Bank Polski

Condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2015

Report publication date:
10 August 2015

Bank Polski

SELECTED FINANCIAL DATA DERIVED FROM THE FINANCIAL STATEMENTS

SELECTED CONSOLIDATED FINANCIAL DATA	PLN thousand		EUR thousand	
	period from 01.01.2015 to 30.06.2015	period from 01.01.2014 to 30.06.2014	period from 01.01.2015 to 30.06.2015	period from 01.01.2014 to 30.06.2014
Net interest income	3 354 100	3 678 862	811 325	880 448
Net fee and commission income	1 436 532	1 489 029	347 484	356 363
Operating profit	1 649 387	2 058 905	398 971	492 750
Profit before income tax	**1 665 210**	**2 066 218**	**402 799**	**494 500**
Net profit (including non-controlling shareholders)	**1 337 383**	**1 648 612**	**323 500**	**394 556**
Net profit attributable to equity holders of the parent company	**1 350 059**	**1 658 128**	**326 567**	**396 833**
Earnings per share for the period – basic (in PLN/EUR)	**1.08**	**1.33**	**0.26**	**0.32**
Earnings per share for the period – diluted (in PLN/EUR)	**1.08**	**1.33**	**0.26**	**0.32**
Net comprehensive income	**1 115 300**	**1 796 823**	**269 781**	**430 027**
Net cash flows used in operating activities	6 615 720	(1 131 447)	1 600 281	(270 785)
Net cash flows used in investing activities	(2 913 017)	(7 842 892)	(704 631)	(1 877 008)
Net cash flows from / used in financing activities	(2 538 315)	12 548 352	(613 995)	3 003 148
Total net cash flows	1 164 388	3 574 013	281 655	855 354

SELECTED CONSOLIDATED FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 30.06.2015	as at 31.12.2014	as at 30.06.2015	as at 31.12.2014
Total assets	255 523 627	248 700 589	60 920 186	58 348 917
Total equity	28 730 851	27 615 551	6 849 812	6 479 026
Capital and reserves attributable to equity holders of the parent company	28 753 572	27 625 566	6 855 229	6 481 375
Share capital	1 250 000	1 250 000	298 016	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)	22.98	22.09	5.48	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)	22.98	22.09	5.48	5.18
Capital adequacy ratio	13.88%	12.96%	13.88%	12.96%
Basic funds (Tier 1)	24 770 143	22 348 472	5 905 527	5 243 289
Supplementary funds (Tier 2)	2 505 930	2 394 713	597 447	561 836

The selected consolidated 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 in the six month period ended 30 June 2015 and 30 June 2014, respectively: EUR 1 = PLN 4.1341 and EUR 1 = PLN 4.1784,

- the statement of financial position items – average NBP exchange rate as at 30 June 2015: EUR 1 = PLN 4.1944 and as at 31 December 2014: EUR 1 = PLN 4.2623 PLN.

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CONSOLIDATED INCOME STATEMENT

	Note	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015	II quarter period from 01.04.2014 to 30.06.2014	2 quarters cumulative period from 01.01.2014 to 30.06.2014
Continuing operations					
Interest and similar income	5	2 355 545	4 788 132	2 777 805	5 244 639
Interest expense and similar charges	5	(672 183)	(1 434 032)	(838 771)	(1 565 777)
Net interest income		1 683 362	3 354 100	1 939 034	3 678 862
Fee and commission income	6	938 780	1 805 354	1 040 693	1 991 495
Fee and commission expense	6	(181 398)	(368 822)	(257 079)	(502 466)
Net fee and commission income		757 382	1 436 532	783 614	1 489 029
Dividend income		9 676	9 676	6 091	6 091
Net income from financial instruments measured at fair value	7	(14 247)	8 871	39 740	52 963
Gains less losses from investment securities	8	16 812	69 353	31 907	38 546
Net foreign exchange gains (losses)		94 449	166 688	86 782	135 421
Other operating income	9	134 083	273 990	165 643	273 594
Other operating expense	9	(87 141)	(144 087)	(102 426)	(175 946)
Net other operating income and expense		46 942	129 903	63 217	97 648
Net impairment allowance and write-downs	10	(375 070)	(748 649)	(557 683)	(971 141)
Administrative expenses	11	(1 372 317)	(2 777 087)	(1 342 754)	(2 468 514)
Operating profit		846 989	1 649 387	1 049 948	2 058 905
Share in profit (loss) of associates and joint ventures		7 308	15 823	12 945	7 313
Profit before income tax		854 297	1 665 210	1 062 893	2 066 218
Income tax expense	12	(152 676)	(327 827)	(213 262)	(417 606)
Net profit (including non-controlling shareholders)		701 621	1 337 383	849 631	1 648 612
Profit (loss) attributable to non-controlling shareholders		(1 257)	(12 676)	(5 923)	(9 516)
Net profit attributable to equity holders of the parent company		702 878	1 350 059	855 554	1 658 128

Earnings per share	13				
– basic earnings per share for the period (PLN)		0.56	1.08	0.68	1.33
– diluted earnings per share for the period (PLN)		0.56	1.08	0.68	1.33
Weighted average number of ordinary shares during the period (in thousand)		1 250 000	1 250 000	1 250 000	1 250 000
Weighted average diluted number of ordinary shares during the period (in thousand)		1 250 000	1 250 000	1 250 000	1 250 000

Discontinued operations

In the six-month periods ended 30 June 2015 and 30 June 2014 respectively, no discontinued operations were conducted by the PKO Bank Polski SA Group.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015	II quarter period from 01.04.2014 to 30.06.2014	2 quarters cumulative period from 01.01.2014 to 30.06.2014
Net profit (including non-controlling shareholders)		701 621	1 337 383	849 631	1 648 612
Other comprehensive income		(235 606)	(222 083)	162 611	148 211
Items that may be reclassified to the income statement		(235 606)	(222 083)	162 702	148 302
Cash flow hedges (gross)	19	(73 566)	(118 860)	110 678	151 935
Deferred tax on cash flow hedges		13 978	22 584	(21 029)	(28 868)
Cash flow hedges (net)		(59 588)	(96 276)	89 649	123 067
Unrealised net gains on financial assets available for sale (gross)		(227 244)	(136 008)	98 142	111 130
Deferred tax on unrealised net gains on financial assets available for sale		44 042	27 536	(18 256)	(21 219)
Unrealised net gains on financial assets available for sale (net)		(183 202)	(108 472)	79 886	89 911
Currency translation differences from foreign operations		7 184	(16 329)	(7 298)	(64 978)
Share in other comprehensive income of an associate		-	(1 006)	465	302
Items that may not be reclassified to the income statement		-	-	(91)	(91)
Actuarial gains and losses / Shares settlement (net)		-	-	(91)	(91)
Total net comprehensive income		466 015	1 115 300	1 012 242	1 796 823
Total net comprehensive income, of which attributable to:		466 015	1 115 300	1 012 242	1 796 823
equity holders of PKO Bank Polski SA		467 260	1 128 006	1 018 191	1 806 536
non-controlling shareholders		(1 245)	(12 706)	(5 949)	(9 713)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30.06.2015	31.12.2014
ASSETS			
Cash and balances with the central bank	15	11 934 626	11 738 371
Amounts due from banks	16	3 673 220	2 486 686
Trading assets	17	1 532 183	1 924 426
Derivative financial instruments	18	3 976 774	5 494 822
Financial assets designated upon initial recognition at fair value through profit and loss	20	13 871 079	15 723 148
Loans and advances to customers	21	185 336 089	179 497 384
Investment securities available for sale	22	25 622 254	22 279 225
Investment securities held to maturity	23	245 247	233 358
Investments in associates and joint ventures	24	205 826	322 486
Non-current assets held for sale	25	752 331	624 992
Inventories	26	258 093	237 883
Intangible assets	27	3 228 304	3 379 501
Tangible fixed assets, of which:	27	2 493 423	2 653 555
investment properties		132 482	129 693
Current income tax receivables	12	14 475	118 810
Deferred income tax asset	12	964 066	863 677
Other assets		1 415 637	1 122 265
TOTAL ASSETS		255 523 627	248 700 589
LIABILITIES AND EQUITY			
Liabilites			
Amounts due to the central bank		4 158	4 427
Amounts due to banks	28	20 101 550	19 394 482
Derivative financial instruments	18	5 096 870	5 545 141
Amounts due to customers	29	179 137 778	174 386 766
Liabilities due to insurance operations	30	2 587 180	2 679 722
Liabilities associated with assets classified as held for sale		68 553	34 964
Debt securities in issue	31	14 139 104	13 300 610
Subordinated liabilities	32	2 521 227	2 413 985
Other liabilities	33	2 755 385	2 954 603
Current income tax liabilities	12	78 987	17 453
Deferred income tax liability	12	26 229	29 047
Provisions	34	275 755	323 838
TOTAL LIABILITIES		226 792 776	221 085 038
Equity			
Share capital	35	1 250 000	1 250 000
Other capital	35	25 140 091	23 374 794
Currency translation differences from foreign operations	35	(208 991)	(192 692)
Undistributed profits	35	1 222 413	(60 658)
Net profit for the year	35	1 350 059	3 254 122
Capital and reserves attributable to equity holders of the parent company	35	28 753 572	27 625 566
Non-controlling interest	35	(22 721)	(10 015)
TOTAL EQUITY		28 730 851	27 615 551
TOTAL LIABILITIES AND EQUITY		255 523 627	248 700 589
Capital adequacy ratio	64	13.88%	12.96%
Book value (in PLN thousand)		28 730 851	27 615 551
Number of shares (in thousand)	1	1 250 000	1 250 000
Book value per share (in PLN)		22.98	22.09
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		22.98	22.09

(IN PLN THOUSAND)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 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	Gerenral banking risk fund	Other reserves	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedgges	Actuarial gains and losses / Shares settlement								
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:	-	-	-	-	(1 006)	(108 472)	(96 276)	-	(205 754)		(16 299)	-	1 350 059	1 128 006	(12 706)	1 115 300
Net profit	-	-	-	-	-	-	-	-	-		-	-	1 350 059	1 350 059	(12 676)	1 337 383
Other comprehensive income	-	-	-	-	(1 006)	(108 472)	(96 276)	-	(205 754)		(16 299)	-	-	(222 053)	(30)	(222 083)
Transfer from undistributed profits	-	1 908 787	-	62 264	-	-	-	-	1 971 051		-	(1 971 051)	-	-	-	-
As at 30 June 2015	1 250 000	20 711 174	1 070 000	3 536 391	-	(77 426)	(91 072)	(8 976)	25 140 091		(208 991)	1 222 413	1 350 059	28 753 572	(22 721)	28 730 851

For the period ended 30 June 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 hedgges	Actuarial gains and losses / Shares settlement								
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:	-	-	-	-	302	89 911	123 067	(91)	213 189		(64 781)	-	1 658 128	1 806 536	(9 713)	1 796 823
Net profit	-	-	-	-	-	-	-	-	-		-	-	1 658 128	1 658 128	(9 516)	1 648 612
Other comprehensive income	-	-	-	-	302	89 911	123 067	(91)	213 189		(64 781)	-	-	148 408	(197)	148 211
Transfer from undistributed profits	-	2 041 701	-	5 020	-	-	-	-	2 046 721		-	(2 046 721)	-	-	-	-
Dividend declared	-	-	-	-	-	-	-	-	-		-	(937 500)	-	(937 500)	-	(937 500)
As at 30 June 2014	1 250 000	18 802 387	1 070 000	3 474 127	248	32 114	(2 526)	(7 767)	23 368 583		(194 201)	(60 658)	1 658 128	26 021 852	(8 204)	26 013 648

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	01.01-30.06.2015	01.01-30.06.2014
Net cash flows from operating activities			
Profit before income tax		1 665 210	2 066 218
Adjustments:		4 950 510	(3 197 665)
Amortisation and depreciation		405 627	358 967
(Gains) losses from investing activities		(12 424)	(26 516)
Interest and dividends		(125 153)	(166 056)
Change in amounts due from banks		(218 910)	534 942
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss		2 244 312	4 041 415
Change in derivative financial instruments (asset)		1 518 048	(356 651)
Change in loans and advances to customers		(6 168 400)	(4 129 295)
Change in other assets, inventories and non-current assets held for sale		(298 522)	(342 960)
Change in amounts due to banks		3 161 912	(10 135 426)
Change in derivative financial instruments (liability)		(448 271)	227 863
Change in amounts due to customers		4 811 341	6 025 849
Change in liabilities classified as held for sale		33 589	(1 209)
Change in debt securities in issue		604 827	167 869
Change in provisions and impairment allowances		286 222	662 930
Change in other liabilities, liabilities due to insurance operations and subordinated liabilities		(184 518)	86 087
Income tax paid		(221 521)	(294 113)
Other adjustments		(437 649)	148 639
Net cash generated from/used in operating activities		6 615 720	(1 131 447)
Net cash flows from investing activities			
Inflows from investing activities		11 061 497	24 823 634
Proceeds from sale and interest on investment securities		10 985 839	24 751 297
Proceeds from sale of intangible assets and tangible fixed assets		59 912	60 645
Other investing inflows (dividends)		15 746	11 692
Outflows from investing activities		(13 974 514)	(32 666 526)
Purchase of subsidiaries, net of cash acquired		-	(1 797 972)
Purchase of investment securities		(13 799 412)	(30 622 436)
Purchase of intangible assets and tangible fixed assets		(175 102)	(246 118)
Net cash used in investing activities		(2 913 017)	(7 842 892)
Net cash flows from financing activities			
Proceeds from debt securities in issue		1 986 252	2 823 567
Redemption of debt securities in issue		(1 752 585)	(838 681)
Repayment of interest from issued debt securities and subordinated loans		(176 889)	(129 262)
Long-term borrowings		50 005	14 769 249
Repayment of long-term borrowings and interest		(2 645 098)	(4 076 521)
Net cash generated from/used in financing activities		(2 538 315)	12 548 352
Net cash flow		1 164 388	3 574 013
of which currency translation differences on cash and cash equivalents		44 163	(7 321)
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	38	15 419 243	12 458 752
of which restricted		10 468	21 248

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The condensed interim 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 six-month period ended 30 June 2015 and include comparative data for the six-month period ended 30 June 2014 (as regards consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity), and comparative data as at 31 December 2014 as regards consolidated statement of financial position. 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', '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 (Ceduła 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 provides financial services relating to leasing, factoring, investment funds, pension funds and life insurance and provides support services in the field of running a business, it conducts real estate development activities and manages real estate, and also through its subsidiaries in Ukraine it conducts banking, debt collection and factoring activities.

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.

Approval of financial statements

These condensed interim consolidated financial statements, reviewed by the Bank's Supervisory Board's Audit Committee on 5 August 2015, have been approved for issuance by the Bank's Management Board on 4 August 2015.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (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*	
			30.06.2015	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 services supporting funds management**	**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[2]	**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" Additional Liability Company	**Kiev, Ukraine**	**debt collection services**	**100.00**	**100.00**
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.[3]	**Kiev, Ukraine**	**factoring services**	**95.4676**	**95.4676**
Qualia Development Sp. z o.o.[4]	**Warsaw**	**real estate development**	**100.00**	**100.00**
Qualia 2 Sp. z o.o.[5]	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.[6]	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 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.	Warsaw	real estate development	99.9975	99.9975
Qualia spółka z ograniczoną odpowiedzialnością – Sopot Sp. k.	Warsaw	real estate development	99.9811	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. in liquidation	Warsaw	in liquidation	51.00	51.00
Merkury - fiz an[7]	**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[7]	**Warsaw**	**placement of funds collected from fund members**	**100.00**	-
Bankowe Towarzystwo Kapitałowe SA[8]	Warsaw	services	100.00	-
'CENTRUM HAFFNERA' Sp. z o.o.9	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 Entity was registered with the National Court Register on 13 April 2015.
3) The second shareholder of the Entity is 'Inter-Risk Ukraina' Additional Liability Company.
4) The share in the Entity is recognised as non-current assets held for sale; 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'.
5) The Entity was registered with the National Court Register on 9 January 2015.
6) Formerly: Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.
7) 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'; the Fund's subsidiaries are consolidated at the level of the PKO Bank Polski SA Group.
8) As at the end of 2014 The Entity was a subsidiary of PKO Bank Polski SA.
9) 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.

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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*	
			30.06.2015	31.12.2014
Joint 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.[1]	Warsaw	activities supporting financial services	100.00	-
EVO Payments International s.r.o. [2]	Prague, Czech Republic	activities supporting financial services	100.00	-
Joint ventures of Neptun - fizan				
'Centrum Obsługi Biznesu' Sp. z o.o.[3]	Poznań	hotel management	41.44	41.44
Associates of PKO Bank Polski SA				
Bank Pocztowy SA[4]	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

* Share in equity of direct parent entity.
1) The Entity was registered with the National Court Register on 9 February 2015.
2) The Entity was registered with the Czech Commercial Register on 16 February 2015.
3) The Entity was a joint venture of PKO Bank Polski SA at the end of 2014.
4) The share in the Entity is recognised as non-current assets held for sale as at the end of June 2015.

Information on changes in the participation in the share capital of the subsidiaries is set out in the note 44 'Changes to the entities of the Group'.

Acquisition of Spółdzielcza Kasa Oszczędnościowo- Kredytowa Wesoła in Mysłowice by PKO Bank Polski SA

Bearing in mind the concern for the stability of the banking sector and confidence in financial institutions, on 18 June 2015, PKO bank Polski SA 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 decidion about acquisition of SKOK Wesoła by the Bank. This decision was taken in accordance with Art. Paragraph 74c. 4 of the Act of 5 November 2009 on SKOK (the 'Act on SKOK'). According to this article, in the absence of SKOK by another SKOK, PFSA is taking into account the need to safeguard financial market stability and safety of funds held on SKOK accounts can decide whether to accept SKOK or to acquire some property rights or obligations of money by a domestic bank, with its consent or a decision to liquidate the SKOK. According to the decision of the PFSA, starting at 19 June 2015, the Management Board of PKO Bank Polski SA, took the property management of SKOK Wesoła. The date of acquisition of SKOK Wesoła by the Bank is set on 1 August 2015. PKO Bank Polski SA has expressed interest in participating in the restructuring of SKOK Wesoła answering to the invitation of Polish Financial Supervision Authority dated 26 March 2015 year. Then the Bank obtained the permission of the President of the Office of Competition and Consumer Protection on concentration and developed with the Bank Guarantee Fund (BGF) agreement about restructuring SKOK Wesoła. According to the reached agreement and applicable laws, the assistance of BGF is expected in restructuring process of SKOK Wesoła in the form of subsidies and guarantees of losses.
SKOK Wesoła was established in 1993. It has 67 offices in 12 provinces. SKOK Wesoła network of credit unions are concentrated in Silesia. According to financial data as at 30 April 2015 Cheerful credit unions have about 63,000 members, whose deposits amounted to approximately PLN 625 million. The main activity of SKOK was raising funds and implementation of the program of systematic saving, granting loans to its Members, carried out on the order of a financial settlement.
PKO Bank Polski SA started the process of settlement of the acquisition of SKOK Wesoła and is in the process of estimating fair value.

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

As at 30 June 2015, the Bank's Supervisory Board consisted of:

- Jerzy Góra — Chairman of the Supervisory Board
- Mirosław Czekaj — Deputy-Chairman of the Supervisory Board/ Secretary of the Supervisory Board
- Mirosława Boryczka — Member of the Supervisory Board
- Małgorzata Dec-Kruczkowska — Member 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, and 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.

As at 30 June 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

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2. Summary of significant accounting policies, estimates and judgements

2.1 Compliance with accounting standards

These condensed interim consolidated financial statements of the PKO Bank Polski SA Group have been prepared in accordance with requirements of the International Accounting Standard 34 'Half-year Financial Reporting', as approved by the European Commission.

The accounting policies and calculation methods applied in these condensed interim consolidated financial statements are consistent with those applied in preparation of the annual consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2014.

The more detailed description of new financial standards and their impact on the consolidated financial statements was included in the consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2014.

These condensed interim consolidated financial statements for the six-month period of 2015 ended 30 June 2015 should be read together with consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2014 prepared in accordance with International Financial Reporting Standards, as approved by the European Commission.

Significant changes in standards and interpretations, which hove come into force in first half year of 2015

New interpretations and amendments to existing standards have come into force since 1 January 2015 and the description of these changes and their impact on the consolidated financial statements are included in the consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2014. One of changes related to application of IFRIC 21 'Levies' (interpretation of IAS 37 'Provisions, contingent liabilities and contingent assets'). Published by the International Financial Reporting Standards Board on 20 May 2013, it was approved for application in the European Union by Decree of the European Union Commission No. 634/2014 of 13 June 2014. The interpretation is effective for annual periods beginning on or after 17 June 2014, which means, in practice, an annual period beginning on 1 January 2015. Changes in accounting policies resulting from application of the interpretation for the first time are recognised retrospectively. IFRIC 21 determines how an entity should present, in its financial statements, the obligation to pay the levies imposed by government institutions (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 the 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 rise to the obligation to pay a levy, are relevant legislations that trigger the payment of the levy. 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 the Act of 14 December 1994 about the Bank Guarantee Fund (Journal of Law of 2014 item 1866), banks are obligated to pay for BGF:

- an obligatory annual fee amounting to the rate product up to 0.3% and the calculation base of the annual fee,
- prudential fee amounting to the rate product up to 0.2% and the calculation base of the annual fee.

The basis for the calculation of annual and prudential fee is an amount corresponding to 12.5 times of the sum of the capital requirements of the particular kinds of risk.

Obligatory annual fee is tax deductible (within the meaning of the Income Tax Act from legal persons). Means from payments of annual fee are allocated for the tasks of the Fund related with the cash guarantees. Prudential fee is not tax deductible (within the meaning of the Income Tax Act from legal persons). Means for payments of the prudential fee are allocated for stability fund, which is a fund of BGF. The interest rates for the following years are set and presented to the entities covered by the guarantee scheme by BGF Fund Council no later than the end of the calendar year preceding the year in which the fee has to be paid. On 19 November 2014 the BGF Fund Council set the new interest rates of the payments to the Guarantee Fund for 2015 - 0.189% for obligatory annual fee and 0.05% for the prudential fee.

Due to the fact that, according to IFRIC 21 the event obligating to the payments for BGF is the fact of being covered by the guarantee system of BGF in the given year, the Group is presenting the liability due to the fees mentioned above as at the moment when the obligating event occurs i.e. 1 January of the year while their cost is accounted during 12 months of the year, which is in accordance with the interpretation of Ministry of Finance and with the accepted market policy in Poland.

According to the above, the Bank accounted PLN 222.4 million as an expense due to the BGF fee for 2015. If the total annual cost of the BGF fee was presented on a one off basis at the moment when the obligating moment occurs than the gross profit of the Group for this reporting period would account for PLN 1 443 million.

In the first half of 2015, the impact of annual and prudential fee to BGF, depending on the adopted scenario, on the income statement is presented below:

Scenario – BGF fee settled in time (adopted in the Bank)	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
Operating costs - BGF fee	(111 215)	(222 428)
- annual fee	(87 948)	(175 895)
- prudential fee	(23 267)	(46 533)
Income tax*	16 710	33 420
Effect on net profit	(94 504)	(189 008)

* The impact on tax expense (prudential fee is not deductible for tax purposes)

Scenario – BGF fee recognized as a one-time cost	Second quarter from 01.04.2015 to 30.06.2015	Half-year period from 01.01.2015 to 30.06.2015
Operating costs - BGF fee	-	(444 856)
- annual fee	-	(351 790)
- prudential fee	-	(93 066)
Income tax*	-	66 840
Effect on net profit	-	(378 016)

* The impact on tax expense (prudential fee is not deductible for tax purposes)

2.2 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 and enclosed supplementary information.

The estimates and assumptions that are used by the Group in determining the value of 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 available data are used for assessing carrying amounts of assets and liabilities which cannot be determined unequivocally using other sources. In making estimates the Group takes into consideration the reasons and sources of the uncertainties that are anticipated at the end of the reporting period. 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 period in which the estimates were adjusted, provided that these adjustments affect only the given period. However, if the adjustments affect both the period in which the adjustments were 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:

2.2.1. Impairment of loans and advances

An impairment loss is incurred when there is an 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 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 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 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 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:	30.06.2015		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)	(243)	353	(260)	405
change in probability of default	70	(70)	84	(84)
change in recovery rates	(474)	476	(478)	479

2.2.2. Calculation of derivatives and unlisted 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 the Group’s 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 the credit risk DVA (debt value adjustment) is calculated. The process of calculation of CVA and DVA adjustments includes the selection of method determining the spread of the counterparty’s or the Group’s credit risk (e.g. a market price method based on the continuous 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.

As at June 30, 2015, the amount of adjustments due to counterparty and Group’s credit risk amounted PLN 3 million (net value).

The fair value of unlisted 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 unlisted 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 CVA and DVA adjustments.

The valuation techniques used by the Group for non-option derivative instruments are based on yield curves based on available market data (deposit margins 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 outcomes of simulation of estimated changes in valuation of non-option derivative instruments for parallel movements of yield curves are presented below:

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:	30.06.2015		31.12.2014	
	+50 b.p. scenario	-50 b.p. scenario	+50 b.p. scenario	-50 b.p. scenario
IRS	(58)	58	(44)	44
CIRS	(96)	100	(99)	104
other derivatives	-	-	(2)	2
Total	(154)	158	(145)	150

b) for derivative instruments that are designated to hedge accounting (in PLN million):

Estimated change in valuation due to parallel movement of yield curve by:	30.06.2015		31.12.2014	
	+50 b.p. scenario	-50 b.p. scenario	+50 b.p. scenario	-50 b.p. scenario
IRS	(93)	94	(67)	68
CIRS	(96)	101	(99)	104
Total	(189)	195	(166)	172

2.2.3. 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 contract term, the useful life of such 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, influencing 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	30.06.2015		31.12.2014	
	+10 years scenario	-10 years scenario	+10 years scenario	-10 years scenario
Depreciation costs	(56)	324	(47)	237

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3. Explanation of differences regarding bancassurance recognition in comparison with previously published financial statements

The Bank has changed the presentation method concerning commission incomes and expenses from insurance brokerage (bancassurance) since the second quarter of 2015. Until the methodology change, incomes and costs from insurances were presented individually, i.e. received and accrued remuneration from brokerage services was noted in commission incomes, while insurance products sales costs were accounted in commission costs. Since the change, incomes and costs from insurance brokerage are compensated and presented in net values i.e. the received and accrued remuneration from brokerage services reduced by the Bank's insurance products sales costs are recognized by the Bank in commission incomes.

The above mentioned changes are only presentational and have no impact on the financial results presented in the financial statements.

The table below presents the influence of the changes in the presentation on compared data.

	01.01-30.06.2014 before restatement	changes in recognition of result from bancassurance	01.01-30.06.2014 restated
Continuing operations			
Interest and similar income	5 244 639	-	5 244 639
Interest expense and similar charges	(1 565 777)	-	(1 565 777)
Net interest income	**3 678 862**	**-**	**3 678 862**
Fee and commission income	2 044 672	(53 177)	1 991 495
Fee and commission expense	(555 643)	53 177	(502 466)
Net fee and commission income	**1 489 029**	**-**	**1 489 029**
Dividend income	6 091	-	6 091
Net income from financial instruments measured at fair value	52 963	-	52 963
Gains less losses from investment securities	38 546	-	38 546
Net foreign exchange gains (losses)	135 421	-	135 421
Other operating income	273 594	-	273 594
Other operating expense	(175 946)	-	(175 946)
Net other operating income and expense	**97 648**	**-**	**97 648**
Net impairment allowance and write-downs	(971 141)	-	(971 141)
Administrative expenses	(2 468 514)	-	(2 468 514)
Operating profit	**2 058 905**	**-**	**2 058 905**
Share in profit (loss) of associates and joint ventures	7 313	-	7 313
Profit before income tax	**2 066 218**	**-**	**2 066 218**
Income tax expense	(417 606)	-	(417 606)
Net profit (including non-controlling shareholders)	1 648 612	-	1 648 612
Profit (loss) attributable to non-controlling shareholders	(9 516)	-	(9 516)
Net profit attributable to equity holders of the parent company	**1 658 128**	**-**	**1 658 128**

4. Information on the segments of activites and about geographical areas

4.1. 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.

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The tables below present data relating to income and results of individual business segments of the PKO Bank Polski SA Group for the six-month periods ended 30 June 2015 and 30 June 2014 and assets and liabilities as at 30 June 2015 and as at 31 December 2014.

For the period ended 30 June 2015	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	2 993 183	559 577	(198 660)	3 354 100
Net fee and commission income	1 086 105	350 870	(443)	1 436 532
Other net income	149 485	243 831	(8 825)	384 491
Net result from financial operations	5 904	78 568	(6 248)	78 224
Net foreign exchange gains (losses)	101 525	67 740	(2 577)	166 688
Dividend income	-	9 676	-	9 676
Net other operating income and expense	28 993	100 910	-	129 903
Income/expenses relating to internal customers	13 063	(13 063)	-	-
Net impairment allowance and write-downs	(615 355)	(133 294)	-	(748 649)
Administrative expenses, of which:	(2 292 863)	(484 224)	-	(2 777 087)
amortisation and depreciation	(342 033)	(63 594)	-	(405 627)
Share of profit (loss) of associates and joint ventures	-	-	-	15 823
Segment gross profit	1 320 555	536 760	(207 928)	1 665 210
Income tax expense (tax burden)	-	-	-	(327 827)
Profit (loss) attributable to non-controlling shareholders	-	-	-	(12 676)
Net profit attributable to equity holders of the parent company	**1 320 555**	**536 760**	**(207 928)**	**1 350 059**

As at 30 June 2015	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Assets	140 180 072	102 566 806	11 798 208	254 545 086
Unallocated assets	-	-	-	978 541
Total assets	**140 180 072**	**102 566 806**	**11 798 208**	**255 523 627**
Liabilities	145 273 312	57 706 970	23 707 278	226 687 560
Unallocated liabilities	-	-	-	105 216
Total liabilities	**145 273 312**	**57 706 970**	**23 707 278**	**226 792 776**

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For the period ended 30 June 2014	Continuing operations			
	Retail segment	Corporate and investment segment *	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	3 089 016	510 308	79 538	3 678 862
Net fee and commission income	1 152 056	337 866	(893)	1 489 029
Other net income	108 746	233 479	(11 556)	330 669
Net result from financial operations	7 955	86 721	(3 167)	91 509
Net foreign exchange gains (losses)	80 353	63 457	(8 389)	135 421
Dividend income	-	6 091	-	6 091
Net other operating income and expense	7 419	90 229	-	97 648
Income/expenses relating to internal customers	13 019	(13 019)	-	-
Net impairment allowance and write-downs	(609 337)	(361 804)	-	(971 141)
Administrative expenses, of which: **	(1 970 027)	(498 487)	-	(2 468 514)
amortisation and depreciation	(290 451)	(68 516)	-	(358 967)
Share of profit (loss) of associates and joint ventures	-	-	-	7 313
Segment gross profit	1 770 454	221 362	67 089	2 066 218
Income tax expense (tax burden)	-	-	-	(417 606)
Profit (loss) attributable to non-controlling shareholders	-	-	-	(9 516)
Net profit attributable to equity holders of the parent company	**1 770 454**	**221 362**	**67 089**	**1 658 128**

* The data for six-month period of 2014 have been brought to comparability. Changes relate to the organisational structure of combining the corporate and investment segments performance.
** Since 1 January 2015 the cost allocation methodology has changed. The data for 2014 have been brought to comparability, i.e. recalculated according 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**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

4.2. Information about geographical areas

As a 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' Additional Liability Company and Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., as well as in Sweden through subsidiaries: PKO Finance AB and PKO Leasing Sverige AB. For presentation purposes, the results of companies operating in Sweden are included in the segment of Poland.

For the period ended 30 June 2015	Poland	Ukraine	Total
Net interest income	3 315 917	38 183	3 354 100
Net fee and commission income	1 415 969	20 563	1 436 532
Other net income	428 742	(44 251)	384 491
Administrative expenses	(2 732 342)	(44 745)	(2 777 087)
Net impairment allowance	(733 118)	(15 531)	(748 649)
Share of profit (loss) of associates and joint ventures	-	-	15 823
Profit (loss) before income tax	1 695 168	(45 781)	1 665 210
Income tax expense (tax burden)	-	-	(327 827)
Profit (loss) attributable to non-controlling shareholders	-	-	(12 676)
Net profit (loss) attributable to equity holders of the parent company	**1 695 168**	**(45 781)**	**1 350 059**

As at 30 June 2015	Poland	Ukraine	Total
Assets of which:	254 145 082	1 378 545	255 523 627
non-financial fixed assets	5 653 700	68 027	5 721 727
deferred tax assets and current income tax receivable	961 307	17 234	978 541
Liabilities	225 497 299	1 295 477	226 792 776

For the period ended 30 June 2014	Poland	Ukraine	Total
Net interest income	3 652 091	26 771	3 678 862
Net fee and commission income	1 465 745	23 284	1 489 029
Other net income	343 831	(13 162)	330 669
Administrative expenses	(2 413 029)	(55 485)	(2 468 514)
Net impairment allowance	(937 215)	(33 926)	(971 141)
Share of profit (loss) of associates and joint ventures	-	-	7 313
Profit (loss) before income tax	2 111 423	(52 518)	2 066 218
Income tax expense (tax burden)	-	-	(417 606)
Profit (loss) attributable to non-controlling shareholders	-	-	(9 516)
Net profit (loss) attributable to equity holders of the parent company	**2 111 423**	**(52 518)**	**1 658 128**

As at 31 December 2014	Poland	Ukraine	Total
Assets of which:	247 272 349	1 428 240	248 700 589
non-financial fixed assets	5 948 657	84 399	6 033 056
deferred tax assets and current income tax receivable	959 110	23 377	982 487
Liabilities	219 733 533	1 351 505	221 085 038

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

NOTES TO THE INCOME STATEMENT

5. Interest income and expense

Interest and similar income

	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015	II quarter period from 01.04.2014 to 30.06.2014	2 quarters cumulative period from 01.01.2014 to 30.06.2014
Interest income calculated using the effective interest rate method, with respect to financial assets, which are not measured at fair value through profit and loss, of which:	2 173 940	4 426 484	2 567 603	4 836 600
Income from loans and advances to customers, of which: *	1 968 514	4 013 609	2 376 839	4 469 967
from impaired loans	80 494	163 240	110 562	224 622
Income from loans to banks	3 645	5 473	9 934	11 219
Income from investment securities	178 799	355 256	143 273	280 034
Income from placements with banks	22 513	50 610	36 200	72 801
Other	469	1 536	1 357	2 579
Other income, of which:	181 605	361 648	210 202	408 039
Income from financial assets designated upon initial recognition at fair value through profit and loss	50 518	122 354	111 760	208 935
Income from derivative hedging instruments	116 752	212 235	82 917	171 114
Income from trading assets	14 335	27 059	15 525	27 990
Total	2 355 545	4 788 132	2 777 805	5 244 639

* In the six-month period of 2015 the amount of interest income decline due to negative LIBOR amounted to PLN (203) thousand and in the second quarter of 2015 it amounted PLN (202) thousand. In 2014 the negative LIBOR did not occur.

Interest expense and similar charges

	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015	II quarter period from 01.04.2014 to 30.06.2014	2 quarters cumulative period from 01.01.2014 to 30.06.2014
Interest expense calculated using the effective interest rate method, with respect to financial liabilities, which are not measured at fair value through profit and loss, of which:	(664 571)	(1 417 843)	(836 023)	(1 560 078)
Interest expense on amounts due to customers	(505 166)	(1 081 486)	(681 683)	(1 264 589)
Interest expense on loans from banks	(131 342)	(267 295)	(126 516)	(248 259)
Interest expense on debt securities in issue and subordinated liabilities	(12 716)	(36 515)	(17 551)	(26 748)
Premium expense on debt securities available for sale	(14 870)	(29 782)	(7 061)	(14 880)
Interest expense on deposits from banks	(477)	(2 765)	(3 212)	(5 602)
Other expense	(7 612)	(16 189)	(2 748)	(5 699)
Interest expense on financial assets designated upon initial recognition at fair value through profit and loss	(3 819)	(8 168)	(1 381)	(3 131)
Interest expense on trading assets	(3 793)	(8 021)	(1 367)	(2 568)
Total	(672 183)	(1 434 032)	(838 771)	(1 565 777)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

6. Fee and commission income and expense

Fee and commission income

	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015	II quarter period from 01.04.2014 to 30.06.2014 restated	2 quarters cumulative period from 01.01.2014 to 30.06.2014 restated
Income from financial assets, which are not measured at fair value through profit and loss, of which:	164 688	314 655	149 877	285 025
income from loans and advances granted	164 688	314 655	149 877	285 025
Other commissions from:	773 162	1 488 697	890 087	1 704 834
payment cards	248 616	460 791	377 360	714 943
maintenance of bank accounts	234 463	464 101	231 222	465 246
loans insurance	7 276	26 353	42 311	85 452
maintenance of investment and open pension funds (including management fees)	122 621	229 165	100 622	201 756
cash transactions	24 876	50 422	28 721	57 219
securities transactions	20 970	54 371	23 946	44 344
servicing foreign mass transactions	15 846	33 622	18 050	31 570
providing services of an agent for the issue of Treasury bonds	3 670	8 188	4 971	11 516
sale and distribution of court fee stamps	3 245	5 503	1 143	2 500
investment and insurance products	27 545	52 385	21 806	21 806
other*	64 034	103 796	39 935	68 482
From fiduciary activities	930	2 002	729	1 636
Total	938 780	1 805 354	1 040 693	1 991 495

* Included in 'Other' are i.a.: commissions of the Brokerage House of PKO Bank Polski SA for servicing Initial Public Offering issue and commissions for servicing indebtedness of borrowers against the State budget.

Income from insurance

	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015	II quarter period from 01.04.2014 to 30.06.2014	2 quarters cumulative period from 01.01.2014 to 30.06.2014
Income from insurance intermediary	2 671	4 218	724	724
Income from policies administration	1 641	3 296	1 856	1 856
Income from fund management	19 122	37 439	14 247	14 247
Other	4 111	7 432	4 979	4 979
Total	27 545	52 385	21 806	21 806

Fee and commission expense

	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015	II quarter period from 01.04.2014 to 30.06.2014 restated	2 quarters cumulative period from 01.01.2014 to 30.06.2014 restated
payment cards	(103 480)	(224 774)	(199 846)	(370 712)
acquisition services	(15 945)	(30 707)	(33 105)	(56 664)
settlement services	(6 583)	(15 645)	(5 884)	(13 870)
fee and commissions for operating services provided by banks	(4 322)	(11 836)	(3 544)	(6 860)
other*	(51 068)	(85 860)	(14 700)	(54 360)
Total	(181 398)	(368 822)	(257 079)	(502 466)

* Included in 'Other' are i.a.: fee and expenses paid by the Brokerage House of PKO Bank Polski SA to Warsaw Stock Exchange ('WSE') and to the National Depository for Securities ('NDS').

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

7. Net income from financial instruments measured at fair value

	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015	II quarter period from 01.04.2014 to 30.06.2014	2 quarters cumulative period from 01.01.2014 to 30.06.2014
Derivative instruments, of which:	30 548	43 132	677	11 734
an ineffective portion related to cash flow hedges	708	3 412	3 069	6 494
Structured bank securities measured at fair value through profit and loss	192	(7 179)	(2 326)	(5 734)
Debt securities	(42 105)	(25 188)	40 352	45 767
Equity instruments	(2 846)	(1 894)	736	895
Other	(36)	-	301	301
Total	(14 247)	8 871	39 740	52 963

8. Gains less losses from investment securities and unrealised net gains on financial assets available for sale

	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015	II quarter period from 01.04.2014 to 30.06.2014	2 quarters cumulative period from 01.01.2014 to 30.06.2014
Gain/loss due to change in value of assets available for sale recognised directly in other comprehensive income during the period	(244 056)	(205 361)	66 235	72 584
Gain/loss derecognised from other comprehensive income recognised in the income statement in the position 'Gains less losses from investment securities' on:	16 812	69 353	31 907	38 546
gain from sale derecognised from other comprehensive income	17 128	73 420	33 717	40 636
loss on sale derecognised from other comprehensive income	(316)	(4 067)	(1 810)	(2 090)
Impact on other comprehensive income (gross), position 'Unrealised net gains on financial assets available for sale (gross)'	(227 244)	(136 008)	98 142	111 130

9. Other operating income and expense

	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015	II quarter period from 01.04.2014 to 30.06.2014	2 quarters cumulative period from 01.01.2014 to 30.06.2014
Net income from sale of products and services	61 363	98 895	61 640	113 247
Sale, disposal of tangible fixed assets, intangible assets and assets held for sale	7 183	59 466	38 739	60 309
Damages, penalties and fines received	16 968	25 699	30 058	39 423
Sundry income	5 496	10 580	4 558	9 332
Recovery of expired and written-off receivables	4 177	13 699	3 793	5 892
Other*	38 896	65 651	26 855	45 391
Total other operating income	134 083	273 990	165 643	273 594

* Included in 'Other' are i.a.: income from insurance

	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015	II quarter period from 01.04.2014 to 30.06.2014	2 quarters cumulative period from 01.01.2014 to 30.06.2014
Costs of sale of products and services	(30 791)	(46 140)	(32 680)	(64 406)
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(14 616)	(47 042)	(24 791)	(47 363)
Donations	(1 768)	(2 078)	(4 982)	(6 324)
Sundry expense	(1 597)	(2 922)	(1 064)	(2 428)
Other	(38 369)	(45 905)	(38 909)	(55 425)
Total	(87 141)	(144 087)	(102 426)	(175 946)

(IN PLN THOUSAND)

10. Net impairment allowance and write-downs

Fot the period ended 30 June 2015	Note	Value at the beginning of the period	Increases			Decreases				Value at the end of the period	Net – impact on the income statement
			Recognised during the period	Currency translation differences	Other	Derecognition of assets and settlement	Reversed during the period	Currency translation differences	Other		
Investment securities available for sale	22	129 369	7 856	118	-	102 282	2 435	12	-	32 614	(5 421)
Debt securities available for sale		-	4 022	118	-	-	-	-	-	4 140	(4 022)
Equity securities		129 369	3 834	-	-	102 282	2 435	12	-	28 474	(1 399)
Amounts due from banks	16	111	246	-	378	-	115	-	-	620	(131)
Loans and advances to customers measured at amortised cost	21	8 022 477	2 714 396	-	265 316	549 359	1 982 585	64 120	53 953	8 352 172	(731 811)
Non-financial sector		7 812 724	2 604 684	-	263 585	542 229	1 887 646	64 087	53 026	8 134 005	(717 038)
corporate loans		4 089 160	1 346 360	-	37 280	204 389	991 263	47 487	9 752	4 219 909	(355 097)
consumer loans		1 322 907	604 652	-	45 502	186 541	420 912	5 109	667	1 359 832	(183 740)
housing loans		2 307 712	652 891	-	180 726	151 299	475 471	11 491	41 544	2 461 524	(177 420)
debt securities		92 945	781	-	77	-	-	-	1 063	92 740	(781)
Financial sector		9 483	49 786	-	928	986	50 510	33	861	7 807	724
corporate loans		9 483	49 786	-	928	986	50 510	33	861	7 807	724
Public sector		15 462	5 208	-	803	1 631	1 607	-	66	18 169	(3 601)
corporate loans		12 639	5 127	-	803	1 631	1 607	-	-	15 331	(3 520)
debt securities		2 823	81	-	-	-	-	-	66	2 838	(81)
Finance lease receivables		184 808	54 718	-	-	4 513	42 822	-	-	192 191	(11 896)
Non-current assets held for sale	25	93 430	779	-	74 143	1 162	-	-	-	167 190	(779)
Tangible fixed assets	27	10 080	48 263	-	-	-	-	1 990	-	56 353	(48 263)
Intangible assets	27	139 726	186	-	-	-	-	-	40	139 872	(186)
Investments in associates and joint ventures	24	108 715	60	-	-	-	28 854	-	74 143	5 778	28 794
Inventories	26	29 164	4 308	-	-	2 268	46	-	-	31 158	(4 262)
Other receivables		154 897	23 145	28	171	3 620	14 994	-	629	158 998	(8 151)
Provision for legal claims, loan commitments and guarantees granted	34	151 324	163 351	-	-	5 239	183 896	44	2 448	123 048	20 545
Provision for future liabilities		11 192	1 025	-	-	399	2 041	-	1 942	7 835	1 016
Total		8 850 485	2 963 615	146	340 008	664 329	2 214 966	66 166	133 155	9 075 638	(748 649)

(IN PLN THOUSAND)

Fot the period ended 30 June 2014	Note	Value at the beginning of the period	Increases			Decreases				Value at the end of the period	Net – impact on the income statement
			Increases of allowances 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	22	33 455	-	91	-	-	-	31	12 455	21 060	(91)
Debt securities available for sale		3 296	-	91	-	-	-	-	-	3 387	(91)
Equity securities		30 159	-	-	-	-	-	31	12 455	17 673	-
Amounts due from banks	16	28 583	1	282	666	-	-	-	-	29 532	(282)
Loans and advances to customers measured at amortised cost	21	6 650 780	551 981	2 967 220	16 140	706 371	2 039 200	33 762	344	7 406 444	(928 020)
Non-financial sector		6 501 046	546 877	2 924 921	12 365	703 169	2 015 895	33 737	344	7 232 064	(909 026)
corporate loans		3 329 352	273 898	1 541 008	1 622	491 943	896 125	24 804	-	3 733 008	(644 883)
consumer loans		1 413 349	4 036	645 578	1 354	142 926	538 374	3 866	-	1 379 151	(107 204)
housing loans		1 731 258	267 944	725 729	9 389	68 300	581 318	5 067	-	2 079 635	(144 411)
debt securities		27 087	999	12 606	-	-	78	-	344	40 270	(12 528)
Financial sector		5 524	867	4 537	3 371	337	9 730	25	-	4 207	5 193
corporate loans		5 524	867	4 537	3 371	337	9 730	25	-	4 207	5 193
Public sector		11 527	3 036	148	404	54	710	-	-	14 351	562
corporate loans		10 549	1 616	137	61	54	697	-	-	11 612	560
debt securities		978	1 420	11	343	-	13	-	-	2 739	2
Finance lease receivables		132 683	1 201	37 614	-	2 811	12 865	-	-	155 822	(24 749)
Non-current assets held for sale	25	365 340	-	24 488	-	14 847	12 597	111 902	236	250 246	(11 891)
Tangible fixed assets	27	12 084	-	-	-	16	-	3 686	-	8 382	-
Intangible assets	27	153 011	-	39 589	-	39	1 781	86	-	190 694	(37 808)
Investments in associates and joint ventures	24	116 532	-	766	-	6 235	-	-	-	111 063	(766)
Inventories	26	53 805	-	6 401	-	5 770	82	-	-	54 354	(6 319)
Other receivables		158 752	1 755	20 372	-	682	10 375	1 126	414	168 282	(9 997)
Provision for legal claims, loan commitments and guarantees granted	34	151 603	20 271	191 124	899	246	212 699	105	-	150 847	21 575
Provision for future liabilities		6 945	3 329	1 252	8 679	504	3 710	-	-	15 991	2 458
Total		7 730 890	577 337	3 251 585	26 384	734 710	2 280 444	150 698	13 449	8 406 895	(971 141)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

11. Administrative expenses

	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015	II quarter period from 01.04.2014 to 30.06.2014	2 quarters cumulative period from 01.01.2014 to 30.06.2014
Employee benefits	(672 701)	(1 359 546)	(679 144)	(1 267 865)
Overheads	(374 431)	(759 777)	(382 732)	(683 340)
Amortisation and depreciation, of which:	(199 383)	(405 627)	(192 086)	(358 967)
tangible fixed assets	(83 183)	(175 238)	(79 117)	(153 354)
intangible assets	(115 423)	(229 197)	(112 453)	(204 879)
investment properties	(777)	(1 192)	(516)	(734)
Taxes and other charges	(14 588)	(29 709)	(28 319)	(45 498)
Contribution and payments to the Bank Guarantee Fund *	(111 214)	(222 428)	(60 473)	(112 844)
Total	(1 372 317)	(2 777 087)	(1 342 754)	(2 468 514)

* The rules of the recognition of the BGF fee are described in note 2 ' Summary of significant accounting policies, estimates and judgements'

Employee benefits

	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015	II quarter period from 01.04.2014 to 30.06.2014	2 quarters cumulative period from 01.01.2014 to 30.06.2014
Wages and salaries, of which:	(557 178)	(1 123 184)	(569 324)	(1 052 050)
expenses on employee pension programme	(11 047)	(22 822)	(10 061)	(17 522)
Social Insurance, of which:	(93 972)	(197 039)	(90 122)	(180 084)
contributions to retirement pay and pensions	(80 522)	(169 536)	(76 328)	(158 057)
Other employee benefits	(21 551)	(39 323)	(19 698)	(35 731)
Total	(672 701)	(1 359 546)	(679 144)	(1 267 865)

12. Income tax expense

	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015	II quarter period from 01.04.2014 to 30.06.2014	2 quarters cumulative period from 01.01.2014 to 30.06.2014
Current income tax expense	(150 398)	(385 037)	(300 695)	(487 564)
Deferred income tax related to creating and reversal of temporary differences	(2 278)	57 210	87 433	69 958
Tax expense in the consolidated income statement	(152 676)	(327 827)	(213 262)	(417 606)
Deferred tax expense in other comprehensive income related to creating and reversal of temporary differences	58 020	50 120	(39 285)	(50 087)
Total	(94 656)	(277 707)	(252 547)	(467 693)

	30.06.2015	31.12.2014
Deferred income tax asset	964 066	863 677
Deferred income tax liability	26 229	29 047
Total	937 837	834 630

In the first half of 2015, KREDOBANK SA conducted proceeding related to legal claim described below with the tax authority in Ukraine:

1) 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 156 thousand) and the amount of reducing tax loss from previous years - UAH 626 282 thousand (PLN 111 478 thousand). In February 2013, KREDOBANK SA paid a part of the legal claims in the total amount of UAH 439 thousand (PLN 78 thousand). This value is still 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 60 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.

2) The legal claims regard the results of tax audit of liquidation of KREDOBANK SA's central branch, which covered March and April 2015. Legal claims mainly concern recognition of personal income tax related to transactions of retail loans redemption. The value of disputed claims amounted to UAH 444 thousand (PLN 79 thousand) of abovementioned tax and UAH 111 thousand (PLN 20 thousand) penalty. KREDOBANK SA appealed to the Regional State Tax Service – Central Bureau for Handling Large Taxpayer – the case should to be heard until 7 August 2015. In case of rejected appeal KREDOBANK SA anticipates further legal actions.

13. Earnings per share

The basic earnings per share ratio is calculated on the basis of profit attributable to ordinary shareholders of the Bank, by dividing the respective profit by the weighted average number of ordinary shares outstanding during a given period.

	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015	II quarter period from 01.04.2014 to 30.06.2014	2 quarters cumulative period from 01.01.2014 to 30.06.2014
Profit per ordinary shareholders (in PLN thousand)	702 878	1 350 059	855 554	1 658 128
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Earnings per share (in PLN per share)	0.56	1.08	0.68	1.33

Diluted earnings per share and earnings per share from discontinued operations

In the first six months of 2015 and in 2014 there were no dilutive instruments and there were no significant expenses or income from discontinued operations.

14. Dividends declared divided by shares

Pursuant to the Resolution No. 7/2015 of the Ordinary General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna dated 25 June 2015, it was decided to distribute the net profit for the financial year 2014 and undistributed profits from previous years in accordance with the recommendation of the Management Board for reserve capital and the amount of PLN 1 250 000 thousand was left undistributed, without earmarking amounts for dividend payments.

The Bank received from the Polish Financial Supervision Authority 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.

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NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

15. Cash and balances with the central bankk

	30.06.2015	31.12.2014
Current account in the central bank	8 781 092	7 772 859
Cash	3 153 437	3 965 456
Other funds	97	56
Total	**11 934 626**	**11 738 371**

16. Amounts due from banks

	30.06.2015	31.12.2014
Deposits with banks	2 907 906	1 630 832
Current accounts	708 940	835 582
Loans and advances granted	24 982	16 146
Receivables due from repurchase agreements	22 243	-
Cash in transit	9 769	4 237
Total	**3 673 840**	**2 486 797**
Impairment allowances on receivables	(620)	(111)
Net total	**3 673 220**	**2 486 686**

17. Trading assets

By carrying amount	30.06.2015	31.12.2014
Debt securities	1 509 281	1 915 120
issued by the State Treasury, of which:	1 407 904	1 825 454
Treasury bonds PLN	1 402 852	1 825 454
Treasury bonds EUR	5 052	-
issued by local government bodies, municipal bonds PLN	50 638	50 563
issued by non-financial institutions, of which:	33 623	22 146
corporate bonds PLN	33 578	22 137
corporate bonds EUR	45	9
issued by other financial institutions, of which:	1 471	2 326
bonds issued by WSE PLN	1 340	2 248
corporate bonds PLN	131	78
issued by banks	15 645	14 631
Shares in other entities – listed on stock exchanges	17 127	5 137
Investment certificates	5 775	3 891
Allotment certificates	-	278
Total	**1 532 183**	**1 924 426**

Securities held by the Brokerage House are included in the portfolio of financial assets held for trading.

18. Derivative financial instruments

Derivative instruments used by the Group

As at 30 June 2015 and as at 31 December 2014, the Group held the following types of derivative instruments:

	30.06.2015		31.12.2014	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	271 965	1 293 867	599 841	494 961
Other derivative instruments	3 704 809	3 803 003	4 894 981	5 050 180
Total	**3 976 774**	**5 096 870**	**5 494 822**	**5 545 141**

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Type contract	30.06.2015		31.12.2014	
	Assets	Liabilities	Assets	Liabilities
IRS	3 147 326	3 065 344	4 591 519	4 439 830
CIRS	273 814	1 555 524	340 972	616 841
FX Swap	184 321	187 479	227 857	237 542
Options	223 342	164 033	185 366	133 912
FRA	33 899	39 377	59 078	63 505
Forward	113 776	83 216	89 113	52 838
Other	296	1 897	917	673
Total	3 976 774	5 096 870	5 494 822	5 545 141

Derivative financial instruments - nominal value of underlying instruments and fair value of derivative financial instruments

19. Derivative hedging instruments

As at 30 June 2015 the Group applies the following hedging strategies:

19.1. 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 - July 2015 - October 2026.

19.2. 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 - July 2015 - June 2020.

19.3. 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 - July 2015 - June 2016.

19.4. 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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

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

Periods in which cash flows are expected and in which they should have an impact on the financial result - July 2015 - July 2016.

19.5. 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 currency, 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 - July 2015 - September 2022.

As at 30 June 2015 and as at 31 December 2014, the Group did not use the fair value hedge.

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.

Cash flow hedges

The fair value of derivative instruments constituting cash flow hedges related to the interest rate and/or foreign exchange rate as at 30 June 2015 and as at 31 December 2014:

Type of instrument:	Carrying amount/fair value			
	30.06.2015		31.12.2014	
	Assets	Liabilities	Assets	Liabilities
IRS	271 965	25 540	421 101	-
CIRS	-	1 268 327	178 740	494 961
Total	**271 965**	**1 293 867**	**599 841**	**494 961**

The nominal value of hedging instruments by maturity:

Typ instrumentu:	Nominal value as at 30 June 2015					
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
IRS PLN fixed - float	-	130 000	8 058 000	4 820 000	-	13 008 000
IRS EUR fixed – float:						
translated into PLN	79 694	88 082	3 280 021	-	-	3 447 797
EUR (original currency)	19 000	21 000	782 000	-	-	822 000
IRS CHF fixed – float:						
translated into PLN	-	-	-	1 010 300	-	1 010 300
CHF (original currency)	-	-	-	250 000	-	250 000
CIRS float CHF/float PLN						
float PLN	1 393 253	-	2 525 365	4 549 323	2 495 375	10 963 316
float CHF	375 000	-	750 000	1 245 000	725 000	3 095 000
CIRS fixed CHF/float CHF						
fixed USD	-	-	-	-	875 000	875 000
float CHF	-	-	-	-	814 481	814 481

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

Typ instrumentu:	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	-	2 011 805
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	10 867 692
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 30 June 2015 and as at 31 December 2014 respectively.

Other comprehensive income as regards cash flow hedges:

Other comprehensive income as regards cash flow hedges	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015	II quarter period from 01.04.2014 to 30.06.2014	2 quarters cumulative period from 01.01.2014 to 30.06.2014
Other comprehensive income at the beginning of the period, gross	(38 870)	6 425	(113 796)	(155 053)
Gains/losses transferred to other comprehensive income in the period	(435 232)	(1 406 305)	183 215	184 073
Amount transferred from other comprehensive income to the income statement	361 667	1 287 445	(72 537)	(32 138)
- interest income	(116 752)	(212 235)	(82 917)	(171 114)
- net foreign exchange gains (losses)	478 419	1 499 680	10 380	138 976
Accumulated other comprehensive income at the end of the period, gross	(112 435)	(112 435)	(3 118)	(3 118)
Tax effect	21 363	21 363	592	592
Accumulated other comprehensive income at the end of the period, net	(91 072)	(91 072)	(2 526)	(2 526)
Ineffective part of cash flow hedges recognised in the income statement	708	3 412	3 069	6 494
Effect on other comprehensive income in the period, gross	(73 566)	(118 860)	110 678	151 935
Deferred tax on cash flow hedges	13 978	22 584	(21 029)	(28 868)
Effect on other comprehensive income in the period, net	(59 588)	(96 276)	89 649	123 067

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

By carrying amount	30.06.2015	31.12.2014
Debt securities	11 897 267	13 804 860
issued by central banks, NBP money market bills	8 498 988	10 998 812
issued by the State Treasury, of which:	3 102 934	2 478 708
Treasury bonds PLN	1 980 354	2 452 213
Treasury bonds EUR	84 315	-
Treasury bonds CHF	1 012 320	-
Treasury bonds UAH	25 945	26 495
issued by local government bodies, of which:	245 789	253 817
municipal bonds EUR	133 425	139 882
municipal bonds PLN	112 364	113 935
issued by non-financial institutions, corporate bonds PLN	510	511
issued by banks, structured bonds PLN	49 046	73 012
Participation units in ICF (insurance capital funds)*	1 973 812	1 918 288
Total	13 871 079	15 723 148

* Related to insurance products belonging to the investment products group where the risk borne by the policyholder.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

21. Loans and advances to customers

	30.06.2015	31.12.2014
Loans and advances to customers, gross, of which:	193 688 261	187 519 861
financial sector	1 507 611	1 630 191
corporate, of which:	627 556	1 319 339
deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee Fund and initial deposit	10 569	11 440
receivables due from repurchase agreements	880 055	310 852
non-financial sector	182 109 451	175 789 529
housing	102 592 447	98 105 676
corporate	55 129 190	53 930 247
consumer	22 339 515	21 644 625
debt securities (corporate)	2 048 299	2 108 981
public sector	10 071 199	10 100 141
corporate	7 234 665	7 277 642
debt securities (municipal)	2 836 534	2 822 499
Impairment allowances on loans and advances	(8 352 172)	(8 022 477)
Loans and advances to customers, net	**185 336 089**	**179 497 384**

By client segment	30.06.2015	31.12.2014
Loans and advances granted, gross, of which:	193 688 261	187 519 861
mortgage banking	95 640 967	90 768 711
corporate	50 266 127	50 661 094
small and medium enterprises	22 339 515	21 644 625
retail and private banking	24 551 028	24 123 139
receivables due from repurchase agreements	880 055	310 852
other receivables	10 569	11 440
Impairment allowances on loans and advances	(8 352 172)	(8 022 477)
Loans and advances granted, net	**185 336 089**	**179 497 384**

The structure of loans and advances presented in the note:

- corporate loans of financial institutions (i.e. e.g. 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 institutions, depending on the size of the entity, include loans for small and medium enterprises and corporate loans granted to corporate entities for non-housing purposes,
- consumer loans include retail and private banking,
- corporate loans of State budget entities include corporate banking loans,
- reclassified debt securities are included in the corporate client segment.

Debt securities (municipal and corporate bonds) reclassified from financial assets available for sale to loans and advances to customers (reclassified in the third and fourth quarter of 2012) as at the date:

As at 30 June 2015	nominal value	fair value	carrying amount
Municipal bonds	819 233	820 433	826 176
Corporate bonds	582 000	591 340	518 996
Total	**1 401 233**	**1 411 773**	**1 345 172**

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**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

Loans and advances to customers by method of calculating allowances	30.06.2015	31.12.2014
Assessed on an individual basis	7 585 090	7 377 955
Impaired, of which:	5 645 907	5 615 878
finance lease receivables	371 294	344 975
Not impaired, of which:	1 939 183	1 762 077
finance lease receivables	371 545	300 021
Assessed on a portfolio basis	7 629 169	7 361 432
Impaired, of which:	7 629 169	7 361 432
finance lease receivables	104 152	106 401
Assessed on a group basis (IBNR), of which:	178 474 002	172 780 474
finance lease receivables	4 688 277	4 477 927
Loans and advances to customers, gross	193 688 261	187 519 861
Allowances on exposures assessed on an individual basis	(3 021 120)	(2 963 733)
allowances on lease receivables	(101 553)	(95 057)
Impaired, of which:	(3 011 104)	(2 948 025)
allowances on lease receivables	(100 095)	(95 057)
Allowances on exposures assessed on a portfolio basis, of which:	(4 644 445)	(4 426 869)
allowances on lease receivables	(76 578)	(75 273)
Allowances on exposures assessed on a group basis (IBNR), of which:	(686 607)	(631 875)
allowances on lease receivables	(14 060)	(14 478)
Allowances - total	(8 352 172)	(8 022 477)
Loans and advances to customers, net	**185 336 089**	**179 497 384**

A detailed description of changes in allowances has been presented in the note 10 'Net impairment allowance and write-downs'.

As at 30 June 2015, the share of impaired loans amounted to 6.9% (as at 31 December 2014: 6.9%), whereas the coverage ratio for impaired loans as at 30 June 2015 (calculated as total impairment allowances on loans and advances to customers divided by gross carrying amount of impaired loans) amounted to 62.9% (as at 31 December 2014: 61.8%).

As at 30 June 2015, the share of loans overdue by more than 90 days in the gross amount of loans and advances was 5.2% (as at 31 December 2014: 5.2%).

As at 30 June 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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

22. Investment securities available for sale

	30.06.2015	31.12.2014
Debt securities available for sale, gross	25 307 027	21 961 102
issued by the State Treasury	16 166 437	12 781 051
Treasury Bonds PLN	16 079 586	12 601 236
Treasury Bonds USD	69 053	149 582
Treasury Bonds UAH	17 798	30 233
issued by local government bodies, municipal bonds PLN	4 344 647	4 480 325
issued by non-financial institutions	3 265 314	3 475 594
corporate bonds PLN	2 736 910	2 960 217
corporate bonds EUR	312 256	315 965
corporate bonds USD	216 148	199 412
issued by banks, corporate bonds	1 530 629	1 224 132
corporate bonds PLN	1 475 464	1 112 705
corporate bonds EUR	43 800	90 867
corporate bonds UAH	11 365	20 560
Impairment allowances on dept securities available for sale	(4 140)	-
corporate bonds UAH	(4 140)	-
Total net debt securities available for sale	**25 302 887**	**21 961 102**
Equity securities available for sale, gross	347 841	447 492
Equity securities not admitted to public trading	223 276	395 412
Equity securities admitted to public trading	124 565	52 080
Impairment allowances on equity securities available for sale	(28 474)	(129 369)
Total net equity securities available for sale	**319 367**	**318 123**
Total net investment securities available for sale	**25 622 254**	**22 279 225**

23. Investment securities held to maturity

Debt securities	30.06.2015	31.12.2014
issued by the State Treasury, of which:		
issued by the Treasury State PLN	37 818	37 709
issued by the Treasury State EUR	2 534	2 629
issued by the Treasury State USD	176 025	193 020
issued by banks, UAH	28 870	-
Total	**245 247**	**233 358**

24. Investment in associates and joint ventures

1) the value of the Group's investments in joint ventures (i.e. the acquisition cost adjusted to share in the change in the net assets after acquisition date and impairment allowances)

Entity name	30.06.2015	31.12.2014
'Centrum Obsługi Biznesu' Sp. z o.o.	3 583	3 460
Purchase price	17 498	17 498
Change in share of net assets	(13 915)	(14 038)
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	202 243	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	4 923	4 060
Total	**205 826**	**204 840**

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	01.01-30.06.2015	01.01-30.06.2014
Investments in joint ventures at the beginning of the period	204 840	202 972
Share in profit (loss)	14 757	6 849
Net impairment allowance	-	-
Dividends	(13 771)	(10 028)
Other	-	(272)
Investments in joint ventures at the end of the period	**205 826**	**199 521**

2) the value of the Group's investments in associates (i.e. the acquisition cost adjusted to share in net assets change and impairment allowances)

Entity name	30.06.2015	31.12.2014
The Bank Pocztowy SA Group *	-	117 646
Purchase price	-	146 500
Change in valuation with equity method	-	74 142
Impairment allowance	-	(102 996)
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-
Purchase price	1 500	1 500
Change in valuation with equity method	4 278	4 219
Impairment allowance	(5 778)	(5 719)
Total	**-**	**117 646**

* In the first half of 2015 the entity's share were reclassified to non-current assets available for sale

	01.01-30.06.2015	01.01-30.06.2014
Investments in associates at the beginning of the period	117 646	106 720
Net impairment allowance	28 794	(766)
Share in profit (loss)	1 066	464
Share in other comprehensive income of an associate	(1 006)	302
Recognition of the Bank Pocztowy SA's shares in non-current assets held for sale	(146 500)	-
Investments in associates at the end of the period	**-**	**106 720**

The tables below show information about joint ventures and shares in associates of the PKO Bank Polski SA Group:

a) joint ventures

Entity name	Principal activity	Place of registration and place of business	% of shares and voting rights held by the Group	
			30.06.2015	31.12.2014
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	Activities supporting financial services, including servicing of transactions made by payment instruments	Warsaw/Poland	34.00%	34.00%
'Centrum Obsługi Biznesu' Sp. o.o.	Hotel management	Poznań/Poznań	41.44%	41.44%

b) associates

Entity name	Principal activity	Place of registration and place of business	% of shares and voting rights held by the Group	
			30.06.2015	31.12.2014
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	Guarantees of bank loans taken by entrepreneurs	Poznań/Wielkopolska	33.33%	33.33%

All companies above indicated are recognised in the consolidated financial statements with the equity method.

The table below shows a summary of the financial data separately for each 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).

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Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	**30.06.2015**	**31.12.2014**
Current assets	100 879	132 100
Non-current assets	83 404	59 069
Short-term liabilities	62 765	72 219
Long-term liabilities	3 780	3 780
	01.01-30.06.2015	**01.01-30.06.2014**
Revenues	221 533	188 682
Profit (loss) from continuing operations	43 072	21 990
Profit (loss) for the year	43 072	21 990
Total comprehensive income	43 072	21 990
Dividends received from an entity classified as joint venture	13 771	10 028

'Centrum Obsługi Biznesu' Sp. o.o.	**30.06.2015**	**31.12.2014**
Current assets	11 115	13 002
Non-current assets	88 860	90 889
Short-term liabilities	11 702	10 236
Long-term liabilities	79 627	84 103
	01.01-30.06.2015	**01.01-30.06.2014**
Revenues	11 589	9 893
Profit (loss) for the year	(906)	(1 713)

'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	**30.06.2015**	**31.12.2014**
Current assets	22 833	22 353
Non-current assets	39	46
Short-term liabilities	4 570	4 084
Long-term liabilities	1 105	1 298
	01.01-30.06.2015	**01.01-30.06.2014**
Revenues	1 047	1 544
Profit (loss) for the year	179	-

PKO Bank Polski SA also holds the shares of Bank Pocztowy SA, constituting 25.0001% share in the share capital and entitling to 25% and 10 votes at the Generals Shareholders' Meeting of the Company. In the first half of 2015 the shares of Bank Pocztowy SA were reclassified to 'non-current assets held for sale' in accordance with IFRS 5. As from the date of reclassification the Group resigned from valuation of shares with the equity method i.e. the Group did not recognise valuation for its share in incomes and costs of Bank Pocztowy SA, as well as its share in changes of other items of entity's equities.

25. Non-current assets held for sale

	30.06.2015	**31.12.2014**
Assets of a subsidiary classified as held for sale	342 985	373 174
Non-current assets held for sale reclassified from subsidiary entities	146 500	-
Land and buildings	254 467	251 599
Other	8 379	219
Total	752 331	624 992

Since December 2014, the Group reclassified, in accordance with IFRS 5, shares of Qualia Development Sp. z o.o. and selected real estate to the position 'Non-current assets held for sale' - the Group intends to recover the value of the above-mentioned assets through a sale transaction. Since the first quarter of 2015 the Group shows shares of Bank Pocztowy SA in this position.

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26. Inventories

Carrying amount of inventories by kind	30.06.2015	31.12.2014
Supplies	264 734	242 503
Materials	24 517	24 544
Impairment allowances on inventories	(31 158)	(29 164)
Total	258 093	237 883

Inventories in the Group include mainly expenses on real estate development incurred by the Group entities, the scope of activity of which relates to real estate development.

27. Intangible assets and tangible fixed assets

Intangible assets	30.06.2015	31.12.2014
Software	1 666 171	1 711 902
Goodwill acquired as a result of business combinations (including subsidiaries' goodwill)	1 193 728	1 193 728
Future profits on concluded insurance contracts	110 386	122 302
Relations with customers	57 683	67 252
Other, including capital expenditure	200 336	284 317
Total	3 228 304	3 379 501

The table below presents data concerning net goodwill included in the Group's statement of financial position as at 30 June 2015 and as at 31 December 2014.

Net goodwill	30.06.2015	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
Goodwill related to assets taken over from Centrum Finansowe Puławska Sp. z o.o.	7 785	7 785
Total	1 193 728	1 193 728

Tangible fixed assets	30.06.2015	31.12.2014
Land and buildings	1 564 358	1 602 761
Machinery and equipment	466 043	499 830
Means of transport	64 618	79 573
Assets under construction	84 219	165 587
Investment properties	132 482	129 693
Other	181 703	176 111
Total	2 493 423	2 653 555

In the six-month period ended 30 June 2015, no significant acquisitions and sales of tangible fixed assets no significant liabilities due to acquisition of tangible fixed assets occurred.

In the first half of 2015 the Group received compensation from third parties for impairment or loss of tangible fixed assets in the amount of PLN 8 671 thousand recognised in the income statement (in 2014 the Group received compensation from third parties for impairment or loss of tangible fixed assets in the amount of PLN 14 986 thousand recognised in the income statement.

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28. Amounts due to banks

	30.06.2015	31.12.2014
Loans and advances received	17 159 140	17 643 643
Bank deposits	1 789 084	823 815
Amounts due from repurchase agreements	879 130	609 836
Current accounts	229 078	299 530
Other money market deposits	45 118	17 658
Total	20 101 550	19 394 482

29. Amounts due to customers

	30.06.2015	31.12.2014
Amounts due to retail clients	131 694 510	128 675 561
Term deposits	70 286 807	69 228 283
Current accounts and overnight deposits	61 144 611	59 219 213
Other liabilities	263 092	228 065
Amounts due to corporate entities	40 547 534	40 932 868
Current accounts and overnight deposits	15 256 927	16 068 233
Term deposits	19 729 432	19 416 337
Loans and advances received	3 587 788	3 421 704
Amounts due from repurchase agreements	600 756	856 124
Other liabilities	1 372 631	1 170 470
Amounts due to public entities	6 895 734	4 778 337
Current accounts and overnight deposits	4 911 693	4 018 030
Term deposits	1 971 591	740 995
Other liabilities	12 450	19 312
Total	179 137 778	174 386 766

By client segment	30.06.2015	31.12.2014
Amounts due to customers, of which:		
retail and private banking	125 720 015	122 331 368
corporate	31 349 325	30 295 632
small and medium enterprises	17 872 913	17 475 288
loans and advances received	3 587 788	3 421 704
amounts due from repurchase agreements	600 756	856 124
other liabilities	6 981	6 650
Total	179 137 778	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 State budget entities), small and medium enterprises segment,
- amounts due to public entities include corporate client segment – public client.

30. Liabilities due to insurance operations

	30.06.2015	31.12.2014
Technical provisions	137 147	176 441
Liabilities due to insurer's investment contracts divided into:	2 450 033	2 503 281
Structured products	103 070	252 184
Products combining policy and deposit	2 873	3 732
Unit-linked insurance financial products	2 344 090	2 247 365
Total	2 587 180	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 62 'Insurance risk management'.

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31. Debt securities in issue

Debt securities in issue	30.06.2015	31.12.2014
Financial instruments measured at amortised cost	14 016 606	13 182 348
bonds issued by PKO Finance AB	12 662 083	12 032 368
bonds issued by PKO Bank Polski SA	993 068	747 825
bonds issued by PKO Leasing SA	361 455	402 155
Financial instruments measured at fair value through profit and loss - bank securities issued by PKO Bank Polski SA	122 498	118 262
Total	14 139 104	13 300 610

Debt securities in issue by maturity:	30.06.2015	31.12.2014
up to 1 month	72 622	557 314
from 1 month to 3 months	376 967	635 363
from 3 months to 1 year	6 538 780	5 313 454
from 1 year to 5 years	3 177 430	3 085 517
over 5 years	3 973 305	3 708 962
Total	14 139 104	13 300 610

In the the first half of 2015 the Bank issued bank bonds at nominal value of PLN 2 000 000 thousand measured at amortised cost. In the first half of 2015 bank securities and bank bonds at nominal value of PLN 1 752 585 thousand were redeemed.

In the first half of 2015 the PKO Leasing SA issued bonds at a nominal value of PLN 1 150 000 thousand and redeemed bonds at nominal value of PLN 1 150 000 thousand. As at 30 June 2015, the Company's debt in respect of the bonds issued amounted to PLN 590 000 thousand (at nominal value) of which the debt due to the Bank amounted to PLN 227 000 thousand (at nominal value).

Bonds issued by the PKO Finance AB:

Issuance date	Nominal value	Currency	Maturity date	Carrying amount as at 30.06.2015	Carrying amount as at 31.12.2014
21.10.2010*	800 000	EUR	21.10.2015	3 434 923	3 427 536
07.07.2011	250 000	CHF	07.07.2016	1 046 610	901 443
25.07.2012	50 000	EUR	25.07.2022	215 153	213 768
21.09.2012	500 000	CHF	21.12.2015	2 047 980	1 772 805
26.09.2012	1 000 000	USD	26.09.2022	3 800 661	3 540 943
23.01.2014	500 000	EUR	23.01.2019	2 116 756	2 175 873
Total				12 662 083	12 032 368

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

32. Subordinated liabilities

As at 30 June 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	1 615 936
Subordinated loan	224 000	905 230	CHF	24.04.2022	905 291
Total	x	2 505 930	x	x	2 521 227

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	794 013	CHF	24.04.2022	794 152
Total	x	2 394 713	x	x	2 413 985

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33. Other liabilities

	30.06.2015	31.12.2014
Accounts payable	468 405	542 514
Deferred income	407 957	400 345
Other liabilities	1 879 023	2 011 744
Total	**2 755 385**	**2 954 603**
of which financial liabilities	2 083 734	2 321 761

As at 30 June 2015 and as at 31 December 2014 the Group had no overdue contractual liabilities.

34. Provisions

For the period ended 30 June 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
Increase/reassessment of provision	3 693	19	159 658	1 331	164 701
Use of provision	(5 239)	(38)	-	(12 833)	(18 110)
Release of provision	(10 944)	-	(172 952)	(6 344)	(190 240)
Currency translation differences	(18)	-	(26)	-	(44)
Other changes and reclassifications	-	-	(2 448)	(1 942)	(4 390)
As at 30 June 2015, of which:	**34 972**	**39 828**	**88 076**	**112 879**	**275 755**
Short term provision	34 657	3 142	62 907	112 879	213 585
Long term provision	315	36 686	25 169	-	62 170

* Included in 'Other provisions' are i.a.: restructuring provision of PLN 77 599 thousand and provision of PLN 1 774 thousand for potential claims on impaired loan portfolios sold.

For the period ended 30 June 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 subsidiary	11 798	12 570	8 473	3 329	36 170
Increase/reassessment of provision	1 710	1 618	189 414	2 722	195 464
Use of provision	(246)	(122)	-	(23 969)	(24 337)
Release of provision	(3 083)	(2)	(209 616)	(2 500)	(215 201)
Currency translation differences	(105)	-	-	-	(105)
Other changes and reclassifications	667	-	232	7 499	8 398
As at 30 June 2014, of which:	**47 030**	**49 803**	**103 817**	**120 609**	**321 259**
Short term provision	46 715	16 121	73 440	120 533	256 809
Long term provision	315	33 682	30 377	76	64 450

* Included in 'Other provisions' are i.a.: restructuring provision of PLN 76 344 thousand and provision of PLN 1 693 thousand for potential claims on impaired loan portfolios sold.

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

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35. Equity and shareholding structure of the Bank

	30.06.2015	31.12.2014
Share capital	1 250 000	1 250 000
Other capital, of which:		
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	**25 317 565**	**23 346 514**
Share in other comprehensive income of an associate	-	1 006
Financial assets available for sale	(77 426)	31 046
Cash flow hedges	(91 072)	5 204
Actuarial gains and losses	(8 976)	(8 976)
Other comprehensive income	**(177 474)**	**28 280**
Currency translation differences from foreign operations	(208 991)	(192 692)
Undistributed profits	1 222 413	(60 658)
Net profit for the period	1 350 059	3 254 122
Capital attributable to equity holders of the parent company	**28 753 572**	**27 625 566**
Non-controlling interests	(22 721)	(10 015)
Total equity	**28 730 851**	**27 615 551**

The Bank’s shareholding structure

According to information available as at 30 June 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 30 June 2015				
The State Treasury	392 406 277	31.39	PLN 1	31.39
Aviva Otwarty Fundusz Emerytalny[1]	83 952 447	6.72	PLN 1	6.72
Nationale-Nederlanden OFE[2]	64 594 448	5.17	PLN 1	5.17
Other shareholders	709 046 828	56.72	PLN 1	56.72
Total	**1 250 000 000**	**100.00**	---	**100.00**
As at 31 December 2014				
The State Treasury	392 406 277	31.39	PLN 1	31.39
Aviva Otwarty Fundusz Emerytalny[1]	83 952 447	6.72	PLN 1	6.72
Nationale-Nederlanden OFE[2]	64 594 448	5.17	PLN 1	5.17
Other shareholders	709 046 828	56.72	PLN 1	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 of the transaction of sale of 153.1 million of PKO Bank Polski SA’s shares by BGK and the State Treasury.

2) Number of shares held as at 24 July 2012, reported by ING OFE after exceeding 5% of share in PKO Bank Polski SA’s shareholding structure after settlement of the transaction of sale of 95 million of PKO Bank Polski SA’s shares by the State Treasury. On 23 June 2015 the entity name was changed from ING OFE to Nationale Nederlanden OFE.

All 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 restricts 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:

1) 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),
2) shareholders, who have the rights from A-series registered shares (the State Treasury) and
3) shareholders acting jointly with the shareholders referred to in point (2) 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.

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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	PLN 1	PLN 312 500 000
Series A	bearer ordinary shares	197 500 000	PLN 1	PLN 197 500 000
Series B	bearer ordinary shares	105 000 000	PLN 1	PLN 105 000 000
Series C	bearer ordinary shares	385 000 000	PLN 1	PLN 385 000 000
Series D	bearer ordinary shares	250 000 000	PLN 1	PLN 250 000 000
Total	---	**1 250 000 000**	---	**PLN 1 250 000 000**

In six-month period of 2015, 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.

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OTHER NOTES

36. Contingent liabilities and off-balance sheet liabilities received

36.1. 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 30 June 2015			
Company A	corporate bonds	1 055 000	31.07.2020
Company B	corporate bonds	1 009 700	15.06.2022
Company C	corporate bonds	86 100	31.12.2022
Company D	corporate bonds	50 000	19.12.2022
Company E	corporate bonds	34 000	31.12.2029
Company F	corporate bonds	8 841	31.01.2016
Total		**2 243 641**	
As at 31 December 2014			
Company A	corporate bonds	1 055 000	31.07.2020
Company B	corporate bonds	1 049 000	15.06.2022
Company C	corporate bonds	91 700	31.12.2022
Company D	corporate bonds	50 000	19.12.2022
Total		**2 245 700**	

All agreements relate to the Agreement for Organisation, Conducting and Servicing of the Bond Issuance Programme.

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

36.2. Contractual commitments

As at 30 June 2015 the value of contractual commitments concerning intangible assets amounted to PLN 122 004 thousand (as at 31 December 2014 amounted to PLN 200 662 thousand).

As at 30 June 2015 the value of contractual commitments concerning tangible fixed assets amounted to PLN 77 942 thousand (as at 31 December 2014 amounted to PLN 96 772 thousand).

36.3. Loan commitments granted

by nominal value	30.06.2015	31.12.2014
Credit lines and limits		
to financial entities	1 657 388	533 975
to non-financial entities	37 673 082	34 540 558
to public entities	3 535 735	3 258 574
Total	**42 866 205**	**38 333 107**
of which: irrevocable loan commitments *	28 934 586	27 730 846

* In 2015 the Group has redefined the category of irrevocable loan commitments by adding additional products to it.

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Guarantee liabilities granted

	30.06.2015	31.12.2014
Guarantees in domestic and foreign trading	7 430 294	9 248 321
to financial entities	113 688	160 298
to non-financial entities	7 310 407	9 066 109
to public entities	6 199	21 914
Guarantees and pledges granted – domestic corporate bonds	4 598 001	4 516 150
to non-financial entities	4 595 901	4 514 050
to financial entities	2 100	2 100
Letters of credit granted	2 016 595	702 768
to non-financial entities	2 016 595	702 768
Guarantees and pledges granted – payment guarantee to financial entities	26 208	17 278
Guarantees and pledges granted – domestic municipal bonds to public entities	83 488	55 008
Total	**14 154 586**	**14 539 525**
of which: good performance guarantees granted	2 196 468	1 942 582

Information on provisions for off-balance sheet financial and guarantee liabilities is included in the note 34 ‘Provisions’.

36.4. Off-balance sheet liabilities received

By nominal value	30.06.2015	31.12.2014
Financial	630 515	2 004 673
Guarantees	5 997 299	4 725 751
Total	**6 627 814**	**6 730 424**

Pursuant 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

As a part of works related to the settlement of the transaction, the Group 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 equal to 0.

Right to sell or pledge collateral established for the Group

As at 30 June 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.

37. Legal claims

As at 30 June 2015, the total value of court proceedings in which the PKO Bank Polski SA Group entities (including the Bank) are a defendant was PLN 1 430 838 thousand, of which PLN 3 516 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 30 June 2015 the total value of court proceedings in which the PKO Bank Polski SA Group entities (including the Bank) are the plaintiff was PLN 681 642 thousand, of which PLN 102 083 thousand referred to court proceedings in Ukraine, mainly related to collection of dues from loan agreements 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 PKO Bank Polski SA Group are described below:

a) Unfair competition proceeding

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). 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 however 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 hearing was on 29 October 2013 and on 21 November 2013 the judgement was announced, by which SOKiK reduced the penalty imposed on the Bank to the amount of PLN 10 085 thousand. The judgement is legally invalid. On 7 February 2014 the judgement was appealed on behalf of the Bank and eight plaintiffs represented by the Bank's attorney. The judgement 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 have been transferred from SOKiK to the Court of Appeal in Warsaw. The trial has been scheduled for 22 September 2015. As at 30 June 2015 the Bank has a provision in the amount of PLN 10 359 thousand (the position 'Provisions' in the statement of financial position).

b) As at 30 June 2015 the Bank is also a party to i.a. following proceedings:

<u>before SOKiK on appeal from the decision of the President of UOKiK</u>

1) due to 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 judgment, which annulled the decision of the President of UOKiK in its entirety, i.e. annulled also the financial penalty imposed on the Bank. On 26 February 2015, the President of UOKiK filed the appeal against the judgment. Proceeding is in progress. As at 30 June 2015 the Bank has a provision in the same amount (the position 'Provisions' in the statement of financial position).

2) due to use of prohibited contractual provisions in form of consumer loan agreements, with the exclusion of credit card agreements.

   By decision of 31 December 2013, the Bank's activities were considered as practices violating collective interests of consumers and a fine in the amount of PLN 17 236 thousand and PLN 11 828 thousand (PLN 29 064 thousand in total) was imposed on the Bank. The Bank appealed against this decision. By decision of 9 July 2015 SOKiK issued a judgment, which annulled decision of the President of UOKiK The proceeding is in progress. As at 30 June 2015 the Bank did not have any provisions resulting from this claim.

<u>before SOKiK initiated by an individual</u>

1) on the recognition as abusive the Tariff of fees and charges in sections providing the fees for the monitoring and collection activities in relation with customers delaying the repayment of current debt. The Bank responded to the lawsuit and retorted for another pleading. In this case there is no risk of imposing financial penalties on the Bank. There is a risk of entering the provisions relating to monitoring and collection fees into the Register of Prohibited Clauses kept by the President of UOKiK; on 25 March 2015, SOKiK abandoned the proceedings against the Bank on this matter,

2) on the recognition as abusive and on prohibition in trading with consumers the use of the standard contractual form provisions concerning 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. The case is in progress.

3) on the recognition as abusive and on prohibition in trading with consumers the use of the standard contractual form provisions concerning 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 interests. The lawsuit was delivered to the Bank on 4 February 2015. On 6 March 2015, the Bank replied to the lawsuit, filling 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.

<u>Before SOKiK in which the Bank is the plaintiff</u> - as a result of the completion of the appeal proceeding before SOKiK initiated by the Bank against the decision of the President of UOKiK due to the possibility of the use of unfair contractual provisions in forms of individual pension accounts ('IKE') agreements. 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 the 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:
1) the practice described in the point 1 above, it reduced the penalty to the amount of PLN 2.5 million,
2) the practice described in the point 2 above, it reduced the penalty to the amount of PLN 1.5 million,
3) 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.

The proceeding is in progress. As at 30 June 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 the President of UOKiK:

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 relationships with its customers (it is typical of the Bank – card organisation relationship),
3) a proceeding initiated on 15 October 2014 to determine whether the Bank, in its advertising leaflet 'Mini Ratka loan in the blink of an eye based on a bank statement' ('Mini Ratka w mgnieniu oka na wyciąg z konta') misled its customers by presenting the loan amount. On 13 November 2014, the UOKiK initiated the proper administrative proceedings in this matter. The Bank disagrees with the UOKiK's charges and, in response, is considering taking on the obligation to present it in line with the UOKIK's assumptions (to make the communication more precise),
4) 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,
5) preliminary proceeding of 5 February 2015 concerning the treatment by the Bank of housing loans secured with a mortgage and expressed in/denominated in/indexed to CHF (negative LIBOR, spread reduction, exchange rate tables); The proceedings is in progress.
6) 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 when an executory title has been issued. In the file from 24 February 2015, Bank gave an answer to UOKiK explaining that The Bank does not use such tariff,
7) preliminary proceeding of 2 March 2015 concerning the Bank's cooperation with property appraisers in the preparation of appraisal studies used for the valuation of a property securing a loan. On 23 March 2015 and on 7 May 2015 the Bank answeared to UoKiK,
8) 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,
9) 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 the UOKiK questionnaire with required information,
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 the UOKiK.

As at 30 June 2015, PKO Życie Towarzystwo Ubezpieczeń SA – a subsidiary of the Bank – is a party to:

1) ten 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,
2) 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, the proceeding is in progress, the value of provision recognised as at 30 June 2015 amounts to PLN 8 172 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); cassation compalint was accepted by the Supreme Court for consideration.

c) Re-privatisation claims relating to properties held by the Bank

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

1) six 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) four court proceedings 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) four administrative proceedings in relation to a part of one property owned by a subsidiary of the Bank for requesting the return of the property.

The proceedings for the statement of an acquisitive prescription of a part of two properties held by the Bank's subsidiaries are also pending.

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 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.

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A cassation complaint was filed on 17 July 2013. The date of hearing was scheduled as at 3 June 2015. On 3 June 2015 the trial took place during which Supreme Administrative Court upheld the Bank's write off from Regional Administrative Court in Warsaw verdict from 23 August 2012 concerning the reprivatisation of the part of grounds at Puławska 15 street. The case is still 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.

38. Supplementary information on the statement of cash flows

Cash and cash equivalents

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

	30.06.2015	31.12.2014	30.06.2014
Cash and balances with the central bank	11 934 626	11 738 371	9 910 908
Current amounts due from banks	3 484 617	2 516 484	2 547 844
Total	15 419 243	14 254 855	12 458 752

Cash flows from interests and dividends, both received and paid

Interest income - received	01.01-30.06.2015	01.01-30.06.2014
Interest income from loans and advances granted	3 079 874	3 114 345
Interest income from investment securities	427 729	295 510
Interest income from securities designated upon initial recognition at fair value through profit and loss	134 255	194 707
Interest income from placements	63 821	109 600
Interest income from securities from held for trading portfolio	27 512	27 567
Interest income from hedging instruments	280 469	157 899
Other interest received	576 555	597 670
Total	4 590 215	4 497 298

Dividend income - received	01.01-30.06.2015	01.01-30.06.2014
Dividend income from joint ventures and associates *	13 770	10 028
Dividend income from other entities	1 976	1 664
Total	15 746	11 692

* The item relates to dividends received from entities valued with equity method

Interest expense – paid	01.01-30.06.2015	01.01-30.06.2014
Interest expense on deposits – paid	(846 381)	(747 330)
Interest expense on loans and advances – paid	(179 010)	(113 186)
Interest expense on debt securities in issue – paid	(57 397)	(38 138)
Other interest paid (mainly interest expense on current accounts, premium from debt securities, interest expense on cash collateral liabilities)	(269 814)	(298 777)
Total	(1 352 602)	(1 197 431)

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39. Transactions with the State Treasury and related parties

The State Treasury has control over the parent company of the Group as it holds a 31.39% interest in the Bank's share capital. The Bank's shareholding structure is described in detail in the note 35 'Equity and shareholding structure of the Bank' to these financial statements. Receivables, securities and liabilities arising from transactions conducted with the State Treasury and other state budgetary agencies are disclosed in the Group's statement of financial position. In accordance with the 30 November 1995 Act 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, item 763 with subsequent amendments) PKO Bank Polski SA receives payments from the State budget in respect of interest receivable on housing loans.

	01.01-30.06.2015	01.01-30.06.2014
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio recognised for this period	52 035	58 261
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio received in cash	14 006	20 969
Difference between income recognised for this period and income received in cash – the position 'Loans and advances to customers'	38 029	37 292

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 Treasury on housing loans.

	01.01-30.06.2015	01.01-30.06.2014
Fee and commission income	1 516	1 659

Since 1 January 1996 the Bank became the general distributor of court fee stamps and receives commissions in this respect from the State Treasury.

	01.01-30.06.2015	01.01-30.06.2014
Fee and commission income	5 503	2 500

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 commission for providing the services of an agent for the issue of bonds.

	01.01-30.06.2015	01.01-30.06.2014
Fee and commission income	8 188	11 516

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

The transactions were concluded on arm's length. The margins on credit transactions are in the range of 0.25% to 4.2%.

Entity	30.06.2015			01.01-30.06.2015		
	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	-	-	2 080 000	-	-	-
Entity 2	467 459	534 076	387 494	5 088	451	(4 011)
Entity 3	236 830	971 627	983 496	1 763	573	(9 151)
Entity 4	215 062	53 799	575 223	4 748	1 698	(26)
Entity 5	211 065	15 740	2 359 663	422	1 176	(338)
Entity 6	201 153	72 804	50 000	2 734	52	(449)
Entity 7	113 458	36 142	542 143	2 002	32	(157)
Entity 8	106 852	33 861	65 252	1 851	141	(438)
Entity 9	96 804	456	100 000	1 716	224	(12)
Entity 10	94 184	1 403	22 316	2 334	115	-
Entity 11	88 672	26 865	131 574	1 164	45	(24)
Entity 12	47 257	11 151	39 534	648	151	(180)
Entity 13	26 617	2	3 416	530	2	(1)
Entity 14	23 959	4 232	20 000	389	8	-
Entity 15	20 374	20 693	59 628	2	343	(260)
Other entities	134 254	5 029 090	3 280 758	3 012	2 610	(42 447)
Total	2 084 000	6 811 941	10 700 497	28 403	7 621	(57 494)

Entity	31.12.2014			01.01 - 30.06.2014		
	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 6	184 925	1 001 114	647 423	1 327	265	(1 798)
Entity 2	-	1 099	1 368 860	1 812	827	(239)
Entity 10	-	9 190	1 201 440	7 025	97	(45)
Entity 4	-	1 177 873	-	-	-	(195)
Entity 26*	285 955	283 174	422 752	-	-	-
Entity 11	-	160 250	701 786	2 302	1	(397)
Entity 13	-	98 728	500 000	2 419	621	(580)
Entity 15	-	582 771	-	1 513	102	(46)
Entity 18	386 306	16 294	151 587	2 517	350	-
Entity 14	113 481	18 235	396 474	2 290	160	(64)
Entity 27*	-	109 604	400 000	-	-	-
Entity 25	113 422	80 540	61 819	-	-	-
Entity 21	67 704	14 487	157 659	733	24	-
Entity 28*	62 901	1 984	150 000	-	-	-
Other entities	259 499	637 143	165 524	8 367	2 740	(17 325)
Total	1 474 193	4 192 486	8 405 324	30 305	5 187	(20 689)

*The entities do not figure in 2015.

As at 30 June 2015 and 31 December 2014 respectively, no significant impairment allowances were recognised for the above-mentioned receivables.

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40. 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.

30 June 2015

Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct joint ventures				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	3 279	-	23 895	5 000
Indirect joint ventures				
'Centrum Obsługi Biznesu' Sp. z o.o.	27 688	27 688	9 373	-
Direct associates				
Bank Pocztowy SA*	475	-	336	926
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-	28	-
Indirect associates				
Centrum Operacyjne Sp. z o.o.	-	-	-	-
Total	31 442	27 688	33 632	5 926

* Entity presented in 'Non-current assets held for sale'

For the six-month period ended as at 30 June 2015

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.	71 274	70 957	47 074	46 416
Indirect joint ventures				
'Centrum Obsługi Biznesu' Sp. z o.o.	584	584	52	52
Direct associates				
Bank Pocztowy SA*	314	13	554	-
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	1	1	14	14
Indirect associates				
Centrum Operacyjne Sp. z o.o.	1	1	-	-
Total	72 174	71 556	47 694	46 482

* Entity presented in 'Non-current assets held for sale'

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

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For the six-month period ended 30 June 2014

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.	4 780	4 461	34 765	34 654
'Centrum Obsługi Biznesu' Sp. z o.o.	1 658	1 658	125	125
Direct associates				
Bank Pocztowy SA	220	30	1 800	-
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	1	1	83	83
Indirect associates				
Centrum Operacyjne Sp. z o.o.	2	2	-	-
Total	6 661	6 152	36 773	34 862

Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. was not presented in the table due to lack of intercompany transactions with the Bank.

41. Personal related party transactions

As at 30 June 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 the first half of 2015 and for the first half of 2014 no intercompany transactions were concluded with these entities.

42. Remuneration for key management of PKO Bank Polsk SA

a) short-term employee benefits

Remuneration received from and due to PKO Bank Polski SA (excluding variable salary components)

Short-term employee benefits	01.01-30.06.2015	01.01-30.06.2014
The Supervisory Board of the Bank	615	496
The Management Board of the Bank	5 634	5 289
Total	6 249	5 785

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

Remuneration received from related entities (other than the State Treasury and entities related to the State Treasury)	01.01-30.06.2015	01.01-30.06.2014
The Management Board of the Bank *	20	20
Total	20	20

* The amount includes remuneration from associates.

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. As described in the note 'The principles for determining the variable salary components policy for key management personnel at the Bank', starting from 2012, the variable salary component for key management personnel at the Bank, including the Management Board, is granted as:

- not deferred (in the first year after the calendar year constituting the assessment period),
- deferred (for the next three years after the first year of the assessment period).

Due to the above, as short-term employee benefit for the Management Board of the Bank, except for the basic salary, was recognized the non-deferred part of the variable salary component.

In the six months ended 30 June 2015 and 30 June 2014 no benefit recognised as the non-deferred part of the variable salary component were paid out.

Moreover in 2014, the value of non-deferred salary component paid in cash for 2014 amounted to PLN 1 694 thousand without the charges. In 2013 it amounted to PLN PLN 1 916 thousand without charges.

b) other long-term benefits (in terms of variable salary components)

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').

In the six months ended 30 June 2015 and 30 June 2014 no such benefits were paid out (they occurred in July 2015 and July 2014).

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As at 30 June 2015, the value of the liability in respect of other long-term benefits amounted to PLN 3 244 thousand, i.e. PLN 3 150 thousand without charges (variable salary components for 2014- 2012) and PLN 94 thousand worth of contributions towards EPP respectively.

As at 31 December 2014, the value of the liability in respect of other long-term benefits amounted to PLN 2 083 thousand, i.e. PLN 2 022 thousand without charges (variable salary components for 2012 and 2013) and PLN 61 thousand worth of contributions towards EPP respectively.

In 2015, the value of the deferred salary component granted in the form of cash for 2014 amounted to PLN 1 129 thousand without charges. In 2014, the value of the deferred salary component granted in the form of cash for 2013 amounted to PLN 1 321 thousand without charges.

c) share-based payments settled in cash (in terms of variable salary components)

In the six-month period ended 30 June 2015 the payments in respect of variable salary components granted in the form of phantom shares (for which conversion into cash is carried out after an additional period of retention) amounted to PLN 2 240 thousand without charges. In the six-month period ended 30 June 2014 the payments amounted to PLN 1 599 thousand.

As at 30 June 2015 and 31 December 2014 the value of liability due to such benefits amounted PLN 4 845 thousand without charges (for 2014-2012) and PLN 4 289 thousand without charges (for 2013-2012), respectively.

In 2015, the value of salary components (deferred and non-deferred) granted in the form of phantom shares for 2014 amounted to PLN 2 823 thousand. In 2014, the value of salary components (deferred and non-deferred) granted in the form of phantom shares for 2013 amounted to PLN 3 237 thousand.

d) post-employment benefits

In the six-month period ended 30 June 2015 and 30 June 2014, respectively no post-employment benefits were paid.

e) benefits due to termination of employment

In the six-month period ended 30 June 2015 and 30 June 2014, respectively no benefits due to termination of employment were paid.

f) loans, advances, guarantees and other advances provided by the Bank to the management

	30.06.2015	31.12.2014
The Supervisory Board of the Bank	948	3 102
The Management Board of the Bank	852	857
Total	1 800	3 959

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

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

Short-term employee benefits	01.01-30.06.2015	01.01-30.06.2014
The Supervisory Board of the Bank	131	205
The Management Board of the Bank	8 425	9 515
Total	8 556	9 720

43. The principles for determining the variable salary components policy for key management personnel 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 risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital, and the principles for determining the variable salary components policy for persons holding managerial positions in the Bank, the Bank implemented by resolutions of:

- the Supervisory Board: 'The variable salary components policy for persons holding managerial positions in the Bank' (constituting the basis of further regulation issue) and 'The variable salary components policy for the Management Board's members,
- the Management Board: 'The variable salary components policy for persons holding managerial positions',
- Supervisory Boards of selected subsidiaries of the PKO Bank Polski SA Group (PKO Leasing SA, PKO TFI SA, PKO BANKOWY PTE SA, PKO Życie Towarzystwo Ubezpieczeń SA, PKO Bank Hipoteczny SA): 'The variable salary components policy for the Management Board's 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 (for 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 key management personnel and results of the performance of organisational units/cells supervised or managed by these persons, which revealed after a period of evaluation.

As at 30 June 2015 a provision for variable salary components amounted to PLN 39.8 million, of which PLN 20 million for persons holding managerial positions except for the Bank's Management Board and PLN 12.5 million for the Bank's Management Board, and PLN 7.3 million for the entities of the Group. As at 31 December 2013 the provision for variable salary components amounted to PLN 37.4 million, of which for persons holding managerial positions except for the Bank's Management Board in the amount of PLN 23 million, for Management Board amounted to PLN 11 million and for the entities of the Group it amounted to PLN 3.4 million.

In the six-month period ended 30 June 2015 and 30 June 2014, variable payment component for persons holding managerial positions except the Bank's Management Board was paid in cash and amounted to PLN 4.8 million and PLN 4.6 million. In the six-month period ended 30 June 2015 and 30 June 2014, the payment of variable payment component due to phantom shares amounted PLN 3.3 million and 1.8 million, respectively.

44. Changes to the entities of the Group

Changes to the entities of the PKO Bank Polski SA Group, associates and joint ventures

The following events affecting the structure of the PKO Bank Polski SA Group have occurred in the first half of 2015:

1. 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 the date of the Company's incorporation, Qualia Development Sp. z o.o. acquired 99 shares and Qualia Sp. z o.o. acquired 1 share. On 14 January 2015, Qualia Development Sp. z o.o. repurchase from Qualia Sp. z o.o. 1 share at a price equal to the nominal value of the share.

   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.

2. 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. 20 000 of registered shares with a nominal value of PLN 1 000 have been acquired by the Bank for a issue price of PLN 3 650 for each share i.e. for a total amount of PLN 73 000 thousand. The Bank has also contributed PLN 15 000 thousand to organizational fund of the Company.

   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.

   On 13 April 2015 the Company has been registered with the National Court Register, however it has not commenced operations until 30 June 2015.

3. concerning entity PKO Bankowy Leasing Sp. z o.o.

   On 23 April 2015 the PKO Bankowy Leasing Sp. z o.o share capital increase of PLN 20 000 thousand was registered with the National Court Register. All shares in the increased Company's share capital were acquired by PKO Leasing SA, for a price equal to the nominal value of the acquired shares. PKO Leasing SA remains the sole shareholder of the Company.

   As at 30 June 2015, the share capital of PKO Leasing SA amounts to PLN 120 000 thousand and consists of 240 000 shares, each of PLN 500 nominal value.

4. Concerning entity 'Centrum Majkowskiego' Sp. z o.o. in liquidation

   On 4 May 2015 'Centrum Majkowskiego' Sp. z o.o. in liquidation, the subsidiary of 'CENTRUM HAFFNERA' Sp. z o.o. was removed from the National Court Register

5. concerning entity PKO Życie Towarzystwo Ubezpieczeń SA

   On 9 June 2015 the PKO Życie Towarzystwo Ubezpieczeń SA share capital decrease of PLN 103 221 thousand though redemption of 925 000 shares , each of PLN 111.59 nominal value, as well as share capital increase by acquisition of 1 registered share with nominal value of PLN 111.59 by PKO Bank Polski SA for issue price amounting PLN 48 000 thousand were registered with the National Court Register.

   As at 30 June 2015, the share capital of PKO Życie Towarzystwo Ubezpieczeń SA amounts to PLN 89 309 thousand and consists of 880 330 shares, each of PLN 111.59 nominal value.

6. concerning entity PKO BP Faktoring SA

   In June 2015 Bankowe Towarzystwo Kapitałowe SA, which owned 8 999 shares, as well as PKO Bank Polski SA possesing 1 share sold all of their shares of PKO BP Faktoring SA to PKO Leasing SA.

As at 30 June 2015 PKO Leasing SA (a subsidiary of the Bank) is the sole shareholder of PKO BP Faktoring SA.

7. concering NEPTUN – non-public assets closed-end investment fund

   In June 2015 PKO Bank Polski SA acquired 1 300 000 A series investment certificates and 5 463 694 B series investment certificates of NEPTUN – non-public assets closed-end investment fund. The acquisition value amounted to PLN 71 665 thousand. Series B certificates were 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 objective 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 of 30 June 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.

8. Concerining events which will cause changes in the PKO Bank Polski SA Group in next quarters

   On 17 April 2015, the Extraordinary General Shareholders' Meeting of PKO Leasing SA adopted a resolution on the Company's share capital increase of PLN 80 000 thousand. All shares in the increased capital were acquired by PKO Bank Polski SA. The above mentioned increase has not been registered with the National Court Register until 30 June 2015.

As regards to the companies constituting joint ventures and associates, in the first half of 2015:

1. PKO Bank Polski SA reclassified, in accordance with IFRS 5, the shares of Bank Pocztowy SA (an associate) to 'Non-current assets held for sale' in the carrying amount of PLN 146 500 thousand; the carrying amount was determined on the basis of the current, verified financial projections of the Company contained in the Development Strategy of Bank Pocztowy SA in the years 2015 – 2018,

2. Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. - the company constituting a joint venture of PKO Bank Polski SA - established two subsidiaries, including:
   a) EVO Payments International Sp. z o.o. with its registered office in Poland with a share capital of PLN 5 thousand - the Company was registered with the National Court Register on 9 February 2015,
   b) EVO Payments International s.r.o. with its registered office in the Czech Republic with a share capital of CZK 200 thousand - the Company was registered with the Commercial Register of the Czech Republic on 16 February 2015.

   and acquired shares in the increased share capital of the entity EVO Payments International Sp. z o.o. seated in Poland in the amount of PLN 277 thousand.

   The object of the above mentioned companies is to conduct activities supporting financial services - to the end of June of this year the companies have not commenced operating activities.

45. Fair value of financial assets and liabilities

45.1. 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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (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 30 June 2015:

Assets and liabilities measured at fair value as at 30 June 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	17	1 532 183	1 532 183	-	-
Debt securities		1 509 281	1 509 281	-	-
Shares in other entities		17 127	17 127	-	-
Investment certificates		5 775	5 775	-	-
Derivative financial instruments	18	3 976 774	1 179	3 975 595	-
Hedging instruments		271 965	-	271 965	-
Trade instruments		3 704 809	1 179	3 703 630	-
Financial instruments designated upon initial recognition at fair value through profit and loss	20	13 871 079	5 051 311	8 819 768	-
Debt securities		11 897 267	3 077 499	8 819 768	-
Participation units		1 973 812	1 973 812	-	-
Investment securities available for sale	22	25 603 767	16 182 987	9 223 301	197 479
Debt securities		25 302 887	16 079 586	9 223 301	-
Equity securities		300 880	103 401	-	197 479
Financial assets measured at fair value - total		44 983 803	22 767 660	22 018 664	197 479
Derivative financial instruments	18	5 096 870	1 201	5 095 669	-
Hedging instruments		1 293 867	-	1 293 867	-
Trade instruments		3 803 003	1 201	3 801 802	-
Debt securities in issue	31	122 498	-	122 498	-
Financial instruments designated at fair value through profit and loss		122 498	-	122 498	-
Financial liabilities measured at fair value - total		5 219 368	1 201	5 218 167	-

Trading assets as at 30.06.2015	Carrying amount	Level 1	Level 2	Level 3
Debt securities	1 509 281	1 509 281	-	-
Treasury bonds PLN	1 402 852	1 402 852	-	-
Treasury bonds EUR	5 052	5 052	-	-
municipal bonds PLN	50 638	50 638	-	-
corporate bonds PLN	33 578	33 578	-	-
corporate bonds EUR	45	45	-	-
bonds issued by WSE	1 340	1 340	-	-
corporate bonds PLN	131	131	-	-
bonds issued by banks, including BGK bonds	15 645	15 645	-	-
Shares in other entities	17 127	17 127	-	-
Investment certificates	5 775	5 775	-	-
TOTAL	1 532 183	1 532 183	-	-

Financial instruments designated upon initial recognition at fair value through profit and loss as at 30.06.2015	Carrying amount	Level 1	Level 2	Level 3
Debt securities	11 897 267	3 077 499	8 819 768	-
NBP money market bills	8 498 988	-	8 498 988	-
Treasury bonds PLN	1 980 354	1 980 354	-	-
Treasury bonds EUR	84 315	84 315		
Treasury bonds CHF	1 012 320	1 012 320		
Treasury bonds UAH	25 945	-	25 945	-
municipal bonds EUR	133 425	-	133 425	-
municipal bonds PLN	112 364	-	112 364	-
structured bonds PLN	49 046	-	49 046	-
corporate bonds PLN	510	510	-	-
participation units	1 973 812	1 973 812	-	-
TOTAL	13 871 079	5 051 311	8 819 768	-

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

Investment securities available for sale as at 30.06.2015	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	25 302 887	16 079 586	9 223 301	-
Treasury bonds PLN	16 079 586	16 079 586	-	-
Treasury bonds USD	69 053	-	69 053	-
Treasury bonds UAH	17 798	-	17 798	-
municipal bonds PLN	4 344 647	-	4 344 647	-
corporate bonds PLN	4 212 374	-	4 212 374	-
corporate bonds EUR	356 056	-	356 056	-
corporate bonds USD	216 148	-	216 148	-
corporate bonds UAH	7 225	-	7 225	-
Equity securities	300 880	103 401	-	197 479
TOTAL	25 603 767	16 182 987	9 223 301	197 479

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	17	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	-	-
Right issues		278	278	-	-
Derivative financial instruments	18	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	20	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	22	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		306 331	108 023	-	198 308
Financial assets measured at fair value - total		45 409 829	19 006 094	26 200 459	203 276
Derivative financial instruments	18	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	31	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	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	-	-
Rights issues	278	278		
TOTAL	1 924 426	1 924 426	-	-

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2014	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	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	306 331	108 023	-	198 308
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, detailed description of which was presented in the annual consolidated financial statements for the year 2014.

The Group classified shares of the entity (Fund) not listed on WSE, which are valued with internal valuation models to the level 3. The fair value of these securities is determined based on the net asset value of the fund, i.e. the fair value of investment projects (the companies) in the fund, which are subject to semi-annual review or examination by the registered auditor.

The influence of estimated parameters on fair value valuation of financial instruments, which are valued with fair value at level 3 as at 30 June 2015 is presented below:

Financial instrument	Valuation technique	Unobservable factor	Fair value by	
			positive scenario	negative scenario
Investment securities available for sale				
Equity securities - Fund	Net Asset Value (NAV) method	price for a participation unit	207 164	187 434

In the period from 1 January to 30 June 2015, there were no transfers between levels in the fair value hierarchy used in measuring financial instruments at fair value.

The tables below presents a reconciliation during the periods of measurement, from 1 January 2015 to 30 June 2015 and from 1 January 2014 to 30 June 2014, respectively, of fair value at level 3 of fair value hierarchy:

Investment securities available for sale	01.01-30.06.2015
Opening balance at the beginning of the period	203 276
Total gains or losses	10 602
recognised in the income statement	(3 649)
recognised in other comprehensive income	14 251
Translation differences of currency entities	(4 035)
Sale agreement of the Company listed on the stock exchange	(12 000)
Settlements	(364)
Closing balance at the end of the period	197 479

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

Investment securities available for sale	01.01-31.12.2014
Opening balance at the beginning of the period	137 326
Total gains or losses	15 309
recognised in other comprehensive income	15 309
Take up of new shares in the Fund and translation differences of currency entities	15 049
Closing balance at the end of the period	167 684

In the period from 1 January 2015 to 30 June 2015 there were no changes in the fair value estimation methodology.

45.2. Financial asssets and liabilities not presented at fair value in consolidated statement of financial position

The table below presents a summary of the carrying amounts and fair values for the particular groups of financial instruments, which have not been recognised at fair value in the Group's statement of financial position as at 30 June 2015:

	level of fair value hierarchy	valuation method	30.06.2015	
			carrying amount	fair value
Cash and balances with the central bank	n/a	value at cost to pay	11 934 626	11 934 626
Amounts due from banks	2	discounted cash flows	3 673 220	3 673 171
Loans and advances to customers			185 517 947	181 767 227
housing loans	3	discounted cash flows	100 130 923	95 881 795
corporate loans	3	discounted cash flows	58 738 031	59 560 312
consumer loans	3	discounted cash flows	20 979 683	20 766 579
receivables due from repurchase agreements	3	discounted cash flows	880 055	880 055
debt securities	3	discounted cash flows	4 789 255	4 678 486
Investment securities held to maturity	3	discounted cash flows	245 247	261 072
Other financial assets	3	value at cost to pay including impairment allowance	737 741	737 741
Amounts due to the central bank	2	value at cost to pay	4 158	4 158
Amounts due to other banks	2	discounted cash flows	20 101 550	20 101 562
Amounts due to customers			179 137 778	179 100 595
due to corporate entities	3	discounted cash flows	40 547 534	40 547 595
due to public entities	3	discounted cash flows	6 895 734	6 895 734
due to retail clients	3	discounted cash flows	131 694 510	131 657 266
Debt securities in issue	1, 2	market quotations / discounted	14 139 104	14 466 318
Subordinated debt	2	cash flows	2 521 227	2 508 786
Other financial liabilities	3	discounted cash flows	2 083 734	2 083 734

The table below presents a summary of the carrying amounts and fair values for the particular groups of financial instruments which have not been recognised at fair value in the Group's statement of financial position as at 31 December 2014:

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

	level of fair value hierarchy	valuation method	31.12.2014	
			carrying amount	fair value
Cash and balances with the central bank	n/a	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	13 182 348	13 620 129
Subordinated debt	2	cash flows	2 413 985	2 398 946
Other financial liabilities	3	discounted cash flows	2 321 761	2 321 761

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

46. Risk management in the Group

Risk management is one the most important internal processes both in PKO Bank Polski SA and in other entities of the PKO Bank Polski SA Group. Risk management aims at ensuring profitability of business activity, 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 risk plays an important role in the planning process.

In the PKO Bank Polski SA Group, the following types of banking risk have been identified, which are subject to management: credit risk, interest rate risk, currency risk, liquidity risk, commodity price risk, price risk of equity securities, derivative instruments, operational risk, compliance risk, macroeconomic changes risk, model risk, business risk (including strategic risk), loss of reputation risk, capital risk and insurance risk.

46.1. Elements of banking risk management process

The process of banking risk management in the 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 of a given type of risk on the financial situation of the Group. Within the risk identification process, types of risk perceived as material in the Bank's activity, the entities of the Group and the whole Group's activity are identified,

- risk measurement and assessment:

  risk measurement covering defining 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, stress-test are being conducted on the basis of assumption providing a fair risk assessment,

- 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, issued recommendations and suggestions). Risk monitoring is performed with the frequency adequate to the materiality and volatility of a specific risk type,

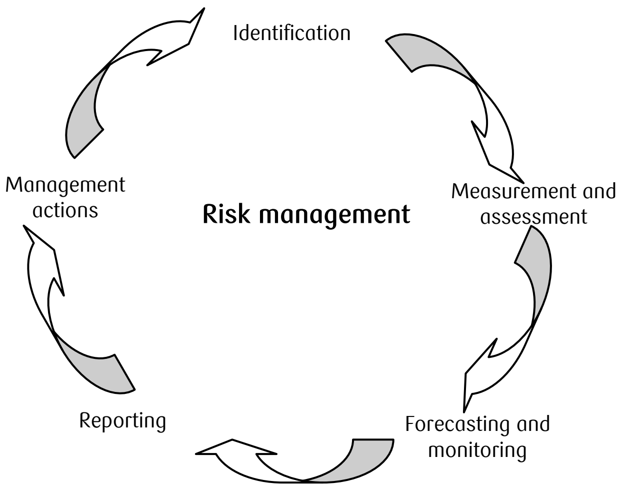
- risk reporting:

  periodic informing the authorities of the Bank about the results of risk measurement, 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, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management process. 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:



46.2. 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 banking risk,
- the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
- the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk and verified and validated on a periodical basis,

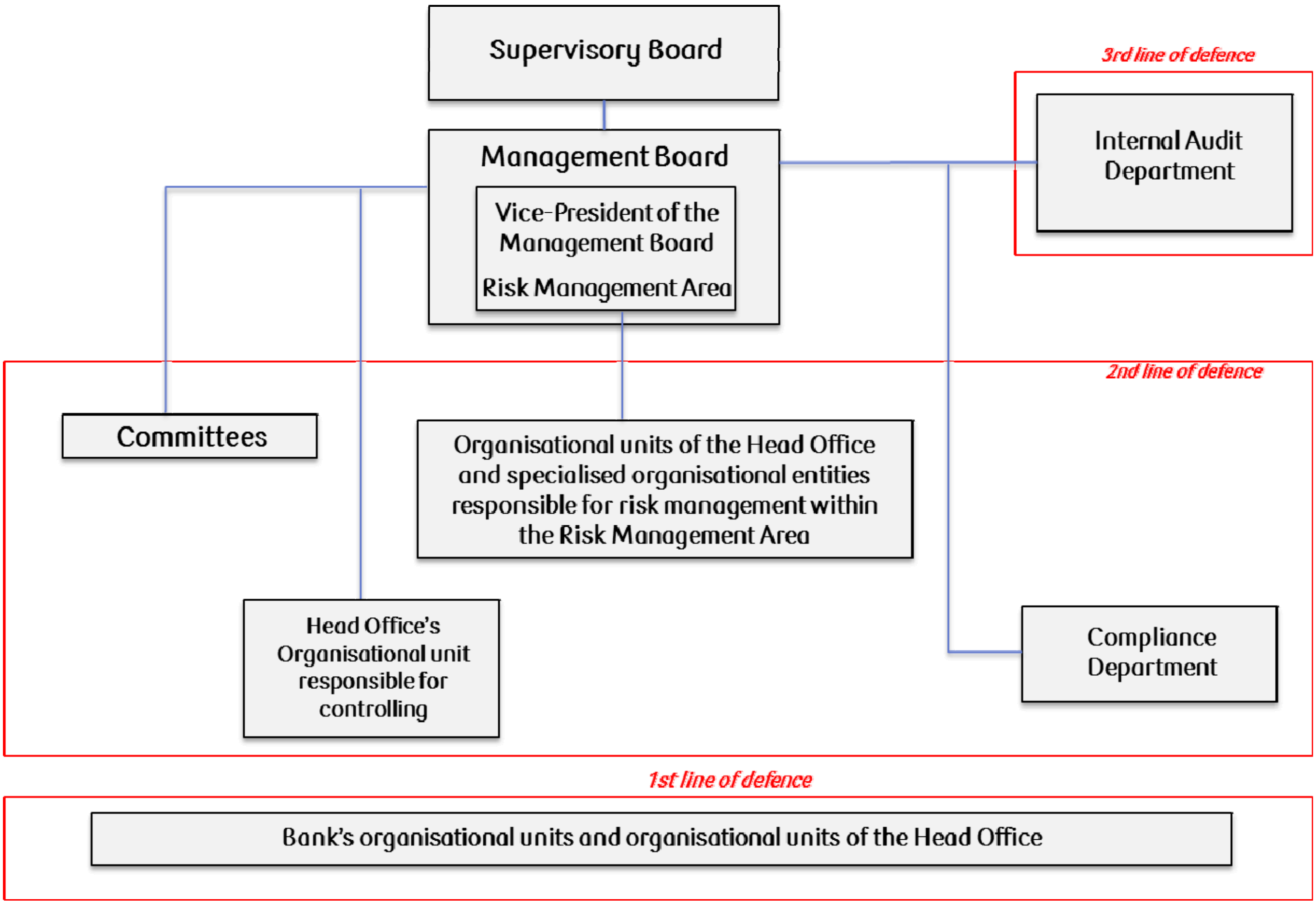
- the area of risk and debt recovery remains organisationally independent from business activities,
- risk management is integrated with the planning and controlling systems,
- the risk level is monitored on a current basis,
- the risk management process supports the implementation of the Group's strategy in compliance with the risk management strategy, in particular with regard to the level of tolerance of the risk.

46.3. 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.

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 defining the risk management system.

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

1) the first line of defence, which is functional internal control that ensures using risk controls 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, the organisational unit of the Head Office managing the compliance risk, reputation risk, respective committees as well as the organisational units of the Head Office responsible for controlling.

The organisational units of the Head Office of the Bank that constitute the Banking Risk Division, the Department of Risk Integration, the Department of Restructuring and Debt Collection of the Corporate Client, and the Analysis and Credit Risk Assessment Centre, as well as Restructuring and Debt Collection Centre, 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, monitoring and reporting risk levels (material risks) on a regular basis,
- coordinating the activities within the Strategy realization,
- measuring and assessing capital adequacy,
- preparing recommendations for the Management Board or committees regarding the acceptable level of risk,
- creating internal regulations on managing risk and capital adequacy,
- developing IT systems designated to support risk and capital adequacy management.

The Department of Risk Integration is responsible in particular for:

- validation of risk models,
- implementation of effective system of the model risk management in the Group,
- coordinating the implementation of integrated risk management standards in the Group,
- initiation and coordination over integration of risk management in the Group,
- preparation of list of entities with significant influence on risk profile 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 effectively, with the amount not less than the value specified in separate internal regulations of the Bank, through their restructuring and debt collection,
- preparation of solutions in the course of compulsory pursuing claims, as well as sale of bad debts,
- acquisition of assets as a result of pursuing claims,
- review and classification of receivables being managed within the Department and off-balance sheet liabilities granted as well as determination of their impairment allowances associated with the risk of Bank's activities.

The Restructuring and Debt Collection Centre is responsible in particular for:

- creation of system solutions, including the Bank's internal resolutions and applications regarding management of bad debts,
- determining the ratio calculation methods for effectiveness of restructuring and recovery processes, debts payment delays monitoring system performance, recovery of collaterals,
- design, development and verification of models used in the monitoring of debts repayment delays and debt recovery,
- recovering receivables from difficult clients effectively through their restructuring and debt collection and increasing the effectiveness of such actions,
- effective monitoring of delays in the collection of receivables from retail market clients,
- effective outsourcing of the tasks carried out, as well as effective management of assets taken over as a result of recovering the Bank's receivables,
- determining the impairment of bad debts,
- selling difficult receivables effectively.

The objective of the Analysis and Credit Risk Assessment Centre is the reduction of credit risk of individual credit exposures of the Bank's retail market clients, corporate market clients and financial institutions, which are significant particularly due to the scale of exposure, client segment or risk level and ensuring effective credit analyses in respect of mortgage loans granted to individual clients through the Bank's retail network and loans granted to small and medium enterprises clients evaluated with rating methods, as well as taking credit decisions in this respect.

Risk management is supported by the following committees:

The Risk Committee ('the RC'):

- monitors the integrity, adequacy and efficiency of the bank risk management system, as well as 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 the PKO Bank Polski SA's Bank Risk Management Strategy,
- supports the Supervisory Board in the banking risk management process by formulating recommendations and making decisions concerning capital adequacy and the efficiency of the banking 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 risk, equity and price policy.

The Bank's Credit Committee ('the BCC'):

- makes loan decisions with regard to significant individual loan exposures and credit risk models,
- issues recommendations in the above-mentioned respect to the Management Board,
- makes decisions regarding the approval of credit risk models and results of validation of these models in the composition including the representants of Finance and Accounting Area.

The Operating Risk Committee ('the ORC'):

- takes decisions, issues recommendations and opinions regarding i.a. strategic tolerance limits and loss limits for operational risk, key risk indicators (KRI), assumptions of stress-tests, results of validation of operational risk measurement models, changes in AMA approach and taking actions to reduce the level of operational risk in all areas of the Group's 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.

46.4. 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 sets out and approves their development strategies, including the level of the risk. The Bank also supervises the entities' risk management systems and provides support in the development of these systems. Additionally, it reflects business risk 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.

The PKO Bank Polski SA Group's top priority is to maintain its strong capital position and to further increase its stable sources of financing underlying the stable development of business activity, while maintaining the priorities of efficiency and effective cost control and appropriate risk assessment.

In this respect, the Bank took the following actions in the first half of 2015:

- in first quarter of 2015, rolled forward short-term bonds with a current maturity of six months in the amount of PLN 750 million and issued additional PLN 250 million of these securities,
- paid first instalment of syndicated loan in CHF in January 2015 and the second one in June 2015 in the total value of CHF 410 million,
- transferred a part of the Bank's profit for 2014, after deducting the expected charge and dividends, based on the decision of Polish Financial Supervision Authority ('PFSA'), to own funds.

The acquisition of Nordea Polska entities as at 1 April 2014 and the operational merger as at 20 April 2015 had no impact on the change in the risks identified in the business of the Group.

In first half of 2015 in respect of operational risk, the Group endeavoured to ensure that after the operational merger the Group will be adapted to the requirements of Recommendation M of the PFSA amended in January 2013 relating to operational risk management in banks.

As of 1 April 2015 PKO Bank Hipoteczny SA has commenced operational activities that had no impact on the change in the risk identified in the business of the Group.

Due to the PFSA Recommendation P amendment from March 2015 concerning liquidity risk, in the first half year 2015, the Bank has prepared analysis of gaps in Banks adjustment to this Recommendation with a proposal for the method and timetable for coverage of identified gaps.

The appreciation of CHF against other foreign currencies, including PLN was a result of Swiss National Bank's decision in January 2015 concerning the abolition of the minimal limit of exchange rate of CHF against EUR. The impact of those events on the financial results including the risk of quality deterioration of the housing loans portfolio denominated in CHF is under regular analysis of the Group. That risk is partially neutralized by a decrease in reference interest rates LIBOR CHF.

Due to the fact, that a significant appreciation of CHF against PLN consist a risk of excessive charges for households with housing loans denominated in CHF and therefore the timely service of the debt, since the beginning of the year a public debate concerning limitation of the insolvency risk of those debtors is ongoing. The appearing proposals for statutory solutions, declared in the form of civil or parliamentary legislation projects, as well as these presented by public and supervisory authorities may result in losses incurred on this portfolio by the Group in the future periods.

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The Group has undertaken a number of actions to help customers and simultaneously reduce the growth of credit risk related to the increase of CHF exchange rate – i.a. reduction of transaction CHF/PLN exchange rates for calculation of CHF repayment value ('spread rate'), as well as including negative LIBOR rate for all customers.

According to the Group, these operations allow to maintain the creditworthiness for current debt service due to the housing loans denominated in CHF at the level not lower than in December 2014. The Group constantly monitors the volatility of CHF exchange rate, the value of housing loans portfolio denominated in CHF, as well as the impact of changes in exchange rate on capital adequacy ratios.

The table below presents the quality analysis of loans denominated in CHF:

Loans and advances to customers in impairment valuation method in CHF (in original currency)	30.06.2015			
	Financial institutions	Entities	Households	Total
Valuated on an individual basis, of which:	-	192 410	234 264	426 674
impaired	-	162 805	211 830	374 635
Valuated with portfolio method, impaired	-	32 102	1 179 156	1 211 258
Valuated with group method (IBNR)	7 140	355 925	32 181 972	32 545 037
Loans and advances to customers - gross	7 140	580 437	33 595 392	34 182 969
Allowances on exposures valuated on an individual basis, of which:	-	(64 783)	(98 521)	(163 304)
impaired	-	(64 438)	(98 289)	(162 727)
Allowances on exposures valuated with portfolio method	-	(17 068)	(654 377)	(671 445)
Allowances on exposures valuated with group method (IBNR)	(129)	(3 771)	(151 343)	(155 243)
Allowances - total	(129)	(85 622)	(904 241)	(989 992)
Loans and advances to customers - net	7 011	494 815	32 691 151	33 192 977

Loans and advances to customers in impairment valuation method in CHF (in original currency)	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

46.5. Identification of significant risk types

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 being made,
- 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 Group entities have changed.

47. 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 apply in particular the following principles of credit risk management:

- each loan transaction is a subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to loan transactions is measured on the stage of examining loan application on a regular basis as a part of 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 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 ratings 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, the BTK SA Group and since 10 June 2015 – PKO BP Factoring SA, as well as 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 BTK SA Group, the KREDOBANK SA Group and subsidiary: Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. measure credit risk regularly and the results of such measurements are submitted to the Bank.

The KREDOBANK SA Group, the PKO Leasing SA Group and the BTK 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 and the BTK 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.

47.1. 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),
- Credit Value at Risk (CVaR),
- effectiveness measures used in scoring methodologies (Accuracy Ratio),
- share and structure of impaired loans (according to IAS),
- coverage ratio of impaired loans with impairment (according to IAS) allowances (coverage ratio),
- 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 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 impairment allowances.

The Bank performs analysis and stress-tests regarding the influence of potential changes in macroeconomic environment on the quality of the Bank's loan portfolio. The test results are reported to the Bank's authorities. The above-mentioned information enables the Bank to identify and take measures to limit the negative influence of unfavourable market changes on the Bank's performance.

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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. The assessment 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 has implemented a model for assessment of credited entrepreneurs in the formula of specialist financing, which allows adequate credit risk assessment of large projects involving real estate financing (e.g. office space, retail areas, industrial areas) and infrastructure projects (e.g. telecommunications, industrial, public utility infrastructure).

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 Bank's credit risk assessment process comply with the requirements of Recommendation S of the Polish Financial Supervision Authority, relating to best practice in respect of management of mortgage-secured loan exposures, as well as Recommendation T concerning best practices in respect of management of retail loans risk exposure. All recommendations were implemented in the Bank in accordance with expected period.

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.

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 the 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.

47.2. Forecasting and monitoring of credit risk

The Group's exposure to credit risk divided into impaired and not impaired, and into not past due and past due

Amounts due from banks	Exposure	
	30.06.2015	31.12.2014
Amounts due from banks impaired, of which:	369	362
assessed on an individual basis	-	-
Amounts due from banks not impaired, of which:	3 673 471	2 486 435
not past due	3 673 471	2 486 435
Gross total	**3 673 840**	**2 486 797**
Impairment allowances	(620)	(111)
Net total by carrying amount	**3 673 220**	**2 486 686**

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Loans and advances to customers	Exposure	
	30.06.2015	31.12.2014
Loans and advances impaired, of which:	13 275 076	12 977 310
assessed on an individual basis	5 645 907	5 615 878
Loans and advances not impaired, of which:	180 413 185	174 542 551
not past due	176 558 388	169 950 801
past due	3 854 797	4 591 750
past due up to 4 days	660 180	1 645 065
past due over 4 days	3 194 617	2 946 685
Gross total	**193 688 261**	**187 519 861**
Impairment allowances	(8 352 172)	(8 022 477)
Net total by carrying amount	**185 336 089**	**179 497 384**

Investment securities available for sale – debt securities	Exposure	
	30.06.2015	31.12.2014
Debt securities impaired, of which:	4 140	-
assessed on an individual basis	4 140	-
Debt securities not impaired, of which:	25 302 887	21 961 102
not past due	25 302 887	21 961 102
with external rating	21 366 517	14 054 512
with internal rating	3 936 370	7 906 590
Gross total	**25 307 027**	**21 961 102**
Impairment allowances	(4 140)	-
Net total by carrying amount	**25 302 887**	**21 961 102**

Investment securities held to maturity – debt securities	Exposure	
	30.06.2015	31.12.2014
Debt securities not impaired, of which:	245 247	233 358
not past due	245 247	233 358
with external rating	245 247	233 358
Gross total	**245 247**	**233 358**
Impairment allowances	-	-
Net total by carrying amount	**245 247**	**233 358**

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Maximal exposure on credit risk

Items of the statement of financial position	30.06.2015	31.12.2014
Current account in the central bank	8 781 092	7 772 859
Amounts due from banks	3 673 220	2 486 686
Trading assets – debt securities	1 509 281	1 915 120
issued by the State Treasury	1 407 904	1 825 454
issued by local government bodies	50 638	50 563
issued by non-financial institutions	33 623	22 146
issued by financial institutions	1 471	2 326
issued by banks	15 645	14 631
Derivative financial instruments	3 976 774	5 494 822
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	11 897 267	13 804 860
issued by central banks	8 498 988	10 998 812
issued by the State Treasury	3 102 934	2 478 708
issued by local government bodies	245 789	253 817
issued by banks	49 046	73 012
issued by non-financial institutions	510	511
Loans and advances to customers	185 336 089	179 497 384
financial sector	1 499 804	1 620 708
corporate loans	619 749	1 309 856
receivables due from repurchase agreements	880 055	310 852
non-financial sector	173 783 255	167 791 997
housing loans	100 130 923	95 797 964
corporate loans	50 717 090	49 656 279
consumer loans	20 979 683	20 321 718
debt securities	1 955 559	2 016 036
public sector	10 053 030	10 084 679
corporate loans	7 219 334	7 265 003
debt securities	2 833 696	2 819 676
Investment securities - debt securities	25 302 887	21 961 102
issued by the State Treasury	16 166 437	12 781 051
issued by local government bodies	4 344 647	4 480 325
issued by non-financial institutions	3 265 314	3 475 594
issued by banks	1 526 489	1 224 132
Investment securities held to maturity	245 247	233 358
issued by the State Treasury	216 377	233 358
issued by banks	28 870	-
Other assets - other financial assets	737 741	710 349
Total	**241 459 598**	**233 876 540**

Off-balance sheet items	30.06.2015	31.12.2014
Irrevocable liabilities granted	28 934 586	27 730 846
Guarantees granted	7 456 502	9 265 599
Guarantees of issuance	4 681 489	4 571 158
Letters of credit granted	2 016 595	702 768
Total	**43 089 172**	**42 270 371**

(IN PLN THOUSAND)

47.3. Financial assets assessed on an individual basis for which individual impairment has been recognised by carrying amount gross

	30.06.2015	31.12.2014
Loans and advances to customers	5 645 907	5 615 878
financial sector	4 453	5 609
corporate loans	4 453	5 609
non-financial sector	5 621 715	5 593 388
corporate loans	4 187 188	4 134 858
housing loans	1 225 181	1 248 389
consumer loans	98 577	99 297
debt securities	110 769	110 844
Public sector	19 739	16 881
corporate loans	19 739	16 881
Financial assets available for sale	4 188	60
issued by financial entities	4 144	5
issued by non-financial entities	44	55
Total	**5 650 095**	**5 615 938**

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.

47.4. 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 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. According to Article 71, item 1 of the Banking Law, 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 concentration limit, which is 25% of the recognised consolidated equity.

As at 30 June 2015 and as at 31 December 2014, those concentration limits had not been exceeded. As at 30 June 2015, the level of concentration risk in Group with respect to individual exposures was low – the largest exposure to a single entity was equal to 11.6% of the recognised consolidated equity. Among 20 largest borrowers of the Group there are exclusively clients of PKO Bank Polski SA.

Concentration by the largest capital groups

The greatest exposure of the PKO Bank Polski SA Group towards a capital group of borrowers amounted to 1.23% of the Group's loan portfolio. The 5 largest capital groups include only clients of PKO Bank Polski SA.

As at 30 June 2015 and 31 December 2014, the concentration risk level by the capital groups was low - the greatest exposure concentration of the Group amounted to 11.6% and 11.4% of the Group's recognised equity.

Concentration by industries

As compared with 31 December 2014 the exposure of the Group in industry sectors has increased by approx. PLN 1.1 billion. The total exposure in the four largest industry sectors: 'Industrial processing', 'Maintenance of real estate', 'Wholesale and retail trade' and 'Public administration and national defence' amounted to approx. 57% of the total loan portfolio covered by an analysis of the sector

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 Group due to the Bank's client area – a separate area for the retail market (ORD) a separate area for the corporate and investing banking (OKI).

11 geographical regions are distinguished within ORD. As at 30 June 2015, the largest concentration of the ORD loan portfolio occurs in region of Warsaw and Katowice (ca. 25% of the ORD portfolio).

Within OKI, the Bank distinguishes 7 macro-regions and the headquarters. As at 30 June 2015, the largest concentration of the OKI loan portfolio occurs in the Bank's headquarter and in the central macro-region (27% and 12% of the OKI loan portfolio, respectively).

Concentration of credit risk by currency

As at 30 June 2015, the share of exposure in convertible currencies, other than PLN, in the total portfolio of the Group amounted to 26.5%.

The greatest part of the Group's currency exposures are those in CHF and they relate mainly to the loan portfolio of the Bank. In case of the Group entities, the situation is different, i.e. in the foreign currency portfolio of the BTK SA and PKO Leasing SA Group, the greatest currency exposures are those in EUR (96% and 88% of the foreign currency portfolio of these Groups, respectively). Whereas, for the KREDOBANK SA Group and in the company Finansowa Kompania 'Prywatne Inwestycje' (i.e. entities operating in Ukraine) - USD denominated loans constitute the largest part (64% and 83% of the foreign currency loan portfolio of these entities, respectively).

Other types of concentration

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 the credit risk.

As at 30 June 2015, these limits have not been exceeded.

47.5. *Forbearance* practices

The Bank 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). The aim of the *forbearance* is to restore a debtor or an issuer the ability to correct execution of the agreement and to maximise the efficiency of non-performing loans management, i.e. obtaining the highest recoveries while minimising the incurred costs, related to these recoveries, which are very high in case of executive proceedings.

Forbearance activities include a change in payment terms which is individually agreed on an each contract basis. Such changes may concern:

- spreading of debt repayable into instalments,
- change in a repayment schedule,
- suspending of payment,
- change in payments formulas (annuity instalments, diminishing instalments),
- change in interest rates,
- changes in profit margins,
- loans reduction,
- change in withdrawal period,
- extension of loan period.

One of *forbearance* practices is evaluation of the ability of a debtor to fulfil the *forbearance* agreement conditions (debt repayment according to the agreed schedule) constitutes an element of the forbearance process. Concluded *forbearance* agreements are monitored on an on-going basis. Signing of the *forbearance* agreement, amending the contractual terms due to the financial difficulties of a debtor or an issuer, is one of indications of individual impairment and results in the necessity of analysing the situation in terms of recording impairment charges or provisions revaluating the exposure value resulting from this fact.

Loans and advances cease to be subject of *forbearance* if the following conditions are met simultaneously:

- 12 subsequent instalments were paid according to schedule (for the needs of forborne - payment according to schedule is defined as a payment of each instalment after no later than 30 days after the payment date specified in the schedule)
- at least 24 months have passed since the *forbearance* agreement signing,
- impairment loss in the value of exposition is not identified.

In a case of full repayment or termination of loan agreement, the *forbearance* ceases to apply without requirement of any additional conditions.

In the first half of 2015, the Bank implemented recognition and reporting of expositions (*forbearance*) in main IT systems,

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

	Carrying amount	
	30.06.2015	31.12.2014
Loans and advances to customers, gross	193 688 261	187 519 861
of which forbearance:	5 730 088	6 362 627
financial sector	283	395
corporate loans	283	395
non-financial sector	5 697 120	6 361 873
corporate loans	3 114 836	3 532 698
housing loans	2 024 724	2 165 214
consumer loans	557 560	663 961
public sector	32 685	359
corporate loans	32 685	359
Impairment allowances on loans and advances to forbearance customers	(994 899)	(874 529)
Loans and advances to customers, net forbearance	4 735 189	5 488 098

Loans and advances to customers subjected to forbearance by geographical region (gross)	30.06.2015	31.12.2014
Poland	5 618 227	6 247 687
mazowiecki	1 322 099	1 105 817
wielkopolski	502 565	567 210
śląsko-opolski	599 649	810 421
małopolsko-świętokrzyski	491 641	591 786
pomorski	332 479	329 279
podlaski	315 584	510 572
łódzki	620 579	702 648
dolnośląski	356 950	413 129
kujawsko-pomorski	307 298	353 423
zachodnio-pomorski	470 564	559 192
lubelsko-podkarpacki	274 631	276 533
warmińsko-mazurski	24 188	27 677
Ukraine	111 861	114 940
Total	5 730 088	6 362 627

Loans and advances to customers subjected to forbearance	Exposure by gross carrying amount	
	30.06.2015	31.12.2014
Loans and advances impaired	2 740 696	2 404 248
Loans and advances not impaired, of which:	2 989 392	3 958 379
not past due	2 271 209	3 123 966
past due	718 183	834 413
Total gross	5 730 088	6 362 627

Change in carrying amounts of loans and advances to customers subject to forbearance at the beginning and at the end of the period

For the period ended 30 June 2015	Total
Carrying amount at the beginning of the period, net	5 488 098
Impairment allowance	(130 953)
Loans and advances derecognised in the period, gross	(1 121 988)
Loans and advances recognised in the period, gross	761 688
Other changes/repayment	(248 986)
Change in interest rate	(12 670)
Carrying amount at the end of the period, net	4 735 189

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

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)
Change in interest rate	(39 379)
Carrying amount at the end of the period, net	**5 488 098**

The amount of recognised interest income related to loans and advances to customers, which are subject to *forbearance* amounted to PLN 129 029 thousand as at 30 June 2015.

47.6. Allowances for credit losses

The PKO Bank Polski SA Group performs a monthly review of loan exposures in order to identify loan 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 Group's 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 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 payment of the 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 are forced by economic or legal considerations arising from its financial situation).

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.

47.7. Impairment estimating methods

The PKO Bank Polski SA Group 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 no objective evidence of individual impairment was identified, but there is a possibility of losses incurred but not recognised occurring.

Impairment allowances 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 charge in respect of loan exposures assessed on a 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.

47.8. Off-balance sheet provisions

With regard to off-balance sheet credit exposures, the 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 off-balance sheet 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.

The structure of the loan portfolio and impairment allowances of the PKO Bank Polski SA Group's loan exposures are presented in the table in the note 21 'Loans and advances to customers'.

47.9. Management of foreclosed collateral

Foreclosed collaterals as a result of restructuring or debt collection activities are either used by the Group for internal purposes or designated for sale. Details of the foreclosed assets are analysed in order to determine whether they can be sold or 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 30 June 2015 and 30 June 2014, respectively, were designated for sale.

Activities undertaken by the Group are aimed at selling assets as soon as possible. In individual and justified cases, assets may be withheld from sale. This occurs only if circumstances indicate that the sale of the assets at a later date is likely to generate greater financial benefits. The primary procedure for a sale of assets is open auction. Other procedures are acceptable in cases where they provide a better chance of finding a buyer and generate higher proceeds for the Group.

The Group takes steps to disseminate broadly to the public the information about assets being sold by publishing it on the Group's website, placing announcements in the national press, using Internet portals i.a. Internet auctions and sending offers. In addition, the Group cooperates with external firms operating all over Poland in respect of collection, transportation, storage and intermediation in the sale of assets taken over by the Group as a result of restructuring and debt collection activities. The Group has also entered into cooperation agreements with external companies, which perform valuations of the movable and immovable properties that the Group has foreclosed or would like to foreclose in the course of realisation of collateral.

47.10. Credit risk reporting

The Bank prepares monthly and quarterly credit risk reports. The reporting of credit risk covers cyclic information on the scale of risk exposure of the credit portfolio. In addition to the information concerning the Bank, the reports also contain information about the credit risk level of the Group's subsidiaries (i.a. KREDOBANK SA and the PKO Leasing SA Group), which have a significant credit risk level.

47.11. 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 amount, 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 a retail client) or the client's rating class or cumulative rating class (for a corporate client), which a client must obtain to receive a loan,
- concentration limits – the limits defined in the Article 71, item 1 of the Banking Law,
- industry-related limits – limits which reduce the risk level related to financing corporate clients that conduct business activities in industries characterised by high level of credit risk,
- limits on credit exposures related to the Bank's customers – the limits defining the appetite for credit risk as result of i.a. the Recommendations S and T,
- credit limits defining the Bank's maximum exposure to a given counterparty 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 credit 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 plays a significant role in establishing minimum transaction terms as regards credit risk. The Bank's and the Group entities collateral management policy is aimed to secure properly the credit risk to which the Group is exposed, including first of all the establishing collateral that will ensure the highest possible level of recovery in the event of realisation of collateral.

The Bank applies the following rules with respect to accepting legal collateral for loan exposures:

- in the case of substantial loans (in terms of value), several types of collateral are established, if possible, personal guarantees are combined with collateral established on tangible assets,
- liquid types of collateral i.e. collateral established on tangible assets, which the disposal 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 because of the appropriate prices fluctuation of a particular collateral are preferred,
- when tangible asset is accepted as collateral, an assignment of rights from the insurance policy relating to this asset or the insurance policy for 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 legal collateral is defined by internal regulations of the Group's subsidiaries.

The type of collateral depends on the product and the type of the client. With regard to real estate financing products, collateral is required to be established as mortgage on the property. Until an effective mortgage is established, the following types of collateral are used (depending on type and amount of loan): an increased credit margin or/and a collateral in the form of a cession of receivables related to the construction agreement, a cession of a development contract and an open/closed fiduciary account/guarantee, bill of exchange or warranty.

With regard to retail banking loans for individuals, usually personal guarantees are used (a civil law surety/guarantee, a bill of exchange) or collateral is established on the client's bank account, car or securities.

With regard to loans for the financing of small and medium enterprises and corporate clients, collateral can be established on i.a.: trade receivables, bank accounts, movable property, real estate or securities.

When signing a leasing agreement, the PKO Leasing SA Group, as a proprietor of leased objects, treats them as collateral.

48. Interest rate risk management

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

The objective of interest rate risk management is to mitigate the risk of incurring 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

48.1. Measurement of interest risk rate

In the process of interest rate risk management, the 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 structure of 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.

The sensitivity of interest income is a measure showing changes in interest income resulting from abrupt changes in the 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 held 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 movement in interest rate curves for the particular currencies by ±50 b.p., ±100 b.p., ±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.

48.2. Forecasting and monitoring of interest rate risk

As at 30 June 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	30.06.2015	31.12.2014
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)*	249 695	282 268
Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress-test)**	2 106 804	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 9 949 thousand as at 30 June 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 30 June 2015 the interest rate VaR for a 10-day time horizon (10-day VaR) amounted to PLN 249 695 thousand, which accounted for approximately 0.92% 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 the capital adequacy ratio.

48.3. Reporting of 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.

48.4. Management decisions in regards to interest 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.

49. 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.

49.1. Measurement of 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 position and foreign exchange rate volatility under the assumed confidence level and taking into account the correlation between the risk factors.

Stress-tests and crash-tests are used to estimate potential losses arising from currency position under extraordinary 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 assume a hypothetical appreciation or depreciation of currency rates (by 20 percent and 50 percent),
2) historical scenarios – based on the behaviour of foreign exchange rates observed in the past.

49.2. Forecasting and monitoring of currency risk

VaR of the Bank and stress-testing of the Group's exposure to currency risk are stated cumulatively for all currencies in the table below:

Name of sensitivity measure	30.06.2015	31.12.2014
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)*	8 524	6 230
Change in CUR/PLN by 20% (in PLN thousand) (stress-test)**	21 060	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 3 527 thousand as at 30 June 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	30.06.2015	31.12.2014
EUR	(183 888)	(216 994)
USD	(52 044)	(113 960)
CHF	(38 406)	(36 566)
GBP	1 757	5 009
Other (Global Net)	159 443	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 30 June 2015 amounted to ca. 0.03%).

49.3. Reporting of 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.

49.4. Management actions 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.

50. 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.

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

50.1. Measurement of liquidity risk

The Group makes use of the following liquidity risk measures:

- the contractual and adjusted liquidity gap in real terms,
- liquidity reserve,
- measure of stability of deposit and loan portfolios,
- stress-tests (liquidity stress-tests).

50.2. 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
30.06.2015								
The Group - Adjusted periodic gap	12 140 177	13 046 468	(393 614)	(518 061)	7 509 897	12 404 453	7 891 616	(52 080 936)
The Group - Adjusted cumulative periodic gap	12 140 177	25 186 645	24 793 031	24 274 970	31 784 867	44 189 320	52 080 936	-
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 30 June 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 30 June 2015 and as at 31 December 2014:

Name of sensitivity measure	30.06.2015	31.12.2014
Liquidity reserve up to 1 month* (in PLN million)	20 179	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 30 June 2015 the level of permanent balances on deposits constituted approx. 93.4% of all deposits in the Bank (excluding interbank market), which means a decrease by approx. 1.31 p.p. as compared to the end of 2014

50.3. Reporting of liquidity risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing liquidity risk. The quarterly reports are also applicable to the Group. Reports gather the information on liquidity risk exposure and updates on available limits regarding the risk.

50.4. 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.

51. 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 appropriate influencing the structure of statement of financial position and off-balance sheet commodity positions.

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.

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

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

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

The Bank prepares monthly and quarterly reports addressing equity securities price risk. Reports comprise the information on equity securities price risk exposure and usage of available limits regarding the risk.

53. Other price risks

Taking into consideration other price risks, as at 30 June 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 requirement as regards own funds, pursuant to the Regulation No. 575/2013 of the European Parliament and of the Council, to cover the above-mentioned risk amounted to approx. PLN 1.5 million as at 30 June 2015. The increase in relation to the requirement as at 31 December 2014 results from the purchased collective investment funds participation units.

54. Derivative instruments risk management

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

54.1. Measurement of the derivative instruments risk

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

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

54.2. 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.

54.3. 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.

54.4. 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.

55. 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 consideration legal risk yet does not comprise reputation risk and business risk.

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

The Group 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.

55.1. Measurement 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),
- calculation of own funds requirement in respect of operational risk in accordance with the AMA approach,
- 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,
- result of inspections, monitoring and cooperation with entities of the Group, as well as operational risk reporting, including the control by internal and safety audits,

55.2. Forecasting and monitoring of operational risk

Monitoring of operational risk aims at controlling operational risk and diagnosis of areas requiring management actions.

The Bank regularly monitors in particular:

- utilisation level of strategic tolerance limits for the Group and operational risk losses limits for the Bank,
- operating events and their effects,
- results of operational risk self-assessment,
- own funds requirement in respect of operational risk for the Bank – using the Advanced Measurement Approach (AMA), and for the Group entities conducted financial operations - the Basic Index Approach (BIA),
- results of stress-tests,
- Key Risk Indicators (KRI) in relation to threshold and critical values,
- effectiveness and timeliness of actions taken to reduce or transfer the operational risk,
- management activities concerning increased or high operational risk occurrence, as well as their effectiveness in regard to reduction of operational risk level.

In the first half of 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 Qualia Development Sp. z o.o. Group and the KREDOBANK SA Group. Other Group entities, considering their significantly smaller scale and type of activity, generate only reduced operational risks.

55.3. 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 Supervisory Board's Audit Committee and the Supervisory Board,
- external supervisory and control,

Reporting on information concerning operational risk of the Bank and Group's subsidiaries for the Bank's internal purposes is performed on a quarterly basis. Recipients of quarterly reports are ORC, RC, the Management Board, the Supervisory Board's Audit Committee and the Supervisory Board. Quarterly reports contain in particular information on:

- the results of measuring and monitoring of operational risk,
- the operational risk profile of the Bank resulting from the process of identifying and assessing the threats for products, processes and applications of the Bank,
- operational risk level and instruments used for operational risk management,
- 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.

55.4. Management decision concerning operational risk

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 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 data about operational events that occurred at the Bank and other banks together with their causes and results, data on the factors of the business environment, results of operational risk self-assessment, data on the key operational risk indicators (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 distribution),
2) human resources management instruments (staff selection, enhancement of professional qualification of employees, motivation packages),
3) setting threshold and critical values of Key Risk Indicators (KRI),
4) the Group's strategic tolerance limits and the Bank's limits for operational risk losses,
5) contingency plans,
6) insurance,
7) outsourcing.

Management actions are taken under the following cases:

- on ORC's initiative,
- on the initiative of organisational units and cells of the Bank managing operational risk,
- when there is a reasonable probability that the risk will exceed either moderate or high level or when exceedance of these levels have occurred.

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 process of operational risk management is a subject to internal control system including:

- review of strategy and process of operational risk management,
- self-assessment of compliance with AMA approach requirements,
- validation of AMA approach,
- internal audit.

56. Compliance risk mangement

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

The objective of the compliance risk management is ensuring the Group proper application the provisions of the law, adopted standards of conduct 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 operating 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,
- promotion 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.

56.1. Monitoring of compliance risk

Monitoring of compliance risk is carried out with the use of the information provided by the Companies and consists of:

- the 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. The reports prepared on a quarterly basis 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 Audit Committee of the Supervisory Board. The reports include information i.a. on:

- the results of identification and assessment of compliance risk,
- the cases of non-compliance,
- the most important changes in the regulatory environment.

The entities of the Group have adopted a zero tolerance policy against compliance risk, which means that the Group focuses its actions towards elimination of this risk.

57. Business risk management

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

Managing the business risk is aimed at maintaining, on an acceptable level, the potential negative financial consequences resulting from adverse changes in the business environment, making adverse decisions, improper implementation of adopted decisions or lack of appropriate actions, which would be a response to changes in the business environment.

57.1. 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. The 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 the 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 comprises:

- 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 'Earnings at risk' concept (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.

57.2. 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.

57.3. 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 annual 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.

57.4. Management decisions 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.

58. 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 losses and limiting the negative effect of image-related events on the Group's reputation.

Reputation risk management in the Group includes mainly:

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

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

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

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

59. Model risk management

Model risk is the risk of incurring negative financial or reputation effects as a result of making incorrect business decisions on the basis of the models operating within the Bank. 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 losses resulting from incorrect business decisions on the basis of models operating in the Group with the use of properly designed and implemented model management process. Companies in which model risk is considered to be material, after consulting the Bank, introduce appropriate internal regulations governing the model risk management policies and process. 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 of the Bank are subject to regular, independent validation, while models material to the Group are subject to independent validation by validation unit of PKO Bank Polski SA.

59.1. Identification and assessment of model risk

Identification of model risk 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.

Ratings may be aggregated mainly at the level of the Bank, the Entity or the Group, particular risk types or classes of models. 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.

59.2. Model risk monitoring and reporting

The purpose of model risk monitoring is to control model risk and diagnose areas requiring management actions. Model risk monitoring process contains, in particular: the update of level of model risk, the verification of status of implementation of the planned recommendations and the valuation of effectiveness of implementation of the recommendations on mitigation of model risk. Monitoring results on the Bank's and Group's levels are periodically presented in the reports addressed to the RC, the Management Board. The reports include a complex model risk assessment, in particular:

- information on the level of model risk (in the 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.

59.3. Management 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 in 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.

60. Macroeconomics 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 Bank's activities and taking actions to reduce the adverse impact of potential changes in the macroeconomic situation on the financial situation of the Bank.

60.1. Identification and assessment of macroeconomic changes risk

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 Bank. Risk of macroeconomic changes results from interaction of factors dependent and independent of the Bank'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 Bank'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 Bank uses risk measures based on the results of comprehensive stress-tests, in particular:

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

60.2. Macroeconomic changes risk monitoring

A process of risk of macroeconomic changes monitoring includes monitoring of:

- changes in the macroeconomic situation,
- macroeconomics factors on which the Bank is sensitive,
- results of stress-tests,
- level of risk of macroeconomic changes.

60.3. 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 and the Management Board. Reports include information i.a.:

- 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.

60.4. Management actions concering macroeconomic changes risk

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.

61. 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 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 account of the assumptions behind 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 account of the assumptions behind the dividend policy as well as the supervisory instructions and recommendations concerning capital adequacy.
The levels of capital adequacy measures as well as the levels and structure of the Bank’s own funds are presented in the note 64 ‘Capital adequacy’.

62. 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 insurance risk on an acceptable level and to limit potential loss from adverse change in the value of insurance liabilities.

62.1. 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 catastrophic risk is limited by i.a. regional diversity,
- the contracts withdrawal risk relates primarily to insurance products with Insurance Capital Funds. Based on data from first half of 2015 the level of contracts withdrawal is assessed as stable.

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, PKO Życie performs analyses of exposure to insurance risks in the process of Quantitative Impact Studies (QIS) supervised by the PFSA Office.

62.2. 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 101% at the end of first half 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 slightly above 100%.

62.3. 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 and Liabilities Management Committee and for Risk Committee.

62.4. Management actions concerning insruance 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.

63. 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 Bank on the financial position of the PKO Bank Polski SA Group, in particular on:

- income statement,
- statement of financial position,
- own funds,
- the capital adequacy, 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.

64. Capital adequacy

Capital adequacy is a process which objective is to ensure that, for a given level of risk tolerance, the level of risk assumed by the Bank associated with development of its business activity may be covered with capital held within given time horizon. The process of managing capital adequacy comprises in particular compliance with prevailing supervisory standards and risk tolerance level determined within the Bank, the process of capital planning, inclusive of policy regarding capital acquiring sources.

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

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

- identifying and monitoring of all of significant risks,
- assessing internal capital to cover the 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 of 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 regulation applicable in the capital adequacy assessment process as at 30 June 2015 is the Regulation (EU) No. 575/2013 of the European Parliament and of the Council as of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending the Regulation (EU) No. 648/2012, hereinafter called 'CRR Regulation'. 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 (hereinafter called 'CRD Directive'). In contrast to the CRR Regulation which is directly applicable, the CRD Directive must be implemented within the national law.

As at 30 June 2015 the Banking Law has not been amended yet and the work on amending the Act implementing CRD IV regulation is currently ongoing. In case of conflict between provisions of the CRR Regulation and national regulations, precedence is given to the CRR Regulation.

In accordance with the CRR Regulation for the purposes of capital adequacy a prudential consolidation is applied, which unlike the consolidation consistent with International Financial Reporting Standards, comprises Bank's subsidiaries being institutions and financial institutions. Non-financial and insurance entities are excluded from prudential consolidation.

In accordance with the CRR Regulation, for the purpose of prudential consolidation the Group comprises: PKO Bank Polski SA, PKO Leasing SA, PKO BP Faktoring SA, PKO BP BANKOWY PTE SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, KREDOBANK SA, PKO Finance AB, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and PKO Bank Hipoteczny SA, which are the components of consolidation in accordance with IFRS.

As at 30 June 2015 capital adequacy measures were calculated in accordance with the provisions of the CRR Regulation, including i.a. as regards the scope of consolidation taking into account known to the Bank and planned to implement national options. As at 30 June 2015 the Bank meets requirements relating to capital adequacy measures defined within the CRR Regulation.

The Group's capital adequacy level in the first half of 2015 was maintained at safe level, significantly above regulatory limits.

64.1. Own funds for capital adequacy purposes

Own funds of the Group for the purposes of capital adequacy were calculated in accordance with the provisions of the CRR Regulation.

Own funds of the Group comprise Tier 1 basic funds and Tier 2 supplementary funds. No elements of additional Tier 1 capital are identified within the Group.

The Tier 1 basic funds (so-called Common Equity Tier 1 or CET1) comprise:

1) principal funds comprising:
    a. share capital,
    b. other reserves (reserve capital, reserves),
    c. other comprehensive income (excluding of gains and losses on cash flow hedges),
2) general banking risk fund,
3) retained earnings (undistributed profits from previous years),
4) 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 funds are 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) deferred income tax assets based on future profitability and not arising from temporary differences,

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5) 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),
6) the Bank's significant direct and indirect equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies, expressed as shares or other Tier 1 basic funds instruments of these entities (apart from exposures constituting structural positions), which total amount exceeds 10% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets),
7) the amount by which the sum of:
   a) deferred income 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 tax assets) and
   b) the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies, expressed as Tier 1 basic funds instruments of these entities, up to 10% of Tier basic funds (without considering deductions due to equity exposures and deferred income tax assets)

   exceeds the equivalent of 17.65% of the Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets), as well as total amount of items specified in points 8a and 8b without applying the threshold. The amount below the threshold in subject does not reduce own funds and is included within risk weighted assets.

Tier 2 supplementary funds 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 supplementary funds are 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 supplementary funds instruments of these entities. If the value of deductions would decrease in Tier 2 supplementary funds below nil, the value of excess of these deductions above the value of the Tier 2 supplementary funds is subtracted from the Tier 1 basic funds.

GROUP'S OWN FUNDS	30.06.2015	31.12.2014
Basic funds (Tier 1)	24 770 143	22 348 472
Share capital	1 250 000	1 250 000
Other reserves	24 120 332	22 126 506
Other comprehensive income	(415 497)	(290 466)
General banking risk fund	1 070 000	1 070 000
Retained earnings	1 589 543	1 175 718
Deferred income tax assets, dependent on future profitability, not derived from temporary differences	(4 988)	(11 576)
Goodwill	(1 102 497)	(1 102 497)
Other intangible assets	(1 696 148)	(1 833 506)
Equity exposures deducted from own funds	-	-
Additional valuation adjustments of assets measured at fair value	(40 602)	(35 707)
Supplementary funds (Tier 2)	2 505 930	2 394 713
Subordinated liabilities classified as supplementary funds	2 505 930	2 394 713
Equity exposures deducted from own funds	-	-
TOTAL OWN FUNDS	27 276 073	24 743 185

64.2. Requirements concerning own funds (Pillar 1)

In accordance with the CRR Regulation on prudential requirements for credit institutions and investment firms 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 – using the advanced measurement approach (AMA), and for the Group entities carrying financial entities - the basic index approach (BIA),
- in respect of market risk - using basic methods.

The Group calculates requirements as regards own funds on account of credit risk according to the following formula:

- in case of statement of financial position items – a product of a carrying amount, a risk weight of the exposure calculated according to the standardised method of the requirement as regards own funds in respect of credit risk and 8% (considering recognised collaterals),
- in case of off-balance sheet liabilities granted– a product of value of liability (considering value of provisions for the liability), a risk weight of the product, a risk weight of off-balance sheet exposure calculated according to the standardised method of credit risk requirement and 8% (considering recognised collaterals),
- in case of off-balance sheet transactions (derivative instruments) – a product of risk weight of the off-balance sheet exposure calculated according to the standardised method of the requirement as regards own funds in respect of credit risk, equivalent in the statement of financial position of off-balance sheet transactions 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 capital requirements for:

1) credit risk, including credit risk of the instruments from the banking book, counterparty credit risk,
2) market risk,
3) risk of credit valuation adjustment (CVA),
4) settlement and delivery risk,
5) operational risk,
6) exceeding the large exposure limit.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015 (IN PLN THOUSAND)

Capital requirements	30.06.2015	31.12.2014
Credit risk	14 352 996	13 882 607
Market risk	591 842	585 337
Credit valuation adjustment risk	32 428	42 375
Settlement/delivery risk	-	68
Operational risk	743 675	759 212
Total capital requirements	15 720 941	15 269 599
Total capital adequacy ratio	**13.88%**	**12.96%**
Tier 1 capital ratio	**12.60%**	**11.71%**

64.3. Capital requirements for insurance companies

The PKO Bank Polski SA Group comprises an insurance company, PKO Życie TU S.A., 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.

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	30.06.2015	31.12.2014
Own funds	115 288	73 962
Solvency margin	51 654	51 479
Guarantee fund:	17 218	17 160
Minimum amount of the guarantee fund	15 939	15 403
One third of solvency margin	17 218	17 160
Surplus/deficit of own funds to cover the solvency margin	63 634	22 483
Surplus/deficit of own funds to cover the guarantee fund	98 070	56 802

64.4. Internal capital (Pillar 2)

The Group calculates internal capital in accordance with:

- the CRR Regulation,
- the CRD Directive,
- the resolution No 258/2011 of the Polish Financial Supervision Authority 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 persons holding managerial positions in the Bank.

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 intended to cover each of the significant risk types:

- credit risk (including default and concentration risk),
- currency risk,
- interest rate risk,
- liquidity risk,
- operational risk,
- business risk (taking into consideration 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 activities of the Bank 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 the first half of 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.

64.5. Disclosures (Pillar 3)

The Group annually announces information, in particular, on the risk management and the capital adequacy, in accordance with:

- the CRR Regulation,
- implementing acts to the CRR Regulation in the national legislation,
- the banking law act,
- the national legislation acts transposing the provisions of the CRD Directive
- the Recommendation M relating to operational risk management in banks, issued by the Polish Financial Supervision Authority,

On the quarter basis the Bank presents the data about combined capital ratio, the amount and structure of own funds, requirements in terms of own funds and risk profile.

Details of the scope of information disclosed, the method of its verification and publication are presented in the 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).

65. Information on loan bundle sale

The Bank did not enter any securitisation transactions, although in the first half of 2015 the Bank 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 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 nearly 346 retail loans secured with mortgages in relation to individuals who do not conduct business activities with a total debt of PLN 132 million, EUR 49.7 thousand, USD 441 thousand and CHF 37.7 million.
  In the first quarter of 2014, over 10 thousand retail loans in relation to individuals who do not conduct business activities (including credit cards loans), with a total debt of PLN 191.6 million, EUR 495 thousand and CHF 10.7 million and nearly 890 corporate loans with a total debt of PLN 107,9 million, EUR 34 thousand and CHF 360 thousand;
- in the second quarter of 2015, over 10.7 thousand retail loans in relation to individuals who do not conduct business activities (including credit cards loans), with a total debt of PLN 178.7 million, EUR 304.2 thousand and CHF 3.7 million and nearly 851 corporate loans with a total debt of PLN 102 million, EUR 0.3 thousand, CHF 283 thousand and USD 214.6 thousand, as well as 30 loans from institutional clients with a total debt of over PLN 100.3 million.
  In the second quarter of 2014 – 182 retail retail loans secured with mortgages in relation to individuals who do not conduct business activities with a total debt of PLN 26.7 million, EUR 154 thousand and CHF 4.5 million; and nearly 830 corporate loans with total debt of PLN 80.2 million, EUR 61 thousand, CHF 68.5 thousand and USD 0.6 thousand, as well as 83 loans from institutional clients with a total debt of PLN 216 million, EUR 2.8 million and CHF 637 thousand.

The total carrying amount of the provision for potential claims on impaired loan portfolios sold as at 30 June 2015 amounted to PLN 1 774 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 Group derecognised these assets.

EVENTS AFTER THE REPORTING PERIOD

66. Events after the reporting period

There were no significant events after the reporting period.affecting the Group

Signatures of all Members of the Bank's Management Board

04.08.2015	Zbigniew Jagiełło	President of the Management Board	.... (signature)
04.08.2015	Piotr Alicki	Vice-President of the Management Board	.... (signature)
04.08.2015	Bartosz Drabikowski	Vice-President of the Management Board	.... (signature)
04.08.2015	Piotr Mazur	Vice-President of the Management Board	.... (signature)
04.08.2015	Jarosław Myjak	Vice-President of the Management Board	.... (signature)
04.08.2015	Jacek Obłękowski	Vice-President of the Management Board	.... (signature)
04.08.2015	Jakub Papierski	Vice-President of the Management Board	.... (signature)

Signature of person responsible for maintaining the books of account

04.08.2015

Danuta Szymańska
Director of the Accounting Division

....
(signature)