiring him to reply to the claims of the Bank – an order in this regard was delivered to the plaintiff on 15 May 2015. On 23 June 2015, the Bank appealed to exclude the judge hearing the case in the Court of Appeal. By resolution of 11 August 2015, the Court cut off the judge and by resolution of 21 September 2015 the court dismissed the request of the Bank for dismissal. The Bank appealed against that decision. The case is in progress.
3) to establish invalidity of the clauses contained in the mortgage contract by regarding them as illegal (non-existent) and prohibiting the respondent from using in trading with customers the provisions in forms of agreements used by the defendant in the exercising economic activity . The case was received by the Bank on 7 October 2015 , the Parties exchanged pleadings . At the hearing on 19 January 2016 the court dismissed the proceeding. Bank filed for delivering a copy of the verdict with the justification.
4) for recognition as illegal of the provisions in forms of mortgage product Nordea - Habitat and the surety agreement. In the plaintiff's opinion, the provisions concerning substantive an temporal scope of civil surety o the loan shape the rights and obligations of consumers in a manner inconsistent with good practice and grossly violate their interests. These provisions constitute the prohibited clauses. The Bank filed its response to the lawsuit. The case was received by the Bank on 18 August 2015. On 16 September 2015, the Bank responded to the lawsuit. The case is in progress.
5) for recognition as illegal and prohibiting the respondent from using in trading with customers the provisions in forms of agreements for a loan denominated in CHF used by Nordea Bank Polska SA indicating that the disputed provisions concerning conversion rules of the FX rates for the purposes of payment of the loan are contrary to accepted principles of morality and grossly violate the interests of consumers. The Bank responded to the lawsuit. Executing the Court's will, the plaintiff filed a replica to response to the lawsuit. The Court dismissed the proceeding. By letter dated 22 December 2015, the Bank filed for justification of the verdict.
6) for recognition as illegal of the provisions of a standard loan agreement. Plaintiff (appraiser) accuses the Bank that it only accepts real estate valuations prepared by designated appraisers which seriously violates the interests of consumers by imposing on consumers, as the weaker party to the contract, onerous conditions by eliminating the right to obtain the valuation services from the chosen company. In response to the lawsuit, which was received by the Bank on 15 December 2015, the Bank gave the answer concerning the lawsuit on 13 January 2016. The case is in progress.

- <u>before the President of UOKiK:</u>

1) a preliminary proceeding initiated on 29 August 2014 in order to determine whether the Bank, in the Aurum loan agreement, misled its customers by presenting insurance costs in these agreement and the information forms. The Bank answered to UOKiK;
2) a preliminary proceeding initiated on 9 October 2014 concerning the possibility of customers using the 'chargeback' complaint procedure. The Bank replied to the UOKiK's call. There is no such complaint procedure in the Bank's relationship with its customers (it is typical of the Bank – card organisation relationship);
3) preliminary proceeding of 26 January 2015 concerning the provision of information on currently applied policies for securing and conversion of mortgage loans denominated in CHF by the Bank, in the context of the recent changes in the exchange rate of the Swiss franc; Since today, letters were only exchanged as part of the proceedings;
4) preliminary proceeding of 5 February 2015 concerning the Bank's treatment of housing loans secured with a mortgage and expressed in/denominated in/indexed to CHF (negative LIBOR, spread reduction, exchange rate tables); The proceeding is in progress;
5) preliminary proceeding initiated on 12 February 2015 concerning whether the Bank applies the fee of PLN 20 to former clients of Nordea Bank Polska SA, as specified in Nordea Bank Polska SA's Tariff, for servicing a seizure of receivables in case when an enforcement order has been issued. By letter dated 24 February 2015, the Bank gave an answer to UOKiK explaining that The Bank does not use such tariff;
6) preliminary proceeding of 2 March 2015 concerning the Bank's cooperation with property appraisers in the preparation of appraisal report used for the valuation of a property securing a loan. On 23 March 2015 and on 7 May 2015 the Bank answered to UOKiK. By letter dated 26 October 2015 the Bank responded to additional to UOKiK's call;
7) preliminary proceeding of 9 March 2015 concerning the documents specifying fees and commissions applied by the Bank, identification of all amendments to these documents in 2014-2015, the reasons behind the amendments implemented by the Bank and the manner of communicating the amendments to consumers. Respectively on 13 April 2015, 21 April 2015 and 8 May 2015 the Bank submitted required documentation and information to UOKiK;
8) preliminary proceeding of 2 April 2015 concerning the analysis of consumer loans market, including specification of its structure and the structure of fees in this group of products. On 29 April 2015 the Bank delivered to UOKiK questionnaire with required information. On 16 October 2015 the Bank submitted additional questionnaires to UOKiK's call;
9) preliminary proceeding of 2 April 2015 concerning the analysis of mortgage loans market. On 24 September 2015 the Bank delivered a questionnaire containing the required information to UOKiK. By letter dated 22 December 2015 UOKiK requested the Bank to deliver additional questionnaire. The Bank submitted the questionnaire to UOKiK;
10) preliminary proceeding of 20 April 2015 concerning the fees applied by the Bank for the transactions made by customers using credit cards abroad. On 28 May 2015 the Bank delivered all required information and documents to UOKiK. On 28 May 2015 the Bank submitted required documentation and information to UOKiK;
11) preliminary proceeding of 10 September 2015 concerning debit cards, including debit card fees and conditions for exemption from the fees. the Bank submitted required documentation and information to UOKiK.

- **As at 31 December 2015, PKO Życie Towarzystwo Ubezpieczeń SA – a subsidiary of the Bank – is a party to:**

1) a proceeding before the President of UOKiK concerning liquidation charges and policy redemption value due to insurance agreement cancellation in some forms of life insurance agreements, as well as imprecise information on the total redemption value due to insurance agreement cancellation applied in these forms.

   On 15 October 2015 the President of UOKiK issued, at the request of the Company a binding decision which made PKO Life Insurance Company to introduce amendments to 25 forms of the policies of the Insurance Capital Fund in relation to charges for early resignation. The Company's liability resulting from the above-mentioned decision will consist in particular in the fact that with regard to these 25 forms:

   a) Lliquidating charges incurred by the existing customers in the case of insurance with regular premium will not be higher than 25 % of the value of contributions paid , and 4 % in the case of contracts with one-off premium,
   b) PKO Życie Towarzystwo Ubezpieczeń SA will provide consumers with a proposal of an annex to the contract of insurance, or equivalent agreement,
   c) PKO Życie Towarzystwo Ubezpieczeń SA will inform customers about the possibility of using the new conditions through the website, applications for customers and directly customer - every time the customer indicates that it intends to terminate the contract.

   This decision became final on 17 November 2015. PKO Życie Towarzystwo Ubezpieczeń SA has, in principle, 6 months ( counted from the day the decision becomes final ) for implementation of the obligations. Within nine months from the validation of the decision PKO Życie Towarzystwo Ubezpieczeń SA is required to submit the report on the implementation of the obligations arising from the decision to the President of the UOKiK. The decision does not exhaust the possibility of an pursuing by the existing customers of their rights through civil law. In connection with the decision becoming final, the provision for potential administrative penalty associated with this proceeding in the amount of PLN 8 127 thousand was released. As of 31 December 2015 PKO Życie Towarzystwo Ubezpieczeń SA has no provision for an administrative penalty in respect of the proceeding. At the same time on 31 December 2015 PKO Życie Towarzystwo Ubezpieczeń SA maintains the adequate to the conditions of the decision level of loss provisions.

2) eleven proceedings before SOKiK initiated by individuals to determine some of provisions in the forms of life insurance agreements to be illegal; in all cases the Company responded to the lawsuit and applied for its dismiss due to bringing legal action after 6 months since the day of giving up their application, in this case there is no risk of imposing financial penalty on the Company.

(IN PLN THOUSAND)

3) a proceeding before the Supreme Court as a result of the cassation complaint brought by the Company against the judgement of the Court of Appeal in relation to the fine imposed on the Company in 2010 by the President of UOKiK for the violation of the collective interests of consumers by the Company (fine was paid in 2013); the Supreme Court issued a ruling reversing the appealed ruling in the part concerning the amount of the fine and referred the case for reconsideration to the court of second instance.

**b) Re-privatisations claims relating to properties held by the Group**

As at the date of these financial statements the following proceedings are pending:

1) five administrative proceedings, of which one is suspended, to invalidate administrative decisions issued by public administration authorities with respect to properties held by the PKO Bank Polski SA Group entities (including the Bank). These proceedings, in the event of an unfavourable outcome for the Group may result in re-privatisation claims being raised. Given the current status of these proceedings as regards stating the invalidity of decisions and verdicts of public administration bodies, it is not possible to assess their potential negative financial effects for the Group,
2) five court proceedings, of which one is suspended, in relation to Bank's two properties pertaining to release or return the premises and the property, payment of fee for non-contractual use of property and regulation of the legal status of the property,
3) three administrative and two court proceedings in relation to a part of two properties owned by subsidiaries of the Bank for requesting the return of the property and declaration of adverse possession.

The proceeding concerning a complaint brought by Centrum Finansowe Puławska Sp. z o.o. ('CFP') concerning the use of a property located at Puławska and Chocimska street in Warsaw, on which the Bank's office is currently located, are pending before the Regional Administrative Court in Warsaw. The proceedings concern rendering invalid the decision of the Local Government Court of Appeal (SKO) of 10 April 2001, which stated that the decision of the Council of the Capital City of Warsaw of 1 March 1954 was issued in gross violation of the law. Due to the liquidation of CFP and removing it from the register of companies and then distribution of its assets, the transfer of the right to perpetual usufruct of said plot was issued to the Bank, a motion for participation in the proceeding was filed on 23 May 2012 on behalf of the Bank. During the hearing on 18 December 2012, the Regional Administrative Court in Warsaw granted the Bank the right to participate in the proceeding due to the fact that the rights to the property in question had been transferred to the Bank. After the hearing on 7 May 2013, the Court dismissed the complaint. The judgement may be appealed against to the Supreme Administrative Court. A copy of the judgment together with the explanation was served for the Bank on 20 June 2013. A cassation complaint was filed on 17 July 2013. On 3 June 2015 the trial took place during which the Supreme Administrative Court upheld the Bank's write off from the Regional Administrative Court in Warsaw verdict of 23 August 2012 concerning the re-privatisation of the part of grounds at Puławska 15 street. On 15 September 2015 the letter to hang up the proceedings by the Minister of Infrastructure and Development, was addressed to the Minister of Infrastructure and Development, with a request for remission of the proceedings or the refusal to annul the resolution of governor of the Warsaw of 29 September 1991 and to the Local Government in concerning issuing a decision on refusal to annul the resolution of SKO in Warsaw of 10 April 2001. The case is in progress.

In the opinion of the Management Board of PKO Bank Polski SA the probability of significant claims against the Bank and its direct and indirect subsidiaries in relation to the above mentioned proceedings is remote.

## 44. Supplementary information to the consolidated statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash on nostro accounts with the National Bank of Poland, current amounts due from banks, as well as other cash equivalents with maturities up to 3 months from the date of acquisition.

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Cash and balances with the central bank | 13 743 864 | 11 738 371 |
| Current amounts due from banks | 3 520 838 | 2 516 484 |
| Total | 17 264 702 | 14 254 855 |

Cash flows from interests and dividends, both received and paid

| Interest income - received | 2015 | 2014 |
|---|---|---|
| Interest income from loans and advances granted - received | 6 183 601 | 6 593 718 |
| Interest income from investment securities - received | 696 003 | 577 828 |
| Interest income from securities designated upon initial recognition at fair value through profit and loss - received | 243 691 | 341 615 |
| Interest income from placements - received | 134 366 | 167 377 |
| Interest income from securities from held for trading portfolio - received | 55 917 | 60 282 |
| Interest income from hedging instruments | 476 850 | 276 638 |
| Other interest (mainly interest income on current accounts, purchased debt, realised guarantees) - received | 1 128 955 | 1 186 604 |
| Total | 8 919 383 | 9 204 062 |

(IN PLN THOUSAND)

| Interest expense – paid | 2015 | 2014 |
|---|---|---|
| Interest expense on deposits – paid | (1 757 696) | (1 654 030) |
| Interest expense on debt securities in issue - paid | (520 524) | (444 150) |
| Interest expense on loans and advances - paid | (102 252) | (124 620) |
| Other interest (mainly interest expense on current accounts, premium from debt securities, interest expense on cash collateral liabilities) - paid | (587 877) | (599 011) |
| Total | (2 968 349) | (2 821 811) |

| Dividend income - received | 2015 | 2014 |
|---|---|---|
| Dividend income from joint ventures and associates - received* | 25 571 | 21 387 |
| Dividend income from other entities - received | 10 658 | 6 366 |
| Total | 36 229 | 27 753 |

* Position applies to dividends received from subsidiaries under the equity method

| Dividend expense – paid | 2015 | 2014 |
|---|---|---|
| Dividend paid to equity holders of the parent company | - | (937 500) |
| Total | - | (937 500) |

Cash flow from operating activities – other adjustments

| Other adjustments | 2015 | 2014 |
|---|---|---|
| Changes resulting from a business combination | 6 096 | - |
| Changes resulting from taking of control over subsidiaries | - | 105 713 |
| Valuation of debt securities in issue | 139 600 | 88 843 |
| Interest accrued, discount, premium on debt securities | (1 084 615) | (943 465) |
| Hedge accounting | (62 861) | 130 797 |
| Actuarial gains and losses | (4 491) | (1 537) |
| Valuation and impairment allowances for investments in associates, joint ventures and other changes | (69 385) | (12 794) |
| Currency translation differences from foreign operations | (23 855) | (63 490) |
| Disposal and impairment allowances for tangible fixed assets and intangible assets | (107 447) | (50 045) |
| Total | (1 206 958) | (745 978) |

Explanation of differences between the statement of financial position and the cash flow statement changes of items presented under operating activities in the statement of cash flows

| (Gains) losses on sale and disposal of tangible fixed assets and intangible assets under investing activities | 2015 | 2014 |
|---|---|---|
| Income from sale and disposal of tangible fixed assets and intangible assets | (103 686) | 55 822 |
| Gain on sale of non-current assets held for sale | - | (73 451) |
| Costs of sale and disposal of tangible fixed assets and intangible assets | 90 162 | - |
| Total | (13 524) | (17 629) |

| Interests and dividends | 2015 | 2014 |
|---|---|---|
| Interest received from investment securities, presented under investing activities | (727 359) | (632 863) |
| Dividends received, presented under investing activities | (36 228) | (27 899) |
| Interest paid from loans granted, presented under financing activities | 653 116 | 590 690 |
| Total | (110 471) | (70 072) |

(IN PLN THOUSAND)

| Change in amounts due from banks | 2015 | 2014 |
|---|---|---|
| Change in the balance of the statement of financial position | (2 066 286) | (593 245) |
| Changes resulting from a business combination | 33 050 | - |
| Exclusion of net assets of entities under control | - | 420 406 |
| Exclusion of cash acquired of entities under control | - | (217 107) |
| Change in impairment allowances on amounts due from banks | (294) | 28 472 |
| Exclusion of a change in the balance of cash and cash equivalents | 1 004 354 | 877 865 |
| Total | (1 029 176) | 516 391 |

| Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss | 2015 | 2014 |
|---|---|---|
| Change in the balance of the statement of financial position | 1 710 275 | (1 962 937) |
| Exclusion of net assets of entities under control | - | 5 599 561 |
| Total | 1 710 275 | 3 636 624 |

| Change in derivative financial instruments (asset) | 2015 | 2014 |
|---|---|---|
| Change in the balance of the statement of financial position | 1 147 553 | (2 493 962) |
| Exclusion of net assets of entities under control | - | 28 384 |
| Total | 1 147 553 | (2 465 578) |

| Change in loans and advances to customers | 2015 | 2014 |
|---|---|---|
| Change in the balance of the statement of financial position | (10 916 324) | (29 874 122) |
| Changes resulting from a business combination | 571 420 | - |
| Exclusion of net assets of entities under control | - | 24 877 227 |
| Change in impairment allowances on amounts due from customers | (264 732) | (1 371 697) |
| Total | (10 609 636) | (6 368 592) |

| Change in other assets, inventories and non-current assets held for sale | 2015 | 2014 |
|---|---|---|
| Change in the balance of the statement of financial position | (46 605) | (233 402) |
| Changes resulting from a business combination | 45 833 | - |
| Exclusion of net assets of entities under control | - | 78 801 |
| Classification to non-current assets held for sale | - | 173 044 |
| Change in impairment allowances on other receivables | (78 199) | 3 855 |
| Total | (78 971) | 22 298 |

| Change in amounts due to banks | 2015 | 2014 |
|---|---|---|
| Change in the balance of the statement of financial position | (1 105 893) | 15 647 507 |
| Exclusion of net assets of entities under control | - | (14 848 744) |
| Recognition of borrowings/repayment of long-term loans received from banks in financing activities | 2 696 189 | (10 947 679) |
| Total | 1 590 296 | (10 148 916) |

(IN PLN THOUSAND)

| Change in amounts due to customers | 2015 | 2014 |
|---|---|---|
| Change in the balance of the statement of financial position | 21 371 695 | 22 482 585 |
| Changes resulting from a business combination | (595 128) | - |
| Exclusion of net assets of entities under control | - | (13 490 345) |
| Recognition of long-term loans and advances received from financial institutions other than banks/repayment of these loans and advances in financing activities | (81 377) | 84 898 |
| Total | 20 695 190 | 9 077 138 |

| Change in debt securities in issue | 2015 | 2014 |
|---|---|---|
| Change in the balance of the statement of financial position | (3 867 637) | 2 754 164 |
| Recognition of long-term debt securities in issue received/repayment of these debt securities in issueto financing activities | 4 519 553 | (1 956 702) |
| Total | 651 916 | 797 462 |

| Change in provisions and impairment allowances | 2015 | 2014 |
|---|---|---|
| Change in the balance of the statement of financial position | (71 744) | 2 968 |
| Changes resulting from a business combination | (334 808) | - |
| Exclusion of net assets of entities under control | - | (43 985) |
| Change in impairment allowances on amounts due from banks | 294 | (28 472) |
| Change in impairment allowances on amounts due from customers | 264 732 | 1 371 697 |
| Change in impairment allowances on other receivables | 78 199 | (3 855) |
| Total | (63 327) | 1 298 353 |

| Change in other liabilities, liabilities due to insurance operations and subordinated liabilities | 2015 | 2014 |
|---|---|---|
| Change in the balance of the statement of financial position | 207 516 | 3 880 216 |
| Changes resulting from a business combination | (5 772) | - |
| Exclusion of net assets of entities under control | - | (3 806 803) |
| Recognition of inflows/repayment of subordinated liabilities in financing activities | - | 242 464 |
| Total | 201 744 | 315 877 |

In 2015, the Group sold associates and joint ventures in the amount of PLN 22 340 thousand to NEPTUN – fizan managed by PKO Towarzystwo Funduszy Inwestycyjnych SA, in which shares of two companies were sold and shares of one were in-kind contribution. Sold associates and joint ventures had in total: cash and cash equivalents in the amount of PLN 21 491 thousand, other assets in the amount of PLN 118 591 thousand and liabilities in the amount of PLN 110 355 thousand.

(IN PLN THOUSAND)

## 45. Transactions with the State Treasury and related parties

The State Treasury has control over the Bank as it holds a 29,43% interest in the Bank's share capital. The Bank's shareholding structure is described in detail in the note 41 'Equity and shareholding structure of the Bank' to these financial statements.
Receivables, securities and liabilities arising from transactions conducted with the State Treasury, budgetary units and entities in which the State Treasury is the shareholder are disclosed in the Groups's statement of financial position. In accordance with the Act of 30 November 1995 in relation to State support in the repayment of certain housing loans, reimbursement of guarantee premium paid and amendments of several acts (Journal of Laws, 2013, No. 763) PKO Bank Polski SA receives payments from the State budget in respect of redemption interest receivable on housing loans.

| | 2015 | 2014 |
|---|---|---|
| Income due to temporary redemption by the State budget of interest on housing loans from | 85 041 | 82 007 |
| Income due to temporary redemption by the State budget of interest on housing loans from | 34 789 | 44 714 |
| Difference between income recognised for this period and income received in cash – the position 'Loans and advances to customers' | 50 252 | 37 293 |

The Act on the coverage of repayment of certain housing loans by State Treasury (Journal of Laws, 2000, No. 122 item 1310 with subsequent amendments) guarantees was passed on 29 November 2000 and came into force on 1 January 2001. In execution of the provisions of the Act, on 3 August 2001 PKO Bank Polski SA signed an agreement with the Minister of Finance acting on behalf of the State Treasury under which the Bank was granted a pledge of repayment of debt arising from housing loans in the so-called 'old' portfolio.

On 29 December 2011, the validity period of the agreement (originally until 31 December 2011) was extended until 31 December 2017. The coverage of the so-called 'old' portfolio housing loan receivables by the guarantees of the State Treasury results in the neutralisation of the default risk on these loans.

The State Treasury guarantees are realised when a borrower fails to repay the loan on the dates specified in the loan agreement. The responsibility of the State Treasury is of an auxiliary nature and is effective if the recovery of the unpaid part of principal and interest which the Bank is obliged to commence, before the Bank lays claims to the State Treasury, becomes ineffective. The above-mentioned law covers 90% of unpaid loans taken out by housing cooperatives. As a consequence of the realisation of the State Treasury's responsibilities as guarantor, the State Treasury itself enters into the rights of the satisfied creditor (the Bank) and thus becomes a creditor towards the borrower, in line with the concept of guarantee. PKO Bank Polski SA receives commission for settlements relating to redemption of interest by the State budget on housing loans.

| | 2015 | 2014 |
|---|---|---|
| Fee and commission income | 3 081 | 3 226 |

As of 1 January 1996 the Bank became the general distributor of court fee stamps. The Bank receives commissions in this respect from the State budget.

| | 2015 | 2014 |
|---|---|---|
| Fee and commission income | 12 265 | 9 613 |

The Brokerage House of PKO Bank Polski SA performs the role of an agent for the issue of retail Treasury bonds under the agreement signed with the Ministry of Finance on 11 February 2003. Under this agreement, the Brokerage House of PKO Bank Polski SA receives a fee for providing the services of an agent for the issue of bonds.

| | 2015 | 2014 |
|---|---|---|
| Fee and commission income | 23 218 | 23 037 |

(IN PLN THOUSAND)

Significant transactions of PKO Bank Polski SA Group with the State Treasury's related entities

The transactions were concluded at arm's length terms. The margins on credit transactions are in the range of 0.28% to 3.75%.

| Entity | 31.12.2015 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Total receivables | Total liabilities | Off-balance sheet liabilities granted – guarantee and financial | Interest and similar income | Fee and commission income | Interest expense and similar charges |
| Entity 1 | - | - | 2 450 000 | - | - | - |
| Entity 2 | 8 | 1 046 516 | 1 500 000 | 11 | 293 | (23 279) |
| Entity 3 | - | 931 422 | - | - | 3 | (2 203) |
| Entity 4 | - | 606 343 | 350 000 | 1 | 37 | (10 416) |
| Entity 5 | - | 501 001 | 715 852 | - | 4 | (6 722) |
| Entity 6 | 472 602 | 380 543 | 386 854 | 8 245 | 1 611 | (5 651) |
| Entity 7 | - | 264 443 | - | - | 971 | (1 879) |
| Entity 8 | 250 057 | 240 524 | 2 407 840 | 1 899 | 2 857 | (1 712) |
| Entity 9 | - | 219 506 | - | 10 | 185 | (2 881) |
| Entity 10 | - | 214 989 | - | - | 16 | (4 993) |
| Entity 11 | 113 467 | 196 961 | 574 780 | 3 715 | 6 | (964) |
| Entity 12 | 220 | 156 451 | - | 261 | 1 158 | (1 635) |
| Entity 13 | - | 118 217 | - | - | 8 | (655) |
| Entity 14 | 163 275 | 99 099 | 50 000 | 5 206 | 87 | (873) |
| Entity 15 | - | 73 188 | 354 500 | - | 870 | (1 025) |
| Other entities | 903 202 | 587 016 | 2 355 363 | 28 340 | 7 504 | (34 585) |
| Total | 1 902 831 | 5 636 219 | 11 145 189 | 47 688 | 15 610 | (99 473) |

| Entity | 31.12.2014 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Total receivables | Total liabilities | Off-balance sheet liabilities granted – guarantee and financial | Interest and similar income | Fee and commission income | Interest expense and similar charges |
| Entity 1 | - | - | 2 080 000 | - | - | - |
| Entity 2 | 184 925 | 1 001 114 | 647 423 | 3 095 | 903 | (7 633) |
| Entity 4 | - | 1 099 | 1 368 860 | - | 35 | (264) |
| Entity 5 | - | 9 190 | 1 201 440 | 48 | 1 060 | (396) |
| Entity 6 | - | 1 177 873 | - | - | 2 | (13 860) |
| Entity 8 | 285 955 | 283 174 | 422 752 | 4 335 | 522 | (4 302) |
| Entity 11 | - | 160 250 | 701 786 | 4 | 302 | (4 790) |
| Entity 12 | - | 98 728 | 500 000 | - | 1 | (23 708) |
| Entity 17 | - | 582 771 | - | 26 | 1 519 | (2 555) |
| Entity 23 | 386 306 | 16 294 | 151 587 | 13 274 | 204 | (46) |
| Entity 25 | 113 481 | 18 235 | 396 474 | 7 045 | 5 | (509) |
| Entity 26 | - | 109 604 | 400 000 | - | 12 | (245) |
| Entity 38 | 113 422 | 80 540 | 61 819 | 5 120 | 1 107 | (1 216) |
| Entity 53 | 67 704 | 14 487 | 157 659 | 3 880 | 217 | (110) |
| Entity 61 | 62 901 | 1 984 | 150 000 | 2 872 | 44 | (90) |
| Other entities | 259 499 | 637 143 | 165 524 | 16 228 | 3 771 | (12 300) |
| Total | 1 474 193 | 4 192 486 | 8 405 324 | 55 927 | 9 704 | (72 024) |

As at 31 December 2015 and as at 31 December 2014 respectively, no significant impairment allowances were recognised for the above-mentioned receivables.

(IN PLN THOUSAND)

## 46. Related party transactions

Transactions of the parent company with associates and joint ventures valued with the equity method.

All transactions with subsidiaries, joint ventures and associates presented below were arm's length transactions. Repayment terms are within a range from one month to fifteen years.

31 December 2015

| Entity | Receivables | of which loans | Liabilities | Off-balance sheet liabilities granted |
|---|---|---|---|---|
| Direct joint ventures | | | | |
| Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. | 5 964 | - | 31 072 | 2 011 |
| Indirect Joint ventures | | | | |
| „Centrum Obsługi Biznesu" Sp. z o.o. | 27 414 | 27 414 | 8 623 | - |
| Direct associates | | | | |
| Bank Pocztowy SA | 14 057 | - | 949 | 1 086 |
| „Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o. | - | - | 2 788 | - |
| Indirect associates | | | | |
| Centrum Operacyjne Sp. z o.o. | - | - | 5 | - |
| Total | 47 435 | 27 414 | 43 437 | 3 097 |

| Entity | Total income | of which interest and fee and commission | Total expense | of which interest and fee and commission |
|---|---|---|---|---|
| Indirect Joint ventures | | | | |
| Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. | 189 514 | 189 326 | 107 619 | 105 484 |
| Wspólne przedsięwzięcia pośrednio | | | | |
| „Centrum Obsługi Biznesu" Sp. z o.o. | 794 | 794 | 83 | 83 |
| Direct associates | | | | |
| Bank Pocztowy SA | 183 | 183 | 172 | - |
| „Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o. | 3 | 3 | 35 | 35 |
| Ferrum SA | 3 | 3 | - | - |
| Indirect associates | | | | |
| Centrum Operacyjne Sp. z o.o. | 3 | 3 | - | - |
| Total | 190 500 | 190 312 | 107 909 | 105 602 |

31 December 2014

| Entity | Receivables | of which loans | Liabilities | Off-balance sheet liabilities granted |
|---|---|---|---|---|
| Direct joint ventures | | | | |
| Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. | 23 390 | - | 57 008 | 5 000 |
| „Centrum Obsługi Biznesu" Sp. z o.o. | 28 852 | 28 852 | 12 022 | - |
| Direct associates | | | | |
| Bank Pocztowy SA | - | - | 299 | 941 |
| „Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o. | - | - | 966 | - |
| Indirect associates | | | | |
| Centrum Operacyjne Sp. z o.o. | - | - | 2 | - |
| Total | 52 242 | 28 852 | 70 297 | 5 941 |

(IN PLN THOUSAND)

| Entity | Total income | of which interest and fee and commission | Total expense | of which interest and fee and commission |
|---|---|---|---|---|
| Direct joint ventures | | | | |
| Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. | 68 725 | 67 548 | 111 183 | 110 971 |
| „Centrum Obsługi Biznesu" Sp. z o.o. | 872 | 872 | 213 | 213 |
| Direct associates | | | | |
| Bank Pocztowy SA | 575 | 51 | 746 | - |
| „Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o. | 2 | 2 | 163 | 163 |
| Indirect associates | | | | |
| Centrum Operacyjne Sp. z o.o. | 3 | 3 | - | - |
| Total | 70 177 | 68 476 | 112 305 | 111 347 |

## 47. Personal related party transactions

As at 31 December 2015, two entities were related to the Bank through the key management personnel of PKO Bank Polski SA or the close family members of the key management personnel (as at 31 December 2014 – one entity).

In 2015 and 2014, no intercompany transactions were concluded with these entities in the Group.

## 48. Remuneration for key management of the PKO Bank Polsk SA

a) Remuneration received by members of the Supervisory Board from PKO Bank Polski SA

| Short-term employee benefits | 2015 | 2014 |
|---|---|---|
| The Supervisory Board of the Bank | 1 198 | 1 157 |
| Total | 1 198 | 1 157 |

b) Employee benefits for members of the Management Board due or potentially due from PKO Bank Polski SA

| Employee benefits | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Short-term employee benefits | | Other long-term benefits | | Share-based payment settled in cash | | |
| | Remuneration in 2015* | other received in 2015 | received in 2015 | potentially due as at 31.12.2015 | received in 2015 | due as at 31.12.2015 | potentially due as at 31.12.2015 |
| The Management Board | 11 311 | 1 694 | 804 | 2 360 | 2 240 | 1 952 | 2 360 |
| Total | 11 311 | 1 694 | 804 | 2 360 | 2 240 | 1 952 | 2 360 |

* Includes basic remuneration, additions in regards to employee pension programs (PPE), additional insurance, medical care and company social benefits fund (ZFŚS).

| Employee benefits | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Short-term employee benefits | | Other long-term benefits | | Share-based payment settled in cash | | |
| | Remuneration in 2014* | other received in 2014 | received in 2014 | potentially due as at 31.12.2014 | received in 2014 | due as at 31.12.2014 | potentially due as at 31.12.2014 |
| The Management Board | 10 663 | 1 973 | 368 | 2 021 | 1 639 | 2 308 | 2 021 |
| Total | 10 663 | 1 973 | 368 | 2 021 | 1 639 | 2 308 | 2 021 |

* Includes basic remuneration, additions in regards to employee pension programs (PPE), additional insurance, medical care and company social benefits fund (ZFŚS).

Short-term employee benefits are employee benefits, which are settled in full within 12 months from the end of the annual reporting period, in which the employees performed work related to them. Non-deferred part of the variable salary component paid in cash was recognized as short-term employee benefits apart from basic remuneration (details in the note 'The principles for determining the variable salary components policy for persons holding managerial positions in the Bank').

The deferred part of the variable salary component paid in cash and benefits from the employee pension programme were recognised as other long-term benefit ('EPP').

Non-deferred and deferred salary components in the form of the financial instrument i.e. phantom shares (for which conversion into cash is carried out after an additional period of retention) are recognized as share-based payments settled in cash in accordance with principles described in the note 'The principles for determining the variable salary components policy for key management personnel at the Bank'.

(IN PLN THOUSAND)

In the year ended 31 December 2015 and in the year ended 31 December 2014 respectively no benefits due to termination of employment and post-employment benefits were paid.

c) Remuneration received from related entities (other than the State Treasury and entities related to the State Treasury)*

| Short-term employee benefits | 2015 | 2014 |
|---|---|---|
| | | |
| The Management Board of the Bank | 42 | 39 |
| Total | 42 | 39 |

d) Remuneration received by members of the Management Boards and the Supervisory Boards of the PKO Bank Polski SA Group subsidiaries

| Short-term employee benefits | 2015 | 2014 |
|---|---|---|
| | | |
| The Supervisory Board of the Bank | 308 | 389 |
| The Management Board of the Bank | 20 416 | 21 465 |
| Total | 20 724 | 21 854 |

e) Loans, advances, guarantees and other advances provided by the Bank to the management

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| The Supervisory Board of the Bank | 1 093 | 3 102 |
| The Management Board of the Bank | 946 | 857 |
| Total | 2 039 | 3 959 |

Interest conditions and repayment periods differ neither from arm's length nor from repayment periods set up for similar bank products.

## 49. The principles for determining the variable salary components policy for persons holding managerial positions in the Group

In order to fulfil the requirements of the Resolution No 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles for 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 key management personnel at the Bank, the Bank implemented by resolutions of:

- the Supervisory Board of the Bank: 'The variable salary components policy for key management personnel at the Bank' (constituting the basis of further regulation issue) and 'The variable salary components policy for the Management Board members',
- the Management Board of the Bank: 'The variable salary components policy for key management personnel',
- Supervisory Boards of selected subsidiaries of the PKO Bank Polski Group (PKO Leasing SA, PKO TFI SA, PKO BANKOWY PTE SA, PKO Życie Towarzystwo Ubezpieczeń SA, PKO Towarzystwo Ubezpieczeń SA, PKO Bank Hipoteczny SA): 'The variable salary components policy for the Management Board members'.

Cited Principles and Regulations issued on their basis, describe the procedure of granting variable salary components associated with the results and effects of work to the above-mentioned persons. In accordance with the requirements of the cited resolution of the PFSA and in proportion specified in it, the variable salary components are granted in the form of:

- non-deferred (in the first year after the calendar year constituting a period of assessment),
- deferred (for the next three years after the first year of the assessment period),

and both the non-deferred and deferred salary, is granted in equal parts in cash and in the form of a financial instrument, i.e. the phantom shares (in which conversion into cash is carried out after an additional period of retention).

Component of salary in the form of a financial instrument is converted into phantom shares after granting a particular component - including the median of the daily average prices of the Bank's shares (Volume Weighted Average Price) on the Warsaw Stock Exchange, published in the Thomson Reuters or Bloomberg information system - from the fourth quarter of the assessment period. Next, after a period of retention and deferral period, shares are converted into cash - including the median of the daily average prices of the Bank's shares (Volume Weighted Average Price) on the Warsaw Stock Exchange from the period of a third quarter preceding the payment (the Management Board) and a third quarter of a calendar year, in which the payment is made (other persons on managerial positions), published in the Thomson Reuters or Bloomberg information system.

The deferral salary may be reduced in the event of deterioration in the financial performance of the Bank or a Group Entity respectively, the loss of the Bank / Company or deterioration of other variables related to the effects of work during the evaluation of persons holding managerial positions and results of the performance of organisational units/cells supervised or managed by these persons, which revealed after a period of evaluation.

As at 31 December 2015 a provision for variable salary components with charges for the years 2012 - 2015 amounted to PLN 41 million, of which PLN 26.7 million for persons holding managerial positions except for the Bank's Management Board and PLN 14.2 million for the Bank's Management Board, and PLN 10 million for the entities of the Group.
As at 31 December 2014 the provision for variable salary components for the years 2012 -2014 amounted to PLN 34 million, of which for the Bank's Management Board amounted to PLN 11 million and for the entities of the Group it amounted to PLN 3.4 million.

Under current regulations, in 2015, non-deferred component was paid out - cash and financial instrument convertible into cash for persons holding managerial positions (except for the Bank's Management Board) relating to bonuses for the year 2014 and deferred component relating to bonuses for the year 2012 – 2013 cash in total amount of PLN 11.5 million (without charges), and for the Bank's Management Board – in the amount of PLN 4.7 million without charges, and PLN 1.9 million for the entities of the Group.

Under current regulations, in 2014, bonuses for the year 2012-2013 were paid out (without charges) for persons holding managerial positions except for the Bank's Management Board in the amount of PLN 10.6 million, for the Bank's Management Board in the amount of PLN 3.9 million, and PLN 1.8 million for the entities of the Group.

Payment of phantom shares for the year 2012 - 2014, calculated in accordance with law provisions, based on the share price in the third quarter of 2015 in the amount of PLN 29.25, was made in November 2015 for persons holding managerial positions except for the Bank's Management Board in the amount of PLN 5.1 million without charges, and PLN 0.9 million for the entities of the Group. In January 2016 for the Bank's Management Board – PLN 1.95 million (without charges) was paid.

## 50. Changes to the entities of the Group

In 2015 the following events affecting the structure of the PKO Bank Polski SA Group took place:

1. concerning entity PKO Towarzystwo Ubezpieczeń SA

On 10 February 2015, PKO Bank Polski SA established PKO Towarzystwo Ubezpieczeń SA with a share capital of PLN 20 000 thousand. The Bank took 20 000 name shares of nominal value PLN 1 000 each and emission price equal PLN 3 650 for each share ei. For the total amount of PLN 73 000 thousand in return from money input. Bank also put to the Entity PLN 15 000 thousand on organization fund.

On 10 March 2015, the Polish Financial Supervision Authority issued a decision in which it authorised the exercise of insurance activities in branch II (non-life insurance) by the above mentioned Company.

The Company was registered with the National Court Register on 13 April 2015.

At the end of 2015 the Company achieved initial operation capability. On 9 January 2016 PKO Towarzystwo Ubezpieczeń SA launched offer of property insurance for individuals clients of PKO Bank Polski SA who take credit cards. In February 2016 the Company launch sales of insurance for real estate and movables, third party insurance in private life, Assistance and insurance against income loss for clients of PKO Bank Polski SA and PKO Bank Hipoteczny SA who take mortgage loans and for guaranteed loans by PKO Bank Polski SA.

2. concerning entity PKO Życie Towarzystwo Ubezpieczeń SA

In 2015 (on 9 June 2015 and on 20 October 2015) with the National Court Register the following changes in the share capital of PKO Życie Towarzystwo Ubezpieczeń SA were registered:

a) a decrease in the share capital by PLN 103 221 thousand through redemption of 925 000 shares of PLN 111.59 nominal value each; the amount received from the decrease was appropriated to cover Company's losses of from the previous years,
b) an increase in share capital by PLN 223.18 - PKO Bank Polski SA acquired 2 shares of PLN 111.59 nominal value for the emission price of PLN 56 000 thousand.

As at 31 December 2015 the share capital of PKO Życie Towarzystwo Ubezpieczeń SA is PLN 89 309 thousand and is divided into 800 331 shares with nominal value of PLN 111.59 each.

3. concerning entities of the PKO Leasing SA Group

On 4 August 2015 an increase in the share capital of the entity PKO Leasing SA by PLN 80 000 thousand was registered with the National Court Register. All shares in the increased Company's share capital were acquired by PKO Bank Polski SA.

As at 31 December 2015 the share capital of PKO Leasing SA is PLN 174 057 thousand and is divided into 17 405 690 shares with nominal value of PLN 10 each.

In 2015 (on 23 April 2015 and on 28 October 2015) with the National Court Register an increase in the share capital of the entity PKO Bankowy Leasing Sp. z o.o. by PLN 40 000 thousand was registered. All shares in the increased share capital were acquired by PKO Leasing SA.

As at 31 December 2015 the share capital of PKO Bankowy Leasing Sp. z o.o. is PLN 140 000 thousand and is divided into 280 000 shares with nominal value of PLN 500 each.

4. concerning PKO BP BANKOWY PTE SA

On 29 December 2015 a decrease in the share capital of PKO BP BANKOWY PTE SA by PLN 69 420 thousand through a decrease in nominal value of Company's shares from PLN 10 000 to PLN 7 330 was registered with the National Court Register. The decrease in the share capital was performed in order to optimize the value of Company's share capital and utilize the free cash resources within the PKO Bank Polski Group.

The resources from the decrease in Company's share capital will be paid to PKO Bank Polski SA – the sole shareholder of the Company, after 6 months since the abovementioned registration.

As at 31 December 2015 the share capital of the Company. is PLN 190 580 thousand and is divided into 26 000 shares with nominal value of PLN 7 330 each.

5. concerning entity PKO BP Faktoring SA

In June 2015 the entity Bankowe Towarzystwo Kapitałowe SA holding 8 999 shares and PKO Bank Polski SA holding 1 share, sold the entire stock of shares of PKO BP Faktoring SA to the entity PKO Leasing SA.

As at 31 December 2015 the entity PKO Leasing SA (subsidiary of the Bank) is the sole shareholder of PKO BP Faktoring SA.

6. concerning NEPTUN – non-public assets closed-end investment fund

In 2015 PKO Bank Polski SA acquired in total 8 588 953 investment certificates of series A, B and C of NEPTUN - non-public assets closed-end investment fund. The acquisition value amounted to PLN 94 663 thousand. Part of certificates was acquired for non - financial contribution of shares of Bankowe Towarzystwo Kapitałowe SA and shares of selected public entities from the Bank financial assets. The fund mentioned above is managed by PKO Towarzystwo Funduszy Inwestycyjnych SA.

The main purpose of the Fund is to invest the funds collected through non-public offering of the investment certificates in securities, money market instrument, and other property rights specified in the Statue of the Fund and the Investment Funds Act.

Simultaneously, in June 2015 PKO Bank Polski SA sold to the above mentioned Fund all its shares of the entity 'CENTRUM HAFFNERA' Sp. z o.o which was Bank's subsidiary and also the entity 'Centrum Obsługi Biznesu' Sp. z o.o. which was Bank's joint venture

As at 31 December 2015, NEPTUN - fizan and entities Bankowe Towarzystwo Kapitałowe SA and 'CENTRUM HAFFNERA' Sp. z o.o. (with its subsidiaries 'Sopot Zdrój' Sp. z o.o. and 'Promenada Sopocka' Sp. z o.o.) as entities controlled by PKO Bank Polski SA are fully consolidated in the financial statement of the PKO Bank Polski SA. The entity 'Centrum Obsługi Biznesu' Sp. z o.o.is a joint venture of the Fund and in the financial statement of the PKO Bank Polski SA is still valued by the equity method.

7. concerning entities of the Qualia Development Sp. z o.o. Group

On 9 January 2015, Qualia 2 Sp. z o.o. was registered with the National Court Register. The Company's share capital amounts to PLN 5 thousand and is divided into 100 shares with a nominal value of PLN 50 each. As at 31 December 2015 Qualia Development Sp. z o.o.. is the sole shareholder of the abovementioned Company.

Qualia 2 Sp. z o.o. took over from Qualia Sp. z o.o. all the rights and obligations of the general partner in Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k. – agreement of sale of all rights and obligations in this regard was concluded on 14 January 2015.

At the same time, in connection with the above-described changes, on 2 February 2015, the change of the name of Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k. was registered with the National Court Register - the current name is: Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.

On 26 October 2015, Qualia 3 Sp. z o.o. was registered with the National Court Register. The Company's share capital amounts to PLN 5 thousand and is divided into 100 shares with a nominal value of PLN 50 each. As at 31 December 2015 Qualia Development Sp. z o.o. is the sole shareholder of the abovementioned Company.

Qualia 3 Sp. z o.o. took over from Qualia Sp. z o.o. all the rights and obligations of the general partner in Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k. – agreement of sale of all rights and obligations in this regard was concluded on 4 November 2015

At the same time, in connection with the above-described changes, on 7 december 2015, the change of the name of Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k. was registered with the National Court Register - the current name is: Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.

On 3 November 2015 an increase in the limited partner's contribution (entity Qualia Development Sp. z o.o.) of the entity Qualia sp. z o.o. – Sopot Sp. k. by PLN 4 900 thousand, i.e from PLN 5 300 thousand to PLN 10 200 thousand, was registered with the National Court Register.

On 26 November 2015 an increase in the share capital of the entity Qualia – Rezydencja Flotylla Sp. z o.o by PLN 22 300 thousand was registered with the National Court Register. All shares in the increased capital were acquired by Qualia Development Sp. z o.o.

As at 31 December 2015 the share capital of Qualia – Rezydencja Flotylla Sp. z o.o. is PLN 33 826 thousand and is divided into 33 826 shares with nominal value of PLN 1 thousand each.

In 2015 the entity Qualia Development Sp. z o.o. made a contribution to the share capital of Qualia 2 Sp. z o.o in the amount of PLN 49 500 and a contribution to the share capital of Qualia 3 Sp. z o.o in the amount of PLN 30 thousand, and also received PLN 7 000 thousand from the entity Qualia - Residence Sp. z o.o. as a repayment of part of the contributions to the share capital of this entity.

8. concerning entity 'Centrum Majkowskiego' Sp. z o.o. in liquidation

On 4 May 2015 the Entity 'Centrum Majkowskiego' Sp. z o.o. in liquidation, the subsidiary of 'CENTRUM HAFFNERA' Sp. z o.o, was removed from National Court Register.

9. concerning subsidiaries recognised in non-current assets held for sale

In accordance to the plan to recover the value of the shares of Qualia Development Sp. z o.o. through a sale transaction within the PKO Bank Polski SA Group, the Company ceased to be recognised in the 'Non-current assets held for sale' in the consolidated financial statements.

10. concerning events which will cause changes in the Group in the following quarters

On 9 November 2015 PKO Bank Polski SA paid for the acquisition of 33 billion shares of KREDOBANK SA in new emission of nominal and emission value UAH 330 000 thousand. The abovementioned increase has not been registered before 31 December 2015.

After registration of the abovementioned increase, the share of PKO Bank Polski SA in the share capital of KREDOBANK SA and share in voting rights at the General Shareholders' Meeting of the Company will increase to 99.6293%

As regards to the companies constituting joint ventures and associates, in 2015 following events took place:

1. concerning entity Bank Pocztowy SA

On 20 November 2015 an increase in the share capital of the entity Bank Pocztowy SA by PLN 12 842 480 was registered with the National Court Register. PKO Bank Polski SA acquired 321 062 shares of PLN 3 210 620 total nominal value and PLN 15 000 016.64 total emission value. The remaining shares were acquired by Poczta Polska SA. In sum Bank Pocztowy SA was recapitalized by current shareholders in the amount of PLN 60 000 thousand.
As a result of the abovementioned increase in the capital PKO Bank Polski SA still holds 25% of the share capital of the Company plus 10 shares.

2. concerning entities of the Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. Group

Entity Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. (constituting a joint venture of the Bank) established two subsidiaries, including:

a) EVO Payments International Sp. z o.o. with its registered office in Poland which was registered with the National Court Register on 9 February 2015; the share capital of the Company at the end of 2015 is PLN 282 thousand (wherein shares in the increased share capital with nominal value of PLN 277 thousand were acquired for the emission price of PLN 13 850 thousand),
b) EVO Payments International s.r.o. with its registered office in the Czech Republic which was registered with the Commercial Register of the Czech Republic on 16 February 2015; the share capital at the end of 2015 is CZK 30 200 thousand.

The object of the above mentioned companies is to conduct activities supporting financial services.

3. concerning entity FERRUM SA

On 28 December 2015 PKO Bank Polski SA acquired through debt collection activities (foreclosure of the collateral) 5 147 730 shares of the public company FERRUM SA, which account for 20.97% in the share capital of the Company and entitle to 20.97% of voting rights at the General Shareholders' Meeting. The Company became an associate. The main activity of the Company is production of welded steel pipes, production of structural hollow section and delivering coating services.

The Company owns two subsidiaries. Zakład Konstrukcji Spawanych FERRUM SA produces steel structures and their parts and FERRUM MARKETING Sp. z o.o. provides marketing services.

(IN PLN THOUSAND)

## 51. Fair value of financial assets and liabilities

### 51.1. Categories of fair value valuation of financial assets and liabilities measured at fair value in the consolidated statement of financial position

The Group classifies particular components of financial assets and liabilities measured at fair value to the following categories:

- Level 1: Prices quoted on the active markets
- Level 2: Valuation techniques based on observable market data
- Level 3: Other valuation techniques

The table below presents a classification of financial assets and liabilities presented in the financial statements at fair value divided into 3 levels as at 31 December 2015:

| Assets and liabilities measured at fair value as at 31.12.2015 | Note | Carrying amount | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| | | | Prices quoted on the active markets | Valuation techniques based on observable market data | Other valuation techniques |
| Trading assets | 20 | 783 199 | 783 199 | - | - |
| Debt securities | | 766 641 | 766 641 | - | - |
| Shares in other entities | | 9 910 | 9 910 | - | - |
| Investment certificates | | 6 648 | 6 648 | - | - |
| Derivative financial instruments | 21 | 4 347 269 | 2 163 | 4 345 106 | - |
| Hedging instruments | | 508 665 | - | 508 665 | - |
| Trade instruments | | 3 838 604 | 2 163 | 3 836 441 | - |
| Financial instruments designated upon initial recognition at fair value through profit and loss | 23 | 15 154 100 | 4 837 304 | 10 316 796 | - |
| Debt securities | | 13 337 373 | 3 020 577 | 10 316 796 | - |
| Participation units | | 1 816 727 | 1 816 727 | - | - |
| Investment securities available for sale | 25 | 28 291 352 | 19 255 389 | 5 401 333 | 3 634 630 |
| Debt securities | | 27 604 913 | 19 093 221 | 5 401 333 | 3 110 359 |
| Equity securities | | 473 618 | 145 990 | - | 327 628 |
| Participation units in investment funds and shares in joint investment institutions | | 212 821 | 16 178 | - | 196 643 |
| Financial assets measured at fair value - total | | 48 575 920 | 24 878 055 | 20 063 235 | 3 634 630 |
| Derivative financial instruments | 21 | 4 624 767 | 1 476 | 4 623 291 | - |
| Hedging instruments | | 998 527 | - | 998 527 | - |
| Trade instruments | | 3 626 240 | 1 476 | 3 624 764 | - |
| Debt securities in issue | 37 | 71 744 | - | 71 744 | - |
| Financial instruments designated at fair value through profit and loss | | 71 744 | - | 71 744 | - |
| Financial liabilities measured at fair value - total | | 4 696 511 | 1 476 | 4 695 035 | - |

| Trading assets as at 31.12.2015 (Note 20) | Carrying amount | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Debt securities | 766 641 | 766 641 | - | - |
| Treasury bonds PLN | 640 009 | 640 009 | - | - |
| Treasury bonds EUR | 8 686 | 8 686 | - | - |
| municipal bonds PLN | 48 596 | 48 596 | - | - |
| corporate bonds PLN | 46 158 | 46 158 | - | - |
| corporate bonds EUR | 70 | 70 | - | - |
| bonds issued by WSE | 5 238 | 5 238 | - | - |
| bonds issued by banks | 17 884 | 17 884 | - | - |
| Shares in other entities | 9 910 | 9 910 | - | - |
| Investment certificates | 6 648 | 6 648 | - | - |
| TOTAL | 783 199 | 783 199 | - | - |

(IN PLN THOUSAND)

| Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2015 (Note 23) | Carrying amount | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Debt securities | 13 337 373 | 3 020 577 | 10 316 796 | - |
| NBP money market bills | 10 036 898 | - | 10 036 898 | - |
| Treasury bonds PLN | 1 934 817 | 1 934 817 | - | - |
| Treasury bonds EUR | 91 634 | 91 634 | - | - |
| Treasury bonds CHF | 993 615 | 993 615 | - | - |
| Treasury bonds UAH | 32 635 | - | 32 635 | - |
| municipal bonds EUR | 131 341 | - | 131 341 | - |
| municipal bonds PLN | 115 922 | - | 115 922 | - |
| corporate bonds PLN | 511 | 511 | - | - |
| participation units | 1 816 727 | 1 816 727 | - | - |
| TOTAL | 15 154 100 | 4 837 304 | 10 316 796 | - |

| Investment securities available for sale as at 31.12.2015 (Note 25) | Carrying amount | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Debt securities available for sale | 27 604 913 | 19 093 221 | 5 401 333 | 3 110 359 |
| Treasury bonds PLN | 17 920 035 | 17 920 035 | - | - |
| Treasury bonds EUR | 310 620 | 310 620 | - | - |
| Treasury bonds USD | 77 375 | - | 77 375 | - |
| Treasury bonds UAH | 49 976 | - | 49 975 | - |
| municipal bonds PLN | 4 613 726 | - | 4 613 726 | - |
| corporate bonds PLN | 4 074 476 | 541 854 | 660 257 | 2 872 365 |
| corporate bonds EUR | 365 281 | 320 712 | - | 44 569 |
| corporate bonds USD | 193 424 | - | - | 193 425 |
| Equity securities | 473 618 | 145 990 | - | 327 628 |
| Participation units in investment funds and shares in joint investment institutions | 212 821 | 16 178 | | 196 643 |
| TOTAL | 28 291 352 | 19 255 389 | 5 401 333 | 3 634 630 |

(IN PLN THOUSAND)

The table below presents a classification of financial assets and liabilities presented in the financial statements at fair value divided into 3 levels as at 31 December 2014:

| Assets and liabilities measured at fair value as at 31.12.2014 | Note | Carrying amount | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| | | | Prices quoted on the active markets | Valuation techniques based on observable market data | Other valuation techniques |
| Trading assets | 20 | 1 924 426 | 1 924 426 | - | - |
| Debt securities | | 1 915 120 | 1 915 120 | - | - |
| Shares in other entities | | 5 137 | 5 137 | - | - |
| Investment certificates | | 3 891 | 3 891 | - | - |
| Share rights | | 278 | 278 | | |
| Derivative financial instruments | 21 | 5 494 822 | 1 397 | 5 493 425 | - |
| Hedging instruments | | 599 841 | - | 599 841 | - |
| Trade instruments | | 4 894 981 | 1 397 | 4 893 584 | - |
| Financial instruments designated upon initial recognition at fair value through profit and loss | 23 | 15 723 148 | 4 371 012 | 11 352 136 | - |
| Debt securities | | 13 804 860 | 2 452 724 | 11 352 136 | - |
| Participation units | | 1 918 288 | 1 918 288 | - | - |
| Investment securities available for sale | 25 | 22 267 433 | 12 709 259 | 9 354 898 | 203 276 |
| Debt securities | | 21 961 102 | 12 601 236 | 9 354 898 | 4 968 |
| Equity securities | | 120 205 | 108 023 | - | 12 182 |
| Participation units in investment funds and shares in joint investment institutions | | 186 126 | | | 186 126 |
| Financial assets measured at fair value - total | | 45 409 829 | 19 006 094 | 26 200 459 | 203 276 |
| Derivative financial instruments | 21 | 5 545 141 | 523 | 5 544 618 | - |
| Hedging instruments | | 494 961 | - | 494 961 | - |
| Trade instruments | | 5 050 180 | 523 | 5 049 657 | - |
| Debt securities in issue | 37 | 118 262 | - | 118 262 | - |
| Financial instruments designated at fair value through profit and loss | | 118 262 | - | 118 262 | - |
| Financial liabilities measured at fair value - total | | 5 663 403 | 523 | 5 662 880 | - |

| Trading assets as at 31.12.2014 (Note 20) | Carrying amount | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Debt securities | 1 915 120 | 1 915 120 | - | - |
| Treasury bonds PLN | 1 825 454 | 1 825 454 | - | - |
| municipal bonds PLN | 50 563 | 50 563 | - | - |
| corporate bonds PLN | 22 215 | 22 215 | - | - |
| corporate bonds EUR | 9 | 9 | - | - |
| bonds issued by WSE | 2 248 | 2 248 | - | - |
| bonds issued by banks, including BGK bonds | 14 631 | 14 631 | - | - |
| Shares in other entities | 5 137 | 5 137 | - | - |
| Investment certificates | 3 891 | 3 891 | - | - |
| Share rights | 278 | 278 | | |
| Total | 1 924 426 | 1 924 426 | - | - |

(IN PLN THOUSAND)

| Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2014 (Note 23) | Carrying amount | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Debt securities | 13 804 860 | 2 452 724 | 11 352 136 | - |
| NBP money market bills | 10 998 812 | - | 10 998 812 | - |
| Treasury bonds PLN | 2 452 213 | 2 452 213 | - | - |
| Treasury bonds UAH | 26 495 | - | 26 495 | - |
| municipal bonds EUR | 139 882 | - | 139 882 | - |
| municipal bonds PLN | 113 935 | - | 113 935 | - |
| structured bonds PLN | 73 012 | - | 73 012 | - |
| corporate bonds PLN | 511 | 511 | - | - |
| participation units | 1 918 288 | 1 918 288 | - | - |
| TOTAL | 15 723 148 | 4 371 012 | 11 352 136 | - |

| Investment securities available for sale as at 31.12.2014 (Note 25) | Carrying amount | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Debt securities available for sale | 21 961 102 | 12 601 236 | 9 354 898 | 4 968 |
| Treasury bonds PLN | 12 601 236 | 12 601 236 | - | - |
| Treasury bonds USD | 149 582 | - | 149 582 | - |
| Treasury bonds UAH | 30 233 | - | 30 233 | - |
| municipal bonds PLN | 4 480 325 | - | 4 480 325 | - |
| corporate bonds PLN | 4 072 922 | - | 4 072 922 | - |
| corporate bonds EUR | 406 832 | - | 406 832 | - |
| corporate bonds USD | 199 412 | - | 199 412 | - |
| corporate bonds UAH | 20 560 | - | 15 592 | 4 968 |
| Equity securities | 120 205 | 108 023 | - | 12 182 |
| Participation units in investment funds and shares in joint investment institutions | 186 126 | - | - | 186 126 |
| TOTAL | 22 267 433 | 12 709 259 | 9 354 898 | 203 276 |

Depending on the category of classification of financial assets and liabilities to the hierarchy, different methods of fair value valuation are used:

Level 1: Prices quoted on the active markets

Financial assets and liabilities whose fair value is stated directly at prices quoted (not adjusted) from active markets for identical assets and liabilities. The Group classifies to this category financial and equity instruments designated at fair value through profit and loss and available for sale, for which there is an active market and for which the fair value is determined with reference to market value which is a bid price:

- debt securities valued at fixing from Bondspot platform and Bloomberg and Reuters information services,
- debt and equity securities which are traded on regulated market, including the Brokerage House of PKO Bank Polski SA portfolio,
- derivative instruments which are traded on a regulated market.

Level 2: Valuation techniques based on observable market data

Financial assets and liabilities whose fair value is determined with use of valuation models where all significant entry data are observable on the market directly (as prices) or indirectly (based on prices). The Group classifies to this category financial instruments for which there is no active market:

| Financial assets and liabilities measured at fair value | Valuation method (technique) | Observable inputs |
|---|---|---|
| Derivative financial instruments - hedging instruments | Valuation of derivatives CIRS, IRS is made in accordance with the discounted future cash flows model. Discounting is based on the yield curves. | Yield curves are built based on market rates, market data of the money market, market transactions of FRA, IRS, basis swap. |
| Derivative financial instruments - trade instruments | Valuation of derivatives CIRS, IRS and FRA is made in accordance with the discounted future cash flows model. Discounting is based on the yield curves.<br>Valuation of currency options is made in accordance with specified valuation models for a given type of a currency option. The prices of exotic options embedded in structured products are obtained from the market (they are market prices). | Yield curves are built based on market rates, market data of the money market, market transactions of FRA, IRS, basis swap.<br>Inputs to currency options valuation models are yield curves built based on money market rates, market rate of swap points, volatility levels for specific currency pairs, NBP fixing exchange rates. For the purpose of valuation of exotic options embedded in structured products, market prices of these options are obtained. |

| Financial assets and liabilities measured at fair value | Valuation method (technique) | Observable inputs |
|---|---|---|
| Financial assets designated upon initial recognition at fair value through profit and loss - NBP money market bills | Yield curve valuation method | Yield curves for money market bills are built based on market prices, money market data and OIS (overnight index swap) transactions market. |
| Financial assets designated upon initial recognition at fair value through profit and loss - municipal bonds EUR | Valuation in accordance with an accepted valuation model | Inputs to a valuation model are market rates, market data: money market, IRS transactions market, CDS (credit-default swap) transactions market, volatility of interest rate options market. |
| Financial assets designated upon initial recognition at fair value through profit and loss - municipal bonds PLN | Valuation in accordance with a yield curve and a risk margin | Yield curves are built based on market rates, money market data, IRS transactions market. |
| Financial assets designated upon initial recognition at fair value through profit and loss - Treasury bonds UAH | Market approach | Prices quoted on a less active market. |
| Investment securities available for sale - municipal bonds | Valuation in accordance with a yield curve and a risk margin | Yield curves are built based on market rates, money market data, IRS transactions market. |
| Investment securities available for sale - corporate bonds | Valuation in accordance with a yield curve and a risk margin | Yield curves are built based on market rates, money market data, IRS transactions market. |
| Investment securities available for sale - Ukrainian Treasury bonds UAH, USD | Market approach | Prices quoted on a less active market. |
| Investment securities available for sale - corporate bonds UAH | Market approach | Prices quoted on a less active market. |
| Debt securities in issue - financial instruments designated at fair value through profit and loss | Valuation in accordance with a yield curve and the prices of exotic options embedded in these securities | Yield curves are built based on market rates, money market data, IRS transactions market. For the purpose of valuation of exotic options embedded in structured products market prices of these options are obtained. |

Level 3: Other valuation techniques

Financial assets and liabilities, whose fair value is determined with use of valuation models, for which available input data are not derived from observable markets (unobservable input data).
The Bank classified to that category shares not listed on WSE, which are valued with internal valuation models:

a) participation units in mutual fund (Fund) - the fair value of these financial instruments is determined based on the net asset value of the Fund, i.e. the fair value of investment projects (of the companies) in the Fund, which are subject to semi-annual review or examination by the registered auditor. If the Bank used the values of the unobservable parameters, that are extreme values from the range of possible values, the fair value of the equity financial instruments could be PLN 9 832 thousand higher or PLN 9 832 thousand lower as at 31 December 2015,
b) shares of Visa Europe Limited (VEL), which were measured at fair value on the basis of information received from VEL in December 2015 about proposed participation of the Group in the settlement of transaction of VEL acquisition by Visa Inc. which is expected to amount in total EUR 88 875 079 (EUR 66 167 319 in cash, EUR 22 707 761 EUR in Visa Inc shares). The above mentioned amounts are not final and may change due to the objection submitted by the Group to the proposed method of determining the Group's participation in the settlement of the transaction or if any objections of remaining members of VEL, costs of the transaction, as well as in the cases indicated in the documentation. Final confirmation of the amounts due to the Group should be settled by the 30 June 2016,
c) Corporate bonds recognized as investment securities available for sale and measured at fair value through profit or loss – valuation of these financial instruments is performed in accordance with a yield curve and a risk margin model. Yield curves are built based on market rates, money market data, IRS transactions market. Credit margins are determined on the basis of initial margins modified by credit indices quotes ascribed to issuers based on their ratings and business sector.

The impact of parameters estimated on measurement of financial instruments at fair value, for which the Bank uses fair value measurement on Level 3 as at 31 December 2015 is as follows:

(IN PLN THOUSAND)

| Financial instrument | Valuation technique | Unobservable factor | Fair value by | |
|---|---|---|---|---|
| | | | positive scenario | negative scenario |
| Investment securities available for sale | | | | |
| Shares in joint investment institutions - Fund | Net Asset Value (NAV) method | price for a participation unit | 206 475 | 186 811 |
| Shares Visa Europe Limited | announced transaction price (the amount of cash and the value of shares in Visa Inc.) and the discount applied to the valuation of the shares in the costs of potential future lawsuits and the limited liquidity of these shares | the final value of the Bank's share in the settlement of transactions | 378 741 | 281 972 |
| Corporate bonds | Credit index method | credit spread | 3 122 174 | 3 098 729 |

Instruments transfers between Level 1 and Level 2 are based on the availability of quotations in an active market at the end of the reporting period. Transfer from Level 2 to Level 3 occurs in the situation of the conversion of an observable factor for an unobservable in the valuation or applying a new unobservable risk factor to the valuation, which also results in a significant impact on the valuation of the instrument. Transfer from Level 3 to Level 2 occurs in the situation of the conversion of an unobservable factor for an observable in the valuation or when an impact of an unobservable factor on the instrument valuation ceases to be relevant. Transfers between levels of valuation occur at the date and at the end of the reporting period. In 2015 the Group made partial transfers of corporate bonds recognized as investment securities available for sale from Level 2 to Level 1 and 3 of fair value hierarchy.

The table below presents a reconciliation during the periods of measurement from 1 January to 31 December 2015 and 2014 respectively, at fair value at level 3 of fair value hierarchy:

| Investment securities available for sale | 2015 | 2014 |
|---|---|---|
| Opening balance at the beginning of the period | 203 276 | 137 326 |
| **Total gains or losses** | **334 380** | **29 965** |
| recognised in financial result | (3 649) | - |
| recognised in other comprehensive income | 338 029 | 29 965 |
| Translation differences of currency entities | (1 021) | 19 017 |
| The conclusion of a conditional sale agreement of the Company listed on the stock exchange | - | 12 000 |
| Sale of shares of the Company listed on the stock exchange | (12 000) | - |
| Rozliczenia | (364) | - |
| Transfers from level 2 to level 3 | 3 110 359 | 4 968 |
| **Closing balance at the end of the period** | **3 634 630** | **203 276** |

## 51.2. Financial assets and liabilities not presented at fair value in the statement of financial position

The Group holds financial assets and liabilities which are not presented at fair value in the statement of financial position.

Where there is no market value of financial instruments available, their fair values have been estimated with the use of various valuation techniques. The fair value of financial instruments was measured using a model based on estimating the present value of future cash flows by discounting them using relevant interest rates. All model calculations include certain simplifying assumptions and therefore are sensitive to those assumptions. Set out below is a summary of the main methods and assumptions used for estimation of fair values of financial instruments which are not presented at fair value.

For certain categories of financial instruments it has been assumed that their carrying amount equals approximately their fair values, which is due to lack of expected material differences between their carrying amount and their fair value resulting from the features of these groups (such as short term character, high correlation with market parameters, unique character of the instrument). This applies to the following groups of financial instruments:

- loans and advances granted by the Group to its customers: a portion of the housing loans portfolio (‘old’ housing loans portfolio), loans with no specified repayment schedule, loans payable at the moment of valuation,
- amounts of the Group due to customers: liabilities with no specified payment schedule, other specific products for which no active market exists,
- deposits and interbank placements with maturity date up to 7 days or with a variable interest rate,
- loans or advances granted and taken on interbank market at a variable interest rate (change of interest rate maximum on a 3 month basis),
- cash and balances with the central bank and amounts due to the central bank,
- other financial assets and liabilities.

(IN PLN THOUSAND)

For loans and advances to customers with no impairment triggers, present value of discounted cash flow model was used that includes current interest rate with credit margin risk and real maturities that steam from loan agreements. The current level of margins was calculated based on financial instrument transactions with similar risk level, that took place the last quarter that ended on the balance sheet date. For currency loans, the current loan margin for PLN loans was used and it was corrected with the cost of currency acquisition in basis-swap transaction. The valuation does not take into consideration potential currency conversion of loans denominated in CHF in regards to the draft law on possible measures to restore the equality of parties to some loan and advances agreements. For demand deposits, it is assumed that for them, the fair value equals their carrying value.

The fair value of deposits and other amounts due to customers other than banks, with specified maturities has been calculated using the discounted expected future cash flows and applying current interest rates for given deposit products. The fair value is calculated for each deposit and liability, then the fair values of the entire deposit portfolio are grouped by type of product and customer segment. The valuation does not take into consideration potential currency conversion of loans denominated in CHF in regards to the draft law on possible measures to restore the equality of parties to some loan and advances agreements. For demand deposits, it is assumed that for them, the fair value equals their carrying value.

The fair value of the subordinated debt of the Bank has been estimated based on the expected future cash flows discounted using the yield curve.

The fair value of debt securities issued by PKO Bank Polski SA has been estimated based on the expected future cash flows discounted using the current interbank interest rates.

The fair value of debt securities issued by PKO Finance AB has been estimated using Bloomberg data.

Interbank placements and deposits have been estimated based on the expected future cash flows discounted using the current interbank interest rates.

Receivables on financial lease have been estimated based on expected cash flows discounted using internal rate of return for lease transactions of the same kind, concluded by the Group in the period directly preceding the balance sheet date.

The table below presents a summary of the carrying amounts and fair values of individual groups of financial instruments not recognised at fair value in the statement of financial position as at 31 December 2015:

| | level of fair value hierarchy | valuation method | 31.12.2015 | |
|---|---|---|---|---|
| | | | carrying amount | fair value |
| Cash and balances with the central bank | nd | value at cost to pay | 13 743 864 | 13 743 864 |
| Amounts due from banks | 2 | discounted cash flows | 4 552 972 | 4 552 971 |
| Loans and advances to customers | | | 190 413 708 | 183 613 721 |
| housing loans | 3 | discounted cash flows | 100 668 588 | 93 429 678 |
| corporate loans | 3 | discounted cash flows | 58 057 837 | 58 749 000 |
| consumer loans | 3 | discounted cash flows | 21 959 827 | 21 815 550 |
| receivables due from repurchase agreements | 3 | discounted cash flows | 4 432 239 | 4 432 239 |
| International financial organisations | 3 | discounted cash flows | 10 652 | 10 652 |
| debt securities | 3 | discounted cash flows | 5 284 565 | 5 176 602 |
| Investment securities held to maturity | 3 | discounted cash flows | 210 330 | 213 624 |
| Other financial assets | 3 | value at cost to pay including impairment allowance | 875 195 | 875 195 |
| Amounts due to the central bank | 2 | value at cost to pay | 4 219 | 4 219 |
| Amounts due to other banks | 2 | discounted cash flows | 18 288 797 | 18 288 795 |
| Amounts due to customers | | | 195 758 461 | 195 718 940 |
| due to corporate entities | 3 | discounted cash flows | 51 213 728 | 51 214 193 |
| due to public entities | 3 | discounted cash flows | 9 134 366 | 9 134 366 |
| due to retail clients | 3 | discounted cash flows | 135 410 367 | 135 370 381 |
| Debt securities in issue | 1, 2 | market quotations / discounted cash flows | 9 361 229 | 9 637 428 |
| Subordinated debt | 2 | discounted cash flows | 2 499 163 | 2 486 132 |
| Other financial liabilities | 3 | value at cost to pay | 2 340 804 | 2 340 804 |

The table below presents a summary of the carrying amounts and fair values of individual groups of financial instruments not recognised at fair value in the statement of financial position as at 31 December 2014:

(IN PLN THOUSAND)

| | level of fair value hierarchy | valuation method | 31.12.2014 | |
|---|---|---|---|---|
| | | | carrying amount | fair value |
| Cash and balances with the central bank | nd | value at cost to pay | 11 738 371 | 11 738 371 |
| Amounts due from banks | 2 | discounted cash flows | 2 486 686 | 2 486 692 |
| Loans and advances to customers | | | 179 497 384 | 170 510 276 |
| housing loans | 3 | discounted cash flows | 95 797 964 | 86 756 438 |
| corporate loans | 3 | discounted cash flows | 58 231 138 | 58 274 526 |
| consumer loans | 3 | discounted cash flows | 20 321 718 | 20 440 558 |
| receivables due from repurchase agreements | 3 | discounted cash flows | 310 852 | 310 852 |
| debt securities | 3 | discounted cash flows | 4 835 712 | 4 727 902 |
| Investment securities held to maturity | 3 | discounted cash flows | 233 358 | 241 902 |
| Other financial assets | 3 | value at cost to pay including impairment allowance | 710 349 | 710 349 |
| Amounts due to the central bank | 2 | value at cost to pay | 4 427 | 4 427 |
| Amounts due to other banks | 2 | discounted cash flows | 19 394 482 | 19 394 544 |
| Amounts due to customers | | | 174 386 766 | 174 352 166 |
| due to corporate entities | 3 | discounted cash flows | 40 932 868 | 40 932 943 |
| due to public entities | 3 | discounted cash flows | 4 778 337 | 4 778 337 |
| due to retail clients | 3 | discounted cash flows | 128 675 561 | 128 640 886 |
| Debt securities in issue | 1, 2 | market quotations / discounted cash flows | 13 182 348 | 13 620 129 |
| Subordinated debt | 2 | discounted cash flows | 2 413 985 | 2 398 946 |
| Other financial liabilities | 3 | value at cost to pay | 2 321 761 | 2 321 761 |

## 52. Offsetting financial assets and liabilities

A financial asset and a financial liability are offset only when the Group has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously. It follows from the provisions of paragraph 42 of IAS 32 that, amongst others, in order for offsetting to be possible, a legal right may not be conditioned on the occurrence of a specific future event.

The Group enters into offsetting arrangements, i.e. International Swaps and Derivatives Association Master Agreements (ISDA) and Global Master Repurchase Agreements (GMRA), which make it possible to offset financial assets and liabilities (the so-called close out netting) in the event of an infringement with respect to one of the parties to the agreement. These agreements are of particular importance to mitigating the risk posed by derivative instruments, because they enable both matured liabilities (mitigating the settlement risk) and non-matured liabilities of the parties (mitigating the pre-settlement risk). However, these agreements do not meet the requirements set out in IAS 32 because the right to offset the amounts is conditioned on the occurrence of a specific future event (instances of infringement).

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

| 31.12.2015 | Total Financial assets | Derivatives | Receivable due from repurchase agreement |
|---|---|---|---|
| The amount of recognised financial assets (gross) | 9 767 054 | 4 354 185 | 5 412 869 |
| The amount of financial liabilities, which are offset in accordance with the criteria set out in § 42 of IAS 32 (gross) | (6 916) | (6 916) | - |
| The value of financial assets recognised in the statement of financial position (net) | 9 760 138 | 4 347 269 | 5 412 869 |
| The value of financial instruments not subject to offsetting in the financial statements | 3 631 779 | 3 631 779 | - |
| The value of financial liabilities subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial guarantees) | 2 794 948 | 2 794 948 | - |
| Guarantee in cash and in the form of securities received | 836 831 | 836 831 | - |
| The net amount | 6 128 359 | 715 490 | 5 412 869 |

| 31.12.2015 | Total Financial liabilities | Derivatives | Receivable due from repurchase agreement |
|---|---|---|---|
| The amount of recognised financial liabilities (gross) | 5 657 820 | 4 631 683 | 1 026 137 |
| The amount of financial assets, which are offset in accordance with the criteria set out in § 42 of IAS 32 (gross) | (6 916) | (6 916) | - |
| The value of financial liabilities recognised in the statement of financial position (net) | 5 650 904 | 4 624 767 | 1 026 137 |
| The value of financial instruments not subject to offsetting in the financial statements | 4 072 660 | 4 048 592 | 24 068 |
| The value of financial assets subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial guarantees) | 2 794 948 | 2 794 948 | - |
| Guarantee in cash and in the form of securities received | 1 277 712 | 1 253 644 | 24 068 |
| The net amount | 1 578 244 | 576 175 | 1 002 069 |

(IN PLN THOUSAND)

| 31.12.2014 | Total Financial assets | Derivatives | Receivable due from repurchase agreement |
|---|---|---|---|
| The amount of recognised financial assets (gross) | 5 814 597 | 5 503 745 | 310 852 |
| The amount of financial liabilities, which are offset in accordance with the criteria set out in § 42 of IAS 32 (gross) | (8 923) | (8 923) | - |
| The value of financial assets recognised in the statement of financial position (net) | 5 805 674 | 5 494 822 | 310 852 |
| The value of financial instruments not subject to offsetting in the financial statements | 4 875 714 | 4 875 714 | - |
| The value of financial liabilities subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial guarantees) | 4 094 094 | 4 094 094 | - |
| Guarantee in cash and in the form of securities received | 781 620 | 781 620 | - |
| The net amount | 929 960 | 619 108 | 310 852 |

| 31.12.2014 | Total Financial assets | Derivatives | Receivable due from repurchase agreement |
|---|---|---|---|
| The amount of recognised financial liabilities (gross) | 6 709 718 | 5 554 064 | 1 155 654 |
| The amount of financial assets, which are offset in accordance with the criteria set out in § 42 of IAS 32 (gross) | (8 923) | (8 923) | - |
| The value of financial liabilities recognised in the statement of financial position (net) | 6 700 795 | 5 545 141 | 1 155 654 |
| The value of financial instruments not subject to offsetting in the financial statements | 5 262 583 | 5 257 067 | 5 516 |
| The value of financial assets subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial guarantees) | 4 094 094 | 4 094 094 | - |
| Guarantee in cash and in the form of securities received | 1 168 489 | 1 162 973 | 5 516 |
| The net amount | 1 438 212 | 288 074 | 1 150 138 |

## 53. Fiduciary activities

Parent Company is a direct participant in the Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych) and the Securities Register (at the National Bank of Poland). The Bank maintains securities accounts, services transactions on the domestic and foreign markets, and provides fiduciary services and performs depository role for pension and investment funds. Assets placed in the Bank within fiduciary services are not included in these financial statements as they do not meet the criteria of an asset.

Moreover, as a member of the Council of Depositary Banks and the Council of Non-treasury Debt Securities by the Polish Banks Association (PBA), PKO Bank Polski SA takes part in developing regulations and market standards.

## 54. The impact of the macroeconomic situation on the financial results of the PKO Bank Polski SA Group

The macroeconomic situation in the world had a complex effect on the operations and financial position of the Group in 2015. On 15 January 2015 the Central Bank of Switzerland (SNB) resigned from the upper limit for the EUR/CHF pair. This resulted in abrupt strengthening of the CHF against other currencies, including PLN. SNB decided to lower the target for 3M LIBOR by 50 bp to -0,75% to offset the negative effects of the franc's strengthening. Due to the persistence of reduced inflation (partly because of a decline in oil prices), and in order to defend against the strengthening of the euro, in March 2015 the European Central Bank (ECB) introduced asset purchases program (QE) providing the purchase of bonds and other asset-backed securities and Treasury bonds (EUR 60 billion of securities a month until September 2016.). Due to the deepening decreases in oil prices and continuingly declining inflation, in December 2015 the ECB lowered the deposit rate by 10bps to -30%, the QE program was extended to March 2017, extending its scope to bonds issued by the local public sector and decided to reinvest interests from maturing securities. Apart from the ECB actions, resulting in a positive credit impulse and a weak euro, euro zone economy benefited from the drop in oil prices. As a result, euro zone GDP growth accelerated in 2015 to 1.5% y/y from 0.9% in 2014. Slowing economic growth in China (from 7.4% in 2014 to 6.9% in 2015) has not significantly harmed European economy. Uncertainty about economic situation in China and other emerging markets, was a major factor contributing to the delayed start of monetary policy tightening by the Federal Reserve System (FED). The continuation of robust GDP growth in the US (2.5% y/y in 2015 compared to 2.4% y/y in 2014) and a further decline in an unemployment rate (down to 5% at the end of 2015 from 5.6% at the end of 2014) prompted the Federal Open Market Committee (FOMC) to make the first increase of interest rates in eight years (increase of the range for the fed funds rate by 25bp to 0.25-0.50% in December).

Polish economy growth rate throughout 2015 remained stable at around 3.5% y/y, despite the volatility in external environment. Deep recession in Russia and Ukraine, together with the slowdown / recession in many emerging countries (mainly in China) limited the strength of external demand, but was overweighed by the positive impact of the recovery in the euro zone. Significant drop in oil prices was an positive external environment impulse. As a result, domestic demand remained on a clear path of recovery. Consumption growth remained stable at just over 3% while the situation on the labour market further improved and the deflation increased the real purchasing power of households. Strong investment demand at the beginning of the year was supported, among others, by favourable weather conditions, while in the second half of the year nearly double-digit growth of investment dynamics was fuelled by expansion of production potential in the automotive industry and the energy sector. On the other hand, decrease in municipal investment in the second half of the year reflects the end of the financial prosperity of the EU 2007-2013. Throughout 2015, GDP growth amounted to 3.6%. In March 2015 the Monetary Policy Council (RPP) decided to reduce all NBP interest rates by 50bps (reference rate: 1,50%), which was influenced by the decline in inflation to the lowest level in the contemporary history of the Polish economy. Later in the year, RPP decided not to cut rates, which was supported by: progressively shallowing deflation, maintaining GDP growth above 3% y/y and the depreciation of the PLN.

PKO Bank Polski SA successfully passed the stress tests during the second half of 2015, conducted by the PFSA. They were aimed at determining the potential impact of variable macroeconomic events on financial situation and particularly capital situation of Polish financial sector institutions. Test results confirm the Bank's high resistance on the occurrence of macroeconomic shocks. In each of the scenarios, the Bank recorded a net profit and the level of capital adequacy ratios remains above the internal and external limits.

Taking into account the impact of the macroeconomic events on the financial condition of customers of PKO Polish Bank SA, the Group consistently applies a conservative approach to credit risk, recognizing impairment losses which scale and structure reflects the impact of the current macroeconomic situation on the financial statements of the Group.

Consolidated net profit of the PKO Bank Polski SA Group for 2015 amounted to PLN 2 609.6 million and was PLN 644.6 million lower than in 2014. After eliminating non-recurring events: - payment to the Bank Guarantee Fund (BFG) within the fund for the protection of guaranteed deposits (FOŚG) to cover payment of the guaranteed deposits to depositors of the Spółdzielczy Bank Rzemiosła I Rolnictwa in Wołomin due to its bankruptcy in the amount of PLN 338 million, - payment for Borrowers Support Fund (FWK) in the amount of PLN 142 million, comparable net profit amounted to PLN 2 998.3 million and was lower than in 2014 by PLN 255.7 million. The structure of the statement of financial position of the PKO Bank Polski SA Group, characterized by strong deposit base and safe level of equity, made it possible to maintain a high result on business activities. As a result of actions taken in 2015 the Group increased its total assets by more than PLN 18 billion, including nearly PLN 11 billion portfolio of loans to customers, while maintaining a high market share in loans and deposits. The quality of loan portfolio, measured by ratio of impaired loans and cost of risk, has improved.

Due to the capital commitment in Ukrainian companies, in particular in KREDOBANK SA, the Bank is exposed to the effects of risks typical for the Ukrainian market. In Ukraine the bottom of recession was reached in the first quarter of 2015 (-17.2% y/y). Subsequently, GDP growth increased to -1.2% y/y in the fourth quarter of 2015. Collapse of hryvnia and increase in administered prices in April 2015 (hot water, gas, electricity) have led to a drastic rise in CPI inflation. It amounted on average 48.2% y/y with a peak of 60.9% y/y in March and 43.3% y/y at the end of 2015. Very high inflation contributed to deterioration in households' situation (real wages fell in the period between January-December 2015 at an average rate of -18.5% y/y). In 2016 a downward trend in inflation is to be seen. It will be supported by expiring effect of increases in utility prices in April 2015.

Strong depreciation of the hryvnia exchange rate (from 15.82 UAH/USD at the end of December 2014 to 33.75 UAH/USD on 26 February 2015) forced the central bank to raise interest rates to 30% (from 14% at the end of 2014). Stabilization of the exchange rate allowed (from August) reduction in the main interest rate to 22%. After reaching the bottom in February ($ 5.6 billion) foreign exchange reserves grew steadily reaching 13.3 billion US dollars in December (which is 3.6 times the monthly imports). National Bank of Ukraine (NBU) continued to finance the Ukrainian budget (increase in government bonds holders' structure from 69.5% to 77.1% at the end of the year). At the beginning of the year reversal of this trend can be seen resulting from the increase in purchases of bonds by commercial banks.

An important achievement of 2015 became the restructuring of Ukraine's Eurobonds, which will allow for a significant reduction in the cost of external debt over the next four years, while creating favourable conditions for economic reforms. Due to the debt restructuring credit ratings of Ukraine were raised to B- with a stable outlook (Standard & Poor 's on 19 October 2015), to Caa3 with a stable outlook (Moody's on 19 November 2015) and CCC (Fitch on 19 November 2015). This led to an increase in the rating of banks operating in Ukraine - including KREDOBANK SA to CCC +.

The banking sector was in a difficult financial situation. The number of banks operating in Ukraine dropped in 2015 (latest data from 1 December 2015) from 163 to 120. Share of foreign capital in the sector declined in the first half of the year (from 32.5% in December 2014 to 27.5 % in June 2015) to rise to 35.3% at the end of November. The value of total assets in the Ukrainian banking sector in 2015 decreased (with exception of period of rapid UAH depreciation) and in early December amounted to UAH 1275.4 billion (down by UAH 41.5 billion against the end of 2014). Until the end of 2015 the value of loan portfolio fell by UAH 30.2 billion (insignificant scale of the decline in the volume of loans resulted mainly from the depreciation of the hryvnia - the increase in the volume of foreign currency loans amounted to UAH 86 billion, i.e. 17.5%). The decrease in volume of loans to households by UAH 36.3 billion has not been compensated by an increase in corporate loan portfolio of UAH 9 billion. The deposit base of the banking sector in Ukraine in 2015 increased by UAH 47.1 billion, mainly due to the growth in UAH deposits (UAH 28.1 billion). Volume of foreign currency deposits increased (UAH 19 billion), however it only resulted from depreciation of the hryvnia. Household deposits fell by UAH 7.2 billion, and enterprises deposits increased by UAH 46.7 billion. Major changes in volumes of loans and deposits occurring in the first half of the year were associated with fluctuations in the hryvnia exchange rate. In 2015, the ratio of loans to deposits improved (down from 147.4% to 134% in December). The share of currency loans in the currency structure of the loan portfolio increased to 56.9% in December 2015 (against 47.0% at the end of 2014). In 2015, banks gradually rebuild its capital base after a sharp decline in the 1st quarter. Compared to the end of 2014 the share of defaulted loans significantly increased (21.2% at the end of November 2015 vs. 13.5% in December 2014). In the period January-November ROA ratio fell (-5.1% vs -4.1% in 2014) while ROE fell deeply (-47.8% vs -30.5% in 2014). In 2016, the economy should recover from the recession and grow by approx. 1-2%.

Simultaneously, there are significant risks to the GDP growth in Ukraine (the risk of macroeconomic instability and insolvency, the risk of foreign financing availability, the risk of instability of the financial market and the hryvnia exchange rate, risks to the stability of the banking sector and regulatory uncertainty). Other relevant circumstances that may affect prospects of economic growth in Ukraine, escalation of military conflict in the east of Ukraine and turbulence in political environment.

PKO Bank Polski SA continues efforts to ensure the safe operation of its companies in Ukraine under the current political and macroeconomic situation, including the strengthening of supervisory activities, i.a. tracking the funds transferred by the Bank to its subsidiaries and changes in regulatory requirements set by the National Bank of Ukraine. The Bank constantly analyses the macroeconomic operational risks of KREDOBANK SA. Development of the situation in Ukraine can bear a significant impact on Group's entities operating on that market.

# OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

## 55. Risk Management of PKO Bank Polski SA Group

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

In the of PKO Bank Polski SA Group, the following types of 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, macroeconomic changes risk, model risk, business risk (including strategic risk), loss of reputation, capital risk, excessive leverage and insurance

### 55.1. Elements of risk management process

The process of risk management in Group consists of the following stages:

- risk identification:

  the identification of actual and potential sources of risk and estimation of the significance of the potential influence on the financial situation of the Group. Within the risk identification process, types of risk perceived as material in the Bank's, particular Group companies or the entire Group activity are identified,

- risk measurement and assessment:

  risk measurement covering determination of risk assessment measures adequate to the type and significance of the risk, data availability and quantitative risk assessment by means of determined measures, as well as risk assessment aimed at identifying the scale or scope of risk, taking into account the achievement of goals of risk management. Within risk measurement, work related to the valuation of the risks for the purpose of pricing policy and stress-test are being conducted on the basis of assumptions providing a fair risk assessment,

- risk control:

  consisting in determination of tools used for measuring or reducing the level of risk in specific areas of the Bank's activity, This includes determination of control mechanisms adjusted to the scale and complexity of the Bank's activities especially in the form of strategic tolerance limits for the individual types of risk.

- risk forecasting and monitoring:

  preparing risk level forecasts and monitoring deviations from forecasts or adopted reference points (e.g. limits, thresholds, plans, measurements from the previous period, recommendations and suggestions issued by the supervisory and control authority) and also carrying out stress test (specific and complex). Forecasts of the level of risk shall be reviewed. Risk monitoring is performed with the frequency adequate to the materiality and volatility of a specific risk type,

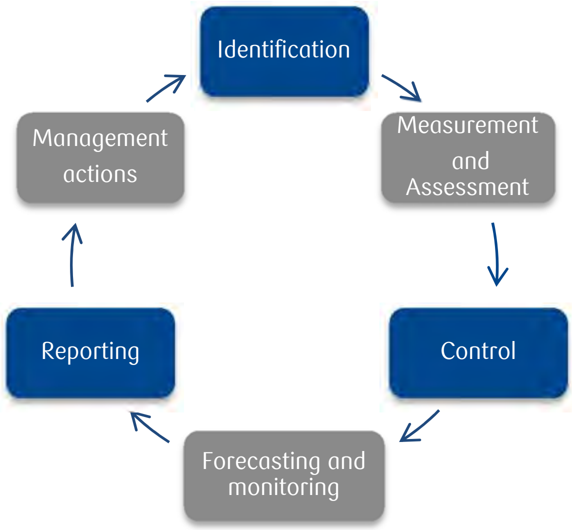
- risk reporting:

  periodic informing the authorities of the Bank about the results of risk measurement or risk assessment, taken actions and actions recommendations. Scope, frequency and the form of reporting are adjusted to the managing level of the recipients,

- management actions:

  including, particularly, issuing internal regulations affecting the management process of different types of risk, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management. The objective of taking management actions is to form the risk management and the risk level.

The risk management process is described on the chart below:




### 55.2. Main principles of risk management

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

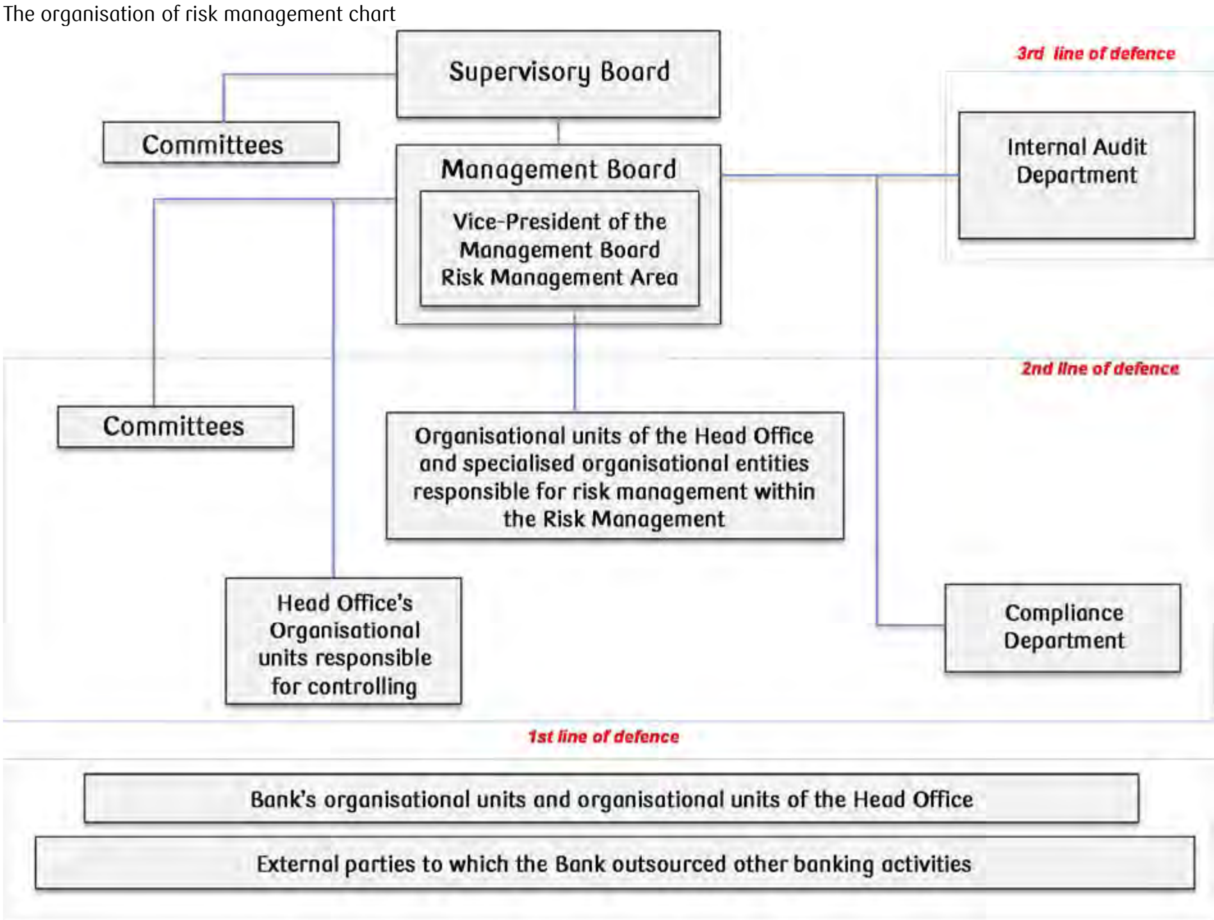
- the Group manages all of the identified types of risk,
- the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
- the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk, currently pursued and envisaged Group's activity and environment in which the Group operates, and are also verified and validated on a periodical basis,
- the area of risk management 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 strategy in compliance with the risk management strategy, in particular with regard to the level of tolerance of the risk.

## 55.3. The organisation of risk management in the Bank

Risk management in the Bank takes place in all of the organisational units of the Bank.

The organisation of risk management is presented in the chart below:

The organisation of risk management chart




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.

In the fourth quarter of 2015 the Bank appointed the Committee for the Risks of the Supervisory Board, which primarily gives opinions on the Bank's willingness to take risks, expressed particularly by the strategic limits of risk tolerance. In the scope of competence of the Committee for the Risks of the Supervisory Board is to supervise the implementation of the risk management system in the Bank by the Bank's Management Board and of the adequacy and effectiveness of the risk management system, as well to support the Supervisory Board in overseeing the strategy of risk management strategy.

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 profile of the Bank and adopts internal regulations concerning risk management

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

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

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

- the function of the second line of defence as regards creating system solutions is independent of the function 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 first line of defence is being performed in particular in the organisational units of the Bank, the organisational units of the Head Office and entities of the Group and concerns the activities of those units, cells and entities which may generate risk. The units, cells and entities of the Group are responsible for identifying risks, designing and implementing appropriate control mechanisms, unless control mechanisms have been implemented as part of the measures taken in the second line of defence. At the same time the Group entities are obliged to have comparable and cohesive systems of risk evaluation and control in the Bank and in the Group entities, taking into account the specific business characteristic of each entity and the market on which it operates.

The second line of defence is being performed, in particular, in the Risk Management Area, Compliance Department, Planning and Controlling Department, relevant committees, as well as the other organisational units of the Head Office responsible for controlling.

The risk management area is formed within the Banking Risk Division, Department of Risk Integration, Department of Restructuring and Debt Collection of Corporate Client and Analysis and Credit Risk Assessment Centre as well as Restructuring and Debt Collection Centre and Planning and Controlling Department, which manage risk within the limits of competence assigned to them.

The Banking Risk Division is responsible in particular for:

- identifying risk factors and sources,
- measuring, assessing, controlling, monitoring and reporting risk levels on a regular basis,
- coordinating implementation activities the Risk Management Strategy in PKO Bank Polski.
- measuring and assessing capital adequacy,
- preparing recommendations for the Management Board or committees regarding the permissible level of risk,
- creating and expressing opinions on internal regulations on managing risk and capital adequacy,
- developing IT systems and software designated to support risk and capital adequacy management.

The Department of Risk Integration is responsible in particular for:

- validation of risk models,
- implementation an effective system of the models risk management in the Group,
- coordinating the implementation of integrated risk management system within the Group,
- initiating and coordinating integration activities related to risk management in the Group.

The Department of Restructuring and Debt Collection of the Corporate Client is responsible in particular for:

- recovering receivables from difficult corporate clients
- acquisition of assets as a result of pursuing receivables,
- performing review and classification of receivables being managed within the Department and off-balance sheet liabilities granted as well as determination of their impairment allowances.

The Restructuring and Debt Collection Centre is responsible in particular for:

- recovering and selling difficult receivables effectively
- monitoring of delays in the collection of receivables,
- effective management of assets taken over and settled as a result of recovering the Bank's receivables,
- creation and development of models and system solutions used in difficult debts monitoring processes.

Analysis and Credit Risk Assessment Centre is responsible in particular for:

- evaluation, assessment and moderation of the credit risk of individual credit exposures
- risk assessment of financial institutions and monitoring of the limits on the wholesale market related to the credit risk of financial institutions,
- improving and optimizing credit processes and IT tools used within its scope of responsibilities

Risk management is supported by the following committees:

The Risk Committee ('the RC')

- monitors the integrity, adequacy and efficiency of the banking risk management system, capital adequacy and implementation of the risk management policies binding in the Bank consistent with the Bank's Strategy,
- analyses and evaluates the application of strategic risk limits specified in PKO Bank Polski SA's Bank Risk Management Strategy,
- supports the Management Board in the banking risk management process by formulating recommendations and making decisions concerning capital adequacy and the efficiency of the risk monitoring system.

The Assets & Liabilities Management Committee (the 'ALCO')

- makes decisions within the scope of limits and thresholds on particular types of risks, issues related to transfer pricing, models and portfolio parameters used to determine impairment allowances and provisions as well as other significant financial and business risk models and their parameters,
- gives recommendations to the Management Board i.a. with regard to determining the structure of the Bank's assets and liabilities, managing different types of risks, equity and price policy.

The Bank's Credit Committee (the 'BCC')

- makes loan decisions with regard to significant individual credit exposures and credit risk models,
- issues recommendations in respect mentioned above to the Management Board of the Bank,
- makes decisions regarding the approval of credit risk models and the results of the validation of these models in the composition including the representatives of the Finance and Accounting Area.

The Operating Risk Committee (the 'ORC')

- takes decisions, issues recommendations and opinions regarding i.a. strategic tolerance limits and loss limit for operational risk, key risk indicators (KRI), assumptions of stress-tests, results of validation of operational risk measurement models, extensions and changes in AMA approach and taking actions to reduce the level of operational risk in all areas of the Group activities.

- prepares operating risk management recommendations for the PKO Bank Polski SA Group entities, which are submitted to the PKO Bank Polski SA Group entities as a part of the Bank's corporate governance over those entities.

ALCO, RC, ORC, BCC, the Management Board and the Supervisory Board are recipients of cyclic reports concerning the individual risk types.

The third line of defence Is being performed as part of internal audit, including the audit of the effectiveness of the system of managing the risk.

## 55.4. Activities in the area of risk management in the Group

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

The internal regulations concerning management of certain types of risk in the entities of the Group are defined by internal regulations implemented by those entities, after consulting the Bank's opinion and having taken into account the recommendations issued to the entities by the Bank. The internal regulations of the entities concerning risk management allow for consistent and comparable assessment of particular types of risk within the Bank and entities of the Group, as well as reflect the extent and nature of the relationship of entities included in the Group, the nature and scale of the entity's activity and the market on which it operates.

The risk management in the Group entities is carried out in particular by

- involving the units in the Bank's Risk Management Area or the Bank's relevant committees in evaluating large transactions of the Group entities;
- giving opinions and reviewing internal regulations concerning risk management in the individual Group entities, carried out by the units in the Bank's Risk Management Area;
- reporting on the Group entities' risks to the Bank's relevant committees or the Management Board,
- monitoring of strategic risk tolerance limits for the Group.

PKO Bank Polski SA's top priority is to maintain its strong capital position and to further increase in its stable sources of financing underlying the stable development of business activity, while maintaining the priorities of efficiency and effective cost control and appropriate risk assessment.

In this respect, the Bank took i.a. the following actions in 2015:

- in February, May and November 2015, turned the maturing own short-term bonds, on bonds with a maturity from three to six months in the amounts from PLN 800 million to PLN 1 billion,
- in November 2015, acquired financing due to issuance of short-term bonds with a maturity of six months on domestic market in the amount of EUR 200 million,
- reduced level of risk-weighted assets. The most important source of optimization carried out to improve the quality of data (eg. Inclusion in the category of retail exposures all SME customers meeting the criteria of segmentation), and a review of off balance-sheet liabilities, including verification of assigned risk weights of the product,
- Counted to own funds the profit of the Bank for 2015 in the amount PLN 3,079 million and the retained earnings from previous years in the amount of PLN 132 million and allocating it for spare and reserve capital according to the recommendation of the Management leaving the undivided amount of PLN 1 250 million, without committing any sums for the dividend.

In 2015, the area of operational risk management, the Bank carried out preparatory works for the launch of the new Bank's branch in the Federal Republic of Germany, which the opening took place in December 2015. As the part of the works in July 2015, the Bank obtained the permit of the Polish Financial Supervision Authority's on the combined use of the Advanced Measurement Approach (AMA) and the Basic Indicator Approach (BIA) for calculating the own funds requirement in respect of operating risk. The BIA approach will be used to calculate the requirement for operational risk with regard to the activities of the branch in Germany.

With the beginning of 1 April 2015, the PKO Bank Hipoteczny SA started its operational activity. The Bank is a 100% subsidiary of PKO Bank Polski SA. It specializes in providing mortgage loans for individual clients. Extension of the Group of PKO Bank Hipoteczny SA had no effect in 2015 on change of the nature of the risks identified within the framework of its activities.

Within the Group, the portfolios of mortgage loans granted by PKO Bank Polski SA will be moved to the PKO Bank Hipoteczny SA. The value of portfolio transferred in 2015 (transfer took place in December) amounted to PLN 429.5 million.

In 2015, PKO Bank Hipoteczny SA belonging to the of PKO Bank Polski SA Group made the first issue of mortgage bonds – in the amount of PLN 30 million for a period of 5 years.

The acquisition in the second half of 2015 of Spółdzielcza Kasa Oszczędnościowo Kredytowa "Wesoła" in Mysłowice, has not changed the nature of the risks identified in the Bank's activities.

In the second half of 2015 PKO Leasing Group continued to integrate risk management approach of PKO Bank Polski SA in regards to adapting its internal regulations. In addition, measures have been taken to standardize the processes and management of PKO Leasing SA with BP PKO Faktoring SA. The PKO Leasing SA Group uses the results of the creditworthiness analysis of customers from the Bank's rating model for clients assessment in full procedures, implements antifraud model and improves impairment model.

In 2015 KREDOBANK SA made changes in order to optimize and increase the efficiency of the credit process.

## 55.5. The Bank's policy in the area of the CHF

As the result of the abandonment of EUR/CHF peg by the Swiss National Bank in January 2015 there was a significant appreciation of the Swiss franc against foreign currencies, including the Polish zloty. The bank constantly analyses the impact of these events on the financial results including the risk of deterioration in the quality of the portfolio of mortgage loans denominated in CHF. The risk is partly mitigated by a decline in reference interest rates, CHF LIBOR.

(IN PLN THOUSAND)

Due to the fact that the significant appreciation of the CHF against Polish zloty is a risk arising of an excessive burden for household which took mortgage loans indexed to CHF, thus timely debt service, from the beginning of the year the public debate continues on how to reduce the risk of insolvency of these borrowers. Emerging proposals for system solutions, submitted in form of civil or parliamentary bills, as well as presented by the public and supervisory authorities, may result in incurring losses by the Bank on the portfolio in the future periods.

The Group has taken a number of actions designed to help the clients and at the same time to reduce the growth of the credit risk associated with the appreciation of the CHF– among other, lowering transaction exchange rates CHF/PLN at which amount payable in CHF is converted (ie. currency spread) and taking into account the negative LIBOR for all customers.

In the Group's opinion these measures allow to retain ability of the Clients to service the mortgage loans denominated in CHF at a level no lower than of December 2014. The Group constantly monitors the volatility of the CHF, the value of the portfolio of housing loans denominated in CHF and the impact of changes in exchange rate on the level of capital adequacy measures.

The following tables presents qualitative analysis of the loans denominated in CHF

| Loans and advances to customers in impairment valuation method in CHF (in nominal currency) | 31.12.2015 | | | |
|---|---|---|---|---|
| | Financial institutions | Entities | Households | Total |
| Valuated on an individual basis, of which: | - | 170 986 | 223 586 | 394 572 |
| impaired | - | 134 743 | 208 089 | 342 832 |
| Valuated with portfolio method, impaired | - | 32 034 | 1 126 528 | 1 158 562 |
| Valuated with group method (IBNR) | 6 098 | 372 332 | 30 309 066 | 30 687 496 |
| Loans and advances to customers - gross | 6 098 | 575 352 | 31 659 180 | 32 240 630 |
| Allowances on exposures valuated on an individual basis, of which: | - | (45 601) | (95 867) | (141 468) |
| impaired | - | (45 185) | (93 751) | (138 936) |
| Allowances on exposures valuated with portfolio method | - | (18 199) | (699 206) | (717 405) |
| Allowances on exposures valuated with group method (IBNR) | (171) | (2 711) | (100 384) | (103 266) |
| Allowances - total | (171) | (66 511) | (895 457) | (962 139) |
| Loans and advances to customers - net | 5 927 | 508 841 | 30 763 723 | 31 278 491 |

CHF exchange rate as at 31 December 2015 was equal to 3.9394 PLN

| Loans and advances to customers in impairment valuation method in CHF (presented in PLN) | 31.12.2014 | | | |
|---|---|---|---|---|
| | Financial institutions | Entities | Households | Total |
| Valuated on an individual basis, of which: | 2 912 | 169 951 | 188 969 | 361 832 |
| impaired | 2 912 | 169 951 | 188 969 | 361 832 |
| Valuated with portfolio method, impaired | - | 29 737 | 1 042 503 | 1 072 240 |
| Valuated with group method (IBNR) | 3 837 | 309 293 | 29 252 287 | 29 565 417 |
| Loans and advances to customers - gross | 6 749 | 508 981 | 30 483 759 | 30 999 489 |
| Allowances on exposures valuated on an individual basis, of which: | (15) | (43 789) | (75 402) | (119 206) |
| impaired | (15) | (43 789) | (75 402) | (119 206) |
| Allowances on exposures valuated with portfolio method | - | (14 034) | (601 131) | (615 165) |
| Allowances on exposures valuated with group method (IBNR) | (23) | (4 401) | (96 252) | (100 676) |
| Allowances - total | (38) | (62 224) | (772 785) | (835 047) |
| Loans and advances to customers - net | 6 711 | 446 757 | 29 710 974 | 30 164 442 |

CHF exchange rate as at 31 December 2014 was equal to 3.5447 PLN

| Loans and advances to customers valuated in the group method (IBNR) | 31.12.2015 | | |
|---|---|---|---|
| | PLN | CHF | Other currencies |
| Gross loans and advances to customers | 137 032 884 | 30 687 496 | 14 360 233 |
| expired | 1 856 370 | 719 752 | 74 127 |
| not expired | 135 176 514 | 29 967 744 | 14 286 106 |
| Impairment on exposures valuated using the group method(IBNR) | (403 833) | (103 266) | (39 614) |
| expired | (146 169) | (49 835) | (4 822) |
| not expired | (257 664) | (53 431) | (34 792) |
| Net loans and advances to customers | 136 629 051 | 30 584 230 | 14 320 619 |

(IN PLN THOUSAND)

| Loans and advances to customers valuated in the group method (IBNR) covered by forbearance by currencies | 31.12.2015 | | |
|---|---|---|---|
| | PLN | CHF | Other currencies |
| Gross loans and advances to customers forbearance | 1 709 390 | 776 522 | 65 185 |
| Impairment on exposures valuated using the group method(IBNR) forbearance | (51 304) | (35 930) | (2 088) |
| Net loans and advances to customers forbearance | 1 658 086 | 740 592 | 63 097 |

As at 31 December 2015, the average LTV for loans portfolio in CHF amounted to 88.5% - compared to the average LTV for the whole portfolio amounting to 74.2%

### 55.6. Identification of significant types of risk

The significance of the individual types of risk is established at the Bank's and the Group entities level. When determining criteria of classifying a given type of risk as significant, an influence of a given type of risk on the Bank's, the Group entities and the whole Group's activities is taken into account, whereas three types of risk are recognised:

- considered as significant a priori – being managed actively
- potentially significant – for which significance monitoring is performed periodically,
- other non-defined or non-occurring in the Bank or in the Group types of risk (insignificant and non-monitored).

Based on quantitative and qualitative information, an assessment of significance of potentially significant types of risk is performed in the Bank periodically. As a result of assessment, a given type of risk is being classified as significant/insignificant. Similar assessment is concluded periodically in the Group entities. Monitoring is conducted if significant change in activities took place or the profile of the Bank or the other Group entities have changed.

## 56. Credit risk management

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

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

The Bank and subsidiaries of the Group are primarily driven by the following principles of credit risk management:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to loan transactions is measured on the stage of examining loan application and on a regular basis, as part of 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 its value is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
- terms of loan transactions that are offered to a client depend on the assessment of credit risk level or its value generated by the transaction
- loan granting decisions are made only by authorised persons
- credit risk is diversified particularly by geographical location, by industry, by product and by clients,
- expected credit risk level is mitigated by collateral received by the Bank, margins from clients and allowances (provisions) for credit losses.

The above-mentioned principles are executed by the Bank through the use of advanced credit risk management methods, both on the level of individual credit exposures and on the level of the whole credit portfolio of the Bank. These methods are verified and developed to ensure compliance with the internal rating method– based requirements (IRB), i.e. advanced credit risk measurement method, which can be used while calculating requirements as regards own funds for credit risk after being approved by the Polish Financial Supervision Authority.

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

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 KREDOBANK SA and subsidiary: Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and PKO Bank Hipoteczny SA measure credit risk regularly and the results of such measurements are submitted to the Bank.

The KREDOBANK SA Group and the PKO Leasing SA Group have organisational units responsible for risk in their organisational structures, which are in particular responsible for:

- developing methods of credit risk assessment, recognising provisions and allowances,
- controlling and monitoring credit risk during the lending process,
- the quality and efficiency of restructuring and enforcement of the amounts due from clients.

In these companies, the credit decision limits depend primarily on: the amount of the exposure to a given client, the amount of an individual credit transaction and the period of credit transaction.

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

Appropriate organisational units of the Risk Management Area 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.

In 2015, the Bank implemented application and procedural solutions streamlining the process of measuring the impairment of loan exposures and interest income. Developed methods used in the calculation of write-offs and provisions, including the methodology for estimating the parameters of portfolio, with due regard to the portfolio acquired through the merger with Nordea Bank Polska SA and acquired portfolio of SKOK Wesoła.

## 56.1. Measurement and assessment of credit risk

Credit risk measurement and assessment methods

In order to assess the level of credit risk and profitability of loan portfolios, the Bank uses different credit risk measurement and valuation methods, including:

- Probability of Default (PD),
- Expected Loss (EL),
- Unexpected Loss (UL),
- Loss Given Default (LGD),
- Credit Value at Risk (CVaR),
- share and structure of impaired loans
- coverage ratio (CR),
- cost of risk.

The Bank extends regularly the scope of credit risk measures used, taking into account the internal rating-based method (IRB) requirements, and extends the use of risk measures to fully cover the whole Bank’s loan portfolio with these methods.

The portfolio credit risk measurement methods allow i.a. to reflect the credit risk in the price of products, determine the optimum conditions of financing availability and determine rates of impairment allowances.

The Bank performs analysis and stress-tests regarding the influence of potential changes in macroeconomic environment on the quality of Bank’s loan portfolio. The test results are reported to the Bank’s authorities. The above-mentioned information enables to identify and take measures to limit the negative influence of unfavourable market changes on the Bank’s performance.

The Bank assesses the risk of individual credit transactions with the use of scoring and rating methods, which are created, developed and supervised by the Banking Risk Division. These methods are supported by specialist IT application software. The scoring method is defined by Bank’s internal regulations whose main aim is to ensure uniform and objective assessment of credit risk during the lending process.

Rating models for corporate clients

The evaluation of credit risk related to financing corporate clients is performed in two dimensions: in respect of the client and of the transaction. The assessment measures comprise the assessment of the credibility of the client, i.e. rating: and the assessment of the transaction, i.e. liability repayment capacity in the specified amount and timing.

Rating models for corporate clients 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 is using 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).

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

In order to examine the correctness of functioning of method applied in the Bank, the methodologies of credit risk assessment connected with individual credit exposures are subject to periodical reviews.

The evaluation of retail clients credit risk

The Bank assesses the credit risk of retail clients in two dimensions: the client’s borrowing capacity and his 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 credit risk assessment process in Bank takes into account the requirements of the Polish Financial Supervision Authority as defined in the Recommendation S, relating to best practices for the management of mortgage-secured loan exposures and Recommendation T relating to best practice for the management of retail credit exposures

Assessment of credit risk relating to the financing of corporate clients

In the case of corporate clients from the small and medium enterprises segment that meet certain criteria, the Bank assesses credit risk using the scoring method. Such assessment refers to low-value, uncomplicated loan transactions and it is performed in two dimensions: clients’ borrowing capacity and his creditworthiness. The assessment of borrowing capacity 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 other cases, rating method is widely used.

(IN PLN THOUSAND)

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

In case of corporate clients in the corporate client segment, the Bank made improvements in functioning of the lending process. These changes relate to changes in portfolio segmentation, organisational changes which meet client needs in a much better way and, on the other hand, allow comprehensive credit risk assessments to be made independently of the offered corporate and transaction banking products.

### 56.2. Forecasting and monitoring of credit risk

The Group exposure to credit risk divided into impaired and not impaired, and into not past due and past due

| Amounts due from banks | Involvement | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| Amounts due from banks impaired, of which: | 520 | 362 |
| assessed on an individual basis | 145 | - |
| Amounts due from banks not impaired, of which: | 4 552 857 | 2 486 435 |
| not past due | 4 552 857 | 2 486 435 |
| **Gross total** | 4 553 377 | 2 486 797 |
| Impairment allowances | (405) | (111) |
| **Net total by carrying amount** | **4 552 972** | **2 486 686** |

| Loans and advances to customers | Involvement | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| Loans and advances impaired, of which: | 13 100 910 | 12 977 310 |
| assessed on an individual basis | 5 412 768 | 5 615 878 |
| Loans and advances not impaired, of which: | 185 600 007 | 174 542 551 |
| with recognised individual impairement trigger | 2 043 049 | 1 651 097 |
| not past due | 1 605 408 | 1 050 428 |
| past due | 437 641 | 600 669 |
| without recognised individual impairement trigger | 183 556 958 | 172 891 454 |
| not past due | 180 382 118 | 168 900 373 |
| past due | 3 174 840 | 3 991 081 |
| **Gross total** | **198 700 917** | **187 519 861** |
| Impairment allowances | (8 287 209) | (8 022 477) |
| for impaired exposures | (7 704 535) | (7 374 894) |
| for not impaired exposures | (582 674) | (647 583) |
| with recognised impairement trigger | (13 479) | (12 551) |
| without recognised impairement trigger | (569 195) | (635 032) |
| **Net total by carrying amount** | **190 413 708** | **179 497 384** |

| Investment securities available for sale - debt securities | Involvement | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| Debt securities impaired, of which: | 397 434 | - |
| assessed on an individual basis | 397 434 | - |
| Debt securities not impaired, of which: | 27 264 404 | 21 961 102 |
| not past due | 27 264 404 | 21 961 102 |
| with external rating | 21 725 977 | 14 054 512 |
| with internal rating | 5 538 427 | 7 906 590 |
| **Gross total** | **27 661 838** | **21 961 102** |
| Impairment allowances | (56 925) | - |
| **Net total by carrying amount** | **27 604 913** | **21 961 102** |

| Investment securities held to maturity - debt securities | Involvement | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| Debt securities not impaired, of which: | 210 330 | 233 358 |
| not past due | 210 330 | 233 358 |
| with internal rating | 210 330 | 233 358 |
| **Gross total** | **210 330** | **233 358** |
| Impairment allowances | - | - |
| **Net total by carrying amount** | **210 330** | **233 358** |

(IN PLN THOUSAND)

| Other assets – other financial assets | Involvement | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| Other assets impaired | 108 317 | 62 081 |
| Other assets not impaired, of which: | 874 960 | 707 741 |
| not past due | 868 137 | 698 688 |
| past due | 6 823 | 9 053 |
| **Gross total** | **983 277** | **769 822** |
| Impairment allowances | (108 082) | (59 473) |
| **Net total by carrying amount** | **875 195** | **710 349** |

Maximum exposure to credit risk

| Items of the statement of financial position | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Current account in the central bank | 9 854 137 | 7 772 859 |
| Amounts due from banks | 4 552 972 | 2 486 686 |
| Trading assets – debt securities | 766 641 | 1 915 120 |
| issued by the State Treasury | 648 695 | 1 825 454 |
| issued by local government bodies | 48 596 | 50 563 |
| issued by other financial institutions | 46 122 | 22 146 |
| issued by non-financial institutions | 5 344 | 2 326 |
| issued by banks | 17 884 | 14 631 |
| Derivative financial instruments | 4 347 269 | 5 494 822 |
| Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities | 13 337 373 | 13 804 860 |
| issued by the State Treasury | 10 036 898 | 10 998 812 |
| issued by central banks | 3 052 701 | 2 478 708 |
| issued by local government bodies | 247 263 | 253 817 |
| issued by banks | - | 73 012 |
| issued by non-financial institutions | 511 | 511 |
| Loans and advances to customers | 190 413 708 | 179 497 384 |
| financial sector (excluding banks) | 4 826 553 | 1 620 708 |
| corporate loans | 383 662 | 1 309 856 |
| international financial organisations | 10 652 | - |
| receivables due from repurchase agreements | 4 432 239 | 310 852 |
| non-financial sector | 175 619 057 | 167 791 997 |
| housing loans | 100 668 588 | 95 797 964 |
| corporate loans | 50 398 753 | 49 656 279 |
| consumer loans | 21 959 827 | 20 321 718 |
| debt securities | 2 591 889 | 2 016 036 |
| public sector | 9 968 098 | 10 084 679 |
| corporate loans | 7 275 422 | 7 265 003 |
| debt securities | 2 692 676 | 2 819 676 |
| Investment securities - debt securities | 27 604 913 | 21 961 102 |
| issued by the State Treasury | 18 358 006 | 12 781 051 |
| issued by local government bodies | 4 613 726 | 4 480 325 |
| issued by non-financial institutions | 3 117 859 | 3 475 594 |
| issued by banks | 1 515 322 | 1 224 132 |
| Investment securities held to maturity | 210 330 | 233 358 |
| issued by the State Treasury | 210 330 | 233 358 |
| Other assets - other financial assets | 875 195 | 710 349 |
| **Total** | **251 962 538** | **233 876 540** |

(IN PLN THOUSAND)

| Off-balance sheet items | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Irrevocable liabilities granted | 30 513 878 | 27 730 846 |
| Guarantees granted | 7 699 483 | 9 265 599 |
| Guarantees of issue | 5 489 969 | 4 571 158 |
| Letters of credit granted | 1 838 101 | 702 768 |
| Total | 45 541 431 | 42 270 371 |

Credit quality of financial assets - neither past due nor impaired

| Financial assets neither past due nor impaired | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Amounts due from banks | 4 552 857 | 2 486 435 |
| of which: | | |
| with external rating | 2 168 193 | 2 204 355 |
| without rating | 2 384 664 | 282 080 |
| Loans and advances to customers | 181 987 526 | 169 950 801 |
| with rating | 164 667 976 | 147 203 666 |
| without rating | 17 319 550 | 22 747 135 |
| PKO Bank Polski SA | 176 422 023 | 165 049 744 |
| with internal rating – customers of financial, non-financial and public sector (corporate loans) | 47 556 624 | 41 359 649 |
| A (first rate) | 989 788 | 1 059 550 |
| B (very good) | 1 408 816 | 1 455 548 |
| C (good) | 5 283 130 | 2 721 287 |
| D (satisfactory) | 7 160 577 | 5 663 335 |
| E (average) | 13 291 549 | 12 096 148 |
| F (acceptable) | 16 546 668 | 14 628 386 |
| G (poor) | 2 876 096 | 3 735 395 |
| with internal rating – customers of non-financial sector (consumer and housing loans) | 114 282 687 | 103 891 292 |
| A (first rate) | 93 971 113 | 74 155 239 |
| B (very good) | 8 101 614 | 10 614 538 |
| C (good) | 5 344 515 | 11 313 955 |
| D (average) | 4 093 884 | 5 802 187 |
| E (acceptable) | 2 771 561 | 2 005 373 |
| without internal rating – customers of financial, non-financial and public sector (consumer, housing and other loans) | 14 582 712 | 19 798 803 |
| The PKO Leasing SA Group | 4 976 628 | 4 383 999 |
| with internal rating | 2 828 665 | 1 952 725 |
| A (good) | 2 407 842 | 1 558 837 |
| B (average) | 329 049 | 336 196 |
| C (risky) | 91 774 | 57 692 |
| without internal rating | 2 147 963 | 2 431 274 |
| without rating – customers of non-financial and financial sector of the other PKO Bank Polski SA Group entities | 588 875 | 517 058 |
| Trading assets – debt securities - with internal rating | 5 538 427 | 7 906 590 |
| A (first rate) | 86 527 | - |
| B (very good) | 209 520 | 37 815 |
| C (good) | 685 010 | 1 381 794 |
| D (satisfactory) | 1 532 633 | 2 000 235 |
| E (average) | 1 270 219 | 1 769 303 |
| F (acceptable) | 1 030 807 | 2 239 109 |
| G (poor) | 628 366 | 478 334 |
| H (bad) | 95 345 | - |
| Other assets – other financial assets | 868 137 | 698 688 |
| Total | 187 408 520 | 173 135 924 |

(IN PLN THOUSAND)

Internal rating classes

Taking the type of the Group's business activity and the amount of credit and leasing debts into consideration, the most important portfolios are managed by the Bank and PKO Leasing SA. Information about credit quality of loans and receivables granted by the Bank and the PKO Leasing SA Group is presented below.

Exposures to corporate clients which are not individually impaired are classified according to customer rating as part of the internal rating classes, from A to G (in respect of financial institutions from A to F).

The following portfolios are covered by the rating system:

- corporate and investment banking clients
- small and medium enterprises (excluding certain product groups which are assessed in a simplified manner).

Loans and advances which are not individually impaired and are not rated, are characterised with a satisfactory level of the credit risk. It concerns, in particular, retail loans (including housing loans) which do not have individually significant exposures and thus do not create significant credit risk.

External rating classes

Structure of debt securities and amounts due from banks, neither past due nor impaired by external rating classes is presented below:

31 December 2015

| Portflio/Rating | AAA | AA- do AA+ | A- do A+ | BBB -do BBB+ | BB- do BB+ | B- do B+ | CCC-do CCC+ | CC | Caa2* | Caa3* | without rating | 31.12.2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Amounts due from banks | 45 073 | 718 174 | 746 935 | 515 777 | 14 383 | - | 127 851 | - | - | - | 2 384 664 | 4 552 857 |
| Trading assets – debt securities | - | - | 650 015 | 25 373 | 22 869 | - | - | | | - | 68 384 | 766 641 |
| of which: | | | | | | | | | | | | |
| issued by the State Treasury | - | - | 648 695 | - | - | - | - | - | - | | - | 648 695 |
| issued by local government bodies | - | - | 1 134 | - | - | - | - | | | - | 47 462 | 48 596 |
| issued by banks | - | - | 186 | 3 805 | 13 837 | - | - | - | - | - | 56 | 17 884 |
| issued by other financial institutions | - | - | - | - | - | - | - | | | - | 5 344 | 5 344 |
| issued by non-financial institutions | - | - | - | 21 568 | 9 032 | - | - | | | - | 15 522 | 46 122 |
| Financial instruments measured at fair value through profit and loss - debt securities | - | - | 13 172 886 | - | - | - | - | - | - | 32 635 | 131 852 | 13 337 373 |
| of which: | | | | | | | | | | | | |
| issued by the central bank | - | - | 10 036 898 | - | - | - | - | | | - | - | 10 036 898 |
| issued by the State Treasury | - | - | 3 020 066 | - | - | - | - | | | 32 635 | - | 3 052 701 |
| issued by local government bodies | - | - | 115 922 | - | - | - | - | | | - | 131 341 | 247 263 |
| issued by banks | | - | | | | | | | | | | - |
| issued by other financial institutions | | | | - | | | | | | | 511 | 511 |
| Investment securities available for sale – debt securities | - | - | 19 728 399 | 1 448 391 | 412 818 | - | - | - | - | 127 351 | 9 018 | 21 725 977 |
| of which: | | | | | | | | | | | | |
| issued by the State Treasury | - | - | 18 230 655 | - | - | - | - | | - | 127 351 | | 18 358 006 |
| issued by local government bodies | - | - | 31 053 | 102 166 | 43 475 | - | - | - | | - | - | 176 694 |
| issued by banks | - | - | 1 466 691 | - | 48 631 | - | - | - | - | - | - | 1 515 322 |
| issued by other financial institutions | - | - | - | 1 346 225 | 320 712 | - | - | - | - | - | 9 018 | 1 675 955 |
| Debt securities held to maturity | - | - | 40 065 | - | - | - | - | - | - | 170 265 | - | 210 330 |
| of which: | | | | | | | | | | | | |
| issued by the State Treasury | - | - | 40 065 | - | - | - | - | - | | 170 265 | - | 210 330 |
| Total | 45 073 | 718 174 | 34 338 300 | 1 989 541 | 450 070 | - | 127 851 | - | - | 330 251 | 2 593 918 | 40 593 178 |

*Relates to securities of the KREDOBANK SA Group – according to Moody's rating

(IN PLN THOUSAND)

31 December 2014

| Portfolio/Rating | AAA | AA- do AA+ | A- do A+ | BBB -do BBB+ | BB- do BB+ | B- do B+ | CCC-do CCC+ | CC | Caa2* | Caa3* | without rating | 31.12.2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Amounts due from banks | - | 512 042 | 1 467 044 | 175 958 | 10 438 | 175 | 36 927 | 1 771 | | - | 282 080 | 2 486 435 |
| Trading assets – debt securities | - | - | 1 826 259 | 12 007 | 14 590 | - | - | | | - | 62 264 | 1 915 120 |
| of which: | | | | | | | | | | | | |
| issued by the State Treasury | - | - | 1 825 454 | - | - | - | - | - | - | - | - | 1 825 454 |
| issued by local government bodies | - | - | 805 | - | - | - | - | | | - | 49 758 | 50 563 |
| issued by banks | - | - | - | - | 14 590 | - | - | | | - | 41 | 14 631 |
| issued by other financial institutions | - | - | - | - | - | - | - | | | - | 2 326 | 2 326 |
| issued by non-financial institutions | - | - | - | 12 007 | - | - | - | | | - | 10 139 | 22 146 |
| Financial instruments measured at fair value through profit and loss - debt securities | - | 73 012 | 13 564 960 | 140 393 | - | - | - | - | - | 26 495 | - | 13 804 860 |
| of which: | | | | | | | | | | | | |
| issued by the central bank | - | - | 10 998 812 | - | - | - | - | | | - | - | 10 998 812 |
| issued by the State Treasury | - | - | 2 452 213 | - | - | - | - | | | 26 495 | - | 2 478 708 |
| issued by local government bodies | - | - | 113 935 | 139 882 | - | - | - | | | - | - | 253 817 |
| issued by banks | | 73 012 | | | | | | | | | | 73 012 |
| issued by other financial institutions | | | | 511 | | | | | | | | 511 |
| Investment securities available for sale – debt securities | - | - | 13 795 752 | - | 49 773 | - | - | - | 8 921 | 179 815 | 20 251 | 14 054 512 |
| of which: | | | | | | | | | | | | |
| issued by the State Treasury | - | - | 12 601 236 | - | - | - | - | | - | 179 815 | | 12 781 051 |
| issued by local government bodies | - | - | 40 717 | - | - | - | - | - | | - | - | 40 717 |
| issued by banks | - | - | 1 153 799 | - | 49 773 | - | - | - | 8 921 | - | 11 639 | 1 224 132 |
| issued by other financial institutions | - | - | - | - | - | - | - | - | - | - | 8 612 | 8 612 |
| Debt securities held to maturity | - | - | 40 337 | - | - | - | - | - | - | 193 021 | - | 233 358 |
| of which: | | | | | | | | | | | | |
| issued by the State Treasury | - | - | 40 337 | - | - | - | - | - | | 193 021 | - | 233 358 |
| issued by banks | - | - | - | - | - | - | - | | | - | - | - |
| Total | - | 585 054 | 30 694 352 | 328 358 | 74 801 | 175 | 36 927 | 1 771 | 8 921 | 399 331 | 364 595 | 32 494 285 |

*Relates to securities of the KREDOBANK SA Group – according to Moody's rating

## 56.3. Concentration of credit risk within the Group

The Group defines credit concentration risk as one of arising from a considerable exposure to single entities or to group of entities whose repayment capacity depends on a common risk factor. The Capital Group analyses the concentration risk in respect of:

- the largest business entities,
- the largest capital groups,
- industries,
- geographical regions,
- currencies,
- exposures with established mortgage collateral.

Concentration by the largest business entities

The Banking Law specifies maximum concentration limits for the Bank which has an influence upon the Group. The total value of the Bank's exposures, off-balance sheet liabilities granted by the Bank or shares held by the Bank directly or indirectly in another entity, additional payments into a limited liability company as well as contributions or limited partnership sums – whichever is higher - in a limited partnership or limited joint-stock partnership with a risk of one entity or a group of entities related by capital or management, cannot exceed large exposure limit (exposure concentration limit) which, in accordance to Article 395 item 1 of Regulation of European Parliament and of the Council (EU) No. 575 as of 26 June 2013 on prudential requirements for credit institutions and investment firms amounts to 25% of the recognised consolidated equity.

As at 31 December 2015 and as at 31 December 2014, those concentration limits had not been exceeded. As at 31 December 2015, the largest exposure to a single entity was equal to 15.2% of the recognised consolidated equity. Among 20 largest borrowers of the Group there are exclusively clients of PKO Bank Polski SA.

(IN PLN THOUSAND)

Total exposure of the Group towards the 20 largest non-banking sector clients:

| 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|
| No. | Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures * | Share in credit portfolio, which includes off-balance sheet and capital exposures | No. | Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures * | Share in credit portfolio, which includes off-balance sheet and capital exposures |
| 1. | 4 107 315 | 1.55% | 1. | 3 193 998 | 1.27% |
| 2. | 2 721 659 | 1.03% | 2. | 2 474 087 | 0.99% |
| 3. | 2 080 000 | 0.79% | 3. | 2 266 960 | 0.90% |
| 4. | 1 910 368 | 0.72% | 4. | 2 172 936 | 0.87% |
| 5. | 1 841 906 | 0.70% | 5. | 2 080 000 | 0.83% |
| 6. | 1 668 558 | 0.63% | 6. | 1 643 091 | 0.66% |
| 7. | 1 593 902 | 0.60% | 7. | 1 266 301 | 0.51% |
| 8. | 1 216 633 | 0.46% | 8. | 1 177 916 | 0.47% |
| 9. | 1 212 610 | 0.46% | 9. | 1 130 843 | 0.45% |
| 10. | 1 007 768 | 0.38% | 10. | 1 007 768 | 0.40% |
| 11. | 965 100 | 0.37% | 11. | 957 362 | 0.38% |
| 12. | 964 006 | 0.36% | 12. | 911 026 | 0.36% |
| 13. | 894 795 | 0.34% | 13. | 904 016 | 0.36% |
| 14. | 870 879 | 0.33% | 14. | 890 858 | 0.36% |
| 15. | 852 887 | 0.32% | 15. | 834 655 | 0.33% |
| 16. | 811 417 | 0.31% | 16. | 794 693 | 0.32% |
| 17. | 790 594 | 0.30% | 17. | 793 137 | 0.32% |
| 18. | 771 158 | 0.29% | 18. | 746 933 | 0.30% |
| 19. | 748 695 | 0.28% | 19. | 714 037 | 0.29% |
| 20. | 704 189 | 0.27% | 20. | 712 771 | 0.28% |
| Total | 27 734 440 | 10.49% | Total | 26 673 388 | 10.65% |

* off-balance sheet exposure includes liability resulting from derivative transactions in the amount of their equivalent in the statement of financial position (according to the provisions of Article 274 item 2 of the CRR regulation)

Concentration by the largest capital groups

The greatest exposure of the PKO Bank Polski SA Group towards a capital group of borrowers amounted to 1.61% of the Group's loan portfolio. The 5 largest capital groups include only clients of PKO Bank Polski SA.

As at 31 December 2015 and as at 31 December 2014 the greatest exposure concentration of Group amounted to 15,7% and 12.1% of the Capital Group recognised equity.

Exposure of the Group towards the 5 largest capital groups:

| 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|
| No. | Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposure* | Share in credit portfolio, which includes off-balance sheet and capital exposures off-balance sheet and capital exposures | No. | Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposure* | Share in credit portfolio, which includes off-balance sheet and capital exposures off-balance sheet and capital exposures |
| 1 | 4 247 737 | 1.61% | 1 | 3 498 120 | 1.39% |
| 2 | 3 288 893 | 1.24% | 2 | 3 194 479 | 1.27% |
| 3 | 2 925 720 | 1.11% | 3 | 2 972 486 | 1.19% |
| 4 | 2 746 047 | 1.04% | 4 | 2 315 214 | 0.92% |
| 5 | 2 045 718 | 0.77% | 5 | 2 189 608 | 0.87% |
| Total | 15 254 114 | 5.77% | Total | 14 169 907 | 5.64% |

* off-balance sheet exposure includes liability resulting from derivative transactions in the amount of their equivalent in the statement of financial position (according to the provisions of Article 274 item 2 of the CRR regulation).

(IN PLN THOUSAND)

Concentration by industries

As compared with 31 December 2014 the exposure of Capital Group in industry sectors has increased by approx. PLN 0.8 billion. The total exposure in the four largest industry groups 'Industrial processing', 'Maintenance of real estate', 'Wholesale and retail trade (...)', and 'Public administration and national defence' amounted to approx. 58% of the total loan portfolio covered by an analysis of the sector.

Structure of exposure by industry as at 31 December 2015 and as at 31 December 2014 is presented in the table below:

| Section | Section name | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|---|
| | | Exposure | Number of entities | Exposure | Number of entities |
| C | Industrial processing | 17.73% | 11.34% | 16.63% | 10.37% |
| L | Maintenance of real estate | 16.62% | 19.94% | 16.57% | 15.95% |
| G | Wholesale and retail trade; repair of motor vehicles | 15.14% | 24.13% | 14.88% | 21.50% |
| F | Construction | 8.17% | 10.93% | 8.91% | 10.10% |
| O | Public administration and national defence, obligatory social security | 9.08% | 0.49% | 9.09% | 0.46% |
| D | Electricity, gas, water vapour, hot water and air to the mechanical systems production and supply | 2.01% | 0.18% | 1.78% | 0.18% |
| Other exposure | | 31.25% | 32.99% | 32.14% | 41.44% |
| Total | | 100.00% | 100.00% | 100.00% | 100.00% |

The above industry structure does not include exposure arising from debt securities reclassified from the category 'available for sale' to 'advances and receivables'.

Concentration by geographical regions

The Group's loan portfolio is diversified in terms of geographical concentration.

The structure of the loan portfolio by geographical regions is identified in the Capital Group due to Bank's client area – a separate area for the retail market (ORD), a separate area for the corporate and investment banking (OKI).

As at 31 December 2015, the largest concentration of the ORD loan portfolio occurs in region of Warsaw and Katowice (these regions account for 25% of the ORD portfolio)

| Concentration of credit risk by geographical regions for retail clients | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Poland** | | |
| warszawski | 14.02% | 11.41% |
| katowicki | 10.78% | 10.25% |
| poznański | 9.82% | 10.55% |
| krakowski | 9.09% | 8.32% |
| łódzki | 8.90% | 8.27% |
| wrocławski | 8.87% | 8.80% |
| gdański | 8.60% | 8.89% |
| bydgoski | 7.56% | 9.09% |
| lubelski | 7.05% | 8.41% |
| białostocki | 6.51% | 7.47% |
| szczeciński | 6.17% | 5.71% |
| headquarter | 0.97% | 1.37% |
| other | 0.99% | 0.70% |
| Ukraine | 0.67% | 0.77% |
| Sweden | 0.00% | 0.00% |
| Total | 100.00% | 100.00% |

Within OKI, the Bank distinguish 7 macro-regions and the headquarter. As at 31 December 2015, the largest concentration of the OKI loan portfolio occurs in the Bank's headquarter and in the central macro region (20% and 17% of the ORK portfolio, respectively).

(IN PLN THOUSAND)

| Concentration of credit risk by geographical regions for corporate clients | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Poland** | | |
| headquarter | 19.64% | 26.44% |
| central macroregion | 17.08% | 16.30% |
| north macroregion | 13.04% | 9.06% |
| west macroregion | 10.60% | 10.08% |
| south macroregion | 9.96% | 9.72% |
| south-east macroregion | 7.18% | 6.73% |
| north-east macroregion | 6.68% | 6.76% |
| south-west macroregion | 6.46% | 6.06% |
| other | 9.16% | 8.64% |
| Sweden | 0.20% | 0.21% |
| **Total** | **100.00%** | **100.00%** |

Concentration of credit risk by currency

As at 31 December 2015, the share of exposure in convertible currencies, other than PLN, in the total loan portfolio of Capital Group amounted to 25,3 % which represents a decrease of approximately 1.0 p.p. compared to 31 December 2014.

The greatest part of the Group's currency exposures are those in CHF and they relate mainly to the loan portfolio of the Bank. The share of loans in CHF amounted to 64% of total currency portfolio of the Group in 2015. In case of the Group entities, the situation is different, i.e. in the foreign currency portfolio of the PKO Leasing SA Group, the greatest currency exposures are those in EUR whereas, for the KREDOBANK SA Group and in the company Finansowa Kompania 'Prywatne Inwestycje' Sp. z.o.o. (i.e. entities operating in Ukraine)- USD denominated loans constitute the largest part.

| Concentration of credit risk by currency | 31.12.2015 | 31.12.2014 |
|---|---|---|
| PLN | 74.73% | 73.79% |
| Foreign currencies, of which: | 25.27% | 26.21% |
| CHF | 16.12% | 16.60% |
| EUR | 7.39% | 7.89% |
| USD | 1.32% | 1.36% |
| UAH | 0.35% | 0.35% |
| GBP | 0.03% | 0.01% |
| **Total** | **100.00%** | **100.00%** |

Other types of concentration

The Group analyses the structure of the housing loan portfolio relative to the levels of LTV. At the end of 2015 as in 2014, the largest concentration is in the range of LTV 71%-90%. Due to the legal merger the ratio of loans at the highest LTV over 100%, has increased.

| The structure of the housing loan portfolio of the Group by LTV | 31.12.2015 | 31.12.2014 |
|---|---|---|
| 0% - 50% | 23.18% | 24.90% |
| 51%-70% | 19.38% | 19.68% |
| 71% - 90% | 27.73% | 25.26% |
| 91% - 100% | 13.54% | 14.96% |
| more than 100% | 16.17% | 15.20% |
| **Total** | **100.00%** | **100.00%** |

In accordance with the Recommendations S and T of the Polish Financial Supervision Authority, the Bank uses internal limits on credit exposures related to the Bank's customers defining the appetite for credit risk.

As at 31 December 2015, these limits have not been exceeded.

(IN PLN THOUSAND)

### 56.4. *Forbearance* practices

Group takes as forbearance actions aimed at making changes in the contract terms agreed with a debtor or an issuer, forced by his difficult financial situation (restructuring activities introducing concessions that otherwise would not be granted) The aim of the forbearance activities is to restore a debtor or an issuer the ability to fulfil its liabilities to the Group and to maximize the efficiency of non-performing loans management, ie. obtaining the highest recoveries while minimising the incurred costs

Forbearance activities include a change in payment terms which is individually agreed on each contract basis. Such changes may concern:

- spreading the due debt into instalments,
- change in a repayment schedule (instalment annuity, decreasing instalments
- extension of the lending period,
- change in interest rates,
- change in the credit margin,
- loans reduction.

As a result of signing and a timely service of forbearance agreement, the loans becomes unmatured. Evaluation of the ability of a debtor to fulfil the forbearance agreement conditions (debt repayment according to the agreed schedule). Forbearance agreements are monitored on an on-going basis. If, as regards to the credit exposure the impairment is recognized, the write-offs are created to balance identified loss.

Loans and advances cease to be subjected of forbearance if the following conditions are met simultaneously:

- timely repayment of at least 12 consecutive instalments (the timely repayment for the needs of forborne can be understood as a situation when the payment of each instalment will take place no later than 30 days after the date of repayment specified in the schedule)
- at least 24 months have elapsed from the conclusion of a forbearance agreement
- impairment of exposures is not recognized

| | Carrying amount | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| Loans and advances to customers, gross | 198 700 917 | 187 519 861 |
| of which forbearance: | 5 534 689 | 6 362 627 |
| financial sector | 3 269 | 395 |
| corporate loans | 3 269 | 395 |
| non-financial sector | 5 530 247 | 6 361 873 |
| corporate loans | 2 856 594 | 3 532 698 |
| housing loans | 2 143 330 | 2 165 214 |
| consumer loans | 530 323 | 663 961 |
| public sector | 1 173 | 359 |
| corporate loans | 1 173 | 359 |
| Impairment allowances on loans and advances to forbearance customers | (986 300) | (874 529) |
| **Loans and advances to customers, net forbearance** | **4 548 389** | **5 488 098** |

| Loans and advances to customers subjected to forbearance by geographical region (gross) | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Poland | 5 423 877 | 6 247 687 |
| mazowiecki | 1 133 131 | 1 105 817 |
| wielkopolski | 499 092 | 567 210 |
| śląsko-opolski | 731 583 | 810 421 |
| małopolsko-świętokrzyski | 434 362 | 591 786 |
| pomorski | 333 966 | 329 279 |
| podlaski | 426 711 | 510 572 |
| łódzki | 474 476 | 702 648 |
| dolnośląski | 380 847 | 413 129 |
| kujawsko-pomorski | 302 146 | 353 423 |
| zachodnio-pomorski | 444 233 | 559 192 |
| lubelsko-podkarpacki | 236 208 | 276 533 |
| warmińsko-mazurski | 27 122 | 27 677 |
| Ukraine | 110 812 | 114 940 |
| **Total** | **5 534 689** | **6 362 627** |

(IN PLN THOUSAND)

| Loans and advances to customers subjected to forbearance | Exposure by gross carrying amount | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| Loans and advances impaired | 2 418 018 | 2 404 248 |
| Loans and advances not impaired, of which: | 3 116 671 | 3 958 379 |
| not past due | 2 477 548 | 3 123 966 |
| past due | 639 123 | 834 413 |
| Total gross | 5 534 689 | 6 362 627 |

Change in carrying amounts of loans and advances to customers subjected to forbearance at the beginning and at the end of the period

| For the period ended 31 December 2015 | | Total |
|---|---|---|
| Carrying amount at the beginning of the period, net | | 5 488 098 |
| Impairment allowance | | (111 771) |
| Loans and advances derecognised in the period, gross | | (2 427 209) |
| Loans and advances recognised in the period, gross | | 1 964 654 |
| Other changes/repayment | | (331 736) |
| Currency translation differences | | (33 647) |
| Carrying amount at the end of the period, net | | 4 548 389 |

| For the period ended 31 December 2014 | | Total |
|---|---|---|
| Carrying amount at the beginning of the period, net | | 3 326 784 |
| Impairment allowance | | 172 721 |
| Loans and advances derecognised in the period, gross | | (1 319 020) |
| Loans and advances recognised in the period, gross | | 3 934 519 |
| Other changes/repayment | | (587 527) |
| Currency translation differences | | (39 379) |
| Carrying amount at the end of the period, net | | 5 488 098 |

| Loans and advances to customers by the gross value of the applied changes in repayment terms for forebearance | Gross carrying amount | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| Spreading of due debt into instalments | 3 861 507 | 4 027 497 |
| Change in repayment formula (annuity instalments, diminishing instalments) | 2 729 930 | 4 071 355 |
| Extention of loan period | 1 663 338 | 1 751 213 |
| Change in interest rate | 721 237 | 863 319 |
| Change in margin | 187 748 | 164 790 |
| Loans reduction | 158 968 | 257 591 |
| Other conditions | 69 984 | 95 646 |

For a given loan exposure subjected to forbearance more than one change in terms of repayment may be applied.

The amount of recognised interest income related to loans and advances to customers, which are subject to forbearance amounted to PLN 414 124 thousand as at 31 December 2015 (as at 31 December 2014 it amounted to PLN 404 782 thousand).

(IN PLN THOUSAND)

### 56.5. Past due of financial assets

Financial assets which are past due but not impaired include the following financial assets:

| Financial assets | 31.12.2015 | | | |
|---|---|---|---|---|
| | up to 1 month | 1 - 3 months | over 3 months | Total |
| **Loans and advances to customers** | 2 308 445 | 1 068 555 | 235 481 | 3 612 481 |
| financial sector | - | - | 6 | 6 |
| non-financial sector | 2 289 241 | 1 068 555 | 215 589 | 3 573 385 |
| public sector | 19 204 | - | 19 886 | 39 090 |
| **Other assets – other financial assets** | 187 | 59 | 6 577 | 6 823 |
| Total | 2 308 632 | 1 068 614 | 242 058 | 3 619 304 |

| Financial assets | 31.12.2014 | | | |
|---|---|---|---|---|
| | up to 1 month | 1 - 3 months | over 3 months | Total |
| **Loans and advances to customers** | 3 504 077 | 837 553 | 250 120 | 4 591 750 |
| financial sector | - | - | 2 | 2 |
| non-financial sector | 3 403 093 | 822 429 | 217 787 | 4 443 309 |
| public sector | 100 984 | 15 124 | 32 331 | 148 439 |
| **Other assets – other financial assets** | 4 369 | 726 | 3 958 | 9 053 |
| Total | 3 508 446 | 838 279 | 254 078 | 4 600 803 |

Collaterals for the above receivables include: mortgages, registered pledges, transfers of property rights, account lock-ups, loan exposure insurances, warranties and guarantees.

The conducted assessment proved that for the above-mentioned financial assets the expected cash flows fully cover the carrying amount of these exposures.

### 56.6. Financial assets assessed on an individual basis for which individual impairment has been recognised by carrying amount gross

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Amounts due from banks | 145 | - |
| Loans and advances to customers | 5 412 768 | 5 615 878 |
| financial sector | 4 557 | 5 609 |
| corporate loans | 4 557 | 5 609 |
| non-financial sector | 5 391 741 | 5 593 388 |
| corporate loans | 3 875 074 | 4 134 858 |
| housing loans | 1 104 228 | 1 248 389 |
| consumer loans | 304 476 | 99 297 |
| debt securities | 107 963 | 110 844 |
| Public sector | 16 470 | 16 881 |
| corporate loans | 16 470 | 16 881 |
| Financial assets available for sale | 397 479 | 60 |
| issued by financial entities | 3 777 | 5 |
| issued by non-financial entities | 393 702 | 55 |
| Total | 5 810 392 | 5 615 938 |

Assets for which individual impairment was assessed on an individual basis were secured by the following collaterals established for the Group:

- for loans and advances to customers: ceiling mortgages and ordinary mortgages, registered pledges, promissory notes of the debtor and transfers of receivables and property right for cash. The financial effect of the collateral held in respect of the amount that best represents the maximum exposure to credit risk as at 31 December 2015 amounted to PLN 2 992 422 thousand (as at 31 December 2014 the amount was PLN 3 593 245 thousand respectively).
- for investment securities available for sale: blank promissory notes, guarantee, registered pledges on the bank account and on debtor's share

In determining impairment allowances for the above assets, the Group considered the following factors:

- delay in payment of the amounts due by the debtor,
- the debt being declared as due and payable
- enforcement proceedings against the debtor,
- declaration of the debtor's bankruptcy or filling a petition to declare bankruptcy,
- the amount of the debt being challenged by the debtor
- commencement of corporate recovery proceedings against the debtor,
- establishing imposed administration over the debtor or suspending the debtor's activities,
- a decline in debtor's rating to a level indicating a significant threat to the repayment of debt,
- restructuring actions taken and payment reliefs applied
- additional impairment indicators identified for exposures to housing cooperatives arising from housing loans of the so-called 'old portfolio', covered by State Treasury guarantees,
- expected future cash flows from the exposure and the related collateral,
- expected future economic and financial position of the client,
- the extent of execution of forecasts by the client.

## 56.7. Allowances for credit losses

The PKO Bank Polski SA Group performs a monthly review of loan exposures in order to identify credit exposures threatened with impairment, measure the impairment of loan exposures and recognition impairment charges or provisions.

The process of determining the impairment charges and provisions consists of the following stages:

- identifying the indications of impairment and events significant from the point of view of identifying those indications,
- registering in the Capital Group IT systems the events that are material from the point of view of identifying indications of impairment of credit exposures,
- determining the method of measuring impairment,
- measuring impairment and determining an impairment charge or provision,
- verifying and aggregating the results of the impairment measurement,
- recording the results of impairment measurement.

The method of determining the amount of impairment charges is dependent on the type of indications of individual; impairment identified and the individual significance of a credit exposure. The events considered as indications of individual impairment are, in particular, as follows:

- delay in repayment of principal or interest longer than 90 days,
- a significant deterioration in a customer's internal rating,
- entering into restructuring agreement or granting a discount concerning debt repayment (the indication of impairment is recognised, if the convenience granted to the consumer is a result of its difficult legal or economic position).

When determining the overdue period of a loan, the amounts of interest not paid according to the schedule or instalment payments exceeding accepted thresholds are taken into account.

## 56.8. Impairment estimating methods

In Capital Group of PKO Bank Polski SA applies three methods of estimating impairment:

- an individual basis applied in respect of individually significant loans, for which the objective evidence of impairment was identified or requiring individual assessment due to the transactions specifics and resulting from events determining the repayment of exposure,
- a portfolio basis applied in respect of individually insignificant loans, for which the objective evidence of individual impairment was identified,
- a group basis (IBNR) applied in respect of the loans, for which the objective evidence of impairment was not identified, but there is a possibility of losses incurred but not recognised occurring.

Impairment allowance in respect of a loan exposure correspond to the difference between the carrying amount of the exposure and the present value of the expected future cash flows from a given exposure:

- while assessing impairment allowances on an individual basis, the expected future cash flows are estimated for each loan exposure individually, taking into account the possible scenarios relating to contract execution, weighted by the probability of their realisation,
- an impairment allowance in respect of loan exposures assessed on an portfolio basis or a group basis corresponds to the difference between the carrying amount of the exposures and the present value of the expected future cash flows estimated using statistical methods, based on historic observations of exposures from homogenous portfolios.

## 56.9. Provisions for off-balance sheet exposure

The provision for off-balance sheet exposures are created in the offset amount, resulting from expected (possible to estimate) loss of economic benefits.

Establishing the provision for off-balance sheet credit exposures of PKO Bank Polski SA:

- in relation to credit exposures of unconditional liabilities meeting the conditions of individual impairment or relating to debtors whose other exposures such conditions are met and individual exposures that do not meet the conditions of individual impairment, where the determination of the provison for the use of portfolio parameters would be unjustified – uses the individualized method,

- in relation to other off-balance sheet credit exposures – the portfolio method (if an exposure meet the conditions of individual impairment or group (if the exposure meet the conditions of group impairment).

(IN PLN THOUSAND)

Provision is determined as the difference between the expected amount of exposure in the statement of financial position, which will arise as a result of an off-balance sheet liabilities granted (from the date at which the assessment is performed till the date of overdue amounts due arising considered as constituting an indication of individual impairment) and the present value of the expected future cash flows obtained from the exposure in the statement of financial position arising out of the liability granted.

When assessing a provision on an individual basis, the expected future cash flows are estimated for each loan exposure separately.

When assessing a provision on a portfolio basis or a group basis, the portfolio parameters are used, estimated using statistical methods, based on the historic observations of exposures with the same features.

## 56.10. Credit risk of financial institutions in the wholesale market

As at 31 December 2015, the largest exposures of PKO Bank Polski SA Group on the market were as follows:

| Exposure on the interbank market* | | | | |
|---|---|---|---|---|
| Counterparty | Type of instrument | | | Total |
| | Deposit | Derivatives | Securities | |
| Counterparty 1 | 800 000 | 1 162 | 942 615 | 1 743 777 |
| Counterparty 2 | 319 613 | 15 369 | - | 334 982 |
| Counterparty 3 | - | 139 838 | - | 139 838 |
| Counterparty 4 | - | 98 236 | - | 98 236 |
| Counterparty 5 | - | 95 138 | - | 95 138 |
| Counterparty 6 | - | 69 933 | - | 69 933 |
| Counterparty 7 | - | 55 471 | - | 55 471 |
| Counterparty 8 | - | 52 403 | - | 52 403 |
| Counterparty 9 | - | 48 921 | - | 48 921 |
| Counterparty 10 | - | 35 787 | - | 35 787 |
| Counterparty 11 | - | 31 396 | - | 31 396 |
| Counterparty 12 | - | 20 848 | - | 20 848 |
| Counterparty 13 | - | 19 572 | - | 19 572 |
| Counterparty 14 | - | 19 442 | - | 19 442 |
| Counterparty 15 | - | 18 869 | - | 18 869 |
| Counterparty 16 | 16 000 | - | - | 16 000 |
| Counterparty 17 | - | 14 028 | - | 14 028 |
| Counterparty 18 | 14 000 | (925) | - | 14 000 |
| Counterparty 19 | - | 13 790 | - | 13 790 |
| Counterparty 20 | - | 12 629 | - | 12 629 |

* Excluding exposure to the State Treasury and the National Bank of Poland.

(IN PLN THOUSAND)

For comparison, the largest exposures of PKO Bank Polski SA Group on the interbank market as at 31 December 2014 presents the table below:

| Exposure on the interbank market* | | | | |
|---|---|---|---|---|
| Counterparty | Type of instrument | | | Total |
| | Deposit | Derivatives | Securities | |
| Counterparty 1 | - | 9 031 | 585 246 | 594 277 |
| Counterparty 26 | 384 162 | - | - | 384 162 |
| Counterparty 4 | - | 169 566 | - | 169 566 |
| Counterparty 27 | 51 175 | 75 202 | - | 126 377 |
| Counterparty 5 | - | 93 074 | - | 93 074 |
| Counterparty 9 | - | 31 165 | 50 000 | 81 165 |
| Counterparty 8 | - | 73 060 | - | 73 060 |
| Counterparty 7 | - | 62 516 | - | 62 516 |
| Counterparty 3 | - | 59 435 | - | 59 435 |
| Counterparty 10 | - | 37 743 | - | 37 743 |
| Counterparty 28 | - | 29 418 | - | 29 418 |
| Counterparty 11 | - | 24 333 | - | 24 333 |
| Counterparty 14 | - | 23 420 | - | 23 420 |
| Counterparty 2 | - | 22 583 | - | 22 583 |
| Counterparty 15 | - | 16 465 | - | 16 465 |
| Counterparty 29 | - | 15 887 | - | 15 887 |
| Counterparty 30 | - | 12 912 | - | 12 912 |
| Counterparty 31 | 10 000 | (3 789) | - | 10 000 |
| Counterparty 32 | 10 000 | (7 178) | - | 10 000 |
| Counterparty 20 | - | 9 195 | - | 9 195 |

* Excluding exposure to the State Treasury and the National Bank of Poland.

For the purpose of determining exposures, deposits and securities issued by the counterparties, are stated at nominal values, while derivative instruments are stated at market values, excluding the collateral established by the counterparty. Total exposure to each counterparty ('Total' column) is the sum of exposures arising from deposits and securities, increased by the exposure arising from derivative instruments, if it is positive (otherwise the exposure arising from derivatives is not included in total exposure). Exposure arising from all instruments is calculated from the moment of entering into transaction.

As at 31 December 2015, the Bank had access to two clearing houses (in one as an indirect participant, as a direct in the other), through which settled the defined in EMIR Regulation (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), derivative transactions on interest rate with selected national and foreign partners. In nominal terms, the share of transactions cleared centrally in case of FRA amounted to 8,2% of the total portfolio of FRA, in the case of the IRS 0,5% of the total portfolio of IRS transactions.

As at 31 December 2015 the Bank had signed framework agreements, in accordance with ISDA/PBA standards, with 23 local banks and 60 foreign banks and credit institutions. hedge agreements CSA/PBA of 20 local banks and 50 foreign banks and credit institutions. Additionally, the Bank was a party of 13 agreements on repo (for standard ISMA/GMRA).

Geographical location of counterparties

The counterparties generating the 20 largest exposures as at 31 December 2015 come from the following countries detailed in the table below (classified by location of registered office):

| No. | Country | Counterparty |
|---|---|---|
| 1 | Belgium | Counterparty 14 |
| 2 | Denmark | Counterparty 17 |
| 3 | France | Counterparty 6, Counterparty 8 |
| 4 | Canada | Counterparty 13 |
| 5 | Germany | Counterparty 4, Counterparty 10, Counterparty 20 |
| 6 | Poland | Counterparty 1, Counterparty 2, Counterparty 7, Counterparty 9, Counterparty 15, Counterparty 18 |
| 7 | USA | Counterparty 3 |
| 8 | Switzerland | Counterparty 11, Counterparty 16 |
| 9 | The United Kingdom | Counterparty 5, Counterparty 12, Counterparty 19 |

**Counterparty structure by rating**

Exposure structure by rating is presented in the table below. The ratings were determined based on external ratings granted by Moody's, Standard&Poor's and Fitch agencies (when a rating was granted by two agencies, the lower rating was applied, whereas when a rating was granted by three agencies, the middle rating was applied). Rating for counterparties from 1 to 20 was accepted as at 31 December 2015.

| Rating | Counterparty |
|---|---|
| AA | Counterparty 3, Counterparty 12, Counterparty 13, Counterparty 16 |
| A | Counterparty 1, Counterparty 4, Counterparty 5, Counterparty 6, Counterparty 8, Counterparty 11, Counterparty 14, Counterparty 17, Counterparty 20 |
| BBB | Counterparty 2, Counterparty 7, Counterparty 10, Counterparty 19 |
| BB | Counterparty 9, Counterparty 15 |
| without rating | Counterparty 18 |

## 56.11. Credit risk of financial institutions on the retail market

In addition to the interbank market exposure discussed above, as at 31 December 2015 the Group had an exposure to financial institutions on the retail market. (exposure generated by Entities other than Treasury Department, including e.g. loans granted, bonds purchased outside interbank market).

The structure of exposures over PLN 10 million is presented in the table below:

| 2015 | Nominal value of exposure | | Country of the counterparty |
|---|---|---|---|
| | Statement of financial position item | Off-balance sheet item | |
| Counterparty 1 | 500 000 | - | Poland |
| Counterparty 3 | 511 | 59 489 | USA |
| Counterparty 21 | 50 000 | - | Poland |
| Counterparty 22 | 18 540 | 10 955 | Sweden |
| Counterparty 23 | 2 670 | 17 830 | Denmark |
| Counterparty 24 | 89 140 | - | Poland |

For comparison, the structure of exposure over PLN 10 million as at 31 December 2014 is presented in the table below (in thousands PLN):

| 2014 | Nominal value of exposure | | Country of the counterparty |
|---|---|---|---|
| | Statement of financial position item | Off-balance sheet item | |
| Counterparty 1 | 500 000 | - | Poland |
| Counterparty 25 | 50 000 | - | Poland |
| Counterparty 21 | 53 978 | 6 021 | Poland |
| Counterparty 24 | 101 808 | - | Poland |

## 56.12. Management of foreclosed collateral

Foreclosed collaterals as a result of restructuring or debt collection activities are either designated for sale or used by the Group for internal purposes. Details of the foreclosed assets are analysed in order to determine whether they can be used by the Group for internal purposes. All of the assets taken over as a result of restructuring and debt collection activities in the years ended 31 December 2015 and 31 December 2014, respectively, were designated for sale.

Activities undertaken by the Group are aimed at selling assets as soon as possible. Primary procedure for sale of assets is open tender. In justified cases, the different procedure dependent on the specifics of sold property.

The carrying amounts of non-financial assets held by the Capital Group, gained as a result of collateral as at 31 December 2015 amounted to PLN 178 146 thousand (as at 31 December 2014 it amounted to PLN 170 194 thousand). The above-mentioned amounts are presented in the note 32 'Other assets' in line item 'Assets for sale'.

## 56.13. Credit risk reporting

The Bank prepares monthly and quarterly credit risk reports. The reporting of credit risk covers specifically cyclic information on the risk exposure of the credit portfolio. In addition to the information concerning the Bank, the reports also contain information about the credit risk level for the Group subsidiaries (i.a. KREDOBANK SA Group and the PKO Leasing SA Group), which have significant credit risk levels.)

## 56.14. Management actions concerning credit risk

Basic credit risk management tools used by the Bank include:

- minimum transaction requirements (risk parameters) determined for a given type of transaction (e.g. minimum LTV value, maximum loan amount, required collateral),
- the principles of defining credit availability, including cut-offs – the minimum number of points awarded in the process of creditworthiness assessment with the use of a scoring system (for retail clients and SMEs) or the client's rating class (for corporate clients), which a client must obtain to receive a loan,
- concentration limits – the limits defined in article 395, item 1 of the CRR Regulation
- industry-related limits – limits which reduce the risk level related to financing institutional clients that conduct business activities in industries characterised by high level of credit risk,
- limits on credit exposures related to the Bank's clients – the limits defining the appetite for credit risk as result of among others the recommendations S and T,
- credit limits defining the Bank's maximum exposure to a given client or country in respect of wholesale operations and settlement limits and limits for the period of exposure,
- competence limits – they define the maximum level of credit decision-making powers with regard to the Bank's clients, the limits depend primarily on the amount of the Bank's exposure to a given client (or a group of related clients) and the loan transaction period, the competence limit depends on the credit decision-making level (in the Bank's organisational structure),
- minimum credit margins – credit risk margins relating to a given credit transaction concluded by the Bank with a given corporate client, but the interest rate offered to a client cannot be lower than the reference rate plus credit risk margin.

Collateral management policy as regards credit risk plays a significant role in establishing minimum transaction terms. The Bank's and the Group's entities collateral management is meant to secure properly the credit risk, to which the Capital Group is exposed, including first of all the fact of establishing collateral that will ensure the highest possible level of recovery in the event of realisation of debt collateral activity.

The Bank applies the following rules with respect to accepting collateral for loan exposures:

- in the case of substantial loans, several types of collaterals are established, including, if possible, combination of personal guarantees with collaterals established on assets,
- liquid types of collaterals, i.e. collaterals established on tangible assets, disposal of which is possible without a substantial reduction in their prices at a time, which does not expose the Bank to change the value of the collateral due to the appropriate price fluctuation of a particular collateral are preferred,
- when an asset is accepted as collateral, an assignment of cash receivables from the insurance policy relating to this asset or the insurance policy concluded to the Bank are accepted as additional collateral,
- collateral is assessed in terms of the actual possibility of its use as a potential source of the Bank's claim. The basis of the value assessment of the collateral established on tangible assets is the market value,
- effective establishment of collateral in compliance with the loan agreement is necessary to make the funds available.

The policy regarding collateral is defined by the internal regulations of subsidiaries of the Group.

The type of collateral depends on the product and the client segment. With regard to mortgage loans the obligatory collateral are mortgages on the property. Until an effective protection is established (depending on the type and amount of a loan) the Bank may use an increased credit margin or accept temporary collateral in different form.

With regard to consumer loans, usually personal guarantees are used (a civil law surety/guarantee, a bill of exchange) or collateral is established on the client's bank account, his car or securities.

When signing a leasing agreement, the PKO Leasing SA Group, as a proprietor of leased objects, treats them as collateral.

# 57. Interest rate risk management

The interest rate risk is a risk of incurring losses on the Group'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 incurring 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.

## 57.1. Measurement of interest rate risk

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

The value at risk (VaR) is defined as a potential loss arising from the maintained the structure of the statement of financial position and off-balance sheet items and the volatility of interest rates, with the assumed probability level and taking into account the correlation between the risk factors. In 2015 PKO Bank Polska SA introduced a method of determining the historical Var of interest rate risk.

The sensitivity of interest income is a measure determining changes in interest income resulting from abrupt changes in interest rates. This measure takes into account the diversity of revaluation dates of the individual interest-bearing items in each of the selected time horizons.

Stress-tests are used to estimate potential losses arising from a maintained structure of the statement of financial position and off-balance sheet items under market conditions that cannot be described in a standard manner using statistical measures.

Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which are based on arbitrary interest rate fluctuations: a parallel move in interest rate curves for the particular currencies by ±50 b.p., by ±100 b.p. and by ±200 b.p. and bend of yield curve scenarios (non-parallel fluctuations of 'peak' and 'twist' types),
2) historical scenarios – in which interest rate fluctuations are adopted based on the behaviour of interest rates in the past, including: the highest historical change, a bend of a yield curve along with portfolio positions, the largest historical non-parallel fluctuation of the interest rate curves for securities and derivative instruments that hedge them.

The repricing gap shows the difference between the present value of assets and liabilities exposed to interest rate risk, subject to revaluation in a given time range, and these balances are recognised on the transaction date.

| Repricing Gap | 0-1 month | 1-3 months | 3-6 months | 6-12 months | 1-2 years | 2-5 years | >5 years | Total |
|---|---|---|---|---|---|---|---|---|
| PLN (in PLN thousand) | | | | | | | | 31.12.2015 |
| The Group - Periodic gap | 42 011 928 | 47 479 378 | (20 914 640) | (22 134 357) | (9 126 214) | (17 943 543) | 3 141 723 | 22 514 275 |
| The Group - Cumulative gap | 42 011 928 | 89 491 306 | 68 576 666 | 46 442 309 | 37 316 095 | 19 372 552 | 22 514 275 | - |
| | | | | | | | | |
| PLN (in PLN thousand) | | | | | | | | 31.12.2014 |
| The Group - Periodic gap | 50 185 503 | 36 717 323 | (11 111 259) | (24 529 132) | (16 252 478) | (17 300 614) | 619 | 17 709 962 |
| The Group - Cumulative gap | 50 185 503 | 86 902 826 | 75 791 567 | 51 262 435 | 35 009 957 | 17 709 343 | 17 709 962 | - |
| | | | | | | | | |
| USD (in USD thousand) | | | | | | | | 31.12.2015 |
| The Group - Periodic gap | 300 091 | (376 089) | (51 869) | 137 341 | 15 002 | (17 782) | (127 429) | (120 735) |
| The Group - Cumulative gap | 300 091 | (75 998) | (127 867) | 9 474 | 24 476 | 6 694 | (120 735) | - |
| | | | | | | | | |
| USD (in USD thousand) | | | | | | | | 31.12.2014 |
| The Group - Periodic gap | (90 058) | 49 219 | (223 141) | 97 697 | 199 222 | 17 406 | (111 872) | (61 527) |
| The Group - Cumulative gap | (90 058) | (40 839) | (263 980) | (166 283) | 32 939 | 50 345 | (61 527) | - |

| Repricing Gap | 0-1 month | 1-3 months | 3-6 months | 6-12 months | 1-2 years | 2-5 years | >5 years | Total |
|---|---|---|---|---|---|---|---|---|
| EUR (in EUR thousand) | | | | | | | | 31.12.2015 |
| The Group - Periodic gap | (21 267) | 416 142 | 214 541 | (191 606) | (381 799) | (825 819) | 212 354 | (577 454) |
| The Group - Cumulative gap | (21 267) | 394 875 | 609 416 | 417 810 | 36 011 | (789 808) | (577 454) | - |
| | | | | | | | | |
| EUR (in EUR thousand) | | | | | | | | 31.12.2014 |
| The Group - Periodic gap | (613 307) | 1 224 543 | 164 471 | (290 902) | 57 181 | (610 838) | 57 900 | (10 952) |
| The Group - Cumulative gap | (613 307) | 611 236 | 775 707 | 484 805 | 541 986 | (68 852) | (10 952) | - |
| | | | | | | | | |
| CHF (in CHF thousand) | | | | | | | | 31.12.2015 |
| The Group - Periodic gap | (370 124) | 3 651 333 | 124 194 | (1 808 428) | (74 730) | (416 697) | (715 894) | 389 654 |
| The Group - Cumulative gap | (370 124) | 3 281 209 | 3 405 403 | 1 596 975 | 1 522 245 | 1 105 548 | 389 654 | - |
| | | | | | | | | |
| CHF (tys. CHF) | | | | | | | | 31.12.2014 |
| The Group - Periodic gap | (2 265 607) | 2 942 060 | 264 700 | (504 100) | (11 100) | (4 300) | (7 000) | 414 653 |
| The Group - Cumulative gap | (2 265 607) | 676 453 | 941 153 | 437 053 | 425 953 | 421 653 | 414 653 | - |

At the end of 2015 and 2014 the Group had a positive cumulative gap in PLN in all time horizons.

### 57.2. Forecasting and monitoring of interest rate risk

As at 31 December 2015 and 31 December 2014, 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 generated by the Group entities with regard to PLN, EUR and CHF did not have a significant effect on the interest rate risk of the entire Group and therefore did not significantly affect its risk profile. Interest rate risk with regard to USD was significantly altered by exposure of the Group entities, in which the biggest part has the exposure of KREDOBANK SA.

VaR of the Bank and stress-tests analysis of the Group's exposure to the interest rate risk are presented in the following table:

| Name of sensitivity measure | 31.12.2015 | 31.12.2014 |
|---|---|---|
| VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)* | 271 674 | 282 268 |
| Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress-test)** | 2 013 781 | 2 380 354 |

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as a the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to approx. PLN 11 460 thousand as at 31 December 2015 and PLN 9 480 thousand as at 31 December 2014.

** 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 2015 the interest rate VaR for a 10-day time horizon (10-day VaR) amounted to PLN 271 674 thousand, which accounted for approximately 1.00% of the Bank's own funds. As at 31 December 2014 VaR for the Bank amounted to PLN 282 268 thousand, which accounted for approximately 1.13% of the Bank's own funds. The amount of the funds is calculated in accordance with the provisions concerning calculation of th total capital ratio.

### 57.3. Reporting of the interest rate risk

The Bank prepares daily, weekly, monthly and quarterly reports addressing interest rate risk. The quarterly reports are also applicable to the Group. Reports present the information on interest rate risk exposure and usages of available limits regarding the risk.

### 57.4. Management decisions as regards interest rate risk

The main tools used in interest rate risk management in the Group include::

- procedures for interest rate risk management,
- limits and thresholds for interest rate risk,
- defining allowable transactions types based on interest rates.

The Group established limits and thresholds for interest rate risk comprising i.a. the 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 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 by the Bank for the Group entities.

## 58. Currency risk management

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

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

### 58.1. Measurement of the currency risk

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

The value at risk (VaR) is defined as a potential loss arising from currency positions held and foreign exchange rate volatility under the assumed confidence level and taking into account the correlation between the risk factors. In 2015 PKO Bank Polski introduced a method of determining the historical VaR for foreign exchange.

Stress-tests and crash-tests are used to estimate potential losses arising from currency positions under extraordinary conditions on the currency market that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which assume a hypothetical appreciation or depreciation of currency rates (by 20 percent and 50 percent),
2) historical scenarios – based on the behaviour of currency rates observed in the past.

### 58.2. Forecasting and monitoring of currency risk

VaR of the Bank and stress-tests analysis of the Capital Group exposure to currency risk are stated cumulatively for all currencies in the table below:

| **Name of sensitivity measure** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)* | 25 384 | 6 230 |
| Change in CUR/PLN by 20% (in PLN thousand) (stress-test)** | 1 941 | 28 609 |

* 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 companies apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day VaR, which amounted to approx PLN 4 836 thousand as at 31 December 2015 and approx. PLN 3 663 thousand as at 31 December 2014.
** The table presents the value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%.

The Group's currency positions are presented in the table below:

| **Currency position** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| EUR | 94 134 | (216 994) |
| USD | (87 336) | (113 960) |
| CHF | (72 465) | (36 566) |
| GBP | (1 798) | 5 009 |
| Other (Global Net) | 171 137 | 214 752 |

The volume of currency positions is a key factor determining the level of currency risk on which the Group is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded by the Group, both in the statement of financial position and off-balance sheet transactions. The Bank's exposure to currency risk is low (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at 31 December 2015 amounted to ca. 0.09%).

(IN PLN THOUSAND)

## 58.3. Currency structure

The tables below present currency exposure by the specific types of assets, liabilities and off-balance sheet liabilities:

| | Currency translated to PLN - 31.12.2015 | | | | |
|---|---|---|---|---|---|
| | PLN | EUR | CHF | Other | Total |
| | | | | | |
| Cash and balances with the central bank | 12 562 515 | 727 336 | 61 838 | 392 175 | 13 743 864 |
| Amounts due from banks | 1 949 983 | 1 677 024 | 113 138 | 813 232 | 4 553 377 |
| Loans and advances to customers | 149 855 311 | 13 527 617 | 32 243 774 | 3 074 215 | 198 700 917 |
| Securities | 41 330 148 | 1 674 781 | 993 615 | 591 090 | 44 589 634 |
| Tangible assets | 12 072 869 | 79 | - | 127 083 | 12 200 031 |
| Other assets and derivative financial instruments | 7 287 317 | 216 376 | 41 783 | 84 208 | 7 629 684 |
| Total assets (gross) | 225 058 143 | 17 823 213 | 33 454 148 | 5 082 003 | 281 417 507 |
| Depreciation / amortisation / impairment | (12 024 404) | (276 200) | (963 701) | (1 213 283) | (14 477 588) |
| Total assets (net) | 213 033 739 | 17 547 013 | 32 490 447 | 3 868 720 | 266 939 919 |
| | | | | | |
| Amounts due to the central bank | 4 219 | - | - | - | 4 219 |
| Amounts due to banks | 1 068 064 | 2 522 928 | 14 372 305 | 325 500 | 18 288 797 |
| Amounts due to customers | 175 739 475 | 10 993 307 | 2 453 140 | 6 572 539 | 195 758 461 |
| Liabilities due to insurance operations | 2 396 515 | 3 848 | - | 130 | 2 400 493 |
| Debt securities in issue | 1 251 186 | 3 240 722 | 1 000 027 | 3 941 038 | 9 432 973 |
| Subordinated liabilities | 1 616 619 | - | 882 544 | - | 2 499 163 |
| Provisions | 242 884 | 5 396 | 1 037 | 2 777 | 252 094 |
| Other liabilities and derivative financial instruments and provision for deffered income tax liability | 7 424 363 | 459 055 | 24 659 | 130 729 | 8 038 806 |
| Equity | 30 264 913 | - | - | - | 30 264 913 |
| Total liabilities and equity | 220 008 238 | 17 225 256 | 18 733 712 | 10 972 713 | 266 939 919 |
| Off-balance sheet liabilites granted | 48 906 838 | 3 970 891 | 187 858 | 4 506 378 | 57 571 965 |

| | Currency translated to PLN - 31.12.2014 | | | | |
|---|---|---|---|---|---|
| | PLN | EUR | CHF | Other | Total |
| | | | | | |
| Cash and balances with the central bank | 10 724 759 | 492 047 | 70 260 | 451 305 | 11 738 371 |
| Amounts due from banks | 294 737 | 1 255 349 | 62 229 | 874 482 | 2 486 797 |
| Loans and advances to customers | 140 063 419 | 13 660 027 | 30 954 027 | 2 842 388 | 187 519 861 |
| Securities | 38 635 005 | 933 402 | - | 721 119 | 40 289 526 |
| Tangible assets | 11 712 203 | - | - | - | 11 712 203 |
| Other assets and derivative financial instruments | 7 727 158 | 397 235 | 64 329 | 551 218 | 8 739 940 |
| Total assets (gross) | 209 157 281 | 16 738 060 | 31 150 845 | 5 440 512 | 262 486 698 |
| Depreciation / amortisation / impairment | (12 228 945) | (223 357) | (836 056) | (497 751) | (13 786 109) |
| Total assets (net) | 196 928 336 | 16 514 703 | 30 314 789 | 4 942 761 | 248 700 589 |
| | | | | | |
| Amounts due to the central bank | 4 427 | - | - | - | 4 427 |
| Amounts due to banks | 2 241 032 | 2 774 653 | 14 348 416 | 30 381 | 19 394 482 |
| Amounts due to customers | 158 613 283 | 8 318 970 | 2 258 841 | 5 195 672 | 174 386 766 |
| Liabilities due to insurance operations | 2 675 833 | 3 785 | - | 104 | 2 679 722 |
| Debt securities in issue | 1 268 242 | 5 818 661 | 2 671 536 | 3 542 171 | 13 300 610 |
| Subordinated liabilities | 1 619 833 | - | 794 152 | - | 2 413 985 |
| Provisions | 308 453 | 9 371 | 818 | 5 196 | 323 838 |
| Other liabilities and derivative financial instruments and provision for deffered income tax liability | 7 404 604 | 486 278 | 532 569 | 157 757 | 8 581 208 |
| Equity | 27 615 551 | - | - | - | 27 615 551 |
| Total liabilities and equity | 201 751 258 | 17 411 718 | 20 606 332 | 8 931 281 | 248 700 589 |
| Off-balance sheet liabilites granted | 44 498 418 | 4 434 096 | 119 891 | 3 820 227 | 52 872 632 |

## 58.4. Reporting of the currency risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing currency risk. The quarterly reports are also applicable to the Group. Reports gather the information on currency risk exposure and updates on available limits regarding the risk.

(IN PLN THOUSAND)

### 58.5. Management decisions concerning currency risk

Main tools used in currency risk management in the Group include:

- procedures for currency risk management
- limits and thresholds for currency risk,
- defining allowable types of transactions in foreign currencies and the exchange rates used in such transactions.

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 high level of currency risk measure outcomes. The regulations are defined after consultation with the Bank and take into account recommendations issued by the Bank to the entities.

## 59. Liquidity risk management

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

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

As a part of liquidity risk management the Bank manages the financing risk, which takes into account the risk of loss of financing sources and the lack of opportunities to renew matured funding, or loss of access to new financing sources.

Group policy concerning liquidity is based on keeping a portfolio of appropriate level of liquidity surplus through an increase in portfolio of liquid securities and stable sources of financing (stable deposit base, in particular). In liquidity risk management money market instruments, including NBP open market operations are also used.

### 59.1. Measurement of the liquidity risk

The Capital Group makes use of the following liquidity risk measures:

- the contractual and adjusted liquidity gap in real terms,
- liquidity reserve,
- liquidity surplus,
- ratio of stable funding to illiquid assets, liquidity coverage ratio (LCR),
- national supervisory liquidity measures (M1-M4),
- measure of stability of deposit and loan portfolios,
- stress-tests (liquidity stress-tests).

### 59.2. Forecasting and monitoring of liquidity risk

Liquidity gaps presented below include the sum of Bank's adjusted liquidity gap (adjusted in terms of the following: permanent balances on deposits of non-financial sector and their maturity, permanent balances on loans in current accounts for non-financial entities and their maturity and liquid securities and their maturity) and contractual liquidity gap of the other Group entities.

| | a'vista | 0-1 month | 1-3 months | 3-6 months | 6-12 monts | 12-24 months | 24-60 months | over 60 months |
|---|---|---|---|---|---|---|---|---|
| 31.12.2015 | | | | | | | | |
| The Group - Adjusted periodic gap | 13 974 617 | 19 405 644 | (346 858) | 3 590 950 | 7 972 011 | 8 034 672 | 12 600 252 | (65 231 288) |
| The Group - Adjusted cumulative periodic gap | 13 974 617 | 33 380 261 | 33 033 403 | 36 624 353 | 44 596 364 | 52 631 036 | 65 231 288 | - |
| 31.12.2014 | | | | | | | | |
| The Group - Adjusted periodic gap | 12 733 729 | 13 357 476 | 536 836 | 1 309 410 | 1 088 394 | 11 977 076 | 13 281 695 | (54 284 616) |
| The Group - Adjusted cumulative periodic gap | 12 733 729 | 26 091 205 | 26 628 041 | 27 937 451 | 29 025 845 | 41 002 921 | 54 284 616 | - |

In all time horizons, the Group's cumulative adjusted liquidity gap in real terms , which has been determined as a sum of adjusted liquidity gap in real terms of the Bank and contractual liquidity gaps of the remaining Group entities, as at 31 December 2015 and as at 31 December 2014 was positive. This means a surplus of assets receivable over liabilities payable.

The table below presents liquidity reserve of the Bank as at 31 December 2015 and as at 31 December 2014:

| Name of sensitivity measure | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Liquidity reserve up to 1 month* (in PLN million) | 30 186 | 21 075 |

*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 2015 the minimum level of liquidity surplus in the horizon to 30 days amounted to PLN 14 411 million. A measure of liquidity surplus determines the ability of the Bank to cover liquidity needs in a given period of survival in an implementation-defined stress scenarios.

The following table shows the supervisory liquidity measures of the Bank as at 31 December 2015 and as at 31 December 2014.

| Measure | 31.12.2015 | 31.12.2014 |
|---|---|---|
| M1 | 18 907 | 15 859 |
| M2 | 1.65 | 1.65 |
| M3 | 9.87 | 7.01 |
| M4 | 1.15 | 1.16 |
| LCR | 131.5% | 125% |

In the period from 31 December 2014 to 31 December 2015 ratios supervisory measures remained above the supervisory limits. LCR indicator shows the value for the Group in the table above.

As at 31 December 2015 the level of permanent balances on deposits constituted approx. 93.6% of all deposits in the Bank (excluding interbank market), which means an decrease by approximately 1.1 pp. as compared to the end of 2014.

The table below presents the structure of the Group's sources of financing as at 31 December 2015 and as at 31 December 2014.

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Total deposits (excluding interbank market) | 75.96% | 75.04% |
| Interbank market deposits | 0.67% | 0.20% |
| Equity | 11.99% | 10.57% |
| Financing from the market | 11.38% | 14.19% |
| **Total** | **100.00%** | **100.00%** |

## 59.3. The contractual cash flows of the Bank's liabilities excluding derivative financial instruments as at 31 December 2015 and as at 31 December 2014 respectively, by maturity

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of statement of financial position and off-balance sheet liabilities, excluding derivative financial instruments as at 31 December 2015 and as at 31 December 2014 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2015 and as at 31 December 2014. The amounts disclosed comprise non-discounted cash future flows, both in respect of principal and interest (if applicable), in accordance with the contract, for the entire period to the date of the liability's maturity. In situations where the party to whom the Group has a liability is able to select the settlement deadline, it has been assumed that the earliest date on which the Group is obliged to settle the liability shall be taken into account. In situations where the Group is obliged to settle the liabilities in instalments, each instalment is allocated to the earliest period in which the Group might be obligated to settle. In the case of liabilities where the instalment is not fixed, the terms binding as at the reporting date have been adopted.

Contractual flows of the Group's liabilities as at 31 December 2015 by maturity

| | Up to 1 monnth | 1-3 months | 3 months- 1 year | 1-5 years | Over 5 years | Contractual value | Carrying amount |
|---|---|---|---|---|---|---|---|
| Liabilities: | | | | | | | |
| Amounts due to the central bank | 4 219 | - | - | - | - | 4 219 | **4 219** |
| Amounts due to banks | 1 907 773 | 84 | 37 391 | 240 666 | 16 385 062 | 18 570 976 | **18 288 797** |
| Amount due to customers | 126 532 268 | 21 867 506 | 34 840 333 | 10 564 580 | 6 191 736 | 199 996 423 | **195 758 461** |
| Debt securities in issue | 50 604 | 152 260 | 2 771 573 | 3 058 729 | 4 492 463 | 10 525 629 | **9 432 973** |
| Subordinated liabilities | - | 32 982 | 44 239 | 319 264 | 2 650 337 | 3 046 822 | **2 499 163** |
| Other liabilities | 2 697 791 | 7 504 | 302 176 | 147 397 | 201 302 | 3 356 170 | **3 356 170** |
| Off-balance sheet financial liabilities - granted | 28 675 009 | 814 785 | 3 898 211 | 3 102 454 | 6 269 702 | 42 760 161 | - |
| Off-balance sheet guarantee liabilities - granted | 1 415 342 | 1 604 025 | 2 456 421 | 9 783 593 | 1 294 716 | 16 554 097 | - |

(IN PLN THOUSAND)

Contractual flows of the Group's liabilities as at 31 December 2014 by maturity

| | Up to 1 monnth | 1-3 months | 3 months- 1 year | 1-5 years | Over 5 years | Contractual value | Carrying amount |
|---|---|---|---|---|---|---|---|
| Liabilities: | | | | | | | |
| Amounts due to the central bank | 4 427 | - | - | - | - | 4 427 | **4 427** |
| Amounts due to banks | 2 044 255 | 178 596 | 1 847 485 | 1 208 177 | 15 113 128 | 20 391 641 | **19 394 482** |
| Amount due to customers | 109 773 316 | 12 560 306 | 35 033 627 | 16 953 648 | 2 099 152 | 176 420 049 | **174 386 766** |
| Debt securities in issue | 50 613 | 832 749 | 5 523 147 | 3 993 876 | 4 233 507 | 14 633 892 | **13 300 610** |
| Subordinated liabilities | - | 39 123 | 48 666 | 327 788 | 2 648 527 | 3 064 104 | **2 413 985** |
| Other liabilities | 2 228 619 | 86 910 | 475 902 | 98 546 | 64 626 | 2 954 603 | **2 954 603** |
| Off-balance sheet financial liabilities - granted | 23 514 918 | 968 602 | 4 820 338 | 3 946 353 | 5 129 776 | 38 379 987 | - |
| Off-balance sheet guarantee liabilities - granted | 225 396 | 1 336 294 | 2 557 886 | 9 124 116 | 2 074 309 | 15 318 001 | - |

### 59.4. The contractual cash flows related to derivative financial instruments as at 31 December 2015 and as at 31 December 2014 respectively, by maturity

Derivative financial instruments settled in net amounts

Derivative financial instruments settled by the Group on a net basis include:

- interest rate swaps (IRS),
- Forward Rate Agreements (FRA),
- Non Deliverable Forwards (NDF),
- options.

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments in respect of which the balance sheet date valuation was negative (a liability) as at 31 December 2015 and as at 31 December 2014 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2015 and as at 31 December 2014. In case of IRS transactions, non-discounted future net cash flows in respect of interest have been presented and in case of the remaining derivative instruments settled on a net basis, the amount of the valuation as at 31 December 2015 and as at 31 December 2014 respectively was adopted as the value of a cash flow.

Moreover, the cash flows from IRS transactions which constitute cash flow hedges in respect of loans with variable interest rates are shown separately in the table.

| 31 December 2015 | Up to 1 monnth | 1-3 months | 3 months- 1 year | 1-5 years | Over 5 years | Contractual value |
|---|---|---|---|---|---|---|
| Derivative financial instruments - liabilities: | | | | | | |
| - Interest Rate Swap (IRS) transactions, of which:: | (208 295) | (263 283) | (602 581) | (1 625 707) | (363 137) | (3 063 003) |
| - derivative hedging instruments | - | - | - | - | - | - |
| - other derivative hedging instruments: options, FRA, NDF | (153 840) | (122 865) | (507 263) | (886 046) | (378) | (1 670 392) |

| 31 December 2014 | Up to 1 monnth | 1-3 months | 3 months- 1 year | 1-5 years | Over 5 years | Contractual value |
|---|---|---|---|---|---|---|
| Derivative financial instruments - liabilities: | | | | | | |
| - Interest Rate Swap (IRS) transactions, of which:: | (4 881) | 5 559 | 732 845 | (2 446 745) | (547 072) | (2 260 294) |
| - derivative hedging instruments | - | - | - | - | - | - |
| - other derivative hedging instruments: options, FRA, NDF | (179 655) | (464 273) | (425 585) | (291 679) | - | (1 361 192) |

Derivative financial instruments settled in gross amounts

Derivative financial instruments settled by the Group on a gross basis include:

- foreign currency swaps,
- foreign currency forwards,
- Cross Currency IRS (CIRS).

The tables below show the contractual maturity analysis, presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments (inflows and outflows) in respect of which the balance sheet date valuation was negative (a liability) as at 31 December 2015 and as at 31 December 2014 respectively. The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2015 and as at 31 December 2014. The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable).

(IN PLN THOUSAND)

In the table cash flows from CIRS transactions which constitute cash flow hedges in respect of mortgage loans denominated in CHF, deposits negotiated in PLN and liabilities at a fixed rate in USD are shown separately.

| 31 December 2015 | Up to 1 monnth | 1-3 months | 3 months- 1 year | 1-5 years | Over 5 years | Contractual value |
|---|---|---|---|---|---|---|
| Derivative financial instruments: | | | | | | |
| - outflows, of which: | (6 078 096) | (1 991 900) | (2 657 157) | (3 522 829) | (507 563) | (14 757 545) |
| - derivative hedging instruments | (150 112) | (1 223) | (103 682) | (1 457 241) | (300 000) | (2 012 258) |
| - inflows, of which: | 6 027 821 | 1 676 483 | 2 983 153 | 9 679 829 | 1 336 019 | 21 703 305 |
| - derivative hedging instruments | 488 385 | 18 211 | 426 621 | 5 554 128 | 1 074 968 | 7 562 313 |

| 31 December 2014 | Up to 1 monnth | 1-3 months | 3 months- 1 year | 1-5 years | Over 5 years | Contractual value |
|---|---|---|---|---|---|---|
| Derivative financial instruments: | | | | | | |
| - outflows, of which: | (5 566 617) | (4 810 958) | (6 306 363) | (3 288 097) | (793 347) | (20 765 382) |
| - derivative hedging instruments | (350 815) | (274 035) | (3 427 633) | (1 260 840) | (777 279) | (6 090 602) |
| - inflows, of which: | 5 811 258 | 1 627 944 | 7 801 094 | 7 415 672 | 2 796 292 | 25 452 260 |
| - derivative hedging instruments | 552 181 | 18 010 | 4 792 330 | 4 623 608 | 2 738 845 | 12 724 974 |

## 59.5. Current and non-current assets and liabilities

The Group classifies an asset as current (short-term) when:

- It expects to realize the asset, or intenders to sell or consume it in the course of the normal operating cycle,
- Is in possession of the asset primarily for the purpose of trading,
- It expects that the asset will be realized within twelve months after the reporting period or
- The asset is cash or a cash equivalent (as defined in IAS 7) unless it is restricted from being exchanged or used to settle a liability for at least twelve months from the end of reporting period.

All other assets of the unit are classified as non-current assets (long-term)

The Group classifies a liability as current when:

- it expect that it will be settled in the normal operating cycle,
- it holds the liability for the purpose of trading ,
- it is due within twelve months after the reporting period or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as long-term liabilities.

31 December 2015

| | Short-term | Long-term | Impairment allowances | Total carrying amount |
|---|---|---|---|---|
| | | | | |
| Cash and balances with the central bank | 13 743 864 | - | - | 13 743 864 |
| Amounts due from banks | 4 553 377 | - | (405) | 4 552 972 |
| Trading assets | 783 199 | - | - | 783 199 |
| Derivative financial instruments | 1 400 127 | 2 947 142 | - | 4 347 269 |
| Financial instruments designated upon initial recognition at fair value through profit and loss | 12 268 151 | 2 885 949 | - | 15 154 100 |
| Loans and advances to customers | 49 020 379 | 149 680 538 | (8 287 209) | 190 413 708 |
| Investment securities available for sale | 1 154 566 | 27 287 439 | (132 490) | 28 309 515 |
| Securities held to maturity | 185 331 | 24 999 | - | 210 330 |
| Inventories | 172 632 | 265 568 | (37 252) | 400 948 |
| Other assets | 3 866 869 | 5 760 556 | (603 411) | 9 024 014 |
| Total assets | 87 148 495 | 188 852 191 | (9 060 767) | 266 939 919 |
| | | | | |
| Amounts due to the central bank | 4 219 | - | - | 4 219 |
| Amounts due to banks | 4 062 803 | 14 225 994 | - | 18 288 797 |
| Derivative financial instruments | 1 185 033 | 3 439 734 | - | 4 624 767 |
| Amounts due to customers | 182 754 339 | 13 004 122 | - | 195 758 461 |
| Liabilities due to insurance operations | 120 433 | 2 280 060 | - | 2 400 493 |
| Debt securities in issue | 3 107 121 | 6 325 852 | - | 9 432 973 |
| Subordinated liabilities | - | 2 499 163 | - | 2 499 163 |
| Other liabilities | 3 254 968 | 411 165 | - | 3 666 133 |
| Total liabilities | 194 488 916 | 42 186 090 | - | 236 675 006 |
| Equity | - | 30 264 913 | - | 30 264 913 |
| Total liabilities and equity | 194 488 916 | 72 451 003 | - | 266 939 919 |

(IN PLN THOUSAND)

31 December 2014

| | Short-term | Long-term | Impairment allowances | Total carrying amount |
|---|---|---|---|---|
| | | | | |
| Cash and balances with the central bank | 11 738 371 | - | - | 11 738 371 |
| Amounts due from banks | 2 280 467 | 206 330 | (111) | 2 486 686 |
| Trading assets | 1 924 426 | - | - | 1 924 426 |
| Derivative financial instruments | 1 139 752 | 4 355 070 | - | 5 494 822 |
| Financial instruments designated upon initial recognition at fair value through profit and loss | 13 540 447 | 2 182 701 | - | 15 723 148 |
| Loans and advances to customers | 40 440 580 | 147 079 281 | (8 022 477) | 179 497 384 |
| Investment securities available for sale | 2 124 032 | 20 284 562 | (129 369) | 22 279 225 |
| Securities held to maturity | 141 157 | 92 201 | - | 233 358 |
| Inventories | 167 880 | - | (29 164) | 138 716 |
| Other assets | 3 568 896 | 6 122 405 | (506 848) | 9 184 453 |
| Total assets | 77 066 008 | 180 322 550 | (8 687 969) | 248 700 589 |
| | | | | |
| Amounts due to the central bank | 4 427 | - | - | 4 427 |
| Amounts due to banks | 4 831 387 | 14 563 095 | - | 19 394 482 |
| Derivative financial instruments | 1 307 642 | 4 237 499 | - | 5 545 141 |
| Amounts due to customers | 161 167 443 | 13 219 323 | - | 174 386 766 |
| Liabilities due to insurance operations | 175 936 | 2 503 786 | - | 2 679 722 |
| Debt securities in issue | 6 506 131 | 6 794 479 | - | 13 300 610 |
| Subordinated liabilities | - | 2 413 985 | - | 2 413 985 |
| Other liabilities | 3 162 267 | 197 638 | - | 3 359 905 |
| Total liabilities | 177 155 233 | 43 929 805 | - | 221 085 038 |
| Equity | - | 27 615 551 | - | 27 615 551 |
| Total liabilities and equity | 177 155 233 | 71 545 356 | - | 248 700 589 |

### 59.6. Reporting of the liquidity risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing liquidity risk. The quarterly reports are also applicable to the Group. Reports present the information on liquidity risk exposure and usages of available limits regarding the risk.

### 59.7. Management decisions concerning liquidity risk

The main tools for liquidity risk management in the PKO Bank Polski SA Group are as follows

- procedures for liquidity risk management, in particular emergency plans,
- limits and thresholds mitigating liquidity risk,
- deposit, investment and derivative transactions, including structural currency transactions and transactions for sale or purchase of securities,
- transactions ensuring long-term financing of Bank's lending activities.

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

Methods of liquidity risk management in subsidiaries of the Group are defined by internal regulations implemented by the Group entities which are characterised by high levels of liquidity risk measure outcomes.

These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank to the entities

## 60. Commodity price risk management

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

The objective of commodity price risk management is to reduce potential losses resulting from changes in commodity prices to the acceptable level by shaping the appropriate 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.

## 61. Price risk of equity securities management

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

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

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

The Bank prepares monthly and quarterly reports addressing the price risk of equity securities. Reports contain the information on equity securities price risk exposure and usage of available limits regarding the risk.

## 62. Other price risks

Taking into consideration other price risks, at the end of the year 2015, the Bank was exposed to price risk of investment fund participation units in collective investment funds.

Influence of this risk to the Bank's financial situation is immaterial. The own funds requirement, pursuant to the CRR Regulation, to cover the above-mentioned risk amounted to approx. PLN 2 million as at 31 December 2015. The increase in relation to the requirement as at 31 December 2014 results from the purchased collective investment funds participation units.

## 63. Derivative instruments risk management

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

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

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

### 63.1. Measurement of the derivative instruments risk

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

In the measurement of other Group members' derivative-related risk, information on the companies' positions in specific instruments is used, as indicated by the Bank.

### 63.2. Forecasting and monitoring of the derivative instruments risk

Monitoring the risk of derivative instruments takes place as part of monitoring of other types of financial and credit risk. The Bank pays particular emphasis to monitor financial risk related to the maintenance of currency options portfolio and customer credit risk resulting from amounts due to the Bank in respect of derivative instruments.

### 63.3. Reporting of the derivative instruments risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing the risk of derivative instruments. The quarterly reports are also applicable to the Group. Reports present the information on the derivative risk exposure and updates on available limits regarding the risk.

### 63.4. Management decisions concerning risk of derivative instruments

The main tools used in derivative risk management are as follows:

- written procedures for derivative risk management,
- limits and thresholds set for the risk related to derivative instruments,
- master agreements specifying, i.a. settlement mechanisms.

Risk management is carried out by imposing limits on the derivative instruments, monitoring limits and reporting risk level.

Master agreements concluded by the Bank with the major business partners based on the standards developed by the Polish Banks 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 agreement (Credit Support Annex).

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

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

## 64. Operational risk management

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 account legal risk, and does not include reputational risk and business risk.

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

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

### 64.1. Measurement and assessment of the operational risk

Measurement of operational risk at the Bank aims at defining the scale of threats related to the existence of operational risk with the use of defined risk measures. The measurement of operational risk comprises:

- calculation of Key Risk Indicators (KRI),
- requirement calculation of own funds for operational risk under the BIA approach in activities of the Bank's branch in the Federal Republic of Germany and AMA with respect to the other activity of the Bank
- stress-tests,
- calculation of internal capital for the Group.

The operational risk self-assessment comprises identification and assessment of operational risk for Bank's products, processes and applications as well as organisational changes and it is conducted cyclically and before the introduction of new or changed Bank's products, processes and applications with the use of:

- accumulation of data on operational events,
- Information obtained during the measurement, monitoring and cooperation with Group entities and reporting of operational risk, including internal audits and safety audits.

### 64.2. Operational risk control

The objective of operational risk management is striving for maintaining the level of operational risk of the Bank and Group at fixed level.

Control of operational risk includes setting tailored to the scale and complexity of the Bank's activities risk controls in the form of limits on operational risk, in particular the strategic limits of tolerance and operational risk, losses limits, KRI with thresholds and critical values.

### 64.3. Forecasting and monitoring of operational risk

Monitoring of operational risk aims at diagnosis of areas requiring management actions.

The Bank regularly monitors:

- utilisation level of strategic tolerance and operational risk losses limits for the Bank,
- operational events and their consequences,
- results of operational risk self-assessment,
- requirement in respect of own funds as regards to operational risk in accordance with the BIA approach in the activities of the branch of the Bank in the Federal Republic of Germany and in accordance with the AMA approach with respect to the remaining activity of the Bank and the Group companies included in consolidation, in accordance with the precautionary BIA approach,
- the results of stress tests,
- the level of risk, areas and tools for operational risk management,
- key Risk Indicators (KRI), in relations to threshold and critical values,
- effectiveness and timeliness of actions undertaken to reduce or transfer the operational risk,
- management activities, related to the presence of elevated or high levels of operational risk and their effectiveness in reducing the level of operational risk.

In 2015, the dominant impact on the operational risk profile of the Group was exercised by the following entities: PKO Bank Polski SA, the PKO Leasing SA Group the and the KREDOBANK SA Group. Other Group entities, considering their significantly smaller scale and type of activity, generate only reduced operational risks.

### 64.4. Reporting of operational risk

Reporting on information concerning operational risk is being performed for the purposes of:

- Bank's internal requirements, particularly of the senior management staff, ORC, RC, the Management Board, the and the Supervisory Board,
- external supervisory and control.

Reporting on information concerning operational risk of the Bank and Group entities for internal purposes is performed on a quarterly basis. Recipients of quarterly reports are ORC, RC, the Management Board, Supervisory Audit Committee, the Supervisory Board. Quarterly reports contain in particular information on:

- the operational risk profile of the Bank resulting from the process of identifying and assessing the threats for products, processes and LDA measurement
- operational risk level, areas and tools of operational risk management,
- the results of measuring and monitoring of operational risk,
- actions taken to reduce operational risk and evaluate the effectiveness of actions taken to reduce the operational risk level,

- recommendation and decision of the ORC or the Management Board.

Each month, information on operational risk is prepared and forwarded to the members of the Management Board, the organisational units of the Head Office and specialised units as well as organisational units responsible for system-based operational risk management. The scope of information is diversified and tailored to the scope of responsibilities of individual recipients of the information

### 64.5. Management decisions concerning operational risk management

The process of operational risk management is realised 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 terms of their roles and responsibilities and involves prevention against materialisation of operational events arising during the product servicing, realisation of processes and use of applications as well as response on occurring operational events.

In order to manage the operational risk, the Bank gathers internal and external data about operational events and the causes and consequences of their occurrence, data on the factors of the business environment, results of operational risk self-assessment, data on KRI and data related to the quality of internal functional controls.

In order to mitigate exposure to operational risk, the following tools are used by the Bank:

1) control instruments (authorisation, internal control, function distributivity),
2) human resources management instruments (staff selection, enhancement of professional qualification of employees, motivation packages),
3) determination or verification of threshold values of Key Risk Indicators (KRI),
4) determination or verification of strategic tolerance limits and the Group's operational risk limits,
5) contingency plans,
6) insurance,
7) outsourcing.

Management actions are taken in especially under the following cases

- on ORC's initiative,
- on the initiative of organisational units and cells of the Bank managing operational risk,
- when operational risk exceeded levels described by Management Board or ORC.

Especially when the risk level is elevated or high, the Bank uses 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 correctness of operational risk management process is reviewed within the following framework::

- review of strategy and process of operational risk management,
- self-assessment of compliance with AMA approach requirements,
- validation of AMA approach,
- internal audit.

## 65. Compliance risk management

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

The objective of the compliance risk management is ensuring the Group proper application the provisions of the law, adopted market standards and functioning the Bank as a reliable, fair and honest institution through elimination compliance risk, preventing the possibility of losing reputation or reliability of the Group and preventing the risk of occurring financial losses or legal sanction risk, which may result from breach of regulations and standards of conduct.

Appropriate organisational units or designated employees are responsible for finding systemic solutions in the area of ensuring the Group entities compliance with the binding regulations and market standards. Compliance Department is responsible for finding such solutions and development of the methods for evaluation, monitoring and reporting the Bank's compliance risk. The Compliance Department is a unit which was granted independence and which, in the area of compliance risk management, reports directly to the President of the Bank's Management Board.

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

Compliance risk management involves in particular the following:

- preventing involvement of the Group in illegal activities,
- ensuring data protection,
- development of ethical standards and monitoring of their application,
- conflict of interest management,
- preventing situations where the Group'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 quality claims of clients.

To identify the compliance risks, information on cases of non-compliance and the reasons for their occurrence, including information as a result of an internal audit, a functional internal control and external controls is used.

Identification and assessment of compliance risk is based mainly on:

- estimation of the severity of possible cases of non-compliance,
- assessment of the presence of additional factors of risk of compliance with the law.

Making the assessment, a character and potential losses scale are determined, and the way in which the compliance risk can be reduced or eliminated is indicated. Assessment is carried out in the form of workshops.

### 65.1. Monitoring of compliance risk

Monitoring of compliance risk is carried out with the use of the information provided by the Companies and consists of:

- analysis of cases of non-compliance in the Group and banking sector, their origins and effects caused,
- the assessment of the changes in the key provisions of the law affecting the Bank's and the Group's operations,
- the assessment of the activities taken by the Group in its compliance risk management.

The Group prepares reports concerning compliance risk of both the Bank and the Group entities on a quarterly basis. The reports include information provided by the Group entities, including these concerning the cases of non-compliance. The reports are addressed to the Management Board, the Supervisory Board and the Risk Committee of the Supervisory Board. The reports include information i.a. on:

- the results of identification and assessment of compliance risk,
- the observed cases of non-compliance ,
- the most significant changes in the regulatory environment of the Bank,
- the most significant activities undertaken as regards to system-based compliance risk management.

The Group has adopted a zero tolerance policy against compliance risk, which means that the Group focuses its actions on eliminating this risk.

## 66. Business risk management

Business risk is defined as the risk of incurring losses due to adverse changes in the business environment, taking bad decisions, the incorrect implementation of decisions taken, or not taking appropriate actions in response to changes in the business environment; this includes in particular strategic risk.

Managing the business risk is aimed at maintaining, on an acceptable level, the potential negative financial consequences resulting from adverse changes in the business environment, making adverse decisions, improper implementation of adopted decisions or lack of appropriate actions, which would be a response to changes in the business environment.

### 66.1. Business risk identification and measurement

Business risk identification is to recognise and determine factors both current and potential, resulting from current and planned activities of the Group and which may significantly affect the financial position of the Group, generating or change in the Group's income and expense. Business Risk identification is made:

1) through the analysis of the results of the annual survey, targeted to senior management staff of the Bank and selected entities of Group,
2) through the analysis of selected items from the income statement related to the Bank's income and expense. Only income and expense arising from the Bank's business activity are selected for the analysis, excluding items included in the measurement of other risks.

Business risk identification is performed by identifying and analysing the factors that had an impact on the significant deviations of realisation of income and expense from their forecasted values. 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 includes:

- calculation of internal capital,
- conducting stress-tests.

The internal capital for covering business risk of the Bank is determined on the basis of analysis of historical volatility of deviations of realised net business income from their forecasted values, in accordance with the concept of 'Earnings at Risk'.

The internal capital for covering business risk of the Group entities is determined as the product of:

- ratio of internal capital calculation for covering business risk, and
- total internal capital, excluding internal capital for covering business risk of the Group's particular entities.

A ratio of internal capital calculation for covering business risk for the Group entities is determined as the relation of internal capital for covering business risk of the Bank to total internal capital of the Bank (excluding internal capital for business risk of the Bank).

### 66.2. Forecasting and monitoring of business risk

Forecasting of business risk in the Group is conducted once a quarter on a yearly basis and includes forecast of the level of business risk and internal capital. Once a quarter, the verification of business risk forecast (so-called backtesting) is also performed. Backtesting is based on the comparison of the internal capital amount, estimated for the particular quarter (performance) with the forecast of this capital, estimated in the previous quarter (forecast).

Monitoring of business risk is aimed at diagnose areas for management actions and includes in particular:

- strategic levels of business risk tolerance – on a quarterly basis,

- stress-tests results – on an annual basis,
- internal capital level – on a quarterly basis,
- deviations from the implementation of business risk forecast – on a quarterly basis.
- results of a survey conducted among senior management staff of the Bank and selected entities of the Group - on an annual basis.

### 66.3. Controlling of business risk

The purpose of the business risk controlling is to strive for maintaining the level of business risk of the Group at an acceptable level.

Control of business risk involves settting and periodic review of the risk controls in the form of tolerance limits on the business risk along with its thresholds and critical values, adequate to the scale and complexity of the Group.

### 66.4. Reporting of business risk

Business risk reporting of the Group is conducted quarterly. Reports on business risk are prepared for the ALCO, the RC, the Management Board and Supervisory Board. The reports include in particular:

- results of business risk measurement, particularly internal capital, stress-tests results, results of the survey conducted among senior management staff of the Bank and selected entities of the Group,
- utilisation level of strategic tolerance limits for business risk,
- business risk forecast and forecast backtesting,
- level of business risk,
- information on business risk in the entities of the Group.

### 66.5. Management decision concerning business risk

The main tools used in business risk management include:

- update of quarterly forecasts of internal capital for business risk, determining and monitoring of deviations of the internal capital for business risk realisation from their forecast,
- monitoring of the level of strategic tolerance limit,
- conducting the Survey among senior management staff of the Bank and selected entities of the Group

## 67. Loss of reputation risk management

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 the 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 and limiting the negative effect of image-related events on the Group's reputation. Reputation Risk management is carried out in entities whose impact on the Group's reputation has been identified as important.

Reputation risk management in the Group includes in particular
1) Information monitoring of image-related events, taking into account every identified, negative information about the Group, in the form of information disseminated in the media,
2) recording image-related events and their effects in the form of reputation losses,
3) analysing and evaluating reputation losses and determining the level of reputation risk losses,
4) execution of communication protective measures,
5) identifying potential reputation threats.

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.

## 68. Model risk management

Model risk is the risk of incurring negative financial effects or reputation as a result of making incorrect business decisions on the basis of the models functioning. Within the Group, model risk is managed both on the part of a given Group entity (an owner of a model) and at the level of the Bank as a parent company of the Group.

The objective of model risk management is to mitigate the level of risk of incurring losses as a result of making incorrect business decisions on the basis of existing models in the Group through a well-defined and implemented process of models management. In the Group, the solutions functioning in the Bank are used, with the possibility of tailoring them individually to the specific nature of each Company.

All significant models in the Bank and model of the Group entities are covered by regular process of independent validation carried out by the validation PKO Bank Polski SA.

In the second half of 2015 the Bank and PKO Bank Hipoteczny SU carried the work related to the adjustment to the requirements of Recommendation W concerning the risk management models of banks issued by the Polish Financial Supervision Authority in July 2015.

### 68.1. Identification and assessment of model risk

Identification of model risk in the Bank mainly consists of:

- gathering information on existing, built and planned to be build models,
- cyclical determining the relevance of models,
- determining potential threats that may occur during the life cycle of the model.

The model risk evaluation is aimed at determining scale of threats associated with the occurrence of the model risk and involves estimating the risk level of each model and the aggregated level of model risk. Ratings may be aggregated mainly at the level of the Bank or the Company, particular risk types or classes of models, particular processes of model life-cycle. The model risk assessment is performed at least once a year and at the moment of appearing of new models, change the scale or business profile of the Bank or the Company. Assess of the level of risk for each model shall be made not less frequently than once a year

### 68.2. Model risk monitoring and reporting

The purpose of model risk monitoring is to control model risk and diagnose areas for management actions. Model risk monitoring contains, in particular: the update of level of model risk, the verification of status of implementation and the valuation of effectiveness of implementation of the activities on mitigation of model risk. Monitoring results of model risk at the level of the Bank and the Group are periodically presented in the reports addressed to the RC, the Management Board and the Supervisory Board. Reports include a complex model risk assessment, in particular:

- information on the level of model risk (in standalone and consolidated perspective)
- model risk map,
- information on the validation process and the status of implementation of the recommendations after validation,
- evaluation of effectiveness of the recommendations made to reduce the model risk level,
- potential proposed new management actions reducing the model risk.

### 68.3. Managements actions concerning model risk

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

Management actions in particular consist of:

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

## 69. Macroeconomic changes risk management

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

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

### 69.1. Identification and assessment of risk of macroeconomic changes

Identification of risk of macroeconomic changes is to determine scenarios of the potential macroeconomic changes and to determine risk factors having the greatest impact on the financial situation of the Group. Risk of macroeconomic changes results from interaction of factors dependent and independent of the Group's activities. The Bank identifies the factors affecting the level of risk of macroeconomic changes during carrying out comprehensive stress-tests.

The risk of macroeconomic changes materialises indirectly through other risks affecting the Group's operations by:

- credit losses,
- losses arising from adverse changes in market situation (changes in exchange rates, changes in interest rates),
- a decrease in the liquidity of the Bank,
- losses arising from the operational risk realisation,
- other losses.

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

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

### 69.2. Macroeconomic changes risk monitoring

A process of risk of macroeconomic changes monitoring includes monitoring of:

- changes in the macroeconomic situation,
- macroeconomic factors on which the Bank is sensitive,
- results of stress-tests,
- level of risk of macroeconomic changes.

### 69.3. Macroeconomic changes risk reporting

Risk of macroeconomic changes reporting is realised in the form of reports summarising the results of each stress-tests. Reports are addressed to ALCO, RC and the Management Board. Reports include information such as:

- summary of the results of stress-tests,
- in case of elevated or high level of risk of macroeconomic changes: an analysis of reasons which led to an increase in the risk level, assessment of the potential consequences of this situation for the Bank, prediction of possible outcomes, proposals of actions aimed at reducing the level of risk, an initial assessment of their effectiveness.

### 69.4. Management actions concerning risk of macroeconomic changes

Management actions in particular consist of:

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

## 70. Capital risk management

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 and the Group 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 the Bank and the Group, taking into account of the assumptions of the Bank's dividend policy as well as supervisory instructions and recommendations concerning capital adequacy.

The capital risk level for the Bank and the Group is determined based on the minimum, threshold and maximum values of capital adequacy measures, amongst others, the total capital ratio and basic capital (Tier 1) ratio. In addition, threshold and maximum values are determined for capital adequacy measures, as an excess over the minimum values constituting strategic tolerance limits for the capital adequacy measures.

The Bank regularly monitors the level of capital adequacy measures in order to determine the degree of compliance with supervisory standards, internal strategic limits, and to identify instances which require taking capital contingency actions.

Should a high level of capital risk be identified, the Bank takes measures to bring capital adequacy measures to a lower level, taking into account of the assumptions of the dividend policy as well as the supervisory instructions and recommendations concerning capital adequacy.

The level of capital adequacy measures as well as the level and structure of the Bank's own funds are presented in the note 74 'Capital adequacy'.

## 71. Insurance risk management

Insurance risk is a 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 risk on an acceptable level and to limit potential loss from adverse change in the value of insurance liabilities.

### 71.1. Identification and assessment of insurance risk

Exposure to insurance risk exists in PKO Życie Towarzystwo Ubezpieczeń S.A. (PKO Życie) and concerns the following sub-types of risk:

- mortality,
- morbidity,
- contracts withdrawal,
- cost increase,
- catastrophic.

Assessment of exposure to insurance risks in PKO Życie is as follows::

- mortality and morbidity risk (in a current solvency regime risk of claims) is assessed at a low level due to the small share of insurance policies relating to this risk in the whole Company's insurance portfolio and reinsurance applied,
- the contracts withdrawal risk relates primarily to insurance products with Insurance Capital Funds. As a result of the proceedings of the UOKiK and its agreements, the Company estimated the changes in the distributions of future resignations. The amount of the future payments of liquidation in accordance with the above agreement was also adjusted. Until the date of this report, no increase in contract resignations was observed. Based on data from 2015 and previous decisions of the UOKiK the level of contract resignations is assessed as stable, but their risk is at increased level

Insurance risk measurement in PKO Życie 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 the PFSA Office. In preparation for implementation of the new Solvency II system applicable since 1 January 2016. PKO Życie calculated the minimum capital requirement (MCR) and standard capital requirement (SCR) at the end of the third quarter of 2015 and prepared a report on prospective assessment of own risk (FLOAR) in 2015. According to these analyses the Association predicts that solvency ratios in accordance with the system of Solvency II are at an adequate level.

### 71.2. Monitoring of insurance risk

Assets covering technical provisions (APR) were at a sufficient level (above 100%), as well as had the appropriate structure (in line with regulatory requirements). The total provisions cover ratio amounted to 103% at the end of 2015. For insurance products with Insurance Capital Funds and for structured products, which comprise the greater part of the portfolio of PKO Życie, surplus of assets is not required, hence the total level of ratios remains at the level above 100%.

### 71.3. Insurance risk reporting

Insurance risk reporting is performed in PKO Życie in the form of monthly report for the Management Board and the quarterly report for the Assets & Liabilities Management Committee, Local Risk Committee and for Risk Committee of the Supervisory Board.

### 71.4. Management actions concerning insurance risk

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

- Reinsurance of risks (mortality, morbidity)
- Grace periods,
- exemptions,
- retention activities.

Passive reinsurance of PKO Życie is performed on the basis of:

- obligatory - facultative, quota share - surplus treaties, on the basis of risk - premium,
- facultative reinsurance agreements, on the basis of risk – premium,
- obligatory, proportional reinsurance agreements, on the basis of risk- premium

Facultative reinsurance is applied for all insurance agreements and risks not covered by obligatory – facultative reinsurance agreements, in which the sum on the gross risk exceeds agreed amount

In case of the new products and the risks, PKO Życie choses reinsurer, level 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.

## 72. Complex stress-tests

Complex stress-tests are an integral part of the PKO Bank Polski SA Group's risk management and are complementary for stress-test-specific to particular types of risks.

Complex 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.

Complex stress-tests include an analysis of the impact of changes in the environment and the functioning of the Group 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, including requirements as regards own funds, internal capital, measures of capital adequacy,
- Selected liquidity measures.

Complex 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.

## 73. Management of the risk of excessive leverage

The risk of excessive leverage is defined as the risk resulting from vulnerability due to financial leverage or conditional leverage that may require unintended corrective actions of business plans, including emergency sale of assets which could result in losses or result in the need for valuation adjustments of other assets. The risk of excessive leverage materializes as a mismatch of scale of activities and structure of the sources of financing and insufficient equipment of Group's own funds.

The objective of managing the risk of excessive leverage is therefore ensuring a sound relationship between the size of the core capital (Tier 1) and the sum of the balance sheet assets and off-balance sheet liabilities granted by the Bank and the Group.

For the purpose of measuring the risk of excessive leverage, bank leverage ratio is calculated in accordance with Article 429 of CRR Ordinance ie. as a measure of Tier 1 capital divided by the measure of total exposure and is expressed as a percentage rate.
The following parameters are in particular subject to monitoring of the risk of excessive leverage:

- value of the leverage ratio,
- Threshold of the risk of excessive leverage,
- Deviation of the leverage ratio from forecasts.

The values are monitored on a quarterly basis/

The risk of excessive leverage of the Group is reported on quarterly basis. The receivers of reports on the risk of excessive leverage are RC, the Management Board, the Risk Supervisory Board Committee and the Supervisory Board. Reports include, among others, information on the value of leverage ratio, the threshold values for excessive leverage risk and a forecast of the risk of excessive leverage.

## 74. Capital Adequacy

Capital adequacy is a process which objective is to ensure that, for a given level of risk tolerance, the level of risk assumed by the Group associated with development of its business activity may be covered with capital held within given period of time.
The process of managing capital adequacy comprises in particular compliance with prevailing supervisory standards and risk tolerance level determined within the Group, the process of capital planning, inclusive of policy regarding capital acquiring sources.

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

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

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

The fundamental regulations applicable in the capital adequacy assessment process as at 31 December 2015 are:

- 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'. The CRR Regulation constitutes a part of so-called CRD IV/CRR package, which apart from the Regulation comprises CRD IV Directive - Directive 2013/36/EU of the European Parliament and of the Council as of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (Referred to as "CRD" IV),
- The Act of 29 August 1997, the Banking Law (Journal of Laws 2015, item 128, as amended) (Hereinafter referred to as the „Banking Act"),
- The Act of 5 August 2015, on macroprudential supervision of the financial system and crisis management in the financial system (Journal of Laws of 2015, Item 1513) (Hereinafter referred to as the „Act on macroprudential superivison").

In accordance with the CRR Regulation, for the purpose of prudential consolidation the Group comprises: PKO Bank Polski SA Group, PKO Leasing SA, PKO BP BANKOWY PTE SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, KREDOBANK SA Group, PKO Finance AB, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., PKO Finat sp. z.o.o and PKO Bank Hipoteczny SA.

Priority in case of conflict between the provisions of CRR regulations and the national legislation have the provisions or CRR regulation.

The level of capital adequacy of the Group in 2015 remained on a safe level, significantly above the supervisory limits.

### 74.1. Own funds for capital adequacy purposes

As at 31 December 2015 own fund of the Group for the purposes of capital adequacy were calculated in accordance with the provisions of the CRR Regulation and the Banking Act.

Own funds of the Group comprise Tier 1 basic capital and Tier 2 capital. No elements of additional Tier 1 capital are identified within the Group.

The Tier 1 basic capital (so-called Common Equity Tier 1 or CET1) comprise:

1) principal funds comprising: share capital, other reserves (reserve capital, reserves),
2) other comprehensive income (excluding gains and losses on cash flow hedges, whereas in respect of unrealised gains and losses on instruments classified to available for sale portfolio losses are recognized in full amount, and profits are recognized in the amount of 40% of their balance sheet value.
3) general banking risk fund,
4) retained earnings (undistributed profits from previous years),
5) net profit prior to approval and net profit for the current reporting period, calculated based on appropriate accounting standards, decreased by any expected charges and dividends, in amounts not exceeding amounts audited by certified auditor, whereas the term for inclusion of the above-mentioned net profit within Bank's own funds is its approval by the General Shareholders' Meeting, or prior to the approval by GSM, obtaining consent from the PFSA to its inclusion within own funds.

Tier 1 basic capital is reduced by the following items:

1) losses for the current financial year,
2) intangible assets stated at carrying amount less any associated deferred income tax liability, (the deducted amount includes goodwill taken into account in measurement of the Bank's significant investments),
3) additional value adjustments of assets measured at fair value (AVA),
4) additional value adjustments of derivative instruments reflect their own credit risk of the Bank (DVA)
5) deferred income tax assets based on future profitability and not arising from temporary differences,
6) deferred income tax assets based on future profitability and arising from temporary differences which exceed 10% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets),

(IN PLN THOUSAND)

7) the Group's significant direct and indirect equity exposures to entities of financial sector in case the Group did not invest significantly in those entities, expressed as shares or other Tier 1 or 2 basic funds instruments of these entities, if total amount exceeds 10% of Tier 1 basic funds of the Group (without considering deductions due to equity exposures and deferred income tax assets)
8) The Group's significant direct and indirect equity exposures to entities of financial sector in case the Group did invest significantly in those entities, expressed as shares or other Tier 1 or 2 basic funds instruments of these entities, if total amount exceeds 10% of Tier 1 basic funds of the Group (without considering deductions due to equity exposures and deferred income tax assets)
9) the amount by which the sum of:
   a) deferred tax assets based on future profitability and arising from temporary differences, up to 10% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets), and
   b) the Groups direct and indirect equity exposures to entities of financial sector in case the Group did not invest significantly in those entities, expressed as shares or other Tier 1 basic funds instruments of these entities up to 10% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets)

   exceeds the equivalent of 17,65% of Tier 1 basic funds (with considering deductions from points mentioned in positions 1-5-and the full value of the items referred in point 9 a-b, without the application of the threshold. The amount below the threshold in subject does not reduce own funds and is included within risk weighted assets.

Tier 2 basic capital comprise subordinated liabilities, which meet the CRR Regulation requirements and in case of which the Bank obtained consent from the PFSA to their inclusion within own funds.

Tier 2 capital is reduced by the Group's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies in the form of Tier 2 funds instruments of these entities wherein, in accordance with Article 472 of CRR, the residual value of the item is deducted half from Tier 1 capital and half from Tier 2 capital.

If the value of deduction would decrease in Tier 2 capital below 0, the value of excess of these deductions above the value of the Tier 2 capital is subtracted from the Tier 1 basic capital.

As at 31 December 2015 in the Group's own funds calculated for the purposes of capital adequacy the Bank's net profit for the 2014 in the amount of PLN 3 079 471 thousand and the retained earnings from previous years in the amount of PLN 132 793 thousand. Profit was included in Tier 1 basic funds of the Group, whereas the amount of PLN 1 962 264 thousand increased other reserves of the Bank (spare and reserve capital) and the amount of PLN 1 250 000 thousand remained undivided.

Information on the structure of the Group's own funds included in prudential consolidation, set out for purposes of capital adequacy as at 31 December 2015 and as at 31 December 2014, according to the CRR Regulation, is presented in the table below:

| GROUP'S OWN FUNDS | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Basic funds (Tier 1) | 24 608 318 | 22 348 472 |
| Share Capital | 1 250 000 | 1 250 000 |
| Other reserves | 24 118 542 | 22 126 506 |
| Other comprehensive income | (371 130) | (290 466) |
| General banking risk fund | 1 070 000 | 1 070 000 |
| Retained earnings | 1 390 135 | 1 175 718 |
| Deferred income tax assets, dependent on future profitability, not derived from temporary differences | (807) | (11 576) |
| Goodwill | (1 102 497) | (1 102 497) |
| Other intangible assets | (1 690 794) | (1 833 506) |
| Additional valuation adjustments of assets measured at fair value | (55 131) | (35 707) |
| Supplementary funds (Tier 2) | 2 483 126 | 2 394 713 |
| Subordinated liabilities classified as supplementary funds | 2 483 126 | 2 394 713 |
| TOTAL OWN FUNDS | 27 091 444 | 24 743 185 |

(IN PLN THOUSAND)

### 74.2. Requirements as regard own funds (Pillar I)

In accordance with the CRR Regulation being in force since 1 January 2014, the Group calculates requirements in respect of own funds for the following risk types::

- in respect of credit risk – using the standardised method,
- in respect of operational risk for the Bank– in accordance with the Base Indicator Approach (BIA) in the activities of the branch of the Bank in the Federal Republic of Germany and in accordance with the Advanced Measurement Approach (AMA) in respect of other activities of the Bank, and for the entities of the Group included in precautionary consolidation – under BIA approach
- in respect of market risk - using basic methods.

The Group calculates requirements for own funds on account of credit risk using the following formula:

- in case of statement of financial position items – a product of a carrying amount (considering value of adjustments for specific credit risk), a risk weight of the exposure calculated according to the standardised method of credit risk requirement as regards own funds and 8% (considering recognised collaterals),
- in case of off-balance sheet liabilities granted – a product of value of liability (considering value of adjustments for specific credit risk), a risk weight of the product, a risk weight of off-balance sheet exposure calculated according to the standardised method of credit risk requirement for own funds and 8% (considering recognised collaterals),
- in case of off-balance sheet transactions (derivative instruments) – a product of risk weight of the off-balance sheet transaction calculated according to the standardised method of credit risk requirement for own funds, equivalent in the statement of financial position of off-balance sheet transaction and 8% (the value of the equivalent in the statement of financial position is calculated in accordance with the mark-to-market method).

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

1) credit risk, including counterparty credit risk and the risk in relation to exposures to a central counterparty (CCP)
2) market risk, including currency risk and commodity price
3) risk of credit valuation adjustment (CVA),
4) settlement and delivery risk
5) operational risk,

The following table presents the requirements for the Group's own funds for particular types of risk. Data as of 31 December 2015 and 31 December 2014 have been calculated in accordance with CRR Regulation as mentioned above.

| **Capital requirements** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Credit risk | 13 658 288 | 13 882 607 |
| Market risk | 484 532 | 585 337 |
| Credit valuation adjustment risk | 31 460 | 42 375 |
| Settlement/delivery risk | - | 68 |
| Operational risk | 662 547 | 759 212 |
| Total capital requirements | 14 836 827 | 15 269 599 |
| **Total capital adequacy ratio** | **14,61%** | **12,96%** |
| **Tier 1 capital ratio** | **13,27%** | **11,71%** |

The decrease in own funds capital requirement in respect of credit risk in 2015 compared by PLN 224 million was mainly due to the measures taken by the Bank that reduced risk-weighted assets (AWR). The most important reason for performing optimization was to improve the quality, of data mainly through the inclusion in the category of retail exposures to SMEs meeting customer segmentation criteria and to perform a review of off-balance sheet exposures, including verification of assigned risk weights of the product.

The decrease in own funds requirement in respect of operational risk for the Group of the amount of PLN 759 million (as at 31 December 2014) to approx. PLN 663 million (as at 31 December 2015) is mainly due to the completion of the merger process of the Bank with Nordea Bank Polska SA.

### 74.3. Capital requirements for insurance companies

The PKO Bank Polski SA Group comprises an insurance company, PKO Życie, which, as an entity covered with separate supervision of PFSA Office, including capital requirements compliance assessment, is excluded from the prudential consolidation.

In accordance with the Act as of 22 May 2003 on Insurance Activity (with subsequent amendments) an insurance company is obliged to possess own funds in the amount not lower than the required solvency margin and not lower than the guarantee fund. The guarantee fund is equal to the value higher of:

1) one third of the solvency margin
2) the minimum amount of the guarantee fund

(IN PLN THOUSAND)

The principles on calculation of the required solvency margin and the minimum amount of the guarantee fund is determined by the Regulation of the Minister of Finance as of 28 November 2003 on calculation of the required solvency margin and the minimum amount of the guarantee fund for insurance classes and groups (with subsequent amendments).

| CAPITAL ADEQUACY OF PKO ŻYCIE TU | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Own funds | 122 992 | 73 962 |
| Solvency margin | 48 868 | 51 479 |
| Guarantee fund: | 16 289 | 17 160 |
| Minimum amount of the guarantee fund | 15 939 | 15 403 |
| One third of solvency margin | 16 289 | 17 160 |
| Surplus/deficit of own funds to cover the solvency margin | 74 125 | 22 483 |
| Surplus/deficit of own funds to cover the guarantee fund | 106 703 | 56 802 |

### 74.4. Internal capital (Pillar II)

The Group calculates internal capital in accordance with:

- the CRR Regulation, and the CRD IV Directive,
- the Banking Act,
- the Resolution No. 258/2011 of the PFSA of 4 October 2011 on detailed principles for functioning of 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 key management personnel.
- The Act on Macro-prudential supervision

Internal capital is the amount of capital estimated by the Group that is necessary to cover all of the identified significant risks characteristic of the Group's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

The internal capital in  the PKO Bank Polski SA Group is calculated to cover each of the significant risk types:

- credit risk (including default risks and concentration risk),
- currency risk,
- interest rate risk,
- liquidity risk,
- operational risk,
- business risk (including strategy risk).

Materialisation of macroeconomic changes risk, model risk, compliance risk and loss of reputation risk is reflected in the estimates of internal capital for covering the types of risk: credit, interest rate, currency, operational and business.

The Bank regularly monitors the significance of the individual risk types relating to the Bank's activities and other  Group entities.

The internal capital for covering the individual risk types is determined using the methods specified in the internal regulations. In the event of performing internal capital estimates based on statistical models, the annual forecast horizon is adopted and a 99.9% confidence level. The total internal capital of each entity of the Group is the sum of internal capital amount necessary to cover all of the significant risks for the entity. The total internal capital of the Group is the sum of internal capital amount of the Bank and all Group entities. The correlation coefficient for different types of risk and different Group entities used in the internal capital calculation is equal to 1.

In 2015, the relation of the Group's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Group's internal limits.

### 74.5. Disclosures (Pilar III)

The Group annually announces information, in particular, on the risk management and the capital adequacy, in accordance with:

- The CRR Regulation,
- implementing acts to CRR Regulation,
- The Banking Act,
- The Act on Macro-prudentrial supervision,
- Recommendation M relating to operational risk management in banks, issued by the Polish Financial Supervision Authority.

Details of the scope of information disclosed, the method of its verification and publication are presented in PKO Bank Polski SA Capital Adequacy Information Policies and other information to be published, which are available on the Bank's website (www.pkobp.pl).

### 75. Information on loan bundle sale

The Bank did not enter any securitisation transactions, although in 2015 it performed a bundle sales (statement of financial position and off-balance sheet loans):

- In the first quarter of 2015, over 11.3 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities (including credit cards loans), with a total debt of PLN 163.7 million and CHF 1.7 million and 346 retail loans secured by mortgage, classified as 'loss', in relation to individuals who do not conduct business activities with a total debt of PLN 132 million, EUR 49.7 thousand and USD 441 thousand and CHF 37.7 million.
- In the second quarter of 2015, over 10.7 thousand retail loans classified as "loss" in relation to individuals who do not conduct business activities (including credit card loans), with a total debt of PLN 178.7 million, EUR 304.2 thousand and CHF 3.7 million and 851 retail loans classified as 'loss' with a total debt of PLN 102 million, EUR 0.3 thousand, CHF 283 thousand and USD 214.6 thousand and 30 loans from institutional customers classified as 'loss' with total debt of over PLN 100.3 million.
- In the third quarter of 2015, over 10.6 thousand retail loans classified as "loss" in relation to individuals who do not conduct business activities (including credit card loans), with a total debt of PLN 168.5 million, EUR 5.8 thousand, USD 129.8 and CHF 9.5 million and over 1.2 thousand of retail loans classified as 'loss' with a total debt of PLN 114.7 million, EUR 28.6 thousand, CHF 860.8 thousand.
- In the fourth quarter of 2015, over 10 thousand retail loans classified as "loss" in relation to individuals who do not conduct business activities (including credit card loans), with a total debt of PLN 175.3 million, CHF 6.5 million, EUR 99.5 thousand, USD 17.3 thousand and 1 thousand of retail loans classified as 'loss' with a total debt of PLN 103.2 million, EUR 38.2 thousand, CHF 1 million, 478 retail loans secured by mortgage classified as 'loss' in relation to individuals who do not conduct business activities with total debt of over PLN 120.7 million, EUR 82 thousand, USD 20.8 thousand and CHF 19.1 million, 185 of loans secured by mortgage, classified as "loss" with a total debt of PLN 88.3 million and CHF 2.9 million, 16 loans from institutional customers classified as "loss" with total debt of PLN 116.1 million.

The total carrying amount of the provision for potential claims on impaired loan portfolios sold as at 31 December 2015 amounted to PLN 2 068 thousand (as at 31 December 2014 it was PLN 1 785 thousand). As a result of loan sale all risks and rewards were transferred, hence the Bank derecognised these assets.

## INFORMATION ON THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS AND EVENTS AFTER THE REPORTING PERIOD

### 76. Information on the entity authorised to audit financial statements

On 11 March 2015 the Supervisory Board of PKO Bank Polski selected KPMG Audit Sp. z o.o. Sp.k. as entity authorised to audit the financial statements of PKO Bank Polski and the consolidated financial statements of the PKO Bank Polski SA Group.KPMG Audyt Sp. z o.o. Sp.k. registered in Warsaw, Inflancka 4A is under the number of 3546 the list of entities authorized to audit financial statement, kept with the National Chamber of Statutory Auditors. The selection of the entity authorized to audit and review the financial statements was made by the Supervisory Board in accordance with applicable regulations and professional standards, on the basis of §15 section 1, point 3 of the Statue of the Bank

On 10 April 2015, PKO Bank Polski SA and the entity authorized to audit financial statements KPMG Audyt Sp. z o.o. Sp. k. sign an agreement for the audit and review of financial statements of the Bank and the PKO Bank Polski SA Group for the years 2015-2016.

In 2015 Total net remuneration due to KPMG Audyt Sp. z o.o. Sp. k. for the audit of the separate financial statements and consolidated financial statements of PKO Bank Polski SA in 2015 amounted to PLN 1 250 thousand and total net remuneration for the assurance services, including the review of the financial statements in 2015 amounted PLN 974 thousand. In respect to other services net wage paid in 2015 amounted to PLN 34 thousand.

Moreover, in 2015 the company PricewaterhouseCoopers Sp. z o.o., the previous auditor of PKO Bank Polski SA was paid with total net remuneration for the assurance services, including the review of the financial statements amounted in 2015 to PLN 1 045 thousand

In 2014 the company PricewaterhouseCoopers Sp. z o.o., was authorized to audit the financial statements PKO Bank Polski, total net remuneration of PricewaterhouseCoopers Sp. z o.o for auditing financial statement and the consolidated financial statement of PKO Bank Polski SA amounted to PLN 1 540 thousand, from the assurance services, including the review of the financial statements amounted to PLN 2 568 thousand. Total net remuneration of PricewaterhouseCoopers Sp. z o.o. related to tax advisory provided to PKO Bank Polski SA in 2015 amounted to PLN 1 787 thousand (other services: PLN 810 thousand).

## 77. Events after the reporting period

1. On 9 January 2016, PKO Towarzystwo Ubezpieczeń SA launched the first offer of property insurance for individual clients of PKO Bank Polski SA, who are credit card holders. The proposed insurance provides protection in case of loss of income sources or hospital treatment of the insured person resulting from an accident. On 13 February 2016, the company began selling insurance against loss of income for cash loans borrowers in PKO Bank Polski SA, and on 15 February 2016, the sale of real estate insurance, chattels, LI in private life, assistance and loss of income for the clients of PKO Bank Polski SA and PKO Bank Hipoteczny SA, taking out mortgages.

2. On 18 January 2016, PKO Bank Polski SA took part in debt collection activities (transfer of ownership of the collateral) another batch of FERRUM SA shares, increasing its stake in the share capital and votes at the general meeting of the company from 20.97% to 22.14%

3. On 20 January 2016 the Extraordinary General Meeting of PKO Towarzystwo Ubezpieczeń SA passed a resolution to increase the Company's share capital through the subscription by PKO Bank Polski SA, 5000 shares with carrying value of PLN 1000 each and issue price of PLN 4 400 each ie. For a total amount equal to 22 000 thousand PLN. The above mentioned increase requires the approval of the Financial Supervisory Authority (amendment of the statue) and registration in the National Court Register.

4. On 26 January 2016 and 25 February 2016, PKO Bank Hipoteczny SA finalized the subsequent transfers of mortgage loans from PKO Bank Polski SA for a total amount of PLN 756 744 thousand.

5. On 29 January 2016, the Management Board accepted the conditions of the Bank's participation in the transaction of acquisition of Visa Europe Limited by Visa Inc. ("the Transaction") presented to the Bank by Visa Europe Limited, according to which the total initially estimated share of the Bank in proceeds of the Transaction (excluding the potential deferred payment of "earn-out") is expected to amount EUR 88 875 079 which is equivalent to PLN 394 649 788 (according to the NBP average exchange rate of 29 January 2016), including EUR 66 167 319 in cash which is equivalent to PLN 293 815 980 (translated using the NBP average exchange rate of 29 January 2016) and EUR 22 707 761 in shares of Visa Inc., which is the equivalent of PLN 100 833 813 (translated using the NBP average exchange rate of 29 January 2016) (the amount after rounding), provided that above mentioned amounts are not final and may change due to the objection submitted by the Bank to the proposed method of determining the Bank's participation in the settlement of the Transaction or if any objections of remaining members of Visa Europe Limited, costs of the Transaction, as well as in the cases indicated in the documentation relating to the Transaction (the so-called "leakage"). The amounts due to the Bank should settled by 30 June 2016.

   In accordance with the Transaction framework, it is expected to has possible additional deferred payment of "earn-out" payable in cash after sixteen quarters from the date of the Transaction settlement is expected, but its real value is currently not yet possible to determine.

   The transaction depends on the receiving of applicable regulatory approvals, and its finalization is expected in the second quarter of 2016 years.

6. On 29 January 2016, the Bank concluded a guarantee agreement with the contractor ("Guarantor") providing unfunded credit protection in respect of the portfolio of selected corporate credit claims of the Bank, in accordance with CRR Regulation (respectively the "Guarantee" and "Guarantee Agreement"). The value of the debt portfolio of the Bank covered by the Guarantee (Guarantee Amount) amounts PLN 5 034 581 thousand. The maximum duration of the warranty is 36 months, the Bank is entitled to terminate the guarantee before the expiry of its validity period. Guarantee Agreement foresees penalties, that may be due to the Guarantor from PKO Bank Polski in case of infringement of the obligations of PKO Bank Polski under the Guarantee Agreement. The total maximum value of these contractual penalties can not exceed the amount of PLN 24 000 thousand. The agreement does not preclude the possibility of pursuing the claim that exceeds the amount of contractual penalties.

   On 29 February 2016 the Bank concluded a guarantee agreement with the contractor ("Guarantor") providing unfunded credit protection in respect of the portfolio of selected corporate credit claims of the Bank, in accordance with CRR Regulation (respectively the "Guarantee" and "Guarantee Agreement"). The value of the debt portfolio of the Bank covered by the Guarantee (Guarantee Amount) amounts PLN 1 203 771 thousand. The maximum duration of the warranty is 36 months, the Bank is entitled to terminate the guarantee before the expiry of its validity period. Guarantee Agreement foresees penalties, that may be due to the Guarantor from PKO Bank Polski in case of infringement of the obligations of PKO Bank Polski under the Guarantee Agreement. The total maximum amount of these penalties cannot exceed the amount of PLN 26 000 thousand. The agreement does not preclude the possibility of pursuing the claim that exceeds the amount of contractual penalties.

   For the period of last 12 months the total involvement of the Bank due to the agreements concluded by the Bank with the Contractor and its subordinated entities amounts to PLN 6 238 352 thousand. The Gurantee Agreements are the most substantial part of the agreements concluded by the Bank with the Contractor or its subordinated liabilities during last 12 months.

7. On 29 January 2016, the Board of Powszechna Kasa Oszczednosci Banku Polskiego Spolki Akcyjnej pursuant to art. 399 § 1 and in connection with the submitted by a shareholder pursuant to art. 400 § 1 of the Commercial Companies Code requesting to convene the Extraordinary General Meeting of PKO Bank Polski SA, announced the convening of the Extraordinary General Meeting of PKO Bank Polski on 25 February 2016 at 10.00 in Warsaw at ul. Puławska 15.

   On 25 February 2016 the Extraordinary General Meeting of the Bank on the basis of art. 385 § 1 of the Commercial Companies Code, dismissed from the Supervisory Board: Jerzy Góra, Mirosław Czekaj, Piotr Marczak, Marek Mroczkowski, Krzysztof Kilan and Zofia Dzik. In addition, the Extraordinary General Meeting of the Bank on the basis of art. 385 § of the Commercial Companies Code, appointed to the Supervisory Board: Mirosław Barszcz, Adam Budnikowski, Wojciech Jasiński, Andrzej Kisielewicz, Janusz Ostaszewski, Piotr Sadownik and Agnieszka Winnik-Kalemba. Treasury of the State, as the Eligible Shareholder pursuant to § 12 paragraph. 1 of the Bank Statue appointed Piotr Sadownik as a Chairman of the Supervisory Board and Agnieszka Winnik – Kalemba on the Vice-President of the Supervisory Board. In addition it adopted the proposed amendments to the Statue of Bank. (see Current Report No. 11/2016).

8. On 29 January 2016 the National Court Register recorded a decrease of the share capital of PKO BP Finat Sp. z o.o. from the amount of PLN 107 302 500 to PLN 32 202 500 through the cancellation of PLN 750 000 shares with a nominal value of PLN 100 each, belonging to the sole shareholder – PKO Bank Polski SA.

(IN PLN THOUSAND)

9. On 1 February 2016 the Act of 15 January 2016 on tax on certain financial institutions (Journal of Law of 2016 item 68) entered into force. Taxes are covered by domestic banks, branches of foreign banks, branches of credit institutions, cooperative credit unions (SKOK), national insurance companies, national reinsurance companies, branches of foreign insurance companies and foreign reinsurance companies, main branches of foreign insurance companies and foreign reinsurance companies, as well as lending institutions. The tax base represents the excess of the total assets of the entity (over PLN 4 billion in the case of banks, more than PLN 2 billion for insurance companies) resulting from the trial balance at the end of each month. Banks and credit unions are entitled to a reduction of the tax base, for the value of own funds, and the value of Treasury securities. In addition, banks will reduce the tax base by the value of the assets acquired from the NBP as collateral refinancing loan by the NBP. The tax rate for all taxpayers amounts to 0.0366%, and the tax is paid per month to the 25th day of the month following the month to which it relates. The tax for the first time will be paid for February 2016. The projected tax burden of the Group in respect of that tax for the year 2016 will amount monthly around PLN 77-82 million. The tax paid will not be deductible in CIT.
10. On 3 February 2016, the Extraordinary General Meeting of Shareholders of Qualia Hotel Management Sp. z o.o. and Qualia – Rezydencja Flotylla Sp. z o.o. and shareholders of a limited liability company – Pomeranka Sp. K. made resolutions concerning merger of the above mentioned companies. The merger will be accomplished through the transfer of all assets of the company Qualia-Residence Flotylla Sp z o.o. and Qualia Sp. z o.o. – Pomeranka Sp. k (as the acquired companies) to the company Qualia Hotel Management Sp. z o.o. (the acquiring company). The above mentioned merger was registered with the National Court Register on 29 February 2016.

Signatures of all Members of the Management Board of the Bank

| | | | |
|---|---|---|---|
| 01.03.2016 | Zbigniew Jagiełło | President of the Management Board | ........................................<br>(signature) |
| 01.03.2016 | Piotr Alicki | Vice-President of the Management Board | ........................................<br>(signature) |
| 01.03.2016 | Bartosz Drabikowski | Vice-President of the Management Board | ........................................<br>(signature) |
| 01.03.2016 | Piotr Mazur | Vice-President of the Management Board | ........................................<br>(signature) |
| 01.03.2016 | Jarosław Myjak | Vice-President of the Management Board | ........................................<br>(signature) |
| 01.03.2016 | Jacek Obłękowski | Vice-President of the Management Board | ........................................<br>(signature) |
| 01.03.2016 | Jakub Papierski | Vice-President of the Management Board | ........................................<br>(signature) |

Signature of person responsible for
maintaining the books of account

01.03.2016

Danuta Szymańska
Director of the Accounting Division

........................................................
(signature)