Bank Polski

Financial Statements of PKO Bank Polski SA for the year ended 31 December 2014

Report publication date:
16 March 2015

Bank Polski

SELECTED FINANCIAL DATA DERIVED FROM THE FINANCIAL STATEMENTS

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	period from 01.01.2014 to 31.12.2014	period from 01.01.2013 to 31.12.2013	period from 01.01.2014 to 31.12.2014	period from 01.01.2013 to 31.12.2013
Net interest income	6 948 853	6 580 450	1 658 715	1 562 681
Net fee and commission income	2 614 589	2 655 482	624 111	630 606
Operating profit	3 810 738	3 959 845	909 636	940 357
Profit before income tax	3 810 738	3 959 845	909 636	940 357
Net profit	3 079 471	3 233 762	735 080	767 932
Earnings per share for the period – basic (in PLN/EUR)	2.46	2.59	0.59	0.61
Earnings per share for the period – diluted (in PLN/EUR)	2.46	2.59	0.59	0.61
Total net comprehensive income	3 295 911	2 986 425	786 745	709 196
Net cash flows used in operating activities	(452 325)	(1 092 517)	(107 971)	(259 444)
Net cash flows used in investing activities	(9 034 934)	(756 946)	(2 156 669)	(179 754)
Net cash flows generated from/used in financing activities	14 895 337	(1 741 269)	3 555 567	(413 505)
Net cash flows	5 408 078	(3 590 732)	1 290 926	(852 703)

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 31.12.2014	as at 31.12.2013	as at 31.12.2014	as at 31.12.2013
Total assets	243 760 527	196 279 932	57 189 904	47 328 302
Total equity	27 602 156	25 111 242	6 475 883	6 054 987
Share capital	1 250 000	1 250 000	293 269	301 408
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	22.08	20.09	5.18	4.84
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)	22.08	20.09	5.18	4.84
Capital adequacy ratio	13.37%	13.38%	13.37%	13.38%
Basic funds (Tier 1)	22 558 648	19 346 921	5 292 600	4 665 056
Supplementary funds (Tier 2)	2 321 062	1 022 720	544 556	246 605
Short-term equity (Tier 3)	-	154 112	-	37 160

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

- the income statement, the statement of comprehensive income and the statement of cash flows items – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month of 2014 and 2013, respectively: EUR 1 = PLN 4.1893 and EUR 1 = PLN 4.2110,
- the statement of financial position items – average NBP exchange rate as at 31 December 2014: EUR 1 = PLN 4.2623 and as at 31 December 2013: EUR 1 = PLN 4.1472.

Bank Polski

TABLE OF CONTENTS

Bank Polski

INCOME STATEMENT

	Note	2014	2013
Continuing operations			
Interest and similar income	4	9 908 359	10 487 279
Interest expense and similar charges	4	(2 959 506)	(3 906 829)
Net interest income		6 948 853	6 580 450
Fee and commission income	5	3 613 576	3 650 758
Fee and commission expense	5	(998 987)	(995 276)
Net fee and commission income		2 614 589	2 655 482
Dividend income	6	91 465	96 049
Net income from financial instruments measured at fair value	7	57 967	54 389
Gains less losses from investment securities	8	161 651	66 909
Net foreign exchange gains (losses)		324 895	237 638
Other operating income	9	154 452	639 615
Other operating expense	9	(94 827)	(62 354)
Net other operating income and expense		59 625	577 261
Net impairment allowance and write-downs	10	(1 980 723)	(2 087 567)
Administrative expenses	11	(4 467 584)	(4 220 766)
Operating profit		3 810 738	3 959 845
Profit before income tax		**3 810 738**	**3 959 845**
Income tax expense	12	(731 267)	(726 083)
Net profit		3 079 471	3 233 762

Earnings per share	13		
- basic earnings per share for the period (PLN)		2.46	2.59
- diluted earnings per share for the period (PLN)		2.46	2.59
Weighted average number of ordinary shares during the period (in thousand)		1 250 000	1 250 000
Weighted average diluted number of ordinary shares during the period (in thousand)		1 250 000	1 250 000

Discontinued operations

In years 2014 and 2013, PKO Bank Polski SA did not have discontinued operations.

STATEMENT OF COMPREHENSIVE INCOME

	Note	2014	2013
Net profit		3 079 471	3 233 762
Other comprehensive income		216 440	(247 337)
Items that may be reclassified to the income statement		217 450	(239 661)
Cash flow hedges (gross)	19	161 478	(219 126)
Deferred tax on cash flow hedges	12	(30 681)	41 634
Cash flow hedges (net)		130 797	(177 492)
Unrealised net gains on financial assets available for sale (gross)	8;22	106 978	(76 749)
Deferred tax on unrealised net gains on financial assets available for sale	12	(20 325)	14 580
Unrealised net gains on financial assets available for sale (net)		86 653	(62 169)
Items that may not be reclassified to the income statement		(1 010)	(7 676)
Actuarial gains and losses (net)		(1 010)	(7 676)
Actuarial gains and losses (gross)		(1 247)	(9 477)
Deferred tax	12	237	1 801
Total net comprehensive income		3 295 911	2 986 425

Bank Polski

STATEMENT OF FINANCIAL POSITION

	Note	31.12.2014	31.12.2013
ASSETS			
Cash and balances with the central bank	15	11 698 248	7 188 406
Amounts due from banks	16	2 608 547	2 089 087
Trading assets	17	1 928 659	484 485
Derivative financial instruments	18	5 483 508	3 002 220
Financial assets designated upon initial recognition at fair value through profit and loss	20	13 417 667	15 179 188
Loans and advances to customers	21	177 557 571	147 372 326
Investment securities available for sale	22	22 092 136	13 736 698
Investments in subsidiaries, joint ventures and associates	23	1 813 774	1 578 926
Non-current assets held for sale	24	416 760	145 657
Intangible assets	25	2 898 612	1 944 132
Tangible fixed assets, of which:	26	2 251 373	2 296 981
investment properties		184	187
Current income tax receivables	12	94 343	201 212
Deferred income tax asset	12	671 404	387 192
Other assets	27	827 925	673 422
TOTAL ASSETS		243 760 527	196 279 932
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the central bank	28	4 427	4 065
Amounts due to banks	29	18 439 584	2 529 623
Derivative financial instruments	18	5 545 502	3 328 149
Amounts due to customers	30	185 920 562	159 957 671
Debt securities in issue	31	866 087	983 123
Subordinated liabilities	32	2 413 985	1 620 857
Other liabilities	33	2 665 058	2 434 721
Provisions	34	303 166	310 481
TOTAL LIABILITIES		216 158 371	171 168 690
Equity			
Share capital	35	1 250 000	1 250 000
Other capital	35	23 139 892	20 898 722
Undistributed profits	35	132 793	(271 242)
Net profit for the year	35	3 079 471	3 233 762
TOTAL EQUITY		27 602 156	25 111 242
TOTAL LIABILITIES AND EQUITY		243 760 527	196 279 932
Capital adequacy ratio	64	13.37%	13.38%
Book value (in PLN thousand)		27 602 156	25 111 242
Number of shares (in thousand)	35	1 250 000	1 250 000
Book value per share (in PLN)		22.08	20.09
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		22.08	20.09

(IN PLN THOUSAND)

STATEMENT OF CHANGES IN EQUITY

2014	Share capital	Other capital							Undistributed profits	Net profit for the period	Total equity
		Reserves			Other comprehensive income			Total other capital			
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses				
Note 35											
As at 1 January 2014	1 250 000	16 598 111	1 070 000	3 416 893	(53 013)	(125 593)	(7 676)	20 898 722	(271 242)	3 233 762	25 111 242
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	3 233 762	(3 233 762)	-
Total comprehensive income, of which:	-	-	-	-	86 653	130 797	(1 010)	216 440	-	3 079 471	3 295 911
Net profit	-	-	-	-	-	-	-	-	-	3 079 471	3 079 471
Other comprehensive income	-	-	-	-	86 653	130 797	(1 010)	216 440	-	-	216 440
Transfer from undistributed profits	-	2 020 000	-	5 020	-	-	-	2 025 020	(2 025 020)	-	-
Gains and losses from business combinations	-	-	-	-	-	-	(290)	(290)	132 793	-	132 503
Dividends paid	-	-	-	-	-	-	-	-	(937 500)	-	(937 500)
As at 31 December 2014	1 250 000	18 618 111	1 070 000	3 421 913	33 640	5 204	(8 976)	23 139 892	132 793	3 079 471	27 602 156

2013	Share capital	Other capital							Undistributed profits	Net profit for the period	Total equity
		Reserves			Other comprehensive income			Total other capital			
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses				
Note 35											
As at 1 January 2013	1 250 000	15 198 111	1 070 000	3 385 743	9 156	51 899	51 953	19 766 862	(224 681)	3 582 636	24 374 817
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	3 582 636	(3 582 636)	-
Total comprehensive income, of which:	-	-	-	-	(62 169)	(177 492)	(7 676)	(247 337)	-	3 233 762	2 986 425
Net profit	-	-	-	-	-	-	-	-	-	3 233 762	3 233 762
Other comprehensive income	-	-	-	-	(62 169)	(177 492)	(7 676)	(247 337)	-	-	(247 337)
Transfer from undistributed profits	-	1 400 000	-	31 150	-	-	-	1 431 150	(1 431 150)	-	-
Transfer from other comprehensive income to undistributed profits	-	-	-	-	-	-	(51 953)	(51 953)	51 953	-	-
Dividends paid	-	-	-	-	-	-	-	-	(2 250 000)	-	(2 250 000)
As at 31 December 2013	1 250 000	16 598 111	1 070 000	3 416 893	(53 013)	(125 593)	(7 676)	20 898 722	(271 242)	3 233 762	25 111 242

(IN PLN THOUSAND)

Bank Polski

STATEMENT OF CASH FLOWS

	Note	2014	2013
Net cash flow from operating activities			
Profit before income tax		3 810 738	3 959 845
Adjustments:		(4 263 063)	(5 052 362)
Amortisation and depreciation	11	643 210	531 417
(Gains) losses from investing activities	38	(12 699)	(432 805)
Interest and dividends	38	(170 649)	(654 111)
Change in amounts due from banks	38	1 978 768	807 951
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss		1 057 589	(2 766 526)
Change in derivative financial instruments (asset)		(2 466 302)	859 236
Change in loans and advances to customers	38	(5 257 677)	(6 046 858)
Change in other assets and non-current assets held for sale		(65 611)	3 895
Change in amounts due to banks		(14 303 228)	27 672
Change in derivative financial instruments (liability)		2 209 278	(636 021)
Change in amounts due to customers	38	12 690 292	4 274 346
Change in provisions and impairment allowances	38	770 361	(319 377)
Change in other liabilities and subordinated liabilities	38	22 397	1 221 201
Income tax paid		(756 327)	(968 654)
Other adjustments	38	(602 465)	(953 728)
Net cash used in operating activities		(452 325)	(1 092 517)
Net cash flow from investing activities			
Inflows from investing activities		44 995 402	46 413 620
Proceeds from sale of an associate classified as assets held for sale		-	25 450
Proceeds from sale of a subsidiary, net of cash disposed		-	383 561
Proceeds from sale and interest of investment securities available for sale		44 846 055	45 869 201
Proceeds from sale of intangible assets and tangible fixed assets		57 882	39 982
Other investing inflows (dividends)		91 465	95 426
Outflows from investing activities		(54 030 336)	(47 170 566)
Purchase of equity of subsidiaries		(2 389 901)	(225 393)
Increase in equity of a subsidiary		(526 470)	-
Acquisition of shares in a newly established company		(300 000)	-
Purchase of investment securities available for sale		(50 111 014)	(46 125 500)
Purchase of intangible assets and tangible fixed assets		(702 951)	(819 673)
Net cash used in investing activities		(9 034 934)	(756 946)
Net cash flow from financing activities			
Proceeds from debt securities in issue		1 485 674	2 119 934
Redemption of debt securities in issue		(1 612 922)	(2 032 020)
Dividends paid	38	(937 500)	(2 250 000)
Repayment of interest from issued debt securities and subordinated loans		(107 835)	(123 748)
Long-term borrowings		16 499 507	942 751
Repayment of long-term interest		(431 587)	(398 186)
Net cash generated from / used in financing activities		14 895 337	(1 741 269)
Net cash flows		5 408 078	(3 590 732)
of which currency translation differences on cash and cash equivalents		146 748	(11 397)
Cash and cash equivalents at the beginning of the period		8 644 682	12 235 414
Cash and cash equivalents at the end of the period	38	14 052 760	8 644 682
of which restricted	15	11 440	32 078

Notes on pages 10 to 146 are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

TABLE OF CONTENTS

Bank Polski

NOTES TO THE FINANCIAL STATEMENTS

1. General information

The financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski SA', 'the Bank') have been prepared for the year ended 31 December 2014 and include comparative data for the year ended 31 December 2013. Financial data have been presented in Polish zloty (PLN), rounded to thousand zloty, unless indicated otherwise.

The Bank was established in 1919 as Pocztowa Kasa Oszczędnościowa. In 1950 it operated as the Powszechna Kasa Oszczędności State-owned bank. Pursuant to the Decree of the Council of Ministers dated 18 January 2000 (Journal of Laws 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 Bank

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.

Internal organisational units of the Bank

The financial statements of the Bank comprising financial data for the year ended 31 December 2014 and comparative financial data, were prepared on the basis of financial data submitted by all organisational units of the Bank through which the Bank performs its activities.
As at 31 December 2014, these organisational units included: the Bank's Head Office in Warsaw, the Brokerage House of PKO Bank Polski SA, 14 specialised organisational units, 11 regional retail branches, 7 regional corporate branches, 1269 branches. None of the organisational units listed above prepares separate financial statements.

Indication whether the Bank is a parent company or a significant investor and whether it prepares consolidated financial statements.

PKO Bank Polski SA is the parent company of the PKO Bank Polski SA Group and a significant investor for associates and joint ventures, whose owner is the Bank. Accordingly, PKO Bank Polski SA prepares consolidated financial statements for the Group, which include the financial data of these entities.

Approval of financial statements

These financial statements, reviewed by the Audit Committee of the Bank's Supervisory Board on 11 March 2015, have been approved for issuance by the Bank's Management Board on 10 March 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 *	
			31.12.2014	31.12.2013
PKO Towarzystwo Funduszy Iwestycyjnych 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
Bankowe Towarzystwo Kapitałowe SA	Warsaw	services	100.00	100.00
PKO BP Faktoring SA[1]	Warsaw	factoring	99.9889	99.9889
Inteligo Financial Services SA[2]	Warsaw	-	-	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[3]	Warsaw	life insurance	100.00	-
Ubezpieczeniowe Usługi Finansowe Sp. z o.o.[4]	Warsaw	services	100.00	-
PKO Bank Hipoteczny SA[5]	Gdynia	banking services	100.00	-
PKO Finance AB	Stockholm, Sweden	financial services	100.00	100.00
KREDOBANK SA	Lviv, Ukraine	banking services	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.[6]	Kiev, Ukraine	factoring	95.4676	91.8766
Qualia Development Sp. z o.o.[7]	Warsaw	real estate development	100.00	100.00
Qualia Sp. z o.o.	Warsaw	general partner in limited partnerships 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	99.9787
Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k.	Warsaw	real estate development	99.9770	99.9608
Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.	Warsaw	real estate development	99.9750	99.9750
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
'CENTRUM HAFFNERA' Sp. z o.o. [8]	Sopot	subsidiaries' real estate management	72.9766	49.43
'Sopot Zdrój' Sp. z o.o.	Sopot	real estate management	100.00	100.00
'Promenada Sopocka' Sp. z o.o.	Sopot	rental services and real estate management	100.00	100.00
'Centrum Majkowskiego' Sp. z o.o. in liquidation	Sopot	in liquidation	100.00	100.00
'Kamienica Morska' Sp. z o.o. in liquidation [9]	Sopot	-	-	100.00
Merkury – fiz an[10]	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

* Share in equity of direct parent entity
1) PKO Bank Polski SA is the second shareholder of the Entity.
2) On 28 November 2014 the merger of Inteligo Financial Services SA (as acquiree) with PKO BP Finat Sp. z o.o. (as acquirer) was registered with the National Court Register of the acquirer.
3) Subsidiary of PKO Bank Polski SA since 1 April 2014; formerly 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA.
4) Indirect subsidiary of PKO Bank Polski SA since 1 April 2014; formerly Nordea Usługi Finansowe Sp. z o.o.
5) The Entity was registered with the National Court Register on 24 October 2014.
6) The second shareholder of the Entity is 'Inter-Risk Ukraina' Sp. z d. o. (Additional Liability Company).
7) As at 31 December 2014 the Entity is recognised as non-current assets held for sale; in limited partnerships of the 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'.
8) The Entity was recognised as a joint venture of PKO Bank Polski SA until 19 January 2014.
9) The Entity has been removed from the National Court Register on 24 January 2014.
10) 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.

(IN PLN THOUSAND)

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

NAME OF ENTITY	HEAD OFFICE	RANGE OF ACTIVITY	% SHARE IN EQUITY*	
			31.12.2014	31.12.2013
Joint ventures				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	Warsaw	activities supporting financial services, including servicing transactions made by using payment instruments	34.00	34.00
'Centrum Obsługi Biznesu' Sp. z o.o.	Poznań	hotel management	41.44	41.44
Associates				
Bank Pocztowy SA	Bydgoszcz	banking activities	25.0001	25.0001
Centrum Operacyjne Sp. z o.o.	Bydgoszcz	activities supporting financial services	100.00	100.00
Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o.	Warsaw	intermediary financial services	100.00	100.00
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	Poznań	guarantees	33.33	33.33

* Share in equity of direct parent entity.

Information on changes in the share in equity of the subsidiaries is set out in the note 23 'Investments in subsidiaries, joint ventures and associates and description of changes to the entities of the Group'.

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

As at 31 December 2014, the Bank's Supervisory Board consisted of:

- Jerzy Góra — Chairman of the Supervisory Board
- Tomasz Zganiacz — Deputy-Chairman of the Supervisory Board
- Mirosław Czekaj — Secretary of the Supervisory Board
- Mirosława Boryczka — Member of the Supervisory Board
- Zofia Dzik — Member of the Supervisory Board
- Jarosław Klimont — 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 26 June 2014 the Ordinary General Shareholders' Meeting of the Bank dismissed as of that day the members of the Supervisory Board of PKO Bank Polski SA - Mr Cezary Banasiński and Mr Ryszard Wierzba and appointed Mrs Mirosława Boryczka, Mr Jerzy Góra and Mr Jarosław Klimont as members of the Supervisory Board of the Bank.

As at 31 December 2014, the Bank's Management Board consisted of:

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

During the year ended 31 December 2014 no changes took place in the composition of the Bank's Management Board. Moreover, on 8 January 2014 the Supervisory Board of PKO Bank Polski SA passed the Resolutions appointing above-mentioned persons to perform indicated functions for the joint term, which commences with the end of the current joint term of the Bank's Management Board.

2. Summary of significant accounting policies and estimates and judgements

2.1 Compliance with accounting standards

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU as at 31 December 2014, and in the areas not regulated by these standards, in accordance with the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330 uniform text with subsequent amendments) and the respective secondary legislation issued on its basis, as well as the requirements relating to issuers of securities registered or applying for registration on an official quotations market.

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

2.2 Going concern

The financial statements of the Bank have been prepared on the basis that the Bank will continue as a going concern for at least the period of 12 months from the publication date, i.e. since 16 March 2015. As at the date of signing these financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to continuing activity of the Bank for 12 months following the publication date as a result of any intended or compulsory withdrawal or significant limitation in the activities of the Bank.

2.3 Basis of preparation of the financial statements

These financial statements have been prepared on a fair value basis in respect of financial assets and liabilities measured at fair value through profit and loss, including derivatives and financial assets available for sale, except of those for which the fair value cannot be reliably estimated. Other financial assets and liabilities (including loans and advances) are measured at amortised cost less impairment or at purchase price less impairment.

Non-current assets are stated at acquisition cost less accumulated depreciation and impairment allowances. Non-current assets (or groups of the above-mentioned assets) classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

2.4 Foreign currencies

2.4.1 Transactions and balances denominated in foreign currencies

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

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

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

Financial statements are presented in the Polish zloty, which is the functional and presentation currency of the Bank.

2.5 Financial assets and liabilities

2.5.1 Classification

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

2.5.1.1 Financial assets and liabilities designated at fair value through profit and loss

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

1) they are classified as held for trading. Financial assets or financial liabilities are classified as held for trading if they are acquired or incurred principally for the purpose of selling or repurchasing it in the near term, are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-making. Derivatives are also classified as held for trading except for derivatives that are designated and effective hedging instruments.

2) upon initial recognition they are classified as designated at fair value through profit and loss. The Bank may use this designation only when:

a) the designated financial asset or liability is a hybrid instrument which includes one or more embedded derivatives qualifying for separate recognition, and the embedded derivative financial instrument cannot significantly change the cash flows resulting from the host contract or its separation from the hybrid instrument is forbidden;

b) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch' that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis);

c) a group of financial assets, financial liabilities or both is properly managed and its performance is evaluated on a fair value basis, in accordance with the written risk management principles or investment strategy of the Bank.

3) The Bank has a policy of financial assets and liabilities management according to which financial assets and liabilities classified as held for trading portfolio and financial assets and liabilities designated upon initial recognition at fair value through profit and loss portfolio are managed separately.

2.5.1.2 Financial assets available for sale

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

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

2.5.1.3 Loans, advances and other receivables

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

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

2.5.1.4 Financial assets held to maturity

As at 31 December 2014 and as at 31 December 2013, the Bank did not hold any assets classified to this category.

2.5.1.5 Other financial liabilities

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

2.5.1.6 Reclassification of financial assets

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

The Bank does not reclassify financial instruments to or from the category of designated at fair value through profit and loss since they are held or issued. The Bank can reclassify financial instruments classified as held for trading, other than derivative financial instruments and financial instruments designated upon initial recognition at fair value through profit or loss, to loans, advances and other receivables category, if they meet criteria described in the note 2.5.1.1.

2.5.2 Accounting for transactions

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

2.5.3 Derecognition of financial instruments from the statement of financial position

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

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

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

1) if all the risks and rewards of ownership of the financial asset are substantially transferred, then the Bank derecognises the financial asset from the statement of financial position,
2) if all the risks and rewards of ownership of the financial asset are substantially retained, then the financial asset continues to be recognised in the statement of financial position,

3) if substantially all the risks and rewards of ownership of the financial asset are neither transferred nor retained, then a determination is made as to whether control of the financial asset has been retained. If the Bank has retained control, it continues to recognise the financial asset in the statement of financial position to the extent of its continuing involvement in the financial asset, if control has not been retained, then the financial asset is derecognized from the statement of financial position.

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

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

2.5.4 Valuation

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

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

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

2.5.4.1 Assets and liabilities designated at fair value through profit and loss

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

2.5.4.2 Financial assets available for sale

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

2.5.4.3 Loans, advances and investments held to maturity

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

2.5.4.4 Other financial liabilities including liabilities resulting from the issue of securities

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

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

2.5.5 Derivative instruments

2.5.5.1 Recognition and measurement

Derivative financial instruments are recognised at fair value from the trade date. A derivative instrument becomes an asset if its fair value is positive and it becomes a liability if its fair value is negative.

In the valuation of these instruments assumptions about the contractor's credit risk and the Bank's own credit risk are taken into account.

When the estimated fair value is lower or higher than the fair value as of the preceding balance sheet date (for transactions concluded in the reporting period – initial fair value), the Bank includes the difference respectively in the net income from financial instruments designated at fair value through profit and loss or in the net foreign exchange gains (losses) in correspondence with 'Derivative financial instruments'. The above-mentioned recognition method applies to derivative instruments which do not qualify to the application of hedge accounting. The method of recording hedging derivatives is presented in the note 2.5.5.2.

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

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

2.5.5.2 Embedded derivative instruments

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract (both of a financial or non-financial nature), with the effect that some of the cash flows of the combined instrument vary in a way similar to the cash flows of a stand-alone derivative. An embedded derivative causes some or all of the cash flows required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, or other variable, provided that the non-financial variable is not specific to a party to the contract.

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

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

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

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

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

2.5.6 Hedge accounting

2.5.6.1 Hedge accounting criteria

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

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

2.5.6.2 Discontinuing hedge accounting

The Bank discontinues hedge accounting when:

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

2.5.6.3 Fair value hedge

As at 31 December 2014 and 31 December 2013 respectively, the Bank did not apply fair value hedge accounting.

2.5.6.4 Cash flow hedges

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

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

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

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

2.6 Offsetting financial instruments

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

2.7 Transactions with a commitment to sell or buy back

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

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

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

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

2.8 Investments in subsidiaries, joint ventures and associates

Investments in subsidiaries, joint ventures and associates are measured at cost less impairment losses. In case of sale of investments in subsidiaries, which results in a loss of control, the Bank makes a valuation at fair value of the remaining investment and accepts this value as a new cost for the subsequent valuation. The excess of the fair value of the investment over the carrying amount is recognised by the Bank in other operating income.

At each balance sheet date, the Bank makes an assessment of whether there are any indicators of impairment in the value of investments in subsidiaries, joint ventures and associates. If any such indicators exist, the Bank estimates the value in use of the investment or the fair value of the investment less costs of the disposal, depending on which of these values is higher, in case when carrying amount of an asset exceeds its value in use, the Bank recognises an impairment loss in the income statement.

The above projection for the value in use requires making assumptions, i.a. about future cash flows that the Bank may receive from dividends or the cash inflows from a potential disposal of the investment, less costs of the disposal. The adoption of different assumptions with reference to the projected cash flows could affect the carrying amount of certain investments.

2.9 Impairment of financial assets

2.9.1 Assets measured at amortised cost

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

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

1) significant financial difficulties of the issuer or the debtor,
2) breach of a contract by the issuer or the debtor, such as a default or a delinquency in contracted payments of interest or principal,
3) granting a concession by the lender to the issuer or the borrower, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would not otherwise consider (a detailed description for 'forbearance' practices is presented the note 48.4 'Forberance practices'),
4) high probability of bankruptcy or reorganisation of the issuer or the debtor,
5) evidence that there is a measurable reduction in the estimated future cash flows from a group of financial assets, including collectability of these cash flows.

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

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

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

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

IBNR evidences are in particular:

1) increase during the lending period, the risk of industry in which debtor (group of debtors) operates, reflected by the industry being qualified by the Bank as a high-risk industry,
2) delay in payment of principal or interests no longer than 90 days,
3) unrecognised deterioration of the economic and financial situation of the debtor in the assessment of risk associated with its financing (in spite of keeping the existing procedures for monitoring the situation and updating the assessment),
4) receiving information about potential credit extortion.

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

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

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

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

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

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

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

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

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

2.9.2 Assets available for sale

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

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

1) significant financial difficulties of the issuer,
2) breach of a contract by the issuer, such as lack of contracted payments of interest or principal or late payments,
3) granting a concession by the lender to the issuer, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would not otherwise consider (a detailed description of the practices in the 'forbearance' is presented in the Note 48.4 'Forberance practices'),
4) deterioration of the issuer's financial condition in the period of maintaining the exposure,
5) high probability of bankruptcy or other financial reorganisation of the issuer,
6) an increase in risk of a certain industry in the period of maintaining a significant exposure, in which the borrower operates, reflected by the industry being qualified by the Bank as elevated risk industry.

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

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

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

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

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

2.10 Leasing

The Bank is a party of operating lease agreements based on which it accepts fixed assets for chargeable use for a period determined in the agreement. The Bank adopts the extent to which the risks and benefits from owning a leased asset fall to the lessor and to the lessee, as the basis for classifying the lease agreements.

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

2.11 Tangible fixed assets and intangible assets

2.11.1 Intangible assets

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

As a result of the settlement of transactions in accordance with IFRS 3, customer relationships depreciable by declining balance method based on the rate of economic benefits consumption arising from their use were identified. In addition, they are subject to impairment test on the annual basis, as at 31 December 2014.

2.11.1.1 Goodwill

The Bank recognises (since the legal merger with a subsidiary) goodwill related to the acquisition of this entity as intangible assets. Goodwill was recognised in the amount of excess of payment made over the value of the identifiable assets acquired and liabilities assumed, measured at fair value as at the acquisition date. Goodwill is stated at the amount initially recognised less any cumulative impairment allowances.

2.11.1.2 Software

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

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

2.11.1.3 Other intangible assets

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

2.11.1.4 Development costs

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

2.11.2 Tangible fixed assets

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

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

2.11.3 Capital expenditure accrued

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

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

2.11.4 Depreciation/amortisation

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

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

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

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

(IN PLN THOUSAND)

Depreciation/amortisation periods for basic groups of tangible fixed assets, investment properties and intangible assets applied by PKO Bank Polski SA:

Tangible fixed assets	Periods
Buildings, premises, cooperative rights to premises (including investment properties)	40-60 years
Leaseholds improvements (buildings, premises)	10 years (or term of the lease, if shorter)
Machinery and equipment	3-15 years
Computer hardware	4-10 years
Means of transport	5 years
Intangible assets	**Periods**
Software	2-17 years
Other intangible assets	5 years

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

Intangible assets with indefinite useful lives, which are subject to an annual impairment test in accordance with the Note 2.11.5, are not amortised.

2.11.5 Impairment allowances of non-financial non-current assets

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

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

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

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

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

2.12 Other items in the statement of financial position

2.12.1 Non-current assets held for sale and discontinued operations

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

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

Discontinued operations are an element of the Bank's business which has been sold or which is qualified as held for sale, and which also constitutes an important separate area of the operations or its geographical area, or is a subsidiary acquired solely with the intention of resale.

Operations may be classified as discontinued only when the operations are sold or when they meet the criteria of operations held for sale, whichever occurs earlier. A group of assets held for sale which is to be retired may also qualify as discontinued operations.

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

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

2) recoverable amount for the day of decision of sales abandonment.

2.12.2 Accruals and deferred income

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

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

2.13 Provisions

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

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

The Bank creates provisions for legal claims with counterparties, customers and external institutions (e.g. UOKiK), after obtaining from legal adviser an information on a high probability of losing a court case, provisions for retirement benefits, provisions for liabilities and guarantees granted and other provisions, in particular restructuring provision and provision for potential claims on impaired loans portfolios sold. A detailed description of the changes is described in the note 34 ‘Provisions’ and in the note 48.7.2 ‘Off-balance sheet provisions’.

Provisions for commitments of a financial and guarantee nature granted, are recognised in accordance with the principles set out in IAS 37. In order to determine the expected value of exposure in the statement of financial position, which will arise as a result of off-balance sheet liability granted, a credit conversion factor (ccf) is used - estimated for the portfolio of exposures with similar characteristics. Such calculated value is then the basis for determining the amount of the provision, either by comparing it to the present value of expected future cash flows from the exposure in the statement of financial position, arising from commitments granted, determined on an individual basis, or using the portfolio parameters estimated by statistical methods (a portfolio and group basis).

All provisions are recognised in the income statement, except for actuarial gains and losses recognised in the other comprehensive income.

A detailed description of the adopted policies is presented in the note 2.9.1 ‘Impairment of financial assets’ - ‘Assets measured at amortised cost’ and note 48.7.2 ‘Off-balance sheet provisions’.

A detailed description of changes in provisions is presented in the note 34 ‘Provisions’.

2.14 Restructuring provision

A restructuring provision is set up when general criteria for recognising provisions are met as well as the detailed criteria related to the legal or constructive obligation to set up provisions for restructuring costs specified in IAS 37 are met. Precisely, the constructive obligation of restructuring and recognising provisions arise only when the Bank has a detailed, official restructuring plan and has raised justified expectations of the parties to which the plan relates that it will carry out restructuring by starting to implement the plan or by announcing the key elements of the plan to the above-mentioned parties. A detailed restructuring plan specifies at least activities or a part of the activities to which the plan relates, the basic locations covered by the plan, the place of employment, functions and estimated number of employees who are to be compensated due to their contract termination, the amount of expenditure which is to be incurred and the date when the plan will be implemented.

The restructuring provision covers only such direct expenditures arising as a result of the restructuring which at the same time:

1) necessarily result from the restructuring,
2) are not related to the Bank’s on-going business operations.

The restructuring provision does not cover future operating losses.

2.15 Employee benefits

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

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

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

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

2.16 Contingent liabilities

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

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

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

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

Detailed information is presented in the Note 36 'Contingent liabilities and off-balance sheet liabilities received'.

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

1) the amount determined in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', and
2) the amount initially recognised less, when appropriate, accumulated amortisation recognised in accordance with IAS 18 'Revenue'.

Principles of recognising provisions for off-balance sheet liabilities granted are described in the note 2.13 'Provisions' and in the note 48.7.2 'Off-balance sheet provisions'.

2.17 Shareholders' equity

Equity constitutes capital and reserves created in accordance with the legal regulations. The classification to particular components, discussed below, results from the Polish Commercial Companies' Code, the Banking Law and the requirements of IAS 1.7, IAS 1.78.e, IAS 1.54.q-r and IAS 1.79.b. In accordance with IAS 1, equity also includes undistributed profits and accumulated losses from previous years, the effective portions of cash flow hedges, actuarial gains and losses and net gains or losses on the valuation of financial instruments classified as available for sale, along with the associated income tax values.

2.17.1 Share capital

Share capital is stated at nominal value in accordance with Memorandum of Association and the Register of Entrepreneurs.

2.17.2 Reserve capital

Reserve capital is created according to the Memorandum of Association of the Bank, from the appropriation of net profits and from share premium less issue costs and it is to cover the potential losses which might result from the Bank's activities.

2.17.3 Other comprehensive income

Other comprehensive income comprises the effects of valuation of financial assets available for sale and the amount of the related deferred tax, the effective part of cash flow hedging resulting from hedge accounting and the related deferred tax as well as actuarial gains and losses and the amount of the related deferred tax.

2.17.4 General risk fund

General risk fund in PKO Bank Polski SA is created from profit after tax according to The Banking Law dated 29 August 1997 (Journal of Laws of 2012, item 1376 with subsequent amendments) hereinafter referred to as 'The Banking Law', and it is to cover unidentified risks of the Bank's operations.

2.17.5 Other reserves

Other reserves are created from the appropriation of net profits. It is uniquely to cover the potential losses in the statement of financial position.

2.18 Determination of a financial result

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

2.18.1 Interest income and expense

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

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

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

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

Also the effect of fair value measurement of financial assets acquired within the merger of a subsidiary was recognised in interest income.

2.18.2 Fee and commission income and expense

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

2.18.3 Income and expense from sale of insurance products related to loans and advances

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

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

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

Distribution of remuneration for a commission and an interest part is made in the proportion of the fair value of a financial instrument and the fair value of intermediary service in relation to the sum of these two values.
Costs directly related to the sale of insurance products are settled in a similar manner to the settlement of revenues, according to the principle of matching revenues and expenses, i.e. as part of the amortised cost of a financial instrument or on a one-off basis.

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

2.18.4 Dividend income

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

2.18.5 Net income from financial instruments designated at fair value

The result on financial instruments at fair value through profit and loss includes gains and losses arising from the disposal of financial instruments classified as financial assets/liabilities at fair value through profit and loss as well as the effect of their fair value measurement. This position includes also an ineffective portion related to cash flow hedges, as described in the note 2.5.6.4.

2.18.6 Gains less losses from investment securities

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

2.18.7 Foreign exchange gains (losses)

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

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

The effects of changes in fair value and the result realised on the Gold Index option are also included in the net foreign exchange gains (losses) due to the fact that the Bank treats gold as one of the currencies, in line with the provisions of the Regulation (EU) No. 575/2013 of the European Parliament and Council dated 26 June 2013 on prudential requirements for credit institutions and investment firms.

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

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

2.18.8 Other operating income and expense

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

2.19 Income tax

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

2.19.1 Current income tax

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

While calculating corporate income tax, regulations resulting from the Act on corporate income tax dated 15 February 1992 have been taken into consideration (Journal of Laws, No. 54, item 654 with subsequent amendments). Simultaneously, the regulations of Decree of the Minister of Finance dated 7 May 2001 on extending the deadlines for paying corporate income tax prepayments for banks granting housing loans (Journal of Laws No. 43, item 482) are taken into consideration. Capitalised interest not paid by the borrower and not subject to temporary redemption by the State budget is deferred to the date of actual repayment or redemption of such interest in the deferred tax as a positive temporary difference.

2.19.2 Deferred income tax

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

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

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

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

2.20 Critical estimates and judgements

While preparing financial statements, the Bank makes certain estimates and assumptions, which have a direct influence on both the financial statements presented and the notes to the financial statements. The estimates and assumptions that are used by the Bank in determining the value of its assets and liabilities as well as revenues and costs, are made based on historical data and other factors which are available and are considered to be proper in the given circumstances.

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

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

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

2.20.1 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'), when the loss has a reliably measurable impact on the expected future cash flows from the financial asset or a group of financial assets. Future cash flows are assessed by the Bank 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 the Bank's loans and advances portfolio assessed for impairment on the basis of individual analysis of future cash flows arising both from own payments and realisation of collaterals, i.e. the exposures for which an individual basis is applied and the impact of an increase/decrease of the amount of portfolio parameters for the Bank's loans and advances portfolio assessed on a portfolio and group basis is presented in the table below (in PLN million):

Estimated change in impairment of loans and advances resulting from:	31.12.2014		31.12.2013	
	+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, individually determined to be impaired, assessed on an individual basis	(260)	405	(287)	462
change in probability of default	84	(84)	73	(73)
change in recovery rates	(478)	479	(545)	545

2.20.2 Valuation of derivatives and non-listed debt securities available for sale

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

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

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

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

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

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

Estimated change in valuation due to parallel movement of yield curve by:	31.12.2014		31.12.2013	
	+50 b.p. scenario	-50 b.p. scenario	+50 b.p. scenario	-50 b.p. scenario
IRS	(47)	47	(65)	66
CIRS	(99)	104	(77)	81
other derivatives	(2)	2	4	(4)
Total	(148)	153	(138)	143

b) for derivative instruments that are designated to hedge accounting:

Estimated change in valuation due to parallel movement of yield curve by:	31.12.2014		31.12.2013	
	+50 b.p. scenario	-50 b.p. scenario	+50 b.p. scenario	-50 b.p. scenario
IRS	(67)	68	(73)	74
CIRS	(99)	104	(77)	81
Total	(166)	172	(150)	155

2.20.3 Calculation of provision for employee benefits

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

The calculation of the provision includes all retirement and pension benefits expected to be paid in the future. The Bank performed a reassessment of its estimates as at 31 December 2014, on the basis of calculation conducted by an independent external actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance sheet date. An important factor affecting the amount of the provision is the adopted financial discount rate which was adopted by the Bank at the level of 2.75%. In 2013 the adopted financial discount rate was 4%.

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

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

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

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

2.20.4 Useful economic lives of tangible fixed assets, intangible assets and investment properties

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

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

When the period of use of a given asset results from a contract term, the useful economic life of such an asset corresponds to the period defined in the contract. If the estimated useful life is shorter than the period defined in the contract, the estimated useful economic life is applied.
The impact of change in economin useful lives of assets being subject to depreciation and classified as land and buildings, influencing on the change in the financial result is presented in the table below (in PLN million):

Change in useful economic lives of assets being subject to depreciation and classified as land and buildings	31.12.2014		31.12.2013	
	+10 years scenario	-10 years scenario	+10 years scenario	-10 years scenario
Depreciation costs	(46)	236	(27)	190

(IN PLN THOUSAND)

2.21 Changes in Accounting Policies

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

1) Amendments to published standards and interpretations which have come into force and have been applied by the Bank since 1 January 2014

Standard/ interpretation	Introduction/ publication date	Application date	Description of changes
Decree of the EU Commission No. 1254/2012 of 11.12.2012			
IFRS 10 'Consolidated Financial Statements'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	The new standard replaces the guidance on control and consolidation in IAS 27 'Consolidated and separate financial statements' and in the SIC-12 interpretation 'Consolidation - special purpose entities'. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. The changed definition is supported by extensive application guidance. The new standard does not have an effect on the current structure of the PKO Bank Polski SA Group, for which the Bank is a parent company. Entities identified as at 31 December 2014, in accordance with the existing definition of control, as subsidiaries of the Bank, meet the definition of a subsidiary also under new IFRS. With regard to pension funds or investment funds existing in the Group, by having fund managers the Bank has the ability of decision-making, however benefits being a result of the above-mentioned scope of decisions accrue to investors holding participation units in funds. Due to regulatory requirements and market conditions, the remuneration received by the managing entities due to the funds asset management is market remuneration. Therefore, the change of the standard did not essentially affect the scope of the consolidation of funds. At the same time, according to the definition of control included in IAS 27 and currently in IFRS 10, the Bank recognises Mercury - fiz an fund in the consolidation. The Bank holds 100% of the issued investment certificates of the above-mentioned Fund, which give the right to 100% of votes at the General Meeting of the Fund's Unitholders, the responsibility of which is i.a. granting consent for the implementation of investment decisions related to real estate portfolio of the Fund and its companies.
IFRS 11 'Joint Arrangements'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	The new standard replaces IAS 31 'Interests in Joint Ventures' and the interpretation SIC-13 interpretation 'Jointly Controlled Entities – Non-Monetary Contributions by Ventures'. Changes in the definitions have reduced the number of types of jointly controlled entities to two: joint operations and joint ventures. At the same time, the existing possibility to choose the proportionate consolidation for joint arrangements has been eliminated. Equity method is mandatory for all participants in joint ventures. The new standard did not have an impact on the current structure of the PKO Bank Polski SA Group, for which the Bank is the parent company. Entities identified as at 31 December 2014, in accordance with the existing definition of jointly controlled entities meet the criteria of a joint venture also under new IFRS. Additionally, the elimination of the possibility to choose the proportionate consolidation did not have impact on the Group, as joint ventures are consolidated with the equity method.

(IN PLN THOUSAND)

Standard/ interpretation	Introduction/ publication date	Application date	Description of changes
IFRS 12 'Disclosure of Interest in Other Entities'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	The new standard applies to entities that have an interest in a subsidiary, a joint venture, an associate or an unconsolidated structured entity. The standard replaces the disclosure requirements in IAS 27 'Consolidated and separate financial statements,' IAS 28 'Investments in associates' and IAS 31 'Interests in Joint Ventures'. IFRS 12 requires entities to disclose information that helps financial statement users to evaluate the nature, risks and financial effects associated with the investments in subsidiaries, associates, joint ventures and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information on subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. Appropriate disclosures are presented in the consolidated financial statements of the Group.
Revised IAS 27 'Separate Financial Statements'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	IAS 27 was changed in connection with the publication of IFRS 10 'Consolidated Financial Statements'. The objective of the revised IAS 27 is to prescribe the recognition and presentation requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10. The amendment did not have an impact on the financial statements of the Bank.
Revised IAS 28 'Investments in Associates and Joint Ventures'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	The amendments to IAS 28 resulted from the IASB's project on joint ventures. The Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. According to the Bank's accounting policies, joint ventures and associates are accounted for using the equity method. In the case of the Bank, taking into account that joint ventures are consolidated using the equity method, the above changes do not have an impact on the separate financial statements.
Decree of the EU Commission No. 1256/2012 of 13.12.2012			
'Offsetting Financial Assets and Financial Liabilities' - amendments to IAS 32	12.2011	Financial year starting on or after 1.01.2014	The amendments introduce additional application guidance to IAS 32 to clarify inconsistencies identified in applying some of the offsetting criteria. This includes i.a. clarifying the meaning of 'has a legally enforceable right to set-off' and that some gross settlement systems may be considered equivalent to net settlement, if certain conditions are met. Appropriate disclosures are in the note 45 ' Offsetting financial assets and liabilities'.

(IN PLN THOUSAND)

Standard/ interpretation	Introduction/ publication date	Application date	Description of changes
Decree of the EU Commission No. 1174/2013 of 20.11.2013			
Investment entities - amendments to IFRS 10, IFRS 12 and IAS 27	10.2012	Financial year starting on or after 1.01.2014	The amendments introduce to IFRS 10 a definition of an investment entity. Such entities will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was also amended so as to impose requirement of detailed disclosures on subsidiaries introducing new disclosures on investment entities and their subsidiaries. As a result of the introduced amendments to IAS 27, investment entities are no longer permitted to choose for its investments in certain subsidiaries between valuation at cost or at fair value in their separate financial statements. The above-mentioned amendments did not have an impact on the financial statements of the Bank.
Decree of the EU Commission No. 1374/2013 of 19.12.2013			
Amendments to IAS 36 'Impairment of assets' – recoverable amount disclosures for non-financial assets	05.2013	Financial year starting on or after 1.01.2014 (retrospective changes), possibility of early adoption	Introduction of the requirement to disclose certain non-financial assets recoverable amount only when impairment losses were recognised or reversed. Additional requirements for disclosure of fair value when the recoverable amount is determined at fair value less costs to sell were also introduced, including i.a. level of the hierarchy defined in IFRS 13, in case of valuations at level 2 or 3 of fair value hierarchy defined in IFRS 13 the key valuation assumptions. The above-mentioned amendment had a presentation character.
Decree of the EU Commission No. 1375/2013 of 19.12.2013			
Amendments to IAS 39 'Financial Instruments: recognition and measurement' - Novation of derivatives and hedge accounting continuation	06.2013	Financial year starting on or after 1.01.2014 (retrospective changes), possibility of early adoption	Amendment involves easing of certain requirements for hedge accounting when the derivative must be novated in such a way that its party becomes the central counterparty (CCP), which is an entity that helds position between the original parties to the transaction, becoming the buyer to the seller and the seller to the buyer. At present day no such cases of novation are identified in the Bank.

(IN PLN THOUSAND)

New standards and interpretations and amendments to above standards and interpretations, which have been published and also have been approved by the European Union, but are not yet effective nor applied by the Bank

2) Applying for the first time to the financial statements of the Bank for the year 2015

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
Decree of the EU Commission No. 634/2014 of 13 June 2014			
IFRIC 21 'Levies' (interpretation of IAS 37 'Provisions, contingent liabilities and contingent assets')	05.2013	Financial year starting on or after 1.01.2014 (retrospective application) In the European Union mandatory application from the beginning of the first financial year on or after 17.06.2014	IFRIC 21 determines how an entity should account for, in its financial statements, the obligation to pay the levies imposed by governments (other than income tax liabilities). The main issue is when an entity should recognise a liability to pay the levy. IFRIC 21 sets out the criteria for the recognition of the liability. One of these criteria is the requirement of an obligation arising from past events (so-called the obligating event). The interpretation explains that an obligating event that give a rise to the obligation to pay a levy, are relevant legislations that triggers the payment of the levy. The interpretation does not apply to payments under the scope of IAS 12 'Income Taxes', as well as fines and penalties. Its scope also does not include payments to the government in respect of services or acquisition of assets under the contract. In practice, for banks in Poland IFRIC 21 applies to fees paid by banks to the Bank Guarantee Fund, that is, annual fee and prudential fee. According to IFRIC 21 due to the fact, that an obligating event to pay the levies to the BGF is to be covered by the BGF guarantee system in a given year, fees in this respect must be recognised as liability already as at 1 January 2015. The Bank recognises costs in this regard within a year based on the opinion of Polish Financial Supervision Authority and Ministry of Finance.
Decree of the EU Commission No. 1361/2014 of 18 December 2014			
Improvements to IFRSs 2011-2013	12.2013	Financial year starting on or after 1.07.2015. In the European Union mandatory application from the beginning of its financial year on or after 22.12.2014	The improvements include changes in presentation, recognition and measurement, as well as terminology and editorial changes. • IFRS 3 'Business Combinations' - clarified that the standard is not applicable to the settlement of the establishment of joint venture in the financial statements of this joint venture (these provisions are defined in IFRS 11); • IFRS 13 'Fair Value Measurement' - clarified that the exception contained in IFRS 13, concerning the possibility of measurement of the entire portfolio at fair value, rather than any single asset or liability (as a general rule), should be applied to all contracts in terms of IAS 39/IFRS 9; • IAS 40 'Investment Property' - change concerns the situation of the acquisition of the company from the real estate sector and aims to clearly specify that the classification of the acquisition as a purchase of assets or business combination occurs only on the basis of IFRS 3. Whereas, the classification of the asset as an investment property or property for own purposes is made separately according to IAS 40. The above-mentioned amendment will possibly apply for the first time for the financial statements of the Bank for the year 2015 and they will have a presentation character, requiring a possible extension of disclosures.

(IN PLN THOUSAND)

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
Decree of the EU Commission 2015/28 of 17 December 2014			
Improvements to IFRSs 2010-2012	12.2013	Financial year starting on or after 1.07.2014. In the European Union mandatory application from the beginning of the first financial year on or after 1.02.2015	'Improvements to IFRSs 2010-2012', concerning 7 standards and include changes in presentation, recognition and measurement, as well as terminology and editorial changes. • IFRS 2 'Share-based payments'- clarified the definitions of terms: 'market condition', 'performance condition', 'service condition' and 'vesting condition'; • IFRS 3 'Business combinations' – amended provisions concerning the recognition of change in fair value of other contingent considerations, currently the standard allow to recognise them only in the income statement; • IFRS 8 'Operating Segments' – obligation to disclose a judgement made by management in aggregating operating segments; • IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' – amended provisions concerning the revaluation model; • IAS 24 'Related Party Disclosures' – an entity, that provides services of key management personnel, was added as a related party. A requirement to disclose the amounts paid for management services to this entity was introduced; • IAS 37 'Provisions, contingent liabilities and contingent assets' and 'IAS 39 'Financial instruments: recognition and measurement' amending in accordance with amendments to IFRS 3. The above-mentioned amendment will possibly apply for the first time for the financial statements of the Bank for the year 2015 and they will have a presentation character, requiring a possible extension of disclosures.
Decree of the EU Commission No. 2015/29 of 17 December 2014			
IAS 19 'Employee Benefits'	11.2013	Financial year starting on or after 1.07.2014 In the European Union mandatory application from the beginning of the first financial year starting on or after 1.07.2014	The amentdments concern contributions paid by employees or third parties to defined benefits plans. The objective of amendments is to simplify the recognition of contributions, which are not dependent on employment period, for example employee contributions defined as fixed percentage of salary. The Bank expects that above amendments will not have an impact on the financial statements of the Bank.

(IN PLN THOUSAND)

3) Not yet adopted by the European Union

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
Improvements to IFRSs 2010-2012	12.2013	Financial year starting on or after 1.07.2014	'Improvements to IFRSs 2010-2012', concerning 7 standards and include changes in presentation, recognition and measurement, as well as terminology and editorial changes. Most of them were implemented by the European Union in accordance with the EU Decree 2015/28 dated on 17 December 2014, except for: IFRS 13 'Fair Value Measurement' - explanation that the exception of IFRS 9 on the measurement of short-term receivables and liabilities at the purchase price does not violate the general principle of the initial valuation of financial instruments at fair value. The above-mentioned amendments will possibly apply for the first time for the financial statements of the Bank for the year 2015 and they will have a presentation character, requiring a possible extension of disclosures.
IFRS 14 'Regulatory Deferral Accounts'	01.2014	Financial year starting on or after 1.01.2016	The standard concerns regulated rate operations and is applicable only for entities, which do not prepare financial statements in accordance with IFRS on its effective date. The above standard will not have an impact on the Bank.
IFRS 11 'Joint Arrangements'	05.2014	Financial year starting on or after 1.01.2016	In accordance with implemented amendments, the acquisition of shares in joint operations constituting a business will be subject to the same principles as a business combination. This means i.a.: • The valuation of additional acquired shares at fair value; • The recognition of deferred income tax assets or liabilities; • The presentation of similar to those disclosures required in business combinations. The above-mentioned amendments will possibly apply for the first time for the financial statements of the Bank for the year 2015 and it will have a presentation character, requiring a possible extension of disclosures.
IFRS 15, 'Revenue from contracts with customers'	05.2014	Financial year starting on or after 1.01.2017	IFRS 15 replaces IAS 11 'Construction contracts', IAS 18 'Revenue', IFRIC 13 'Customer Loyalty Programmes', IFRIC 15 'Agreements for the construction of real estate', IFRIC 18 'Transfers of Assets from Customers', SIC 31 'Revenue – barter transactions involving advertising services'. Main principle is the recognition of revenue in such way as to reflect the transaction transfer of goods or services in the amount that reflects the value of wages, which the company expects in exchange for those goods or services, on a customer. For a purpose of recognising revenue and its amount at the appropriate moment, the standard presents five-level analysis model, consisting of: the identification of an agreement with a customer and binding commitment, the determination of transaction price, its appropriate allocation and the recognition of revenue at the moment of an obligation. The above-mentioned amendment may result in changes in the settlement of deferred revenue and will require additional disclosures in the financial statements.
Amendments of IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' concerning amortisation and depreciation	05.2014	Financial year starting on or after 1.01.2016	The amendment relates to amortisation/depreciation methods, in particular the ones other than straight-line methods and based on obtaining benefits from an asset as deferred. At the same time, an amortisation/depreciation method that is based on the revenues generated by an asset directly or indirectly is not allowed due to the fact that many factors, other than amortisation/depreciation, affect revenues. Additionally, the price reduction should not result in the reduction in amortisation/depreciation – it is rather indication to an impairment. The above-mentioned amendments will not have an impact on the Bank.

(IN PLN THOUSAND)

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
IFRS 9, 'Financial instruments'	07.2014	Financial year starting on or after 1.01.2018	In 2014 IASB finished the works on IFRS 9. The issues of impairment allowances on financial assets were added to the parts concerning classification and measurement (2009) and hedge accounting (2013) published in previous years, and thus the standard replaces existing IAS 39 completely. The new standard introduces: • An impairment model besed on expected loss, • Changes in the classification of financial assets and financial liabilities, • Changes in the approach to hedge accounting. The classification of financial assets is based on a business model of an entity and the characteristic of cash flows generated by these assets. The standard introduces new category of measurement at fair value through other comprehensive income (FVOCI), which will concern debt instruments used within business model for collecting contractual cash flows as well as a sale of financial assets. Impairment allowance will cover losses expected either during a period of 12 months or through the whole contractual period. Interest income for so-called IBNR portfolio will be calculated from the gross value. The new standard increases the range of items that can be designated as hedged items, as well as allows designating as a hedging instrument financial assets or liabilities measured at fair value through profit or loss. The obligation of retrospective measurement of hedge effectiveness together with previously applicable threshold of 80%-125% were eliminated (the condition to the application of hedge accounting is the economic relationship between the hedging instrument and the hedged item). In addition, the scope of required disclosures regarding risk management strategies, cash flows arising from hedging transactions and the impact of hedge accounting on the financial statements was extended. These amendment will have an impact on the financial statements of the Bank.
Amendments to IAS 27 'Separate Financial Statements'	08.2014	Financial year starting on or after 1.01.2016	The amendments allow reporting entity the application of the equity method for accounting for its investments in subsidiaries, associates and joint ventures in separate financial statements. The amendments precise also that if a parent company is no longer an investment entity, it should account for its investments in subsidiaries at cost or using the equity method or in accordance with IRFS 9. Improvements have retrospective application and are mandatory for annual reporting periods. In case of equity method application the change will have an impact on the valuation of subordinated entities of the Bank.
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Associates and joint ventures' concerning the sale or contribution of assets by an investor to its joint venture or associate	09.2014	Financial year starting on or after 1.01.2016	In the case of a transaction involving an associate or joint venture, the extent of the gains or losses recognised is dependent upon whether the assets sold or contributed constitute a business. If an entity: • sells or contributes assets constituting a business to an associate or joint venture or • loses control over a subsidiary that contains a business but retains joint control or significant influence; gains or losses relating to the transaction are recognised in the full amount. These amendments will not have an impact on the Bank.

(IN PLN THOUSAND)

<table>
<tr><th>Standard/ interpretation</th><th>Introduction/ publication date</th><th>Application date</th><th>Description of potential changes</th></tr>
<tr><td>Improvements 2012-2014</td><td>09.2014</td><td>Financial year starting on or after 1.01.2016</td><td>The project suggests the introduction of amendments to the following standards:
• IFRS 5 ‘Non-current assets held for sale and discontinued operations’– clarifies guidelines for the reclassification of assets between categories - ‘held for sale’ and ‘held for distribution to owners’ and the situation when assets cease to be treated as ‘held for distribution to owners’.
• IFRS 7 ‘Financial instruments: disclosures’ – amendments relate to the following issues:
(i) service of agreements - additional guidance on, whether the entity continues involvement in the transferred component of financial assets by an agreement for servicing the transferred component of financial assets, was added;
(ii) application of amendments to IFRS 7 - clarifies the issue of disclosures in relation to offsetting financial assets and financial liabilities in preparing the condensed interim financial statements;
• IAS 19 ‘Employee Benefits’– clarifies the approach to determine the discount rate for currencies, for which there is no developed market of corporate bonds with high creditworthiness;
• IAS 34 ‘Interim financial reporting’ – explains the term ‘elsewhere in the interim financial report’ concerning the disclosure of information on significant events and transactions.
These amendments will not have an impact on the Bank</td></tr>
<tr><td>Amendments to IFRS 10 ‘Consolidated Financial Statements’, IFRS 12 ‘Disclosure of interests in other entities’ and IAS 28 ‘Associates and joint ventures’</td><td>12.2014</td><td>Financial year starting on or after 1.01.2016</td><td>The amendments concern the application of the exception from the consolidation of investment entities. The ability to exclude subsidiaries of investment entities from the consolidation was confirmed, even if the parent company of an investment entity measures all its subsidiaries at fair value. In addition, the amendments clarify when an investment entity should consolidate a subsidiary providing services related to investment activities instead of measuring it at fair value and to facilitate the use of the equity method for an entity, which is not an investment entity itself but has shares in an associated investment entity.
The above-mentioned amenfments will not have an impact on the Bank.</td></tr>
<tr><td>IAS 1 - ‘Presentation of the financial statements’</td><td>12.2014</td><td>Financial year starting on or after 1.01.2016</td><td>The introduced amendments clarify that the principle of materiality applies to both the primary part of the financial statements and explanatory notes, also indicate that it is required to disclose only the information that is relevant.
These amendments will have an impact on the presentation of the disclosures.</td></tr>
</table>

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

3. The merger of PKO Bank Polski SA with Nordea Bank Polska SA as at 31 October 2014

On 14 May 2014, the Management Board of PKO Bank Polski SA (hereinafter referred to as: 'the Bank') and the Management Board of Nordea Bank Polska SA (hereinafter referred to as 'the Company') signed a merger plan according to which all of the Company's assets and liabilities and equity were transferred to the Bank as the acquirer. On 26 September 2014, the Polish Financial Supervision Authority gave its consent to the aforementioned merger. On 31 October 2014, the merger was registered with the National Court Register of PKO Bank Polski SA's domicile. The merger was carried out in the manner provided in Article 515 § 1 of the Commercial Companies Code, i.e. without an increase in the share capital of the Bank.

From the acquisition date (i.e. from 1 April 2014) to the legal merger date (i.e. to 31 October 2014), Nordea Bank Polska SA was a separate company in the Group. The Bank and the Company remained separate as regards the provision of the services. The Company ceased to operate as a separate entity as from the legal merger date. Then, the Bank automatically became a party to all agreements concluded with the customers and, consequently, assumed all rights and obligations of the Company. The process of the banks' integration will be rounded off with an operating merger scheduled for mid-2015.

A detailed description of the transaction preceding the merger of PKO Bank Polski SA and Nordea Bank Polska SA is contained in the note 23 'Investments in subsidiaries, joint ventures and associates and description of changes to the entities of the Group'.

The Company's legal merger with the Bank performed on 31 October 2014 constituted a transaction subject to joint control. According to the Bank's accounting policies, in accounting for the legal merger of the parent company with its subsidiary, the predecessor accounting method is used, i.e. the recognition of the acquired subsidiary at the carrying amounts of the assets and liabilities recognised in the consolidated financial statements of the PKO Bank Polski SA Group ('the Group') for this subsidiary, including goodwill resulting from the acquisition of this subsidiary.

Therefore, the Bank's merger with the Company was reported in the Bank's books at the amounts which would have been recognised for the Company as at the merger date, i.e. 31 October 2014, in the Group's consolidated financial statements prepared in accordance with IFRS. The acquisition of the Company was reported in the consolidated financial statements using IFRS 3 'Business combinations'. 1 April 2014 ('the acquisition date') was the date of gaining control over Nordea Bank Polska SA, and the Company's identifiable assets and liabilities were measured at fair value and goodwill constituting the excess of the acquisition price over the fair value of the acquired net assets was recognised as at that date.

In preparing the financial information containing the recognition of the Company's merger with the Bank as at 31 October 2014, the same general principles were adopted that were used in preparing the Bank's annual financial statements for the period ended 31 December 2013.

The legal merger was reported in PKO Bank Polski SA's financial statements as from the date of the legal merger of the entities (31 October 2014). The profit generated by the Company from 1 April 2014 to the legal merger date was recognised in PKO Bank Polski SA's undistributed profits.

Total consideration paid and the amount of any non-controlling interests in the acquiree

Total consideration paid for shares of Nordea Bank Polska SA	number of shares	in PLN thousand
- purchased from Nordea Bank AB on 1 April 2014	55 061 403	2 620 402
- purchased from non-controlling shareholders on 1 April 2014	319 889	15 351
- remaining part of shares acquired under the compulsory buy-out of non-controlling shareholders on 12 May 2014	117 408	5 635
- discount	-	(43 000)
Total	55 498 700	2 598 388

The transaction on increasing the share capital of Nordea Bank Polska SA does not constitute a component of the Purchase price in the acquisition of the assets of Nordea Bank Polska SA from Nordea Bank AB by the Bank.

The Bank holds a 100% interest in the purchased Company, and therefore there are no non-controlling interests within the acquired entities.

Shares were paid up in cash.

(IN PLN THOUSAND)

Recognition and measurement of identifiable acquired assets and liabilities measured in accordance with IFRS

Statement of financial position	assets recorded in the books of Nordea Bank Polska SA as at the moment of the legal merger	adjustments resulting from consolidation using the acquisition method of Nordea Bank Polska SA	assets of Nordea Bank Polska SA recorded in the books of PKO Bank Polski SA as at the date of the legal merger
Cash and balances with the central bank	179 761	-	179 761
Amounts due from banks	1 792 712	(1 560 727)	231 985
Derivative financial instruments	14 986	(6 499)	8 487
Financial instruments measured at fair value through profit and loss	740 242	-	740 242
Loans and advances to customers	27 882 403	(2 389 093)	25 493 310
Investment securities – available for sale	-	1 686 180	1 686 180
Intangible assets	21 035	915 567	936 602
Customer relations	-	71 187	71 187
Goodwill	-	863 262	863 262
Other, of which software	21 035	(18 882)	2 153
Tangible fixed assets	83 643	10 298	93 941
Deferred income tax asset	85 509	124 984	210 493
Other assets	20 128	3 954	24 082
Total assets	30 820 419	(1 215 336)	29 605 083

Statement of financial position	liabilities recorded in the books of Nordea Bank Polska SA as at the moment of the legal merger	adjustments resulting from consolidation using the acquisition method of Nordea Bank Polska SA	liabilities of Nordea Bank Polska SA recorded in the books of PKO Bank Polski SA as at the date of the legal merger
Amounts due to other banks	15 797 994	(15 457 080)	340 914
Derivative financial instruments	8 075	(147)	7 928
Amounts due to customers	11 188 649	-	11 188 649
Subordinated liabilities	783 583	-	783 583
Other liabilities	158 277	59 208	217 485
Current income tax liability	3 847	-	3 847
Provisions	21 365	9 355	30 720
Total liabilities	27 961 790	(15 388 664)	12 573 126

The portfolio of loans and advances granted to customers acquired as part of the transaction involving the acquisition of the entity, measured at fair value as at the acquisition date, has been presented in the financial statements showing separately the gross value (which include a fair value adjustment) and write – downs due to the fact, that such presentation is more useful to financial statement users and reflects the market practice followed by the banks.

Loans and advances to customers by method of calculating allowances	Company's data recorded in the books of the Bank as at the date of the legal merger
Assessed on an individual basis	236 987
Impaired	236 987
Assessed on a portfolio basis	399 075
Impaired	399 075
Assessed on a group basis (IBNR)	25 437 474
Loans and advances to customers, gross	**26 073 536**
Allowances on exposures assessed on an individual basis	(226 841)
Allowances on exposures assessed on a portfolio basis	(260 754)
Allowances on exposures assessed on a group basis (IBNR)	(92 631)
Allowances - total	**(580 226)**
Loans and advances to customers, net	25 493 310

(IN PLN THOUSAND)

Loans and advances to customers, by sector	Company's data recorded in the books of the Bank as at the date of the legal merger
Loans and advances to customers, gross, of which:	26 073 536
financial sector	438 463
corporate, of which:	438 463
non-financial sector	22 606 168
housing	15 764 858
corporate	6 054 457
consumer	259 196
debt securities (corporate)	527 657
public sector	3 028 905
corporate	1 136 516
debt securities (municipal)	1 891 769
housing	620
Impairment allowances on loans and advances to customers	(580 226)
Loans and advances to customers, net	25 493 310

Loans and advances to customers, by client segment	Company's data recorded in the books of the Bank as at the date of the legal merger
Loans and advances granted, gross, of which:	26 073 536
mortgage banking	15 639 887
corporate	10 067 928
small and medium enterprises	106 525
retail and private banking	259 196
Impairment allowances on loans and advances	(580 226)
Loans and advances granted, net	25 493 310

- Loans and advances to customers

1) Fair value measurement of the loan portfolio was conducted by income method consisting of discounting future cash flows taking into account estimated cash flows from an individual loan, the time value of money reflected in a risk-free interest rate, price for the uncertainty of cash flows (so-called the risk premium), credit losses incurred, additional expected future credit losses and liquidity premium. Discounting factors used in the model were determined based on risk-free interest rates curve and the market margin, and for mortgage loans, also based on the capital requirement charge.

The fair value measurement of the corporate portfolio without impairment was conducted using the discounted cash flow method ('DCF') as at the acquisition date. Determined cash flows were discounted using the discounting curve derived based on risk-free interest rate curve and market margins. The risk-free interest rate curve was derived using the following curves:

- for PLN: WIBOR (up to one year) and IRS (above one year),
- for foreign currencies: LIBOR (up to 3 months), FRA (from 3 to 12 months) and IRS (above one year).

Market margins were determined based on an analysis of margins at which the Bank provided financing to entities in 2014. These margins depend on the currency of the financing granted and the borrower's credit rating.

The measurement of the corporate portfolio with impairment was conducted using the discounted cash flow method ('DCF') as at the acquisition date, while cash flows from the collaterals provided and other cash flows (from sources other than collaterals) over the 5-year horizon (2014-2018) were taken into account. The market discount rate was adopted as the discount rate. It was estimated based on observable asset-sale transactions. This rate includes additional risk premium based on observable market transactions involving the sale of similar loan portfolios. WIBOR 3M/LIBOR 3M, as appropriate, was the reference rate adopted.

The measurement of the public sector customers portfolio without impairment (both loans and bonds classified to loans and receivables portfolio) was performed using the same expected future cash flow method as in the case of corporate loans without impairment.

Fair value measurement of the Nordea Bank mortgage loan portfolio without impairment was conducted by applying the discounted cash flow method ('DCF') as at the acquisition date to specific selected sub-groups of the portfolio. The selection was based on the currency of the contract and the variable part of the interest rate (the reference/base rate). For each of the selected sub-portfolios, a separate valuation was conducted.

Based on contractual schedules for the repayment of principal (in the currency of the contract), an aggregate monthly repayment schedule was developed for each of the sub-portfolios. Future cash flows were determined based on repayment schedules for the principal, early repayments, future loan impairment losses, contractual interests, income from foreign currency exchange and the costs of: liquidity and account servicing. Contractual cash flows from the repayment of the principal were adjusted for early repayments of the principal based on the calculated early repayment ratio compared to the schedule.

Future loan impairment losses were determined based on the estimated PD ratios of Nordea Bank Polska and LGD with 5-year recovery period, taken as the average (weighted by the capital engagement), of each of the sub-portfolios identified.

Future cash flows from the repayment of interest were determined based on forward rates calculated depending on the reference rates (risk-free interest rate curve) and the average contractual credit margins weighted by the capital engagement, for each exposure within this part of the mortgage loan portfolio. Expected future cash flows were discounted using determined discounting rates based on:

- a risk-free interest rate curve:
  - for PLN: WIBOR (up to one year) and IRS (above one year);
  - for foreign currencies: LIBOR (up to 3 months), FRA (from 3 to 12 months) and IRS (above one year);
- capital requirement charges which depend on the minimum capital adequacy ratio (12%), the cost of the capital determined for the Bank (10.8%), risk weights for assets (75% for loans denominated in PLN, 100% for loans denominated in foreign currencies), risk-free interest rate and liqudity margin;
- the market margin for the liquidity used by the Bank, depending on the currency and tenor.

For the part of the portfolio denominated in a currency other than PLN but actually not repaid in the contractual currency, the valuation includes income from on foreign exchange calculated based on the total cash flows in a given period, as an additional gain to the Bank on the translation of the payments made in PLN into the loan account maintained in a foreign currency. The foreign exchange income rate was calculated as the difference between the selling exchange rate and the exchange rate of the National Bank of Poland ('NBP'). Foreign exchange income relates to some of the customers.

In addition, the cost of account servicing was included in the calculation.

For the purposes of the measurement, the portfolio of mortgage loans with an impairment was divided into:

- Debt collection sub-portfolio – containing exposures with an assigned legal status: 'debt collection', 'fraud' or 'bankruptcy'. A debt collection process, depending on the type of collateral provided, is initiated in respect of such customers.
- Other exposures – containing exposures with other status assigned: restructuring, write-off, or the ones without an assigned legal status.

As part of the fair value measurement of the debt collection sub-portfolio, the effective interest rate was reduced to the market discount rate, based on observable rates for of return on similar assets in the market, e.g. based on market transactions involving the sale of assets. An analysis of the observable transaction prices for similar purchase/sale transactions enabled determining the fair value of the loans, and consequently, the price which other market participants would be willing to pay for a debt collection sub-portfolio of mortgage loans.

To determine the fair value of the remaining sub-portfolio exposures, it was necessary to adjust the effective interest rate to the market discount rate, based on observable rates of return for similar assets in the market, eg. based on market transactions involving the sales of assets or the estimated discount rate compared to the risk-free market rate (in accordance with IFRS 13). The fair value adjustment for this sub-portfolio results from the increase in the discount rate used to discount determined future cash flows. The discount is an additional risk premium determined on the basis of the observable market sales transactions of similar loan portfolios. This allowed to determine the fair value of loans, and thus the price that other market participants would be willing to pay for these mortgage loan portfolio.

The total amount of adjustments resulting from the fair value measurement of the loans and advances granted to customers amounted to minus PLN 651.3 million, of which the largest adjustment, in absolute terms, is the adjustment relating to the portfolio of loans for private individuals, which amounts to PLN 651.1 million.

(IN PLN THOUSAND)

2) In addition, the carrying amount of loans and advances granted to customers was reduced by the adjustments resulting from the need to adopt the models and estimation methods used by the Bank and the PKO Bank Polski SA Group.

In particular, the following adjustments were recognised:

- An increase in the IBNR impairment allowance for corporate loans acquired. Due to the differences in customer evaluation systems and the corresponding PD and LGD parameters between the PKO Bank Polski SA Group and the Nordea Group as at the acquisition date, the Bank mapped the Nordea Bank ratings between the two systems. The additional IBNR impairment allowance amounts to PLN 37.9 million for both the public and corporate customer portfolios, resulting from the differences between the above-mentioned systems.
- An increase in allowances in respect of the mortgage loans acquired, which includes both the change in identified and unidentified impairment losses (IBNR) and results mainly from the harmonisation of the risk parameters, including PD parameters (through re-scaling PD parameters to the LIP period used in the Bank), and the LGD curve (through the shortening of the recoveries from 6 year to the 5-year period applied by PKO Bank Polski SA). In addition, all impaired mortgage loan exposures with a gross value not exceeding PLN 3 million in respect of which provisions were assessed on an individual basis, were subject to a portfolio basis. The total amount of additional allowances was PLN 50.6 million.
- An increase in the impairment allowances of the impaired corporate portfolio assessed on an individual basis due to verification of the expected cash flows from selected credit exposures amounted to PLN 13.5 million.

- Intangible assets

When accounting for the purchase transaction, the acquired intangible assets were identified: customer relations in the area of deposits at the level of PLN 86.5 million. Customer relations in the area of deposits were separately analysed for each cash generating unit (CGU) split into two core products: current accounts and term deposits. The Multiperiod Excess Earnings Method has been used in order to measure customer relations. In this method the value is determined based on discounted future cash flows resulting from additional income generated by an entity possessing a particular intangible asset in excess over the income generated by an entity which does not hold such intangible asset. This method also takes into consideration the costs and investments connected with a given intangible asset, such as patent fees, research and development costs, marketing expenses, etc. For the purposes of customer relations fair value estimation, identification of relations with key customers for each CGU is made, the forecasted period of its further duration and forecasted income on particulary relations and costs directly associated with these relations are determined. The amount of general administrative expenses (including amortisation) for CGU in each year is deducted subsequently from such determined cash flows. The Contributory Asset Charge ('CAC') contributing to generate income from customer relations (inflow of fixed assets, working capital, organised labour force, brand) are deducted afterwards. The charges resulting from the use of other assets correspond with the required return on each tangible and intangible assets used for generating income from customer relation. The required return is calculated respectively for non-current assets, net working capital and organised labour force and aggregated subsequently and in such amount recognised in the income from customer relations. The required return on brands (if it appears in a given CGU) is determined separately. Cash flows obtained for respective years are discounted subsequently with an appropriate discount rate enlarged by an appropriate premium on intangible assets. After discounting the cash flows, the present value of Tax Amortisation Benefit ('TAB') is added. Thus received discounted amount of cash flows stands as estimation of intangible assets.

- Tangible fixed assets

The valuation of properties (buildings) of acquired company was carried out using the income method. This approach involves assessing the property's value assuming that its buyer will pay for it a price which depends on the expected income which can be derived from that property.

The valuation of land was carried out using the comparative approach, by applying the paired comparison method or the average price adjustment method. In the paired comparison method the value of property whose features are known and which is being appraised is compared with similar properties which were traded in the market, and for which the transaction prices, transaction settlement conditions and property prices are known. In the average price adjustment method the property value is determined as an adjustment to the average price of similar properties by adjusting coefficients which reflect the differences in particular features of these properties.

- Other adjustments

Other adjustments to fair value and the so-called net assets adjustments resulting from harmonising inconsistent accounting policies related i.a. fair value adjustment of liabilities in respect of the provisions indentified in the entities acquired, including the Company, and other liabilities including IT services or resulting from onerous contracts.

Determining the fair value of the acquired assets and liabilities, and the identification and recognition of intangible assets arising from the acquisition were carried out on the basis of available information, and the best estimates at the date of preparing the financial statements and these are the final values.

Goodwill recognised at the date of the legal merger:

	Company's data recorded in the books of the Bank as at date of the legal merger
Total consideration paid	2 598 388
Fair value of acquired assets and acquired liabilities	1 735 126
Goodwill	863 262
of which assigned to the following segments:	
retail segment	746 708
corporate segment	116 554

The goodwill will not be a subject to tax deduction.

The synergy effect due to the acquisition of Nordea Bank Polska SA will enable the Bank to strengthen its leading position in retail banking, expand its distribution network in large Polish cities, enlarge the base of affluent clients and strengthen its activities in the corporate area, particularly in respect of municipal and corporate bonds issues and servicing enterprises from the key sectors of the economy as well as cross-border clearing services.

The transaction is consistent with strategy of PKO Bank Polski SA for 2013-2015, which assumes the use of capital surpluses to strengthen PKO Bank Polski SA's position on the Polish market through acquisitions in order to maintain high growth rates also in the environment of an economic slowdown and low interest rates.

In accordance with IFRS 3, as part of the settlement of the merger, the Bank, as the acquirer, has the possibility of recognising indemnification assets. These assets may result from specific agreements with the seller, who undertakes himself to compensate the acquirer for any losses incurred due to the unknown outcome of a contingent event or uncertainty connected with the entire or part of a particular asset or liability. The acquirer recognises the indemnification asset at the same time as the indemnified item is recognised (as at the acquisition date) and measures that asset using the same method as the underlying asset, typically at fair value.

As part of the work conducted in connection with the settlement of the transaction, the Bank performed a sensitivity analysis of the Special Indemnity Agreement. In the sensitivity analysis, the Bank determined scenarios for the evolution of macroeconomic indicators, and consequently, of the credit quality indicators, including the reference scenario and stress-test scenarios. The reference scenario was the one developed for the purposes of stress-tests currently being conducted by EBA. Subsequently, the Bank determined discounted cash flows in each of the scenarios and assigned probabilities of occurrence of particular scenarios. The reference scenario was assigned the highest probability. Based on the scenarios, the expected cash flows from the Special Indemnity Agreement was determined and amounted to zero as at 1 April 2014.

(IN PLN THOUSAND)

NOTES TO THE INCOME STATEMENT

4. Interest income and expense

Interest and similar income

	2014	2013
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:	9 163 199	9 500 655
Income from loans and advances to customers, of which:	8 389 267	8 815 124
from impaired loans	445 479	499 865
Income from investment securities available for sale	602 015	514 278
Income from placements with banks	142 660	165 082
Income from loans to banks	26 049	2 476
Other	3 208	3 695
Other income, of which:	745 160	986 624
Income from derivative hedging instruments (Note 19)	343 316	454 278
Income from financial assets designated upon initial recognition at fair value through profit and loss	340 831	468 445
Income from trading assets	61 013	63 901
Total	9 908 359	10 487 279

Interest expense and similar charges

	2014	2013
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:	(2 937 265)	(3 883 527)
Interest expense on amounts due to customers	(2 735 319)	(3 694 973)
Interest expense on debt securities in issue and subordinated liabilities	(88 575)	(103 008)
Interest expense on loans from banks	(61 329)	(29 689)
Premium expense on debt securities available for sale	(40 927)	(38 737)
Interest expense on deposits from banks	(11 115)	(17 120)
Other expense	(22 241)	(23 302)
Interest expense on financial assets designated upon initial recognition at fair value through profit and loss	(10 234)	(14 375)
Interest expense on trading assets	(12 007)	(8 927)
Total	(2 959 506)	(3 906 829)

(IN PLN THOUSAND)

5. Fee and commission income and expense

Fee and commission income

	2014	2013
Income from financial assets, which are not measured at fair value through profit and loss, of which:	574 291	573 483
income from loans and advances granted	574 291	573 483
Other commissions from:	3 034 900	3 072 932
payment cards	1 252 819	1 300 222
maintenance of bank accounts	895 195	875 578
loans insurance	254 123	266 199
maintenance of investment funds (including management fees)	230 083	217 323
cash transactions	101 584	113 189
securities transactions	89 068	79 310
servicing foreign mass transactions	60 250	52 290
providing services of an agent for the issue of Treasury bonds	23 037	29 022
sale and distribution of court fee stamps	9 613	20 927
investment and insurance products	2 345	-
other*	116 783	118 872
from fiduciary activities	4 385	4 343
Total	3 613 576	3 650 758

* 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.

Fee and commission expense on:

	2014	2013
payment cards	(659 864)	(677 073)
loans insurance	(100 219)	(94 474)
acquisition services	(81 876)	(90 210)
settlement services	(27 274)	(24 380)
fee and commissions for operating services provided by banks	(13 249)	(11 021)
other*	(116 505)	(98 118)
Total`	(998 987)	(995 276)

* 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 the National Depository for Securities (KDPW).

6. Dividend income

	2014	2013
Dividend income from the issuers of:	6 365	5 472
Investment securities available for sale	5 677	4 849
Trading assets	688	623
Dividend income from subsidiaries, joint ventures and associates, of which:	85 100	90 577
PKO Towarzystwo Funduszy Inwestycyjnych SA	35 033	24 045
CEUP eService Sp. z o.o.	21 387	44 428
Inteligo Financial Services SA	14 500	20 435
PKO Bankowy PTE SA	10 465	-
PKO BP Finat Sp. z o.o.	2 664	1 375
Agencja Inwestycyjna CORP-SA SA	-	294
PKO Finance AB	1 051	-
Total	91 465	96 049

(IN PLN THOUSAND)

7. Net income from financial instruments measured at fair value

	2014	2013
Change in fair value of financial instruments measured at fair value through profit and loss determined using the valuation techniques:	(5 273)	45 601
Derivative instruments, of which:	3 343	64 443
an ineffective portion related to cash flow hedges	(6 078)	24 333
Structured bank securities measured at fair value through profit and loss	(8 616)	(18 842)
Debt securities	62 156	9 581
Equity instruments	1 084	(793)
Total	57 967	54 389

2014	Gains	Losses	Net result
Trading assets	12 505 319	(12 487 061)	18 258
Financial assets designated upon initial recognition at fair value through profit and loss	114 469	(74 760)	39 709
Total	12 619 788	(12 561 821)	57 967

2013	Gains	Losses	Net result
Trading assets	12 846 431	(12 776 298)	70 133
Financial assets designated upon initial recognition at fair value through profit and loss	74 231	(89 975)	(15 744)
Total	12 920 662	(12 866 273)	54 389

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

	2014	2013
Gain/loss due to change in value of assets available for sale recognised directly in other comprehensive income during the period	(54 673)	(143 658)
Gain/loss derecognised from other comprehensive income recognised in income statement in the position ‘Gains less losses from investment securities’ on:	161 651	66 909
gain from sale derecognised from other comprehensive income	168 981	110 681
loss on sale derecognised from other comprehensive income	(7 330)	(43 772)
Impact on other comprehensive income (gross), position ‘Unrealised net gains on financial assets available for sale (gross)’	106 978	(76 749)

(IN PLN THOUSAND)

9. Other operating income and expense

	2014	2013
Sale, disposal of tangible fixed assets, intangible assets and assets held for sale	57 881	39 983
Sundry income	18 580	19 537
Recovery of expired and written-off receivables	16 840	8 296
Income from sale of majority stake in a subsidiary	-	346 932
Income from valuation to fair value of the remaining share as a result of sale of an organised part of a subsidiary	-	178 722
Income from sale of non-current assets held for sale	-	11 569
Other	61 151	34 576
Total	154 452	639 615

	2014	2013
Cost of sale, disposal of tangible fixed assets, intangible assets and assets held for sale	(45 182)	(22 153)
Donations	(14 724)	(11 019)
Sundry expense	(4 332)	(5 209)
Other	(30 589)	(23 973)
Total	(94 827)	(62 354)

(IN PLN THOUSAND)

10. Net impairment allowance and write-downs

For the year ended 31 December 2014	Note	Value at the beginning of the period	Increases			Decreases			Value at the end of the period	Net – impact on the income statement
			Arising from business combinations	Recognised during the period	Other	Derecognition of assets and settlement	Reversed during the period	Other		
Investment securities available for sale	22	33 355	-	125 113	-	-	-	30 721	127 747	(125 113)
Debt securities available for sale		3 296	-	123	-	-	-	3 419	-	(123)
Equity securities		30 059	-	124 990	-	-	-	27 302	127 747	(124 990)
Amounts due from banks	16	40 237	18	3 205	5 378	5 956	31 286	-	11 596	28 081
Loans and advances to customers measured at amortised cost	21	6 381 232	580 225	5 493 912	76 417	1 130 453	3 868 254	5 879	7 527 200	(1 625 658)
Non-financial sector		6 361 891	571 051	5 485 086	76 040	1 130 432	3 852 875	5 875	7 504 886	(1 632 211)
corporate loans		3 229 736	272 026	2 798 381	26 232	682 828	1 773 798	39	3 869 710	(1 024 583)
housing loans		1 704 404	284 979	1 379 099	43 732	114 614	1 050 046	136	2 247 418	(329 053)
consumer loans		1 400 664	8 920	1 245 245	6 073	332 990	1 029 028	3 008	1 295 876	(216 217)
debt securities		27 087	5 126	62 361	3	-	3	2 692	91 882	(62 358)
Financial sector		7 814	5 205	7 173	235	21	13 552	-	6 854	6 379
corporate loans		7 814	5 205	7 173	235	21	13 552	-	6 854	6 379
Public sector		11 527	3 969	1 653	142	-	1 827	4	15 460	174
corporate loans		10 549	2 077	1 653	142	-	1 779	4	12 638	126
debt securities		978	1 892	-	-	-	48	-	2 822	48
Non-current assets held for sale	24	165 226	-	154 273	-	236	-	163 329	155 934	(154 273)
Tangible fixed assets	26	34	-	4	-	20	-	-	18	(4)
Intangible assets	25	17 154	-	-	-	-	1 781	-	15 373	1 781
Investments in subsidiaries, joint ventures and associates	23	842 040	-	125 658	163 329	-	10 926	-	1 120 101	(114 732)
Other receivables		143 335	1 727	43 176	117	11 727	30 614	342	145 672	(12 562)
Provisions for legal claims, loan commitments and guarantees granted	34	145 124	11 148	371 982	3 031	-	398 207	-	133 078	26 225
Provisions for future liabilities		5 396	2 031	6 636	-	614	2 168	2 031	9 250	(4 468)
Total		7 773 133	595 149	6 323 959	248 272	1 149 006	4 343 236	202 302	9 245 969	(1 980 723)

(IN PLN THOUSAND)

For the year ended 31 December 2013	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	Other	Derecognition of assets and settlement	Reversed during the period	Other		
Investment securities available for sale	22	24 592	16 183	-	5 536	-	1 884	33 355	(16 183)
Debt securities available for sale		5 536	3 728	-	5 536	-	432	3 296	(3 728)
Equity securities		19 056	12 455	-	-	-	1 452	30 059	(12 455)
Amounts due from banks	16	30 792	16 746	-	-	6 507	794	40 237	(10 239)
Loans and advances to customers measured at amortised cost	21	6 228 629	6 273 367	5 287	1 674 450	4 450 843	758	6 381 232	(1 822 524)
Non-financial sector		6 161 413	6 210 097	1 651	1 674 450	4 336 062	758	6 361 891	(1 874 035)
corporate loans		3 102 026	3 357 341	1 651	1 068 435	2 162 847	-	3 229 736	(1 194 494)
housing loans		1 639 861	1 273 051	-	181 336	1 026 611	561	1 704 404	(246 440)
consumer loans		1 417 720	1 554 424	-	424 679	1 146 604	197	1 400 664	(407 820)
debt securities		1 806	25 281	-	-	-	-	27 087	(25 281)
Financial sector		45 226	63 270	3 448	-	104 130	-	7 814	40 860
corporate loans		45 226	63 270	3 448	-	104 130	-	7 814	40 860
Public sector		21 990	-	188	-	10 651	-	11 527	10 651
corporate loans		19 640	-	188	-	9 279	-	10 549	9 279
debt securities		2 350	-	-	-	1 372	-	978	1 372
Non-current assets held for sale	24	1 226	143 798	21 165	963	-	-	165 226	(143 798)
Tangible fixed assets	26	34	57	299	32	324	-	34	267
Intangible assets	25	17 154	-	-	-	-	-	17 154	-
Investments in subsidiaries, joint ventures and associates	23	683 817	177 936	1 452	-	-	21 165	842 040	(177 936)
Other receivables		149 549	48 547	-	18 737	35 895	129	143 335	(12 652)
Provisions for legal claims, loan commitments and guarantees granted	34	234 470	261 928	136	-	351 410	-	145 124	89 482
Provisions for future liabilities		11 961	3 713	-	549	9 729	-	5 396	6 016
Total		7 382 224	6 942 275	28 339	1 700 267	4 854 708	24 730	7 773 133	(2 087 567)

(IN PLN THOUSAND)

11. Administrative expenses

	2014	2013
Employee benefits	(2 343 178)	(2 304 366)
Overheads	(1 193 773)	(1 160 424)
Amortisation and depreciation, of which:	(643 210)	(531 417)
tangible fixed assets	(264 837)	(273 045)
intangible assets	(378 370)	(258 362)
investments properties	(3)	(10)
Taxes and other charges	(72 130)	(56 856)
Contribution and payments to the Bank Guarantee Fund	(215 293)	(167 703)
Total	(4 467 584)	(4 220 766)

Employee benefits

	2014	2013
Wages and salaries*, of which:	(1 967 097)	(1 896 444)
expenses on employee pension programme	(38 549)	(25 701)
Social insurance, of which:	(312 418)	(343 622)
contributions for retirement pay and pensions	(262 441)	(274 221)
Other employee benefits	(63 663)	(64 300)
Total	(2 343 178)	(2 304 366)

*In 2013, in the position 'Wages and salaries' the effect of release of provision for retirement benefits and pensions and anniversary bonuses in the amount of PLN 179 million was included.

Finance and operating lease agreements

Finance lease

The Bank does not have any material receivables and payables in respect of finance lease.

Operating lease – lessee

Lease agreements, under which the lessor retains substantially the risk and rewards incidental to the ownership of an asset, are classified as operating lease agreements. Lease payments under operating leases are recognised as expenses in the income statement, on a straight-line basis over the lease term.

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

The operating lease agreements concluded by the Bank are presented below.

Total value of future lease payments under irrevocable operating lease for the period:	31.12.2014	31.12.2013
up to 1 year	208 714	142 704
from 1 year to 5 years	384 865	251 357
over 5 years	81 083	49 476
Total	674 662	443 537

Lease and sub-lease payments recognised as an expense of a given period, from 1 January 2014 to 31 December 2014 amounted to PLN 227 981 thousand (in the period from 1 January 2013 to 31 December 2013 PLN 151 674 thousand).

(IN PLN THOUSAND)

12. Income tax expense

	2014	2013
Current income tax expense	(863 477)	(622 628)
Deferred income tax related to creating and reversal of temporary differences	132 210	(103 455)
Tax expense in the income statement	(731 267)	(726 083)
Tax expense in other comprehensive income related to creating and reversal of temporary differences	(50 769)	58 015
Total	(782 036)	(668 068)

	2014	2013
Profit before income tax	3 810 738	3 959 845
Corporate income tax calculated using the enacted tax rate (19%) in force in Poland	(724 040)	(752 371)
Permanent differences between profit before income tax and taxable income, of which:	(39 686)	23 700
Impairment allowances not constituting taxable expense (KREDOBANK SA)	(2 834)	(32 680)
Revaluation of shares of CEUP eService Sp. z o.o.	-	33 957
Exposure impairment allowances not constituting taxable expense/income	(31 302)	(2 518)
Other non-tax deductible expenses	(20 330)	(11 215)
Dividend income	16 930	18 249
Other permanent differences	(2 150)	17 907
Other differences between profit before income tax and taxable income, including donations, overpayments	32 459	2 588
Income tax in the income statement	(731 267)	(726 083)
Effective tax rate	19.19%	18.34%
Temporary difference due to the deferred tax presented in the income statement	132 210	(103 455)
Total current income tax expense in the income statement	(863 477)	(622 628)

Current income tax receivables

	31.12.2014	31.12.2013
Current income tax receivable	94 343	201 212

According to regulations on considering tax liabilities as past due tax authorities can verify the correctness of income tax settlements within 5 years from the end of the accounting year in which the tax declaration was submitted. Current income tax liability of the Bank for the year 2014 will be settled within regulatory due dates.

(IN PLN THOUSAND)

Deferred tax asset/liability

DEFERRED TAX LIABILITY	Statement of financial position		Income statement		Effect of merger with a subsidiary
	31.12.2014	31.12.2013	2014	2013	
Interest accrued on receivables (loans)	238 026	206 564	3 260	(13 256)	34 722
Capitalised interest on performing housing loans	142 227	155 285	13 058	14 545	-
Interest on securities	37 627	22 438	(14 406)	(7 871)	783
Valuation of derivative financial instruments, of which:	3 062	-	-	-	1 397
recognised in income statement	1 841	-	(444)	6 276	1 397
recognised in other comprehensive income	1 221	-	-	-	-
Valuation of securities, of which:	7 891	-	-	-	900
recognised in income statement	-	-	900	3 889	900
recognised in other comprehensive income	7 891	-	-	-	-
Difference between carrying amount and tax value of tangible fixed assets and intangible fixed assets	348 433	336 603	(10 200)	(3 049)	1 630
Gross deferred tax liability, of which:	777 266	720 890	-	-	39 432
recognised in income statement	728 722	720 890	(7 832)	534	39 432
recognised in other comprehensive income	9 112	-	-	-	-
recognised at the date of the merger with a subsidiary (no impact on the income statement)	39 432	-	-	-	-

DEFERRED TAX ASSET	Statement of financial position		Income statement		Effect of merger with a subsidiary
	31.12.2014	31.12.2013	2014	2013	
Interest accrued on liabilities	214 153	159 134	49 755	(76 110)	5 264
Interest on securities	-	1 212	(1 212)	1 212	-
Valuation of derivative financial instruments, of which:	8 062	9 225	-	-	1 306
recognised in income statement	8 062	(20 235)	26 991	(30 896)	1 306
recognised in other comprehensive income	-	29 460	-	-	-
Valuation of securities, of which:	16 673	13 909	-	-	-
recognised in income statement	16 673	1 477	15 196	1 477	-
recognised in other comprehensive income	-	12 432	-	-	-
Provision for employee benefits	86 746	83 164	-	-	576
recognised in income statement	84 710	81 363	2 771	(50 407)	576
recognised in other comprehensive income	2 036	1 801	-	-	-
Impairment allowances on credit exposure	575 238	506 795	15 166	11 862	53 277
Adjustment of straight-line valuation method and ESP	449 916	246 967	28 298	(3 824)	174 651
Other temporary negative differences	97 882	87 676	3 077	42 697	7 129
Gross deferred income tax asset, of which:	1 448 670	1 108 082	-	-	242 203
recognised in income statement	1 204 431	1 064 389	140 042	(103 989)	242 203
recognised in other comprehensive income	2 036	43 693	-	-	-
recognised at the date of the merger with a subsidiary (no impact on the income statement)	242 203	-	-	-	-

	Statement of financial position		Income statement		Effect of merger with a subsidiary
	31.12.2014	31.12.2013	2014	2013	
Total deferred tax impact, of which:	671 404	387 192			202 771
recognised in income statement	475 709	343 499	132 210	(103 455)	202 771
recognised in other comprehensive income	(7 076)	43 693	-	-	-
recognised at the date of the merger with a subsidiary (no impact on the income statement)	202 771	-	-	-	-
DEFERRED INCOME TAX ASSET (presented in the statement of financial position)	671 404	387 192	-	-	-
Net deferred tax impact on the income statement	-	-	132 210	(103 455)	-

Bank Polski

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.

Earnings per share

	2014	2013
Profit per ordinary shareholders (in PLN thousand)	3 079 471	3 233 762
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000
Earnings per share (in PLN per share)	2.46	2.59

Diluted earnings per share

The diluted earnings per share ratio is calculated on the basis of profit attributable to ordinary shareholders, by dividing the respective profit by the weighted average number of ordinary shares outstanding during a given period, adjusted for the effect of all potential dilutive ordinary shares.

In 2014 as well as in 2013 there were no dilutive instruments in the Bank.

Diluted earnings per share from discontinued operations

During the years ended 31 December 2014 and 31 December 2013 there were no discontinued operations in the Bank.

14. Dividends paid divided by shares

Pulsuan to the Resolution No. 7/2014 of 26 June 2014 the Ordinary General Shareholders' Meeting of PKO Bank Polski SA, as a result of profit appropriation of PKO Bank Polski SA for the financial year 2013 and of covering an undistributed loss from previous years, according to the Bank's Management Board's recommendation, allocated PLN 937 500 thousand as a dividend for shareholders, which constitutes PLN 0.75 gross per share.

The General Shareholders' Meeting set the dividend day (the day of acquisition of rights to dividend) at 18 September 2014 and the dividend payment date at 3 October 2014.

All shares of Polski SA were entitled to dividend. The dividend from the profit of PKO Bank Polski SA for the financial year 2013 was paid out on 3 October 2014.

On 2 October 2014 the Management Board of PKO Bank Polski SA adopted a resolution on the distribution of the net profit that PKO Bank Polski SA achieved for the period from 1 January 2014 to 30 June 2014. As per this resolution the Bank's Management Board resolved that in the Management Board's recommendation on distribution of the net profit achieved by the Bank in 2014 addressed to the Ordinary General Shareholders' Meeting approving the Bank's financial statements for 2014, the net profit achieved for the period from 1 January 2014 to 30 June 2014 in the amount of PLN 1 679 300 thousand will be taken into account in a way that assumes allocation of the amount of PLN 675 000 thousand out of that net profit as a dividend for shareholders. This amount constitutes 40.2% of the Bank's net profit achieved in the first half of 2014.

The adoption of the aforementioned resolution was aimed at including 59.8% of the net profit achieved in the period from 1 January 2014 to 30 June 2014, after deduction of the expected charges and dividends, to Tier 1 basic capital of the Bank. The aforementioned allocation of net profit ensured maintenance of the capital adequacy measures at a safe level and provided the Bank's further development. Pursuant to Article 26 item 2 of the Regulation (EU) No. 575/2013 of the European Parliament and Council, inclusion of the profit for this year in own funds is possible only with the prior permission of the Polish Financial Supervision Authority (the PFSA) and after verification of profits by independent persons responsible for the auditing of the financial statements.

The Bank obtained the aforementioned permission of the PFSA and indicated in the current report No. 71/2014 as of 2 October 2014, that accumulation of a part of the net profit for 2014 is required in order to ensure safe level of capital adequacy for its developing operations. The key factors determining this decision of the Bank were conducting the transaction of acquisition of the Nordea Group assets, the changing regulatory environment as well as the process of establishing a mortgage bank (as a subsidiary of the Bank).

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

(IN PLN THOUSAND)

Bank Polski

NOTES TO THE STATEMENT OF FINANCIAL POSITION

15. Cash and balances with the central bank

	31.12.2014	31.12.2013
Current account in the Central Bank	7 772 856	4 018 340
Cash	3 925 385	3 169 820
Other funds	7	246
Total	11 698 248	7 188 406

Obligatory reserve

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

Funds on the obligatory reserve account bear interest of 0.9 of the reference rate. As at 31 December 2014, this interest rate was 1.8%. As at 31 December 2013 funds on the obligatory reserve account bear interest of 0.9 of the rediscount rate for bills of exchange and this interest rate was 2.475%.

Restricted cash:

Cash in the amount of PLN 11 440 thousand (PLN 17 449 thousand as at 31 December 2013) pledged as collateral for securities' transactions conducted by the Brokerage House of PKO Bank Polski SA are deposited in the National Depository for Securities (KDPW_CCP), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant who holds the status of settlement-making participant is obliged to make payments to the settlement fund which guarantees a proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of transactions made by each participant and is updated by KDPW_CCP on a daily basis.

As at 31 December 2013 the Bank had restricted cash as a part of issuance stabilising actions for the selling shareholder in the amount of PLN 14 629 thousand, blocked on the stabilisation manager's account. As at 31 December 2014 there was no such cash.

In the statement of cash flows, these cash are presented as restricted cash. As at 31 December 2014 and 31 December 2013 their value amounted to PLN 11 440 thousand and PLN 32 078 thousand respectively.

Cash and cash equivalents

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

16. Amounts due from banks

	31.12.2014	31.12.2013
Deposits with banks	1 602 613	1 425 588
Current accounts	721 366	399 057
Loans and advances granted	295 004	289 529
Receivables due from repurchase agreements	-	14 033
Cash in transit	1 160	1 117
Total	2 620 143	2 129 324
Impairment allowances on receivables, of which:	(11 596)	(40 237)
impairment allowances on receivable to a foreign bank	(11 515)	(40 137)
Net total	2 608 547	2 089 087

Details on risk related to amounts due from banks were presented in the note 48 'Credit risk management'.

Liabilities from negative valuation of derivative instruments

Cash deposits with banks include assets held as collateral for own liabilities, in this case settlements due to negative valuation of derivative instruments. The amount of these assets as at 31 December 2014 amounted to PLN 1 051 625 thousand (as at 31 December 2013 PLN 727 766 thousand).

Cash and cash equivalents

Current amounts due from banks as well as other cash equivalents with maturities up to 3 months from the date of acquisition, amounting to PLN 2 354 512 thousand are entirely treated as cash and cash equivalents for the purposes of the statement of cash flows (as at 31 December 2013 amounted to PLN 1 456 276 thousand).

(IN PLN THOUSAND)

17. Trading assets

By carrying amount	31.12.2014	31.12.2013
Debt securities	1 919 353	472 535
issued by the State Treasury, of which:	1 825 454	395 202
Treasury bonds PLN	1 825 454	390 660
Treasury bonds EUR	-	4 542
issued by local government bodies, municipal bonds PLN	50 563	41 907
issued by non-financial institutions, of which	22 146	23 892
corporate bonds PLN	22 137	23 892
corporate bonds EUR	9	-
issued by other financial institutions, of which:	6 559	11 366
bonds issued by WSE PLN	2 248	6 628
bonds issued by PKO Finance AB EUR	4 233	4 604
corporate bonds PLN	78	134
issued by banks	14 631	168
Shares in other entities - listed on stock exchange	5 137	10 799
Investment certificates	3 891	1 151
Rights to shares	278	-
Total	1 928 659	484 485

Debt securities by nominal value	31.12.2014	31.12.2013
Treasury bonds PLN	1 741 972	389 455
Treasury bonds EUR	-	4 174
corporate bonds PLN	38 323	30 618
corporate bonds EUR	4 058	4 355
municipal bonds PLN	48 067	39 158
The average yield on debt securities issued by the State Treasury	2.00%	3.79%

Change in trading assets	2014	2013
Balance at the beginning of the period	484 485	282 230
Currency translation differences	58	(71)
Increases	204 794 395	378 331 885
Decreases	(203 348 345)	(378 130 581)
Changes in fair value	(1 934)	1 022
Balance at the end of the period	1 928 659	484 485

As at 31 December 2014 and as at 31 December 2013 the Bank did not have transferred financial assets, which are derecognised from the financial statements in their entirety, for which the Bank continues involvement in those assets.

Transferred trading assets, which are not derecognised from the statement of financial position

Financial assets which the Bank does not derecognise from the financial statements include the assets pledged as collateral for liabilities due to sell-buy-back transactions (treasury bonds). The carrying amounts of transferred trading assets and related liabilities as at 31 December 2014 and 31 December 2013, were as follows:

Carrying amount	31.12.2014	31.12.2013
Trading assets	926 977	1 682 616
Liabilities due to sell-buy-back transactions	927 553	1 684 506

(IN PLN THOUSAND)

Preliminary Settlement Deposit of the National Depository for Securities (KDPW)

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

Carrying amount	31.12.2014	31.12.2013
Value of the deposit	7 998	7 589
Nominal value of the pledge	8 000	8 000
Type of the pledge	Treasury bonds	Treasury bonds
Carrying amount of the pledge	8 112	7 990

Trading assets by carrying amount - maturity

As at 31 December 2014	up to 1 month	1 - 3 months	3 months – 1 year	1 - 5 years	over 5 years	Total
Debt securities						
issued by the State Treasury	54 632	7 281	488 236	709 697	565 608	1 825 454
issued by local government bodies	-	255	596	7 535	42 177	50 563
issued by other financial institutions	34	-	4 233	2 292	-	6 559
issued by non-financial institutions	-	-	183	20 226	1 737	22 146
issued by banks	102	-	-	11 949	2 580	14 631
Total	54 768	7 536	493 248	751 699	612 102	1 919 353

As at 31 December 2013	up to 1 month	1 - 3 months	3 months – 1 year	1 - 5 years	over 5 years	Total
Debt securities						
issued by the State Treasury	50 070	1 082	141 700	175 947	26 403	395 202
issued by local government bodies	-	20	47	7 901	33 939	41 907
issued by other financial institutions	-	72	-	11 262	32	11 366
issued by non – financial institutions	-	-	29	21 096	2 767	23 892
issued by banks	-	-	114	54	-	168
Total	50 070	1 174	141 890	216 260	63 141	472 535

18. Derivative financial instruments

Derivative instruments used by the Bank

The Bank uses various types of derivatives in order to manage risk involved in its business activities. The most frequently used types of derivatives are: IRS, CIRS, FX Swap, FRA, Options and Forward.

As at 31 December 2014 and as at 31 December 2013, the Bank held the following types of derivative instruments:

	31.12.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments (Note 19)	599 841	494 961	361 639	414 804
Other derivative instruments	4 883 667	5 050 541	2 640 581	2 913 345
Total	5 483 508	5 545 502	3 002 220	3 328 149

Fair value of derivative financial instruments

Type of contract	31.12.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
IRS	4 592 893	4 439 830	2 592 081	2 490 832
CIRS	340 970	616 997	252 941	545 073
FX Swap	227 857	237 542	39 908	156 320
Options	172 680	133 912	75 443	61 961
FRA	59 078	63 505	13 652	11 454
Forward	89 113	53 043	24 552	60 112
Other	917	673	3 643	2 397
Total	5 483 508	5 545 502	3 002 220	3 328 149

(IN PLN THOUSAND)

Nominal amounts of underlying instruments

31 December 2014

Nominal amounts of underlying instruments	up to 1 month	1- 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Currency transactions						
FX swap	33 134 592	5 081 541	6 685 243	1 956	-	44 903 332
Purchase of currency	16 593 365	2 549 927	3 300 566	972	-	22 444 830
Sale of currency	16 541 227	2 531 614	3 384 677	984	-	22 458 502
FX forward	1 925 111	3 856 935	5 868 067	2 492 142	-	14 142 255
Purchase of currency	961 724	1 931 692	2 929 934	1 248 425	-	7 071 775
Sale of currency	963 387	1 925 243	2 938 133	1 243 717	-	7 070 480
Options	1 673 547	1 682 724	5 168 100	9 643 363	-	18 167 734
Purchase	838 656	835 493	2 578 193	4 783 729	-	9 036 071
Sale	834 891	847 231	2 589 907	4 859 634	-	9 131 663
Cross Currency (CIRS)	2 667 659	-	9 081 656	19 181 620	19 832 431	50 763 366
Purchase	1 330 822	-	4 434 648	9 513 434	10 012 968	25 291 872
Sale	1 336 837	-	4 647 008	9 668 186	9 819 463	25 471 494
Interest rate transactions						
Interest Rate Swap (IRS)	15 563 390	27 983 756	100 070 606	241 923 922	39 449 738	424 991 412
Purchase	7 781 695	13 991 878	50 035 303	120 961 961	19 724 869	212 495 706
Sale	7 781 695	13 991 878	50 035 303	120 961 961	19 724 869	212 495 706
Forward Rate Agreement (FRA)	21 823 000	22 975 000	47 575 000	10 850 000	-	103 223 000
Purchase	11 544 000	9 605 000	22 200 000	5 725 000	-	49 074 000
Sale	10 279 000	13 370 000	25 375 000	5 125 000	-	54 149 000
Other transactions						
Other (including stock market index derivatives)	3 274 082	130 246	1 672 805	1 028 191	-	6 105 324
Purchase	1 296 588	67 802	662 695	545 436	-	2 572 521
Sale	1 977 494	62 444	1 010 110	482 755	-	3 532 803
Total derivative instruments	80 061 381	61 710 202	176 121 477	285 121 194	59 282 169	662 296 423

31 December 2013

Nominal amounts of underlying instruments	up to 1 month	1- 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Currency transactions						
FX swap	9 064 267	621 348	2 413 223	-	-	12 098 838
Purchase of currency	4 514 720	299 874	1 170 424	-	-	5 985 018
Sale of currency	4 549 547	321 474	1 242 799	-	-	6 113 820
FX forward	2 020 788	2 202 576	3 397 762	479 550	-	8 100 676
Purchase of currency	1 008 082	1 099 414	1 682 174	233 773	-	4 023 443
Sale of currency	1 012 706	1 103 162	1 715 588	245 777	-	4 077 233
Options	1 454 808	1 201 679	4 126 364	1 024 474	-	7 807 325
Purchase	730 276	589 870	2 023 539	508 731	-	3 852 416
Sale	724 532	611 809	2 102 825	515 743	-	3 954 909
Cross Currency (CIRS)	1 490 674	1 354 330	2 462 933	25 246 228	9 914 523	40 468 688
Purchase	745 837	678 010	1 236 520	12 567 095	4 924 105	20 151 567
Sale	744 837	676 320	1 226 413	12 679 133	4 990 418	20 317 121
Interest rate transactions						
Interest Rate Swap (IRS)	19 507 842	28 971 362	74 714 510	214 022 130	23 798 504	361 014 348
Purchase	9 753 921	14 485 681	37 357 255	107 011 065	11 899 252	180 507 174
Sale	9 753 921	14 485 681	37 357 255	107 011 065	11 899 252	180 507 174
Forward Rate Agreement (FRA)	-	-	49 114 000	3 100 000	-	52 214 000
Purchase	-	-	26 063 000	1 100 000	-	27 163 000
Sale	-	-	23 051 000	2 000 000	-	25 051 000
Other transactions						
Other (including stock market index derivatives)	5 456 692	111 580	489 039	1 424 298	-	7 481 609
Purchase	2 497 383	87 915	259 177	769 506	-	3 613 981
Sale	2 959 309	23 665	229 862	654 792	-	3 867 628
Total derivative instruments	38 995 071	34 462 875	136 717 831	245 296 680	33 713 027	489 185 484

19. Derivative hedging instruments

As at 31 December 2014 the Bank 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 Bank designated the hedged position according to the regulations of IAS. 39.AG.99C as adopted by the European Union.

Periods in which cash flows are expected and in which they should have an impact on the financial result – January 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 – January 2015 - February 2019.

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 – January 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.

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 – January 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 currencies, resulting from foreign exchange rate risk, using CIRS transactions

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

(IN PLN THOUSAND)

Hedged risk - currency risk and interest rate risk.

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

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

Periods in which cash flows are expected and in which they should have an impact on the financial result – January 2015 - September 2022.

As at 31 December 2014 and as at 31 December 2013, the Bank did not use the fair value hedge.

All types of hedging relationships applied by the Bank 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.

In 2014, the Bank did not established a new hedge strategy.

In the second quarter of 2014, due to the lack of fulfillment of the retrospective effectiveness test, the Bank ceased to apply hedge accounting for one of hedging relationships within strategy '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'.

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 31 December 2014 and as at 31 December 2013, amounts to respectively:

Type of instrument:	Carrying amount/fair value			
	31.12.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
IRS	421 101	-	229 630	630
CIRS	178 740	494 961	132 009	414 174
Total	599 841	494 961	361 639	414 804

The nominal value of hedging instruments by maturity.

Type of instrument:	Nominal value as at 31 December 2014					
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
IRS PLN fixed - float	-	2 540 000	3 264 000	6 114 000	-	**11 918 000**
IRS EUR fixed – float:						
translated into PLN	-	-	1 538 690	473 115	-	**2 011 805**
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 USD/float CHF						
fixed USD	-	-	-	-	875 000	**875 000**
float CHF	-	-	-	-	814 481	**814 481**

Type of instrument:	Nominal value as at 31 December 2013					
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
IRS PLN fixed - float	1 600 000	570 000	1 400 000	6 114 000	-	**9 684 000**
IRS EUR fixed – float:						
translated into PLN	-	-	-	1 957 478	-	**1 957 478**
EUR (original currency)	-	-	-	472 000	-	**472 000**
IRS CHF fixed – float:						
translated into PLN	-	-	-	845 400	-	**845 400**
CHF (original currency)	-	-	-	250 000	-	**250 000**
CIRS float CHF/float PLN						
float PLN	170 080	678 010	855 508	6 708 684	1 831 815	**10 244 097**
float CHF	50 000	200 000	250 000	2 020 000	525 000	**3 045 000**
CIRS fixed USD/float CHF						
fixed USD	-	-	-	-	750 000	**750 000**
float CHF	-	-	-	-	695 419	**695 419**

(IN PLN THOUSAND)

The nominal values were translated using the average NBP rate as at 31 December 2014 and as at 31 December 2013 respectively.

Other comprehensive income as regards cash flow hedges	31.12.2014	31.12.2013
Other comprehensive income at the beginning of the period, gross	(155 053)	64 073
Gains transferred to other comprehensive income in the period	330 221	122 138
Amount transferred from other comprehensive income to income statement, of which:	(168 743)	(341 264)
- interest income	(343 316)	(454 278)
- net foreign exchange gains	174 573	113 014
Accumulated other comprehensive income at the end of the period, gross	6 425	(155 053)
Tax effect	(1 221)	29 460
Accumulated other comprehensive income at the end of the period, net	5 204	(125 593)
Ineffective part of cash flow hedges recognised in the income statement	(6 078)	24 333
Effect on other comprehensive income in the period, gross	161 478	(219 126)
Deferred tax on cash flow hedges	(30 681)	41 634
Effect on other comprehensive income in the period, net	130 797	(177 492)

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

By carrying amount	31.12.2014	31.12.2013
Debt securities	13 417 667	15 179 188
issued by central banks, NBP money market bills	10 998 812	13 997 228
issued by the State Treasury, Treasury bonds PLN	2 165 038	931 325
issued by local government bodies, of which:	253 817	250 635
municipal bonds EUR	139 882	136 700
municipal bonds PLN	113 935	113 935
Total	13 417 667	15 179 188

Debt securities by nominal value	31.12.2014	31.12.2013
NBP money market bills PLN	11 000 000	14 000 000
Treasury bonds PLN	2 091 696	899 531
municipal bonds EUR	106 558	103 680
municipal bonds PLN	100 000	100 000
The average yield on debt securities issued by the State Treasury	1.96%	3.09%

Change in financial instruments designated upon initial recognition at fair value through profit and loss	2014	2013
Balance at the beginning of the period	15 179 188	12 614 917
Currency translation differences	3 989	6 050
Increases, of which:	625 937 575	682 824 839
arising from business combinations	740 242	-
Decreases	(627 717 761)	(680 260 178)
Changes in fair value	14 676	(6 440)
Balance at the end of the period	13 417 667	15 179 188

As at 31 December 2014 and as at 31 December 2013 the Bank did not have transferred financial assets, which are derecognised from the statement of financial position in their entirety, but the Bank continues involvement in those assets.

(IN PLN THOUSAND)

Transferred financial instruments designated upon initial recognition at fair value through profit and loss, which are not derecognised from the statement of financial position

Financial assets which the Bank does not derecognise from the financial statements include the assets pledged as collateral for liabilities due to sell-buy-back transactions (Treasury bonds). The carrying amounts of transferred financial assets designated upon initial recognition at fair value through profit and loss and related liabilities as at 31 December 2014 and as at 31 December 2013, were as follows:

Carrying amount	31.12.2014	31.12.2013
Financial instruments designated upon initial recognition at fair value through profit and loss	-	2 068
Liabilities due to sell-buy-back transactions	-	2 071

Financial assets instruments designated upon initial recognition at fair value through profit and loss by carrying amount – maturities

As at 31 December 2014	up to 1 month	3 months - 1 year	1 - 5 years	over 5 years	Total
Debt securities					
issued by central banks	10 998 812	-	-	-	10 998 812
issued by the State Treasury	197 399	129 722	1 362 245	475 672	2 165 038
issued by local government bodies	-	-	253 817	-	253 817
Total	11 196 211	129 722	1 616 062	475 672	13 417 667

As at 31 December 2013	up to 1 month	3 months - 1 year	1 - 5 years	over 5 years	Total
Debt securities					
issued by central banks	13 997 228	-	-	-	13 997 228
issued by the State Treasury	-	188 349	742 976	-	931 325
issued by local government bodies	-	-	113 935	136 700	250 635
Total	13 997 228	188 349	856 911	136 700	15 179 188

Financial intruments designated upon initial recognition at fair value through profit and loss are recognised in accordance with IAS 39.9, which was described in detail in the note 2.5.1.1 'Financial assets and liabilities designated at fair value through profit and loss'.

(IN PLN THOUSAND)

21. Loans and advances to customers

	31.12.2014	31.12.2013
Loans and advances to customers, gross, of which:	185 084 771	153 753 558
financial sector	5 334 058	5 719 004
corporate, of which:	5 031 085	3 680 581
deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee Fund and initial deposit	11 440	19 339
receivables due from repurchase agreement	302 973	2 038 423
non-financial sector	169 725 839	140 893 713
housing	97 959 884	76 482 811
corporate	48 201 845	43 172 563
consumer	21 455 129	20 399 493
debt securities (corporate)	2 108 981	838 846
public sector	10 024 874	7 140 841
corporate	7 202 375	6 057 017
debt securities (municipal)	2 822 499	978 159
receivables due from repurchase agreements*	-	105 665
Impairment allowances on loans and advances to customers	(7 527 200)	(6 381 232)
Loans and advances to customers, net	177 557 571	147 372 326

* As at 31 December 2013 as a part of issuance stabilisation actions for the selling shareholder the Brokerage House of PKO Bank Polski SA had the company's shares valued using the purchase price, presented in the position 'Receivables due from repurchase agreements' in the amount of PLN 105 665 thousand and cash in the amount of PLN 14 629 thousand, blocked on the stabilisation manager's account and a liability in the same amount to the selling shareholder. Settlement of this transaction will take place according to the stabilisation agreement, under mutual offsetting assets and liabilities in the same amount after 30 days from the beginning of the stabilisation, or when the number of shares acquired from the market as a part of issuance stabilisation actions will equal the number of shares received from the selling shareholder.
As at 31 December 2014, the Bank does not hold any shares in the framework of action to stabilise emissions for seller shareholder.

By client segment	31.12.2014	31.12.2013
Loans and advances granted, gross, of which:	185 084 771	153 753 558
mortgage banking	90 622 919	68 794 958
corporate	51 188 599	40 763 620
retail and private banking	21 455 129	20 399 493
small and medium enterprises*	21 503 711	21 632 060
receivables due from repurchase agreement	302 973	2 144 088
deposits of the Brokerage House of PKO Bank Polski SA in the stock Exchange Guarantee Fund	11 440	19 339
Impairment allowances on loans and advances	(7 527 200)	(6 381 232)
Loans and advances granted, net	177 557 571	147 372 326

*Since 2014 the change in presentation consisting in the inclusion of housing market clients within the small and medium enterprises segment (data for 2013 has been brought to comparability).

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

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

(IN PLN THOUSAND)

Debt securities in the loans and advances to customers portfolio

	31.12.2014	31.12.2013
Debt securities reclassified to the loans and advances to customers portfolio, gross	1 494 983	1 756 938
Debt securities directly classified to the loans and advances to customers portfolio, gross	3 436 497	60 067
Impairment allowances	(94 704)	(28 065)
Total debt securities, net	4 836 776	1 788 940

Securities reclassification

In 2014 and in 2013 there was no reclassification of securities to the loan and advances to customers portfolio. In 2012 due to the change of intention as regards holding of the selected portfolio of non-Treasury securities classified upon initial recognition as available for sale, the Bank reclassified them to loans and advances to customers category.
As a result of the reclassification of the portfolio, the valuation methods for the portfolio have changed, i.e. from measured at fair value to measured at amortised cost.

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

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

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

Debt securities (municipal bonds and corporate bonds) reclassified from financial assets available for sale to loans and advances to customers 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

31 December 2013	nominal value	Fair value	carrying amount
Municipal bonds	961 611	963 118	965 180
Corporate bonds	787 040	791 503	768 385
Total	1 748 651	1 754 621	1 733 565

Change in fair value which would have been recognised in the income statement and/or in other comprehensive income if there was no reclassification, would amount to PLN (5 720) thousand for the period from the date of reclassification until 31 December 2014 (31 December 2013 PLN (5 948) thousand). As at 31 December 2014, the average effective interest rate for the debt securities portfolio was 3.632% (as at 31 December 2013 was 4.139%).

(IN PLN THOUSAND)

Loans and advances to customers by method of calculating impairment allowances	31.12.2014	31.12.2013
Assessed on an individual basis, of which:	6 616 005	6 830 053
impaired	5 138 087	5 091 377
not impaired	1 477 918	1 738 676
Assessed on a portfolio basis, impaired	7 209 870	7 173 761
Assessed on a group basis (IBNR)	171 258 896	139 749 744
Loans and advances to customers, gross	185 084 771	153 753 558
Impairment allowances on exposures assessed on an individual basis, of which:	(2 599 180)	(2 133 217)
impaired	(2 583 402)	(2 116 083)
Impairment allowances on exposures assessed on a portfolio basis	(4 322 663)	(3 677 518)
Impairment allowances on exposures assessed on a group basis (IBNR)	(605 357)	(570 497)
Impairment allowances - total	(7 527 200)	(6 381 232)
Loans and advances to customers, net	177 557 571	147 372 326

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

As at 31 December 2014, the share of impaired loans amounted to 6.7% (as at 31 December 2013: 8.0%), whereas the coverage ratio for impaired loans as at 31 December 2014 (calculated as total impairment allowances on loans and advances to customers divided by gross carrying amount of impaired loans) amounted to 61.0% (as at 31 December 2013: 52.0%).

As at 31 December 2014, the share of loans overdue by more than 90 days in the gross amount of loans and advances was 4.9% (as at 31 December 2013: 5.4%).

As at 31 December 2014 and as at 31 December 2013 the Bank did not have transferred financial assets, which are derecognised from the statement of financial position in their entirety, and for which the Bank would continue involvement in those assets.

22. Investment securities available for sale

	31.12.2014	31.12.2013
Debt securities available for sale, gross	21 794 141	13 551 967
issued by the State Treasury, Treasury bonds PLN	12 458 348	8 518 450
issued by local government bodies, municipal bonds PLN	4 480 325	3 440 753
issued by non-financial institutions, of which:	3 466 982	1 000 549
corporate bonds PLN	2 951 605	1 000 549
corporate bonds EUR	315 965	-
corporate bonds USD	199 412	-
issued by other financial institutions, corporate bonds PLN	184 914	33 401
issued by banks, of which:	1 203 572	558 814
corporate bonds PLN	1 112 705	558 814
corporate bonds EUR	90 867	-
Impairment allowances on debt securities available for sale	-	(3 296)
corporate bonds	-	(3 296)
Total net debt securities available for sale	21 794 141	13 548 671
Equity securities available for sale, gross	425 742	218 086
Equity securities not admitted to public trading	395 345	161 403
Equity securities admitted to public trading	30 397	56 683
Impairment allowances on equity securities available for sale	(127 747)	(30 059)
Total net equity securities available for sale	297 995	188 027
Total net investment securities available for sale	22 092 136	13 736 698

Debt securities by nominal value	31.12.2014	31.12.2013
Treasury bonds PLN	12 212 276	8 406 366
municipal bonds PLN	4 388 019	3 361 853
corporate bonds PLN	4 217 122	1 579 343
corporate bonds EUR	404 919	-
corporate bonds USD	200 998	-
The average yield on debt securities	2.12%	3.35%

(IN PLN THOUSAND)

Change in investment securities available for sale	2014	2013
Balance at the beginning of the period	13 736 698	12 061 406
Currency translation differences	34 134	1 497
Increases, of which	52 939 123	46 880 663
arising from business combinations	1 686 180	-
Decreases	(44 724 797)	(45 130 119)
of which change in impairment allowance (Note 10)	(94 392)	(8 763)
Change in fair value recognised in other comprehensive income (Note 7)	106 978	(76 749)
Balance at the end of the period	22 092 136	13 736 698

Risk related to investment securities available for sale has been described in details in the note 48 'Credit risk management'.

Investment debt securities available for sale by carrying amount - by the maturity

As at 31 December 2014	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Overdue	Total
Debt securities available for sale							
issued by the State Treasury	344 572	-	212 936	7 693 424	4 207 416	-	12 458 348
issued by local government bodies	524	5 324	253 275	1 523 879	2 697 323	-	4 480 325
issued by non-financial institutions	290 339	84 458	498 351	1 421 019	1 172 815	-	3 466 982
issued by other financial institutions	-	170 074	14 840	-	-	-	184 914
issued by banks	-	49 773	-	1 153 799	-	-	1 203 572
Total	635 435	309 629	979 402	11 792 121	8 077 554	-	21 794 141

As at 31 December 2013	up to 1 month	1 - 3 months	3 months – 1 year	1 - 5 years	over 5 years	Overdue	Total
Debt securities available for sale							
issued by the State Treasury	1 498	-	308 598	6 701 631	1 506 723	-	8 518 450
issued by local government bodies	-	4 523	127 574	999 750	2 308 656	250	3 440 753
issued by non-financial institutions	68 085	16 566	62 536	685 456	164 610	-	997 253
issued by other financial institutions	-	33 401	-	-	-	-	33 401
issued by banks	-	-	-	509 284	49 530	-	558 814
Total	69 583	54 490	498 708	8 896 121	4 029 519	250	13 548 671

As at 31 December 2014 and as at 31 December 2013 the Bank did not have transferred financial assets, which are derecognised from the financial statements in their entirety for which the Bank would continue involvement in those assets.

Bank Deposit Guarantee Fund

In accordance with Article 25 of the Act on the Bank Guarantee Fund dated 14 December 1994 (uniform text Journal of Laws of 2009, No. 84, item 711 with subsequent amendments) the following assets are pledged as collateral for liabilities of the Bank Guarantee Fund.

	31.12.2014	31.12.2013
Value of the fund	901 339	800 545
Nominal value of the pledge	930 000	830 000
Type of the pledge	Treasury bonds	Treasury bonds
Maturity of the pledge	25.01.2025	25.01.2015
Carrying amount of the pledge	915 957	839 777

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

(IN PLN THOUSAND)

Bank Polski

23. Investments in subsidiaries, joint ventures and associates and a description of changes to the entities of the Group

As at 31 December 2014, the Bank's investments in subsidiaries, joint ventures and associates have been recognised at acquisition cost adjusted by impairment allowances.

23.1. Investments in subsidiaries, joint ventures and associates

The Bank's individual shares in subsidiaries, joint ventures and associates are presented below.

As at 31 December 2014	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA	1 018 069	(760 641)	257 428
PKO Bank Hipoteczny SA	300 000	-	300 000
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	283 624	(244 162)	39 462
PKO BP BANKOWY PTE SA	205 786	-	205 786
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
PKO Życie Towarzystwo Ubezpieczeń SA (former 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA	184 636	-	184 636
MERKURY – fiz an[1]	120 000	-	120 000
PKO Leasing SA	98 000	-	98 000
PKO BP Finat Sp. z o.o.	71 295	-	71 295
'CENTRUM HAFFNERA' Sp. z o.o.[2]	44 371	(44 371)	-
Bankowe Towarzystwo Kapitałowe SA	30 566	(10 666)	19 900
'Inter-Risk Ukraina' Additional Liability Company	27 549	(20 441)	7 108
PKO Finance AB	172	-	172
Joint ventures			
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197 320	-	197 320
'Centrum Obsługi Biznesu' Sp. z o.o.	17 498	(9 466)	8 032
Associates			
Bank Pocztowy SA	146 500	(28 854)	117 646
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	1 500	(1 500)	-
Total	2 933 875	(1 120 101)	1 813 774

1) PKO Bank Polski SA has investment certificates of the Fund, which, according to IFRS, allow to control the Fund.
2) The Entity was recognised as a joint venture of PKO Bank Polski SA until 19 January 2014.

In accordance with IAS 36 'Impairment of assets' the recoverable value of shares in subsidiaries was assessed. In 2014, based on the valuation conducted, the Bank increased impairment allowances of shares of companies in Ukraine by PLN 116 192 thousand and increased impairment allowance of shares of 'Centrum Obsługi Biznesu' Sp. z o.o. in the amount of PLN 9 466 thousand and decreased impairment allowance of shares of Bank Pocztowy SA by PLN 10 926 thousand.

The value of companies in Ukraine is the effect of general political and economic situation in Ukraine. In 2014 in Ukraine economic recession was deepened along with worsening conflict with Russia in the eastern part of the country. In whole 2014 the economy of Ukraine could shrink even by -8.2% (according to the forecasts of International Monetary Fund). CPI inflation amounted to 21.8% y/y in November and foreign exchange reserves of Ukraine decreased below USD 10 billion. In 2014 there was a strong depreciation of national currency (UAH) against convertible currencies – UAH/USD exchange rate increased from 7.993 in last year to 15.769 (according to data of National Bank of Ukraine). The difficult situation concerns banking sector – as at 1 December 2014 a number of banks conducted operations dropped in 2014 from 180 to 165 and bankruptcy proceeding is pending against 28 banks. KREDOBANK SA continues lending activities, has stable liquidity situation and support of strategic shareholder of PKO Bank Polski SA so that it is considered as one of the banks with the highest possibility of survival the period of instability system.

The recoverable value of KREDEBANK SA was determined based on value in use, calculated on the basis of the present value of estimated future cash flows based on adjusted financial plan of KREDOBANK SA, among others, in respect of possible execution of loan and deposit volumes.

The shares of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and 'Inter-Risk Ukraina' Additional Liability Company., due to the lack of satisfactory purchase offers of the above-mentioned companies under current market conditions, ceased to be recognise as non-current assets held for sale and at the end of 2014 were measured at the recoverable amount.

The Bank undertakes a number of actions aimed at reducing the impact of the macroeconomic situation on KREDOBANK SA (among others strict control of credit risk, a level of costs incurred and adapting them to the planned sales levels, monitoring of the capital adequacy, currency position and liquidity situation of the bank).

The recoverable amount of shares of Bank Pocztowy SA was determined based on value in use, calculated on the basis of the present value of future cash flows estimated based on the Company's strategy. Fair value was also estimated on the basis of market indicators of the comparable group of banks.

The recoverable amount of shares of 'Centrum Obsługi Biznesu' Sp. z o.o. was determined based on value in use, calculated on the basis of the present value of future cash flows estimated based on a medium-range forecast of Company, taking into account the Bank's strategy for the Company.

(IN PLN THOUSAND)

At the same time in December 2014, in accordance with IFRS 5, the shares of Qualia Development Sp. z o.o. were reclassified to assets held for sale at fair value estimated in the amount of PLN 165 000 thousand - the Bank intends to recover the value of the above-mentioned shares through a sale transaction.

As at 31 December 2013	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA	999 412	(745 723)	253 689
Qualia Development Sp. z o.o.[1]	317 785	-	317 785
PKO BP BANKOWY PTE SA	205 786	-	205 786
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
MERKURY – fiz an[2]	120 000	-	120 000
PKO Leasing SA	90 000	-	90 000
Inteligo Financial Services SA	59 602	-	59 602
Bankowe Towarzystwo Kapitałowe SA	22 066	(10 666)	11 400
PKO BP Finat Sp. z o.o.	11 693	-	11 693
PKO Finance AB	172	-	172
Joint ventures			
'CENTRUM HAFFNERA' Sp. z o.o.	44 371	(44 371)	-
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.[3]	197 592	-	197 592
'Centrum Obsługi Biznesu' Sp. z o.o.	17 498	-	17 498
Associates			
Bank Pocztowy SA	146 500	(39 780)	106 720
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	1 500	(1 500)	-
Total	2 420 966	(842 040)	1 578 926

1) The value of acquired shares in the increased share capital of the Entity in the amount of PLN 77 474 thousand covered by contribution in kind in the form of shares of 'Fort Mokotów Inwestycje' Sp. z o.o is presented in the position; as at 31 December 2013 the above-mentioned increase was not registered with the National Court Register. Additionally, the position includes capital contributions made by PKO Bank Polski SA, which were converted to the capital, previously presented under the item 'Loans and advances to customers'.
2) PKO Bank Polski SA has investment certificates of the Fund, which, according to IFRS, allow to control the Fund.
3) The Entity was recognised as a direct subsidiary of PKO Bank Polski SA until 30 December 2013; the shares of the Company are recognised at fair value at the impairment date.

Selected information on associates

	Total assets	Total liabilities	Total revenue	Net profit	% share
31.12.2014					
The Bank Pocztowy SA Group	7 711 472	7 271 808	531 451	43 653	25.0001
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	22 400	5 382	2 772	6	33.33
Total	7 733 872	7 277 190	534 223	43 659	X
31.12.2013					
The Bank Pocztowy SA Group	7 382 745	6 990 980	514 030	36 027	25.0001
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	20 465	4 049	2 395	1	33.33
Total	7 403 210	6 995 029	516 425	36 028	X

Financial data concerning Bank Pocztowy SA, presented in the table above are derived from consolidated financial statements prepared in accordance with IFRS and the data of 'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o. are derived from financial statements prepared in accordance with the Polish Accounting Standards. According to the Bank's estimates, differences between the above-mentioned statements and the financial statements prepared in accordance with IFRS are not significant from the perspective of the financial statements of the Bank. Data for the year 2013 are derived from audited financial statements.

As at 31 December 2014 and as at 31 December 2013 the Bank had no share in contingent liabilities of associates acquired jointly with other investors.

In 2014, as part of the third stage of the financial reorganisation of Polimex-Mostostal SA PKO Bank Polski SA and Bankowe Towarzystwo Kapitałowe SA (the Bank's subsidiary) acquired shares issued by the Company with a total issue price of PLN 211 366 thousand, paid by way of contractual deduction of debts owed to these entities (capital increase was registered with the National Court Register on 22 October 2014). As a result, PKO Bank Polski SA together with its subsidiaries held a total of 1 061 971 808 shares of Polimex – Mostostal SA, constituting 24.5% share in the share capital of the Company and entitling to 24.5% of votes at the General Shareholders' Meeting of the Company as at 31 December 2014. At the same time, in connection with the agreement of sale of 200 million shares of Polimex – Mostostal SA concluded on 30 September 2014, PKO Bank Polski SA committed not to exercise the voting rights of the shares covered by the above-mentioned agreement. As a result of the above-mentioned, the share of the Bank's Group in votes at the General Shareholders' Meeting of the Company amounts to 19.9%. The sale agreement will be executed as of the registration date of sold shares by the National Depository for Securities (KDPW) and their registration on the investment account of the seller.

Taking into account the actual amount of voting rights of Bank's Group at the General Shareholders' Meeting of the Company and the lack of other significant conditions concerning exercise significant influence described in IAS 28, the shares of Polimex-Mostostal SA are recognised as financial assets in statement of financial position of the Bank as at 31 December 2014.

23.2. Changes to the entities of the Group

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

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

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

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

- acquired shares of Nordea Bank Polska SA

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

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

On 12 May 2014, as a part of the compulsory buyout, PKO Bank Polski SA bought 117 408 shares of Nordea Bank Polska SA, i.e. all remaining dematerialised shares, for the price of PLN 5 635 thousand.

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

The purpose of the acquisition of shares of Nordea Bank Polska SA was to achieve economic benefits by the Bank by increasing the customer base and to strengthen the Bank's competitive position in the market. On 14 May 2014, the Management Board of PKO Bank Polski SA and the Management Board of Nordea Bank Polska SA signed a merger plan, whereby all property (all assets, equity and liabilities) of the Company was transferred to the Bank, as the acquirer. On 26 September 2014 the Polish Financial Supervision Authority granted its permit to the above-mentioned merger. On 31 October 2014, the merger was register with the National Court Register of the PKO Bank Polski SA's domicile. The merger was carried out in the manner provided in Article 515 § 1 of the Commercial Companies Code, i.e. without an increase in the share capital of the Bank.

From the acquisition date (i.e. from 1 April 2014) to the legal merger date (i.e. to 31 October 2014), Nordea Bank Polska SA was a separate company in the Bank's Group. The Bank and the Company remained separate as regards the provision of their services.

Nordea Bank Polska SA ceased to operate as a separate entity from the legal merger date. As of this day, PKO Bank Polski SA automatically became a party to all agreements concluded with the customers and, consequently, assumed all rights and obligations of the Company.

An operating merger scheduled for the first half of 2015 will close the banks' integration process.

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

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

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

At the same time, in connection with the acquisition of 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA, its subsidiary: Nordea Usługi Finansowe Sp. z o.o. (currently Ubezpieczeniowe Usługi Finansowe Sp. z o.o. – the change in the name was registered with the National Court Register on 14 May 2014) became a part of the PKO Bank Polski SA Group.

As at 31 December 2014, the share capital of Ubezpieczeniowe Usługi Finansowe Sp. z o.o. amounts to PLN 1 950 thousand and consists of 3 900 shares with a nominal value of PLN 500 each. PKO Życie Towarzystwo Ubezpieczeń SA is the sole shareholder of the above-mentioned entity. The core business of Ubezpieczeniowe Usługi Finansowe Sp. z o.o. is the provision of services supporting insurance operations.

- acquired shares of Nordea Finance Polska SA

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

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

On 30 September 2014 the merger of PKO Leasing Pro SA with PKO Leasing SA was registered with the National Court Register of the domicile of the acquirer, by which all property of PKO Leasing Pro SA (all assets and equity and liabilities, excluding statement of financial position items related to factoring activities acquired by PKO BP Faktoring SA), was transferred to PKO Leasing SA.

- acquired the so-called 'Swedish portfolio' assets

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

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

In connection with the fulfilment of the terms of the Transactions related to the Nordea Bank AB (publ) Group retaining the financing of the mortgage loans portfolio granted by Nordea Bank Polska SA (the 'Mortgage Portfolio'), based on the agreement concluded on 1 April 2014, Nordea Bank AB (publ) granted a credit facility to PKO Bank Polski SA in the amount of up to: CHF 3 645 818 thousand, EUR 465 414 thousand and USD 3 725 thousand, for a period of no longer than 7 years, with a three-year repayment suspension period (the 'Credit Facility'). The average effective margin over the maximum financing period under the Credit Facility is 63 basis points above the relevant reference rate. The Credit Facility does not involve any commissions related to the granting of the financing. The Credit Facility is to be secured with a transfer for security of receivables related to the Mortgage Portfolio to be made by Nordea Bank Polska SA in favour of Nordea Bank AB Spółka Akcyjna Oddział w Polsce under the agreement on the transfer of ownership of loans for security was signed on 2 July 2014. The process of making entries in the respective mortgage registrars is in progress. The value of receivables (loans) transferred for security amounts to approx. PLN 14 400 million.

On 1 April 2014, PKO Bank Polski SA concluded a loan agreement with Nordea Bank Polska SA, according to which funds received under the Credit Facility were transferred to Nordea Bank Polska SA in the form of a credit facility, the so-called push-down facility, in the amount of up to: CHF 3 645 818 thousand, EUR 465 414 thousand and USD 3 725 thousand for a period of no longer than 7 years, with a three-year repayment suspension period (the 'Push-Down Facility'). The Push-Down Facility was unsecured. The financial terms of the Push-Down Facility (credit margin, commission) were set at arm's length. On the legal merger date between PKO Bank Polski SA and Nordea Bank Polska SA, this agreement expired.

In accordance with the provisions of the Agreement, which oblige the Nordea Bank AB (publ) Group to participate in the default risk of the Mortgage Portfolio, on 1 April 2014 PKO Bank Polski SA and Nordea Bank AB (publ) concluded a special indemnity agreement (the 'Special Indemnity Agreement'), according to which Nordea Bank AB (publ) will cover, for a period of 4 years following the closing date, 50% of the excess of the Mortgage Portfolio cost of risk over the annual cost of risk set at 40 basis points for each year of the above-mentioned four-year duration of the Special Indemnity Agreement.

2. concerning the PKO Leasing SA Group entities

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

On 30 September 2014 the following events were registered with the National Court Register of the domicile of the acquirer:

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

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

3. concerning establishment of Polski Standard Płatności Sp. z o.o.

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

On 19 September 2014 an increase in the share capital of Polski Standard Płatności Sp. z o.o. of PLN 11 355 thousand, i.e. from PLN 2 271 thousand to PLN 13 626 thousand, was registered with the National Court Register. The shares in the increased share capital were acquired by: Alior Bank SA, Bank Millennium SA, Bank Zachodni WBK SA, ING Bank Śląski SA and mBank SA. As a result of the above-mentioned increase, the share of PKO Bank Polski SA in the share capital of the Company and votes at the General Shareholders' Meeting decreased from 100% to 16.67%.

During the period from 13 January 2014 to 18 September 2014, the Company was a subsidiary of PKO Bank Polski SA, and since 19 September 2014, shares of the Company are recognised in financial assets.

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

The new system of mobile payments was launched on 9 February 2015 under the name of BLIK.

4. concerning the ‘CENTRUM HAFFNERA’ Sp. z o.o. Group entities

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

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

On 24 January 2014 ‘Kamienica Morska’ Sp. z o.o. in liquidation - a subsidiary of ‘CENTRUM HAFFNERA’ Sp. z o.o.- was removed from the National Court Register.

5. concerning the KREDOBANK SA Group entities

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

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

6. concerning Qualia Development Sp. z o.o. Group entities

On 4 September 2014, the limited partner's contribution (Qualia Development Sp. z o.o.) and the Company’s limited partnership sum were increased by PLN 1 796 thousand, i.e. from PLN 2 551 thousand to PLN 4 347 thousand, by the shareholders’ resolution of Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k. The above-mentioned changes were registered with the National Court Register on 2 October 2014.

On 3 November 2014, the limited partner's contribution (Qualia Development Sp. z o.o. was increased by PLN 600 thousand, i.e. from PLN 4 700 thousand to PLN 5 300 thousand by the shareholders’ resolution of Qualia spółka z ograniczoną odpowiedzialnością – Sopot Sp. k. The above-mentioned changes were registered with the National Court Register on 31 December 2014.

7. concerning Bankowe Towarzystwo Kapitałowe SA

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

8. concerning PKO Bank Hipoteczny SA

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

On 6 October 2014, PKO Bank Polski SA established PKO Bank Hipoteczny SA, on 24 October 2014 the Company was registered with the National Court Register. The share capital amounted to PLN 300 000 thousand and consisted of 300 milion shares, each of PLN 1 nominal value.

In December 2014, the Company submitted an application to the Polish Financial Supervision Authority for authorisation to commence operations.

The company will offer long-term mortgage loans to retail customers and issue long-term mortgage bonds.

9. concerning Finansowa Kompania ‘Prywatne Inwestycje’ Sp. z o.o.

An increase in the share capital of Finansowa Kompania ‘Prywatne Inwestycje’ Sp. z o.o. of UAH 420 000 thousand, carried out by increasing the nominal value of the Company’s share and acquired by PKO Bank Polski SA, was registered with the Ukrainian Register of Businesses on 17 November 2014. As a result of the above-mentioned increase the share capital of the Company is UAH 950 101 thousand and consists of 1 share with the above-mentioned value.

As at 31 December 2014 the shareholders of the Company are: PKO Bank Polski SA with a 95.47% share in the Company’s share capital and ‘Inter-Risk Ukraina’ Additional Liability Company with a 4.53% share in the Company’s share capital.

10. concerning ‘Inter-Risk Ukraina’ Additional Liability Company

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

As at 31 December 2014, PKO Bank Polski SA is the sole shareholder of the Company.

(IN PLN THOUSAND)

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

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

On 28 November 2014 the following events were registered with the National Court Register of the domicile of the acquirer:

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

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

12. concerning equity investments of Merkury – fiz an

In 2014 Merkury – fiz an has taken up:

- 16 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.,
- 11 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.,
- 10 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.,
- 9 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.,
- 20 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.,
- 11 000 shares with a nominal value of PLN 500 PLN each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.

The above-mentioned capital increase has been registered with the National Court Register in 2014.

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

13. concerning subsidiaries recognised in non-current assets held for sale

In December 2014, PKO Bank Polski SA reclassified, in accordance with IFRS 5, shares of Qualia Development Sp. z o.o. and selected properties to the position 'Non-current assets held for sale' - the Bank intends to recover the value of the above-mentioned assets through a sale transaction. A signed letter of intent and the planned transaction relate to the sale of the above-mentioned Company's share along with the two properties of the Bank located in Warsaw.

At the same time, due to the change in 2014 in the strategy of the Bank's operations towards the companies: Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and 'Inter-Risk Ukraina' Additional Liability Company, taking into consideration difficult economic and political situation in Ukraine, these shares ceased to be recognised in the 'Non-current assets held for sale' as at the end of 2014.

14. concerning events which will cause changes in the PKO Bank Polski SA Group in 2015

On 3 November 2014, a new company, Qualia 2 Sp. z o.o., was established within the Qualia Development Sp. z o.o. Group. The Company's share capital amounts to PLN 5 thousand and consists of 100 shares with a value of PLN 50 each. As at the date of the Company's incorporation, Qualia Development Sp. z o.o. took up 99 shares, and 1 share acquired Qualia Sp. z o.o. In January 2015, the Company was registered with the National Court Register and took over the duties of the limited partner in Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k. At the same time, due to the aforementioned changes on 2 February 2015 a change in the name of Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k. was registered with the National Court Register - its current name is as follows: Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.

24. Non-current assets held for sale

	31.12.2014	31.12.2013
Non-current assets held for sale reclassified from subordinated entities	165 000	48 532
Land and buildings	251 600	97 041
Other	160	84
Total	416 760	145 657

Details on non-current assets held for sale are described in the note 23 'Investments in subsidiaries, joint ventures and associates, and a description of changes to the entities of the Group'.

(IN PLN THOUSAND)

25. Intangible assets

For the year ended 31 December 2014	Software	Goodwill	Relations with customers	Other, including capital expenditure	Total
Gross carrying amount at the beginning of the period	3 320 724	7 785	-	202 479	3 530 988
Increases, of which:	24 971	863 262	86 499	391 799	1 366 531
purchase	-	-	-	382 999	382 999
other, of which:	24 971	863 262	86 499	8 800	983 532
arising from business combinations	12 957	863 262	86 499	7 703	970 421
Decreases, of which:	(97)	-	-	(1 658)	(1 755)
other	(97)	-	-	(1 658)	(1 755)
Transfers from capital expenditure on software	318 670	-	-	(318 670)	-
Gross carrying amount at the end of the period	3 664 268	871 047	86 499	273 950	4 895 764
Accumulated amortisation at the beginning of the period	(1 550 157)	-	-	(19 545)	(1 569 702)
Increases, of which:	(381 904)	-	(19 247)	(11 049)	(412 200)
amortisation for the period	(370 753)	-	(3 935)	(3 682)	(378 370)
other, of which:	(11 151)	-	(15 312)	(7 367)	(33 830)
arising from business combinations	(11 151)	-	(15 312)	(7 356)	(33 819)
Decreases, of which:	123	-	-	-	123
other	123	-	-	-	123
Accumulated amortisation at the end of the period	(1 931 938)	-	(19 247)	(30 594)	(1 981 779)
Impairment allowances at the beginning of the period	(15 373)	-	-	(1 781)	(17 154)
Decreases, of which:	-	-	-	1 781	1 781
released during the period	-	-	-	1 781	1 781
Impairment allowances at the end of the period	(15 373)	-	-	-	(15 373)
Net carrying amount at the beginning of the period	1 755 194	7 785	-	181 153	1 944 132
Net carrying amount at the end of the period	1 716 957	871 047	67 252	243 356	2 898 612

The goodwill relating to the acquisition of Nordea Bank Polska SA was recognised as a separate component of intangible assets as at the legal merger date. It was calculated as the difference between the price paid for Nordea Bank Polska SA's shares, including the assets of the so-called Swedish Portfolio, and the fair value of the net assets, including adjustments resulting from the standardised accounting policies, of PLN 863 262 thousand, and as at 31 December 2013 Centrum Finansowe Puławska Sp. z o.o.'s goodwill of PLN 7 785 thousand associated with the assets acquired from the subsidiary, was presented.

As at 31 December 2014, the Group conducted mandatory impairment tests on goodwill resulting from the acquisition of Nordea Bank Polska SA in accordance with the model developed on the basis of the guidelines included in IAS 36. Impairment test is carried out by comparing the carrying amount of cash-generating units ('CGU') and their recoverable amount.
Two CGUs – retail and corporate, to which goodwill resulting from the acquisition of Nordea Bank Polska SA has been assigned, were distinguished.

Retail CGU	746 708
Corporate CGU	116 554
Total	863 262

The recoverable amount is estimated based on the value in use of CGU. The value in use is current and estimated amount of future cash flows for the period of ten years, including the CGU's residual value. The projection period was extended for the purpose of reflecting a target level of scale of particular CGUs' operations. The CGU's residual value is calculated through the extrapolation of cash flow projections beyond the forecast period, using the growth rate at a level of 1.6%. Cash flow projections are based on the assumptions included in the Bank's financial objectives for the year 2015, which are based on historical data only in the limited range and are not comparable with current business activity due to the fact that only the year 2015 will be the first whole year of functioning combined organisations. Financial objectives for 2015 are accepted by the Bank's Management Board. Discount rate in the amount of 7.7%, including a risk-free rate and risk premium was used to discount future cash flows. Value in use is the most sensitive to the discount rate and the growth rate used for the calculation of residual value.

Impairment test conducted as at 31 December 2014 indicated the excess of the recoverable amount over the carrying amount of particular CGUs and due to this fact there is no need for recognition of impairment allowances on CGUs.

From the point of view of the Bank the significant item of intangible assets relates to expenditures on the Integrated Information System (ZSI). The total capital expenditures incurred for the ZSI system during the years 2004–2014 amounted to PLN 1 248 875 thousand (respectively during the years 2003 – 2013, they amounted to PLN 1 265 973 thousand).

Net carrying amount of the ZSI amounted to PLN 735 623 thousand as at 31 December 2014 (PLN 731 882 thousand as at 31 December 2013). The expected useful life of the ZSI system is 17 years. As at 31 December 2014, the remaining useful life is 9 years.

(IN PLN THOUSAND)

Bank Polski

For the year ended 31 December 2013	Software	Goodwill	Other, including capital expenditure	Total
Gross carrying amount at the beginning of the period	2 731 205	7 785	273 036	3 012 026
Increases, of which:	21 855	-	504 062	525 917
purchase	-	-	500 019	500 019
other	21 855	-	4 043	25 898
Decreases, of which:	(4 654)	-	(2 301)	(6 955)
reclassification to non-current assets held for sale	-	-	(384)	(384)
other	(4 654)	-	(1 917)	(6 571)
Transfers from capital expenditure on software	572 318		(572 318)	-
Gross carrying amount at the end of the period	3 320 724	7 785	202 479	3 530 988
Accumulated amortisation at the beginning of the period	(1 296 959)	-	(16 793)	(1 313 752)
Increases, of which:	(256 439)	-	(3 295)	(259 734)
amortisation	(255 433)	-	(2 929)	(258 362)
other	(1 006)	-	(366)	(1 372)
Decreases, of which:	3 241	-	543	3 784
other	3 241	-	543	3 784
Accumulated amortisation at the end of the period	(1 550 157)	-	(19 545)	(1 569 702)
Impairment allowances at the beginning of the period	(15 373)	-	(1 781)	(17 154)
Impairment allowances at the end of the period	(15 373)	-	(1 781)	(17 154)
Net carrying amount at the beginning of the period	1 418 873	7 785	254 462	1 681 120
Net carrying amount at the end of the period	1 755 194	7 785	181 153	1 944 132

The Bank does not produce any software internally. In the period from 1 January 2014 to 31 December 2014, PKO Bank Polski SA incurred capital expenditures for the purchase of fixed assets and intangible assets in the amount of PLN 702 951 thousand (in the period from 1 January 2013 to 31 December 2013 in the amount of PLN 804 531 thousand).

In the years ended 31 December 2014 and 31 December 2013 respectively, there were no intangible assets to which the Bank's right to use is restricted and pledged as security for liabilities.

(IN PLN THOUSAND)

26. Tangible fixed assets

For the year ended 31 December 2014	Land and buildings	Machinery and equipment	`Means of transport	Assets under construction	Investment properties	Other	Total
Gross value of tangible fixed assets at the beginning of the period	2 475 169	1 894 510	823	125 630	203	490 973	4 987 308
Increases, of which:	185 017	40 340	-	321 666	-	25 096	572 119
purchase and other changes, of which:	170 547	40 340	-	321 666	-	25 096	557 649
arising from business combinations	170 547	40 340	-	1 511	-	24 805	237 203
classification from assets held for sale	14 470	-	-	-	-	-	14 470
Decreases, of which:	(286 773)	(194 587)	(688)	(3 581)	-	(30 155)	(515 784)
disposal and sale	(26 136)	(191 479)	(688)	-	-	(28 809)	(247 112)
classification to assets held for sale	(260 507)	-	-	-	-	(192)	(260 699)
other	(130)	(3 108)	-	(3 581)	-	(1 154)	(7 973)
Transfers from capital expenditure on software	55 918	142 409	-	(260 923)	-	62 596	-
Gross value of tangible fixed assets at the end of the period	2 429 331	1 882 672	135	182 792	203	548 510	5 043 643
Accumulated depreciation at the beginning of the period	(880 001)	(1 460 610)	(590)	-	(16)	(349 076)	(2 690 293)
Increases, of which:	(168 230)	(175 289)	(12)	-	(3)	(67 998)	(411 532)
depreciation for the period	(78 983)	(141 531)	(12)	-	(3)	(44 311)	(264 840)
other, of which:	(89 247)	(33 758)	-	-	-	(23 687)	(146 692)
arising from business combinations	(89 247)	(33 734)	-	-	-	(20 281)	(143 262)
Decreases, of which:	86 501	192 896	470	-	-	29 706	309 573
disposal and sale	15 449	190 284	470	-	-	28 184	234 387
classification to assets held for sale	70 949	-	-	-	-	72	71 021
other	103	2 612	-	-	-	1 450	4 165
Accumulated depreciation at the end of the period	(961 730)	(1 443 003)	(132)	-	(19)	(387 368)	(2 792 252)
Impairment allowances at the beginning of the period	(34)	-	-	-	-	-	(34)
Increases, of which:	-	(4)	-	-	-	-	(4)
recognised during the period	-	(4)	-	-	-	-	(4)
Decreases, of which:	16	4	-	-	-	-	20
decreases due to write-downs of assets	16	4	-	-	-	-	20
Impairment allowances at the end of the period	(18)	-	-	-	-	-	(18)
Net carrying amount at the beginning of the period	1 595 134	433 900	233	125 630	187	141 897	2 296 981
Net carrying amount at the end of the period	1 467 583	439 669	3	182 792	184	161 142	2 251 373

As at 31 December 2014 the off-balance sheet value of machinery and equipment used under operating lease agreements and operating leases with purchase options contracts amounted to PLN 66 705 thousand (as at 31 December 2013 it amounted to PLN 59 032 thousand). In the years ended 31 December 2014 and 31 December 2013, respectively, there were no restrictions on the Bank's right to use its tangible fixed assets as a result of pledges as security for liabilities. In 2014, the Bank received compensation from third parties for the impairment or loss of tangible fixed assets, recognised in the income statement in the amount of PLN 161 thousand (in 2013 in the amount of PLN 167 thousand).

(IN PLN THOUSAND)

Bank Polski

For the year ended 31 December 2013	Land and buildings	Machinery and equipment	Means of transport	Assets under construction	Investment properties	Other	Total
Gross value of tangible fixed assets at the beginning of the period	2 488 526	1 952 522	862	251 065	793	438 422	5 132 190
Increases, of which:	6 955	1 644	-	304 512	-	545	313 656
purchase and other changes	6 955	1 644	-	304 512	-	545	313 656
Decreases, of which:	(164 800)	(270 152)	(39)	(4 708)	(590)	(18 249)	(458 538)
disposal and sale	(31 295)	(269 128)	(39)	-	(39)	(17 578)	(318 079)
classification to assets held for sale	(101 022)	(28)	-	-	(2)	(81)	(101 133)
other	(32 483)	(996)	-	(4 708)	(549)	(590)	(39 326)
Transfers from capital expenditure on fixed assets	144 488	210 496	-	(425 239)	-	70 255	-
Gross value of tangible fixed assets at the end of the period	2 475 169	1 894 510	823	125 630	203	490 973	4 987 308
Accumulated depreciation at the beginning of the period	(859 124)	(1 562 191)	(609)	-	(555)	(327 019)	(2 749 498)
Increases, of which:	(74 640)	(162 433)	(20)	-	(10)	(39 368)	(276 471)
depreciation for the period	(72 965)	(161 237)	(20)	-	(10)	(38 823)	(273 055)
other	(1 675)	(1 196)	-	-	-	(545)	(3 416)
Decreases, of which:	53 763	264 014	39	-	549	17 311	335 676
disposal and sale	17 474	263 008	39	-	-	16 967	297 488
other	36 289	1 006	-	-	549	344	38 188
Accumulated depreciation at the end of the period	(880 001)	(1 460 610)	(590)	-	(16)	(349 076)	(2 690 293)
Impairment allowances at the beginning of the period	(34)	-	-	-	-	-	(34)
Increases, of which:	(331)	(25)	-	-	-	-	(356)
classification from assets held for sale	(299)	-	-	-	-	-	(299)
recognised during the period	(32)	(25)	-	-	-	-	(57)
Decreases, of which:	331	25	-	-	-	-	356
released during the period	299	25	-	-	-	-	324
decreases due to write-downs of assets	32	-	-	-	-	-	32
Impairment allowances at the end of the period	(34)	-	-	-	-	-	(34)
Net carrying amount at the beginning of the period	1 629 368	390 331	253	251 065	238	111 403	2 382 658
Net carrying amount at the end of the period	1 595 134	433 900	233	125 630	187	141 897	2 296 981

In the year ended 31 December 2014 a significant item is the amount of PLN 50 988 thousand, concerning a purchase of IT infrastructure components (in 2013 there were no significant transactions of purchase and sale of tangible fixed assets and significant liabilities due to purchase of tangible fixed assets).

(IN PLN THOUSAND)

27. Other assets

	31.12.2014	31.12.2013
Settlements of payment cards transactions	267 806	225 265
Settlements of financial instruments	191 950	149 379
Receivables from other transactions with financial and non-financial institutions	95 920	55 484
Trade receivables	63 991	121 486
Assets for sale	48 084	7 594
Accruals and prepayments	47 878	52 985
Inventories related to utilisation, auxiliary operations and investment	23 118	17 043
Receivables from the State budget due to court fee stamps' distribution carried out by the Bank	10 588	6 632
Receivables and settlements of securities turnover	9 995	2 950
Receivables from unsettled transactions related to derivatives	6 985	7 358
Other*	61 610	27 246
Total	827 925	673 422
of which financial assets**	647 235	568 554

*Item 'Other' includes mainly i.a. 'Receivables from internal operations' and 'Receivables from bails and guarantees'.
** Financial assets include all items of 'Other assets', with the exception of: 'Assets for sale', 'Accruals and prepayments', 'Inventories related to utilisation, auxiliary operations and investment' and 'Other'.

28. Amounts due to the central bank

	31.12.2014	31.12.2013
Up to 1 month	4 427	4 065
Total	4 427	4 065

29. Amounts due to banks

	31.12.2014	31.12.2013
Loans and advances received, of which:	16 393 118	1 389 847
Nordea Bank AB (publ)*	14 927 552	-
Bank deposits	1 122 090	959 712
Amounts due from repurchase agreements	299 530	38 628
Current accounts	607 188	115 066
Other money market deposits	17 658	26 370
Total	18 439 584	2 529 623

* Information is described in the note 23 'Investments in subsidiaries, joint ventures and associates and a description of changes to the entities of the Group'.

30. Amounts due to customers

	31.12.2014	31.12.2013
Amounts due to retail clients	128 230 900	115 781 467
Term deposits	68 882 671	62 907 642
Current accounts and overnight deposits	59 126 815	52 653 562
Other liabilities	221 414	220 263
Amounts due to corporate entities	52 911 331	40 702 728
Term deposits	16 562 690	13 590 035
Current accounts and overnight deposits	19 270 916	12 904 415
Loans and advances received, of which:	15 051 131	11 609 183
- received from PKO Finance AB	12 036 601	9 129 100
Other liabilities	1 170 470	951 145
Amounts due from repurchase agreements	856 124	1 647 950
Amounts due to public entities	4 778 331	3 473 476
Current accounts and overnight deposits	4 018 024	3 018 628
Term deposits	740 995	430 639
Other liabilities	19 312	24 209
Total	185 920 562	159 957 671

(IN PLN THOUSAND)

By client segment	31.12.2014	31.12.2013
Amounts due to customers, of which:		
retail and private banking	121 893 357	110 607 650
corporate	30 907 441	21 335 738
loans and advances received	15 051 131	11 609 183
small and medium enterprises*	17 212 509	14 757 150
amounts due from repurchase agreements	856 124	1 647 950
Total	185 920 562	159 957 671

*Since 2014 the change in presentation consisting in the inclusion of housing market clients within the small and medium enterprises segment (data for 2013 has been brought to comparability).

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

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

Loans received from PKO Finance AB:

Date of receiving loan by the Bank	Nominal amount	Currency	Maturity date	Carrying value as at 31.12.2014	Carrying value as at 31.12.2013
21.10.2010	800 000	EUR	21.10.2015	3 431 769	3 337 380
07.07.2011	250 000	CHF	07.07.2016	901 443	853 657
25.07.2012	50 000	EUR	25.07.2022	213 768	206 677
21.09.2012	500 000	CHF	21.12.2015	1 772 805	1 690 110
26.09.2012	1 000 000	USD	26.09.2022	3 540 943	3 041 276
23.01.2014	500 000	EUR	23.01.2019	2 175 873	-
Total				12 036 601	9 129 100

31. Debt securities in issue

	31.12.2014	31.12.2013
Financial instruments designated at fair value through profit and loss - bank securities	118 262	290 509
Financial instruments measured at amortised cost – bank bonds	747 825	692 614
Total	866 087	983 123

Debt securities in issue by maturity	31.12.2014	31.12.2013
from 1 month to 3 months	747 825	76 442
from 3 months to 1 year	46 668	788 596
from 1 year to 5 years	71 594	118 085
Total	866 087	983 123

In 2014 the Bank issued bank securities and bank bonds with a nominal value of PLN 1 500 000 thousand classified respectively as liabilities designated at fair value through profit and loss, in accordance with IAS 39.11A.a and measured at amortised cost. In 2014, bank securities and bank bonds with a nominal value of PLN 1 612 922 thousand were redeemed.

Change in fair value in respect of credit risk on bank securities issued amounts to PLN 649 thousand as at 31 December 2014 (as at 31 December 2013 it amounted to PLN 1 479 thousand).

(IN PLN THOUSAND)

32. Subordinated liabilities

As at 31 December 2014

Subordinated liabilities	Nominal Value in currency	Nominal value in PLN	Currency	Interest rate (%)	Maturity date	Balance in PLN
Subordinated bonds	1 600 700	1 600 700	PLN	4.13%	14.09.2022	1 619 833
Subordinated loan	224 000	780 013	CHF	3.16%	24.04.2022	794 152
Total	x	2 380 713	x	x	x	2 413 985

As at 31 December 2013

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Maturity date	Balance
Subordinated bonds	1 600 700	PLN	4.37%	14.09.2022	1 620 857

As at 31 December 2014, the Bank had subordinated liabilities arising from:

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

Change in subordinated liabilities

Change in subordinated liabilities	31.12.2014	31.12.2013
As at the beginning of the period	1 620 857	1 631 256
Increases, of which:	870 178	83 305
business combinations	783 583	-
currency transation differences	13 410	-
accrued interest	73 062	83 131
other	123	174
Decreases (of which):	(77 050)	(93 704)
repayment of interest	(76 569)	(93 704)
other	(481)	-
Subordinated liabilities as at the end of the period	2 413 985	1 620 857

(IN PLN THOUSAND)

33. Other liabilities

	31.12.2014	31.12.2013
Accounts payable	487 274	423 175
Deferred income	358 567	321 376
Other liabilities (due to):	1 819 217	1 690 170
liabilities due to funds transferred from BGF for payments to depositors of SKOK in Wołomin	356 461	-
interbank settlements	313 318	280 070
liabilities relating to investment activities and internal operations	235 231	376 362
liabilities and settlements of securities turnover	228 008	379 391
financial instruments settlements	139 971	73 868
liabilities due to suppliers	93 943	58 683
social and legal settlements	88 914	87 161
liabilities arising from foreign currency activities	88 609	106 138
settlement of acquisition of machines, equipments, materials, works and services regarding construction of tangible fixed assets and their usage	75 990	10 236
liabilities related to payment cards	33 177	10 396
liabilities due to insurance companies	23 750	24 072
liabilities arising from transactions with financial and non-financial institutions	23 216	17 609
liabilities from interest rates temporarily redeemed from the State budget	18 603	18 987
liabilities due to distribution of court fee stamps	10 059	11 483
liabilities due to taking up shares in the increased share capital of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. by the Bank	-	179 370
other*	89 967	56 344
Total	2 665 058	2 434 721
of which financial liabilities**	2 127 610	1 969 840

* Item 'other' includes i.a. liabilities related to bails and guarantees.
** Financial liabilities include all items of 'Other liabilities' with the exception of 'Deferred income', 'Social and legal settlements' and 'Other'.

As at 31 December 2014 and as at 31 December 2013, PKO Bank Polski SA had no overdue contractual liabilities.

34. Provisions

Provisions for retirement benefits and anniversary bonuses

In May 2013 the Bank introduced changes in the Collective Labour Agreement by removing the provisions on the entitlement to anniversary bonuses and on retirement bonuses not arising from the Labour Code. A one-time policy on payment of awards and retirement bonuses providing rules for payment of certain awards and retirement bonuses to be implemented in July 2013 was launched. Funds in the amount of PLN 193 million were paid out and the provision in the amount of PLN 179 million was released under the policy on payment of awards and retirement bonuses.

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

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

A detailed description has been presented in the note 2.15 'Employee benefits'.

Provisions for loan commitments and guarantees granted

Details on the provisions for off-balance sheet loan commitments granted are described in the note 48.7.2 'Off-balance sheet provisions' and in the note 2.17 'Contingent liabilities'.

Other provisions

Other provisions mainly include restructuring provision, which description of creation is presented in detail in the note 2.14 'Restructuring provision' and provisions for potential claims on impaired loans portfolios sold details on which has been presented in the note 65 'Sale of impaired loan portfolios'.

(IN PLN THOUSAND)

For the year ended 31 December 2014	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2014, of which:	29 457	35 386	115 667	129 971	310 481
Short term provision	29 457	2 441	88 817	129 971	250 686
Long term provision	-	32 945	26 850	-	59 795
Arising from business combinations	-	6 904	11 148	2 031	20 083
Increase/reassessment of provision	-	3 104	371 982	10 077	385 163
Use of provision	-	-	-	(1 793)	(1 793)
Release of provision	-	(7 278)	(398 207)	(7 530)	(413 015)
Other changes and reclassifications	-	1 247	3 031	(2 031)	2 247
As at 31 December 2014, of which:	29 457	39 363	103 621	130 725	303 166
Short term provision	29 457	3 117	73 484	130 725	236 783
Long term provision	-	36 246	30 137	-	66 383

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

For the year ended 31 December 2013	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 2013, of which:	18 851	429 728	215 619	71 494	735 692
Short term provision	18 851	36 068	149 681	71 494	276 094
Long term provision	-	393 660	65 938	-	459 598
Increase/reassessment of provision	10 606	3 609	251 322	45 409	310 946
Use of provision	-	(193 142)	-	(12 312)	(205 454)
Release of provision	-	(179 429)	(351 410)	-	(530 839)
Other changes and reclassifications	-	(25 380)	136	25 380	136
As at 31 December 2013, of which:	29 457	35 386	115 667	129 971	310 481
Short term provision	29 457	2 441	88 817	129 971	250 686
Long term provision	-	32 945	26 850	-	59 795

* Included in 'Other provisions' are i.a.: restructuring provision of PLN 91 842 thousand and provision of PLN 2 087 thousand for potential claims on impaired loans portfolios sold.

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

35. Equity and shareholding structure of the Bank

	31.12.2014	31.12.2013
Share capital	1 250 000	1 250 000
Reserve capital	18 618 111	16 598 111
Other reserves	3 421 913	3 416 893
General banking risk fund	1 070 000	1 070 000
Total reserves	23 110 024	21 085 004
Financial assets available for sale	33 640	(53 013)
Cash flow hedges	5 204	(125 593)
Actuarial gains and losses	(8 976)	(7 676)
Other comprehensive income	29 868	(186 282)
Undistributed profits	132 793	(271 242)
Net profit for the period	3 079 471	3 233 762
Total other capital	27 602 156	25 111 242

Detailed principles of creating the capitals in PKO Bank Polski SA are described more widely in point 'Shareholders' equity' in the note 2 'Summary of significant accounting policies and estimates and judgements'.

(IN PLN THOUSAND)

The Bank's shareholding structure

According to information available as at 31 December 2014 the Bank's shareholding structure is as follows:

Name of entity	Number of shares	Number of votes %	Nominal value of 1 share	Share in equity %
As at 31 December 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
ING Otwarty Fundusz Emerytalny	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 2013				
The State Treasury	392 406 277	31.39	PLN 1	31.39
Aviva Otwarty Fundusz Emerytalny[2]	83 952 447	6.72	PLN 1	6.72
ING Otwarty Fundusz Emerytalny	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 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 the transaction of sale of 95 million of PKO Bank Polski SA's shares by the State Treasury.

All the shares of PKO Bank Polski SA carry the same rights and obligations. Shares are not preference shares, in relation to voting rights and dividends. However, the Memorandum of Association of PKO Bank Polski SA restrict the voting rights of shareholders holding more than 10% of the total number of votes at the General Shareholders' Meeting and forbids those shareholders to execute more than 10% of the total number of votes at the General Shareholders' Meeting. The above does not apply to:

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

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

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

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

Series	Type of shares	Number of shares	Nominal value of 1 share	Series amount by nominal value
Series A	registered ordinary shares	312 500 000	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 2014 and in 2013, there were no changes in the amount of the share capital of PKO Bank Polski SA. Issued shares of PKO Bank Polski SA are not preferred shares and are fully paid.

(IN PLN THOUSAND)

OTHER NOTES

36. Contingent liabilities and off-balance sheet liabilities received

36.1. Securities covered with underwriting agreements (maximum liability of the Bank to acquire securities):

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period
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	
As at 31 December 2013			
Company B	corporate bonds	1 633 000	15.06.2022
Company A	corporate bonds	800 000	31.07.2015
Company D	corporate bonds	50 000	19.12.2022
Company C	corporate bonds	34 000	31.12.2022
Company E	corporate bonds	24 238	29.06.2018
Company F	corporate bonds	13 410	31.10.2017
Total		2 554 648	

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

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

36.2. Contractual commitments

As at 31 December 2014 the value of contractual commitments concerning intangible assets amounted to PLN 196 807 thousand (as at 31 December 2013 it amounted to PLN 346 785 thousand).

As at 31 December 2014 the value of contractual commitments concerning tangible fixed assets amounted to PLN 95 322 thousand (as at 31 December 2013 it amounted to PLN 45 722 thousand).

36.3. Loan commitments granted

by nominal value	31.12.2014	31.12.2013
Credit lines and limits		
to financial entities	998 133	1 160 599
to non-financial entities	34 023 705	29 767 288
to public entities	3 258 574	3 269 584
Total	38 280 412	34 197 471
of which: irrevocable loan commitments	7 943 931	8 157 608

(IN PLN THOUSAND)

36.4. Guarantee liabilities granted

	31.12.2014	31.12.2013
Guarantees in domestic and foreign trading	10 003 696	7 029 700
to financial entities	919 391	875 317
to non-financial entities*	9 062 391	6 142 512
to public entities	21 914	11 871
Guarantees and pledges granted – domestic corporates bonds	4 526 126	3 591 294
to financial entities	12 076	124 646
to non-financial entities	4 514 050	3 466 648
Letters of credit granted	704 504	494 586
to financial entities	1 736	2 818
to non-financial entities	702 768	491 669
to public entities	-	99
Guarantees and pledges granted – payment guarantee to financial entities	17 278	117 420
Guarantees and pledges granted – domestic municipal bonds to public entities	55 008	83 773
Total	15 306 612	11 316 773
of which: performance guarantees	1 942 582	1 652 473

* The change in the 'Guarantees in domestic and foreign trading for non-financial entities' result primariy from guarantee liabilities granted to mining and power industry entities

In the years ended on 31 December 2014 and 31 December 2013 respectively, the Bank did not issue any guarantees in respect of loans or advances and did not issue any guarantees to a subsidiary or other entity thereof with a total value accounting for 10% of the Bank's equity. Information on provisions for off-balance sheet financial liabilities and guarantees is included in the note 34 'Provisions'.

36.5. Liabilities granted by maturity

31 December 2014

	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Loan commitments granted	23 513 936	962 714	4 763 167	3 911 060	5 129 535	**38 280 412**
Guarantee liabilities granted	225 344	1 333 666	2 551 284	9 123 529	2 072 789	**15 306 612**
Total	23 739 280	2 296 380	7 314 451	13 034 589	7 202 324	53 587 024

31 December 2013

	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Loan commitments granted	20 679 642	843 027	3 626 376	3 191 009	5 857 417	**34 197 471**
Guarantee liabilities granted	195 179	321 019	2 347 372	7 179 190	1 274 013	**11 316 773**
Total	20 874 821	1 164 046	5 973 748	10 370 199	7 131 430	45 514 244

36.6. Off-balance sheet liabilities received

By nominal value	31.12.2014	31.12.2013
financial	1 747 327	44 472
guarantees*	4 587 353	2 490 472
Total liabilities received	6 334 680	2 534 944

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

Due to the provisions of the Agreement which require the Nordea Bank AB (publ) Group to participate in the default risk of the Mortgage Portfolio, on 1 April 2014, PKO Bank Polski SA and Nordea Bank AB (publ) concluded a special indemnity agreement (the 'Special Indemnity Agreement'), according to which Nordea Bank AB (publ) will cover, for a period of 4 years following the Closing Date, 50% of the excess of the Mortgage Portfolio cost of risk excess over the annual cost of risk set at 40 basis points for each year of the above-mentioned four-year contract period of the Special Indemnity Agreement.

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 zero.

Right to sell or pledge collateral established for the Bank

As at 31 December 2014 and as at 31 December 2013, there was no collateral established for the Bank which the Bank was entitled to sell or encumber with another pledge in the event of fulfillment of all obligations by the owner of the collateral.

37. Legal claims

As at 31 December 2014, the total value of court proceedings in which the Bank is a defendant was PLN 411 182 thousand (as at 31 December 2013 amounted to PLN 308 677 thousand), while the total value of court proceedings in which the Bank is the plaintiff as at 31 December 2014 was PLN 553 428 thousand (as at 31 December 2013 amounted to PLN 266 595 thousand).

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

a) Unfair competition proceeding

The Bank is a party to the proceeding currently pursued before the Court for the Competition and Consumer Protection (Sąd Ochrony Konkurencji i Konsumentów - SOKiK) initiated on the basis of a decision dated 23 April 2001 of the President of the Competition and Consumer Protection Office (Urząd Ochrony Konkurencji i Konsumentów - UOKiK) upon 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 Visa and Europay/Eurocard/Mastercard 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 SOKiK. On 20 December 2011 a hearing was held during which no factual resolution of the appeals was reached. The Court obligated MasterCard to submit explanations concerning the issue and set the date for another sitting of the Court for 9 February 2012, which upon the application of the plaintiffs' attorney, was postponed for 24 April 2012, and then SOKiK postponed announcing the resolution on the request for suspension of the case until 8 May 2012. On 8 May 2012, SOKiK suspended proceedings until the final conclusion of proceedings before the European Union Court in the case MasterCard against the European Commission. On 24 May 2012, the European Union Court upheld the decision of the European Commission banning multilaterally agreed 'interchange' fees applied by MasterCard. On 28 May 2012 the participant to the proceedings, Visa Europe Ltd, and on 29 May 2012 the plaintiffs' attorney, including PKO Bank Polski SA, filed a complaint against the decision of the SOKiK dated 8 May 2012. In August 2012, the appeal of MasterCard against the verdict of the EU Court dated 24 May 2012 rejecting the appeal of MasterCard, was received by European Court of Justice. 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. The court's decision in this case the Bank's attorney received in January 2013 and in February 2013, court files were transferred to the court of first instance. Currently, the case is subject to re-proceeding by SOKiK.

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 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 proceeding, 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 primarily to change the decision on the recognition of agreements as violating competition law and impose penalties on their participants). 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. As at 31 December 2014 the Bank has a provision in the amount of PLN 10 359 thousand (the position 'Provisions' in the statement of financial position).

As at 31 December 2014 the Bank is also a party to i.a. following proceedings:

<u>before SOKiK as a result of appeal against the decision of the President of UOKiK</u>

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

   On 28 December 2012, the President of UOKiK imposed a fine on the Bank in the amount of PLN 2 845 thousand. The Bank appealed against the decision of the President of UOKiK on 16 January 2013. The proceeding is in progress. As at 31 December 2014 the Bank has a provision in the same amount (the position 'Provisions' in the statement of financial position).

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

   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 was imposed on the Bank (in total PLN 29 064 thousand). The Bank appealed against this decision. The proceeding is in progress. As at 31 December 2014 the Bank has a provision in the amount of PLN 10 000 thousand (the position 'Provisions' in the statement of financial position).

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

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.

<u>before SOKiK in which the President of UOKiK is the plaintiff</u>

to determine some of the provisions in the forms of consumer loan agreements to be illegal. The court proceeding is in progress, there was only exchange of correspondence between the parties. There is no risk of imposing financial penalty on the Bank.

before the Court of Appeal

in which the Bank is the plaintiff - 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 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.

Appeal proceeding is pursued on behalf of the Bank by reputable law office. 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 31 December 2014 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) preliminary proceedings initiated on 7 January 2012 in order to determine whether the manner of offering mortgage loans by the Bank under the 'Autumn promotion of mortgage loans' ('Jesienna promocja kredytów hipotecznych') may constitute a practice which violates collective interests of customers,
2) preliminary proceedings initiated on 23 December 2013 concerning the fees charged by the Bank for providing information which constitutes a bank secrecy,
3) a proceeding initiated on 28 February 2014 in order to determine whether the documents sent by the Bank to UOKiK, concerning selected cases, contained business secrecy,
4) a preliminary proceeding initiated on 23 January 2014 regarding the provisions in the forms of bank accounts agreement is regulating of matter of power of attorney – there is a risk of imposing financial penalty; the proceeding is pending and concerns the Bank's practice (defective in the Office's opinion) which consists of refusing to accept power of attorney for bank accounts in which account numbers are not specified. The Bank took on the obligation to change this practice and implemented such solutions,
5) a proceeding initiated on 5 March 2014 in order to determine whether the Bank implemented the UOKiK's decision of 12 December 2008 concerning the advertising message of 'Max Lokata - with no concealed contractual provisions' ('Max Lokata – bez gwiazdek'). The Bank replied that it had fulfilled the obligation by placing an announcement in GPW Parkiet twice,
6) 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 agreements and the information form,
7) 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),
8) 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).

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

As at the date of these financial statements, two administrative proceedings, of which one is suspended, are pending to invalidate administrative decisions issued by public administration authorities with respect to properties held by the Bank, which in the event of an unfavourable outcome for the Bank, may result in re-privatisation claims being raised and one administrative proceeding for the establishment of perpetual usufruct right to a property owned by the Bank, for which the date of the cassation hearing before the Supreme Administrative Court (NSA) was set for 3 February 2015. 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 Bank. Moreover, with respect to two properties of the Bank, claims pertaining to release or return the property and regulation of the legal status of the property, were submitted by their former owners (court proceedings for release of the property, payment of fee for non-contractual use of property by the Bank, acquisitive prescription for failure by the Treasury are 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 street and Chocimska street in Warsaw, on which the Bank's office is currently located, are pending before the Regional Administrative Court in Warsaw. The proceeding concerns 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 judgement together with the explanation was served for the Bank on 20 June 2013. A cassation complaint was filled on 17 July 2013. The date of hearig was not scheduled.

In the opinion of the Management Board of PKO Bank Polski SA, the probability of significant claims arising against the Bank in relation to the above-mentioned proceedings is remote.

(IN PLN THOUSAND)

38. Supplementary information to the statement of cash flows

Cash and cash equivalents

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

	31.12.2014	31.12.2013
Cash and balances with the central bank	11 698 248	7 188 406
Current amounts due from banks	2 354 512	1 456 276
Total	14 052 760	8 644 682

As at 31 October 2014 the value of acquired cash and cash equivalents related to the acquisition of Nordea Bank Polska SA amounted to PLN 401 123 thousand.

Cash flows from interests and dividends, both received and paid

Dividend income - received	2014	2013
Dividend income from subsidiaries, joint ventures and associates - received	85 099	90 577
Dividend income from other entities - received	6 366	5 472
Total	91 465	96 049

Interest income – received	2014	2013
Interest income from loans and advances granted - received	6 433 374	6 955 625
Interest income from securities designated upon initial recognition at fair value through profit and loss - received	327 096	477 240
Interest income from placements - received	169 817	217 417
Interest income from investment securities - received	555 401	451 854
Interest income from securities from held for trading portfolio - received	60 282	64 590
Interest income from hedging instruments	276 638	506 859
Other interest – received (mainly interest income on current accounts, purchased debt, realised guarantees)	1 180 033	1 279 416
Total	9 002 641	9 953 001

Interest expense – paid	2014	2013
Interest expense on deposits - paid	(1 562 269)	(3 112 896)
Interest expense on loans and advances - paid	(422 230)	(398 186)
Interest expense on debt securities in issue - paid	(89 866)	(114 504)
Other interest paid (mainly interest expense on current accounts, premium from debt securities, interest expense on cash collateral liabilities)	(591 906)	(714 798)
Total	(2 666 271)	(4 340 384)

Dividend expense - paid	2014	2013
Dividend paid to shareholders	(937 500)	(2 250 000)
Total	(937 500)	(2 250 000)

(IN PLN THOUSAND)

Bank Polski

Cash flow from operating activities – other adjustments

Other adjustments	2014	2013
Interest accrued, discount, premium on debt securities	(591 735)	(831 004)
Hedge accounting	130 797	(177 492)
Actuarial gains and losses	(1 247)	(9 477)
Valuation of debt securities in issue	86 653	(62 169)
Valuation and impairment allowances for investments in subsidiaries, joint ventures and associates and other changes	(47 761)	31 681
Disposal and impairment allowances for tangible fixed assets and intangible assets	(38 978)	94 733
Changes resulting from the business combination	(140 194)	
Total	(602 465)	(953 728)

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

(Gains) losses on sale and disposal of tangible fixed assets and intangible assets under investing activities	2014	2013
Gain on sale of an organised part of a subsidiary	-	(383 561)
Sundry income	-	(25 450)
Income from sale and disposal of tangible fixed assets and intangible assets	(57 881)	(39 982)
Costs of sale and disposal of tangible fixed assets and intangible assets	45 182	16 188
Total	(12 699)	(432 805)

Interests and dividends	2014	2013
Interest received from investment securities, presented under investing activities	(618 606)	(558 685)
Dividends received, presented under investing activities	(91 465)	(95 426)
Repayment of interest on loans	431 587	-
Repayment of subordinated and unsubordinated liabilities	107 835	-
Total	(170 649)	(654 111)

Change in amounts due from banks	2014	2013
Change in the balance of the statement of financial position	(519 460)	1 367 304
Change in impairment allowances on amounts due from banks	28 641	(9 445)
Exclusion of a change in the balance of cash and cash equivalents	898 236	(549 908)
Changes resulting from the business combination	1 571 351	
Total	1 978 768	807 951

Change in loans and advances to customers	2014	2013
Change in the balance of the statement of financial position	(30 185 245)	(5 894 255)
Change in the impairment allowances on amounts due from customers	(1 145 968)	(152 603)
Changes resulting from the business combination	26 073 536	-
Total	(5 257 677)	(6 046 858)

Change in other assets and non-current assets available for sale	2014	2013
Change in the balance of the statement of financial position and reclassification to other items	(89 693)	3 895
Changes resulting from the business combination	24 082	-
Total	(65 611)	3 895

(IN PLN THOUSAND)

Change in amounts due to customers	2014	2013
Change in the balance of the statement of financial position	25 962 891	5 217 097
Recognition of long-term loans and advances received from financial institutions other than banks/repayments of these loans and advances in financing activities	(2 083 950)	(942 751)
Changes resulting from the business combination	(11 188 649)	-
Total	12 690 292	4 274 346

Change in provisions and impairment allowances	2014	2013
Change in the balance of the statement of financial position	(7 315)	(425 211)
Change in impairment allowances on amounts due from banks	(28 641)	9 445
Change in impairment allowances on amount due from customers	1 145 968	152 603
Change in impairment allowances in subsidiaries	268 976	
Change in provisions for other receivables	2 337	-
Change in the balance of deferred income tax liability related to valuation of an available-for-sale portfolio included in deferred income tax	-	(56 214)
Changes resulting from the business combination	(610 964)	
Total	770 361	(319 377)

Change in other liabilities and subordinated liabilities	2014	2013
Change in the balance of the statement of financial position	1 023 465	699 267
Transfer of interest repayment on advances received from financial institutions other than banks in financing activities	-	398 186
Transfer of own issue and interest paid on own issue	-	123 748
Changes resulting from the business combination	(1 001 068)	-
Total	22 397	1 221 201

39. Transactions with the State Treasury and related parties

The State Treasury has control over the Bank 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, budgetary units and entities in which the State Treasury is the shareholder are disclosed in the Bank'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, No. 763) PKO Bank Polski SA receives payments from the State budget in respect of redemption interest receivable on housing loans.

	2014	2013
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio recognised for this period	82 007	109 478
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio received in cash	44 714	64 701
Difference between income recognised for this period and income received in cash – 'Loans and advances to customers'	37 293	44 777

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.

(IN PLN THOUSAND)

PKO Bank Polski SA receives commission for settlements relating to redemption of interest by the State budget on housing loans.

	2014	2013
Fee and commission income	3 226	4 103

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

	2014	2013
Fee and commission income	9 613	20 927

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

	2014	2013
Fee and commission income	23 037	29 022

(IN PLN THOUSAND)

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

The transactions were concluded at arm's length.

Entity	31.12.2014			2014		
	Total receivables	Total liabilities	Off-balance sheet liabilities granted – guarantee and financial	Interest income	Fee and commission income	Interest expense
Entity 1	-	-	2 080 000	-	-	-
Entity 2	184 925	1 001 114	647 423	3 095	903	(7 633)
Entity 3	-	1 099	1 368 860	-	35	(264)
Entity 4	-	9 190	1 201 440	48	1 060	(396)
Entity 5	-	1 177 873	-	-	2	(13 860)
Entity 6	285 955	283 174	422 752	4 335	522	(4 302)
Entity 7	-	160 250	701 786	4	302	(4 790)
Entity 8	-	98 728	500 000	-	1	(23 708)
Entity 9	-	582 771	-	26	1 519	(2 555)
Entity 10	386 306	16 294	151 587	13 274	204	(46)
Entity 11	113 481	18 235	396 474	7 045	5	(509)
Entity 12	-	109 604	400 000	-	12	(245)
Entity 13	113 422	80 540	61 819	5 120	1 107	(1 216)
Entity 14	67 704	14 487	157 659	3 880	217	(110)
Entity 15	62 901	1 984	150 000	2 872	44	(90)
Other entities	259 499	637 143	165 524	16 228	3 771	(12 300)
Total	1 474 193	4 192 486	8 405 324	55 927	9 704	(72 024)

Entity	31.12.2013			2013		
	Total receivables	Total liabilities	Off-balance sheet liabilities granted – guarantee and financial	Interest income	Fee and commission income	Interest expense
Entity 1	-	-	2 080 000	-	-	-
Entity 8	-	1 749	1 198 324	-	33	(623)
Entity 2	211 048	242 088	333 258	3 139	507	(1 242)
Entity 7	223 340	126 268	176 660	10 543	429	(527)
Entity 21*	446 352	65	71 214	12 387	1 161	(573)
Entity 3	-	-	600 000	-	-	-
Entity 12	-	19 299	500 000	-	3	(10 651)
Entity 6	-	14 093	500 000	1	2	(247)
Entity 16	-	574	500 000	5 327	270	(5 681)
Entity 5	16 683	2 178	474 003	45	3	(171)
Entity 9	10 130	84 104	359 382	2 390	15	(1 581)
Entity 20	241 279	17 556	175 722	9 187	131	(1 055)
Entity 14	-	36 096	401 786	-	329	(408)
Entity 13	145 798	46 904	117 590	4 891	235	(126)
Entity 22*	109 174	50 249	143 331	7 570	1 510	(1 445)
Other entities	346 488	536 068	511 244	17 099	4 549	(14 907)
Total	1 750 292	1 177 291	8 142 514	72 579	9 177	(39 237)

*Entities are not present in 2014

As at 31 December 2014 and as at 31 December 2013 respectively, no significant impairment allowances were recognised for the above-mentioned receivables.

(IN PLN THOUSAND)

40. Related party transactions

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

All transactions with subsidiaries, joint ventures and associates presented below were arm's length transactions. Margins on loan transactions are within a range of 0.25% - 4.2%. Repayment terms are within a range from one month to fifteen years.

31 December 2014

Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct subsidiaries				
PKO Bank Hipoteczny SA	-	-	299 563	-
Bankowe Towarzystwo Kapitałowe SA	4 169	-	1 116	7 000
'CENTRUM HAFFNERA' Sp. z o.o.	-	-	644	-
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	60 873	60 873	-	-
KREDOBANK SA	371 639	283 387	2 831	22 043
Merkury – fiz an	53 978	53 978	1 665	6 022
PKO BP BANKOWY PTE SA	17	-	1 237	-
PKO BP Finat Sp. z o.o.	212	-	152 158	593
PKO Finance AB	7	-	12 032 368	-
PKO Leasing SA	947 517	759 882	194 487	949 752
PKO Towarzystwo Funduszy Inwestycyjnych SA	20 217	-	52 954	-
PKO Życie Towarzystwo Ubezpieczeń SA	30 662	30 662	232 714	40 264
Qualia Development Sp. z o.o.	-	-	10 829	13 904
Indirect subsidiaries				
'Centrum Majkowskiego' Sp. z o.o. – in liquidation	-	-	36	-
Finansowa Kompania 'Idea Kapitał' Sp. z o.o.	72 930	72 930	-	-
'Fort Mokotów' Sp. z o.o. – in liquidation	-	-	3 395	-
'Fort Mokotów Inwestycje' Sp. z.o.o.	-	-	171	-
Giełda Nieruchomości Wartościowych Sp. z o.o.	-	-	20	-
Molina Sp. z o.o.	-	-	51	-
Molina Spółka z ograniczoną odpowiedzialnością 1 S.K.A.	-	-	8 121	-
Molina Spółka z ograniczoną odpowiedzialnością 2 S.K.A.	-	-	5 838	-
Molina Spółka z ograniczoną odpowiedzialnością 3 S.K.A.	-	-	11 385	-
Molina Spółka z ograniczoną odpowiedzialnością 4 S.K.A.	-	-	258	-
Molina Spółka z ograniczoną odpowiedzialnością 5 S.K.A.	-	-	4 752	-
Molina Spółka z ograniczoną odpowiedzialnością 6 S.K.A.	-	-	3 078	-
PKO BP Faktoring SA	497 702	497 684	219 135	2 316
PKO Bankowy Leasing Sp. z o.o.	2 255 640	2 253 051	674	176 388
PKO Leasing Sverige AB	90 866	90 866	83	44 229
'Promenada Sopocka' Sp. z o.o.	44 189	44 189	4 152	-
Qualia - Residence Sp. z o.o.	1	-	8 517	-
Qualia - Rezydencja Flotylla Sp. z o.o.	76 000	76 000	622	-
Qualia Hotel Management Sp. z o.o.	-	-	3 228	-
Qualia Sp. z o.o.	-	-	5	-
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Spółka komandytowa	-	-	1 342	-
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Spółka komandytowa	-	-	4 444	1 035
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Spółka komandytowa	-	-	8 510	-
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Spółka komandytowa	76 770	76 770	1 245	-
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Spółka komandytowa	-	-	2	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Spółka komandytowa	3 887	3 887	431	-
Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Spółka komandytowa	-	-	2	-
Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Spółka komandytowa	-	-	256	-
Sarnia Dolina Sp. z o. o.	-	-	250	-
'Sopot Zdrój' Sp. z o.o.	198 542	198 542	16 086	-
Ubezpieczeniowe Uslugi Finansowe Sp. z o.o.	-	-	1 826	-
'Zarząd Majątkiem Górczewska' Sp. z o.o.	-	-	6 778	-
Total subsidiaries	4 805 818	4 502 701	13 297 259	1 263 546

(IN PLN THOUSAND)

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 associate				
Centrum Operacyjne Sp. z o.o.	-	-	2	-
Total joint ventures and associates	52 242	28 852	70 297	5 941

31 December 2013

Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct subsidiaries				
Bankowe Towarzystwo Kapitałowe SA	2	-	177	7 000
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	175 390	175 390	179 370	-
Merkury – fiz an	-	-	1 129	-
Inteligo Financial Services SA	-	-	108 431	-
KREDOBANK SA	305 020	257 708	2 124	1 000
PKO BP BANKOWY PTE SA	92	-	1 362	-
PKO BP Finat Sp. z o.o.	3	-	4 432	593
PKO Finance AB	4 604	-	9 132 169	-
PKO Leasing SA	47 716	13 105	260 637	1 097 835
PKO Towarzystwo Funduszy Inwestycyjnych SA	19 124	-	39 729	-
Qualia Development Sp. z o.o.	-	-	10 043	13 893
Indirect subsidiaries				
'Fort Mokotów' Sp. z o.o. – in liquidation	-	-	3 827	-
'Fort Mokotów Inwestycje' Sp. z.o.o.	-	-	1 725	-
Giełda Nieruchomości Wartościowych Sp. z o.o.	-	-	2	-
PKO BP Faktoring SA	213 387	213 365	1 987	286 505
PKO Bankowy Leasing Sp. z o.o.	2 250 877	2 250 338	735	269 270
PKO Leasing Sverige AB	83 591	83 591	-	14 409
Qualia - Residence Sp. z o.o.	-	-	594	-
Qualia - Rezydencja Flotylla Sp. z o.o.	76 862	76 862	825	-
Qualia Hotel Management Sp. z o.o.	-	-	1 195	-
Qualia Sp. z o.o.	-	-	3	-
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Spółka komandytowa	-	-	1 613	-
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Spółka komandytowa	29 069	29 069	1 868	1 035
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Spółka komandytowa	39 088	39 088	5 152	-
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Spółka komandytowa	77 708	77 708	2 098	-
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Spółka komandytowa	-	-	3	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Spółka komandytowa	7 756	7 756	387	167
Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Spółka komandytowa	-	-	3	-
Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Spółka komandytowa	-	-	674	-
Sarnia Dolina Sp. z o. o.	-	-	528	-
Total subsidiaries	3 330 289	3 223 980	9 762 822	1 691 707

Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct joint ventures				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	1 100	-	50 551	5 000
'CENTRUM HAFFNERA' Sp. z o.o.	-	-	1 234	-
'Centrum Obsługi Biznesu' Sp z o.o.	29 463	29 463	16 066	-
Indirect joint ventures				
'Centrum Majkowskiego' Sp. z o.o. in liquidation	-	-	38	-
'Kamienica Morska' Sp. z o.o. in liquidation	-	-	-	-
'Promenada Sopocka' Sp. z o.o.	44 377	44 377	4 811	-
'Sopot Zdrój' Sp. z o.o.	219 698	219 698	-	-
Direct associates				
Bank Pocztowy SA	6	-	1 003	2 374
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-	12 555	-
Indirect associate				
Centrum Operacyjne Sp. Z o.o.	-	-	11	-
Total joint ventures and associates	294 644	293 538	86 269	7 374

(IN PLN THOUSAND)

12 months ended 31 December 2014

Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Direct subsidiaries				
PKO Bank Hipoteczny SA	171	1	1 415	1 415
Bankowe Towarzystwo Kapitałowe SA	18	4	10	10
'CENTRUM HAFFNERA' Sp. z o.o.	5	5	-	-
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	11 555	11 555	-	-
Inteligo Financial Service SA	3 255	-	35 052	2 675
KREDOBANK SA	6 483	6 351	-	-
Merkury – fiz an	2 371	2 371	27	27
Nordea Bank Polska SA	24 737	24 567	7 651	289
PKO BP BANKOWY PTE SA	843	55	162	162
PKO BP Finat Sp. z o.o.	245	47	1 216	273
PKO Finance AB	74	74	419 637	417 730
PKO Leasing PRO SA	4 581	4 581	17	17
PKO Leasing SA	13 216	9 203	20 286	4 190
PKO Towarzystwo Funduszy Inwestycyjnych SA	216 316	215 319	1 320	1 320
PKO Życie Towarzystwo Ubezpieczeń SA	123 710	123 710	107 000	107 000
Polski Standard Płatniczy Sp. z o.o.	6	6	30	30
Qualia Development Sp. z o.o.	120	20	169	169
Indirect subsidiaries	-	-	-	-
'Centrum Majkowskiego' Sp. z o.o. – in liquidation	4	4	-	-
Finansowa Kompania 'Idea Kapitał' Sp. z o.o.	1 300	1 300	-	-
'Fort Mokotów' Sp. z o.o. – in liquidation	2	2	77	77
'Fort Mokotów Inwestycje' Sp. z.o.o.	4	4	10	10
Giełda Nieruchomości Wartościowych Sp. z o.o.	3	3	-	-
'Kamienica Morska' Sp. z o.o.	2	2	-	-
Molina Sp. z o.o.	23	3	-	-
Molina Spółka z ograniczoną odpowiedzialnością 1 S.K.A.	7	7	28	28
Molina Spółka z ograniczoną odpowiedzialnością 2 S.K.A.	7	7	23	23
Molina Spółka z ograniczoną odpowiedzialnością 3 S.K.A.	6	6	30	30
Molina Spółka z ograniczoną odpowiedzialnością 4 S.K.A.	6	6	15	15
Molina Spółka z ograniczoną odpowiedzialnością 5 S.K.A.	7	7	51	51
Molina Spółka z ograniczoną odpowiedzialnością 6 S.K.A.	3	3	5	5
PKO BP Faktoring SA	8 150	7 881	-	-
PKO Bankowy Leasing Sp. z o.o.	78 771	78 507	53	2
PKO Leasing Sverige AB	1 396	1 396	-	-
'Promenada Sopocka' Sp. z o.o.	788	788	1	1
Qualia - Residence Sp. z o.o.	17	7	4	4
Qualia - Rezydencja Flotylla Sp. z o.o.	3 956	3 956	14	14
Qualia Hotel Management Sp. z o.o.	27	27	37	37
Qualia Sp. z o.o.	3	3	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Spółka komandytowa	3	3	19	19
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Spółka komandytowa	850	850	48	48
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Spółka komandytowa	712	712	111	111
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Spółka komandytowa	4 255	4 255	44	44
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Spółka komandytowa	3	3	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Spółka komandytowa	303	303	14	14
Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Spółka komandytowa	3	3	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Spółka komandytowa	3	3	3	3
Sarnia Dolina Sp. z o. o.	3	3	-	-
'Sopot Zdrój' Sp. z o.o.	4 118	4 118	176	176
Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	1	1	5	5
Total subsidiaries	512 270	502 040	593 340	534 609

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

(IN PLN THOUSAND)

12 months ended 31 December 2013

Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Direct subsidiaries				
Bankowe Towarzystwo Kapitałowe SA	25	3	9	9
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	9 861	9 861	-	-
Merkury – fiz an	23	23	29	29
Inteligo Financial Services SA	4 655	22	73 318	3 628
KREDOBANK SA	4 124	4 124	-	-
PKO BP BANKOWY PTE SA	851	40	648	648
PKO BP Finat Sp. z o.o.	57	22	231	92
PKO Finance AB	-	-	359 129	359 129
PKO Leasing SA	13 804	10 784	22 719	7 477
PKO Towarzystwo Funduszy Inwestycyjnych SA	188 028	184 972	1 103	1 103
Qualia Development Sp. z o.o.	19	19	377	377
Indirect subsidiaries				
'Fort Mokotów' Sp. z o.o. in liquidation	2	2	111	111
'Fort Mokotów Inwestycje' Sp. z.o.o.	4	4	329	329
Giełda Nieruchomości Wartościowych Sp. z o.o.	2	2	-	-
PKO BP Faktoring SA	10 155	9 859	1	1
PKO Bankowy Leasing Sp. z o.o.	92 226	91 877	51	1
PKO Leasing Sverige AB	95	95	-	-
Qualia - Residence Sp. z o.o.	12	12	8	8
Qualia - Rezydencja Flotylla Sp. z o.o.	5 458	5 458	29	29
Qualia Hotel Management Sp. z o.o.	19	19	19	19
Qualia Sp. z o.o.	3	3	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Spółka komandytowa	3	3	52	52
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Spółka komandytowa	2 682	2 682	114	114
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Spółka komandytowa	3 977	3 977	195	195
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Spółka komandytowa	4 336	4 336	47	47
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Spółka komandytowa	3	3	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Spółka komandytowa	507	507	42	42
Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Spółka komandytowa	3	3	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Spółka komandytowa	3	3	5	5
Sarnia Dolina Sp. z o. o.	500	500	-	-
Total subsidiaries	341 437	329 215	458 566	373 445

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.	33 535	32 798	112 864	105 379
'CENTRUM HAFFNERA' Sp. z o.o.	7	7	-	-
'Centrum Obsługi Biznesu' Sp z o.o.	905	905	352	352
Indirect joint ventures				
'Centrum Majkowskiego' Sp. z o.o. in liquidation	6	6	-	-
'Kamienica Morska' Sp. z o.o. in liquidation	6	6	-	-
'Promenada Sopocka' Sp. z o.o.	1 000	1 000	32	32
'Sopot Zdrój' Sp. z o.o.	4 847	4 847	84	84
Direct associates				
Bank Pocztowy SA	63	56	1 835	-
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	2	2	724	724
Indirect associate				
Centrum Operacyjne Sp. z o.o.	3	3	-	-
Total joint ventures and associates	40 374	39 630	115 891	106 571

41. Personal related party transactions

As at 31 December 2014 one entity was 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 2013 – two entities).

In 2014 and 2013, no intercompany transactions were concluded with these entities in the Bank.

(IN PLN THOUSAND)

42. Remuneration – PKO Bank Polski SA key management

a) short-term employee benefits

Remuneration received from PKO Bank Polski SA

Name	Title	2014	2013
The Supervisory Board of the Bank			
Jerzy Góra	Chairman of the Supervisory Board	82	-
Tomasz Zganiacz	Deputy-Chairman of the Supervisory Board	168	168
Mirosław Czekaj	Secretary of the Supervisory Board	144	144
Mirosława Boryczka	Member of the Supervisory Board	52	-
Zofia Dzik	Member of the Supervisory Board	120	120
Jarosław Klimont	Member of the Supervisory Board	52	-
Piotr Marczak	Member of the Supervisory Board	120	120
Marek Mroczkowski	Member of the Supervisory Board	120	120
Elżbieta Mączyńska - Ziemacka	Member of the Supervisory Board	120	54
Remuneration of the Supervisory Board Members who ceased their functions in 2014 or 2013			
Cezary Banasiński	Chairman of the Supervisory Board	110	192
Ryszard Wierzba	Member of the Supervisory Board	69	120
Krzysztof Kilian	Member of the Supervisory Board	-	117
Jan Bossak	Member of the Supervisory Board	-	67
Total short-term employee benefits of the Supervisory Board		1 157	1 222
The Management Board of the Bank			
Zbigniew Jagiełło	President of the Management Board	2 265	2 119
Piotr Alicki	Vice-President of the Management Board	1 687	1 608
Bartosz Drabikowski	Vice-President of the Management Board	1 907	1 777
Piotr Mazur	Vice-President of the Management Board	1 713	1 351
Jarosław Myjak	Vice-President of the Management Board	1 653	1 553
Jacek Obłękowski	Vice-President of the Management Board	1 694	1 577
Jakub Papierski	Vice-President of the Management Board	1 717	1 594
Total short-term employee benefits of the Management Board		12 636	11 579
Total		13 793	12 801

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

Name	Title	2014	2013
The Management Board of the Bank			
Jakub Papierski	Vice-President of the Management Board	39	40
Total short-term employee benefits		39	40

*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 43 '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, the non-deferred part of the variable salary component paid out for the year 2013 in July 2014 and for the year 2012 in July 2013 respectively was recognised as short-term employee benefit for the Management Board of the Bank.

Moreover in 2014, the value of non-deferred salary component paid in cash for 2013 amounted to PLN 1 916 thousand without the charges (with charges PLN 1 978 thousand). In 2013, the value of non-deferred salary component paid in cash for 2012 amounted to PLN 1 553 thousand without the charges (with charges PLN 1 595 thousand).

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

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.

In the year ended 31 December 2014 (July 2014), part of the deferred salary component granted in the form of cash for 2012 of PLN 357 thousand without charges, was paid out.

(IN PLN THOUSAND)

As at 31 December 2014, the value of the liability in respect of other long-term benefits amounted to PLN 2 082.7 thousand, i.e. PLN 2 022 thousand paid in cash (deferred for 2012 and 2013) and PLN 60.7 thousand worth of contributions towards EPP respectively.

In 2014, the value of the deferred salary component granted in the form of cash for 2013 amounted to PLN 1 321 thousand (PLN 1 578 thousand including full estimated charges) – to be paid out within 3 years. In 2013, the value of the deferred salary component granted in the form of cash for 2012 amounted to PLN 1 052 thousand net of related charges (PLN 1 257 thousand including full estimated charges) – to be paid out within 3 years.

Salary (in cash) received and potentially payable from PKO Bank Polski SA to Management Board of the Bank

Name	Title	2014	2013
received*			
Zbigniew Jagiełło	President of the Management Board	79	-
Piotr Alicki	Vice-President of the Management Board	59	-
Bartosz Drabikowski	Vice-President of the Management Board	65	-
Piotr Mazur	Vice-President of the Management Board	1	-
Jarosław Myjak	Vice-President of the Management Board	55	-
Jacek Obłękowski	Vice-President of the Management Board	54	-
Jakub Papierski	Vice-President of the Management Board	56	-
Total other long-term benefits for Management Board		368	-
potentially payable			
Zbigniew Jagiełło	President of the Management Board	419	229
Piotr Alicki	Vice-President of the Management Board	274	167
Bartosz Drabikowski	Vice-President of the Management Board	334	185
Piotr Mazur	Vice-President of the Management Board	176	-
Jarosław Myjak	Vice-President of the Management Board	255	157
Jacek Obłękowski	Vice-President of the Management Board	268	152
Jakub Papierski	Vice-President of the Management Board	295	163
Total other long-term benefits for Management Board		2 022	1 053

*with charges

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

In the year ended 31 December 2014 the Management Board of the Bank was paid PLN 1 599 thousand in respect of variable salary components without charges (with charges of PLN 1 760 thousand) (non-deferred phantom shares for 2012), granted in the form of the financial instrument i.e. phantom shares (for which conversion into cash is carried out after an additional period of retention). In the twelve-month period ended 31 December 2013, no non-deferred, variable salary component in the form of the financial instrument for 2013 was paid out.

In 2014 and 2013 the value of liability due to such benefits amounted to PLN 4 289 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. In 2013, the value of salary components (deferred and non-deferred) granted in the form of phantom shares for 2012 amounted to PLN 2 605 thousand without charges (PLN 3 112 thousand with estimated, full charges) - the payment will occur in 3 years.

(IN PLN THOUSAND)

Name	Title	2014	2013
received and payable*			
Zbigniew Jagiełło	President of the Management Board	768	339
Piotr Alicki	Vice-President of the Management Board	572	266
Bartosz Drabikowski	Vice-President of the Management Board	669	293
Piotr Mazur	Vice-President of the Management Board	265	-
Jarosław Myjak	Vice-President of the Management Board	526	242
Jacek Obłękowski	Vice-President of the Management Board	548	241
Jakub Papierski	Vice-President of the Management Board	599	258
Total share-based payments settled in cash to Management Board		3 947	1 639
potentially payable			
Zbigniew Jagiełło	President of the Management Board	419	229
Piotr Alicki	Vice-President of the Management Board	274	167
Bartosz Drabikowski	Vice-President of the Management Board	334	185
Piotr Mazur	Vice-President of the Management Board	176	-
Jarosław Myjak	Vice-President of the Management Board	255	157
Jacek Obłękowski	Vice-President of the Management Board	268	152
Jakub Papierski	Vice-President of the Management Board	295	163
Total share-based payments settled in cash to Management Board		2 022	1 053

*with charges

Above-mentioned remuneration includes deferred salary component granted in the form of the financial instrument, i.e. the phantom shares (in which conversion into cash is carried out after an additional period of retention) in accordance with the rules described in the note 43. Payment of phantom shares (due part) was made in January 2015.

d) post-employment benefits

In the year ended 31 December 2014 and 31 December 2013 no post-employment benefits were paid.

e) benefits due to termination of employment

In the year ended 31 December 2014 and in the year ended 31 December 2013 respectively no benefits due to termination of employment were paid.

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

	31.12.2014	31.12.2013
The Supervisory Board of the Bank	3 102	2 241
The Management Board	857	74
Total	3 959	2 315

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

43. The principles for determining the variable salary components policy for key management personnel in the Bank

In order to fulfill the requirements of the Resolution No 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles for functioning of the risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital, and the principles for determining the variable salary components policy for key management personnel at the Bank, the Bank implemented by resolutions of:

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

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

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

and both the non-deferred and deferred salary, is awarded in equal parts in cash and in the form of the 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 the 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 31 December 2014 a provision for variable salary components for the years 2012 - 2014 amounted to PLN 34 million, including PLN 23 million for persons holding managerial positions except the Bank's Management Board, and PLN 11 million for the Bank's Management Board. As at 31 December 2013 a provision for a variable salary components for the years 2012 - 2013 amounted to PLN 25 million, of which PLN 9 million for the Bank's Management Board.

Under current regulations, in 2014 non-deferred component was paid– cash to persons holding managerial positions except the Bank's Management Board, non-deferred component resulting from bonuses for the year 2013 and deferred component resulting from bonuses for the year 2012 – in the amount of PLN 4.6 million and for the Bank's Management Board – in the amount of PLN 2.3 million without charges.

Under current regulations, in 2013, non-deferred component resulting from bonuses for 2012 was paid out - cash for persons holding managerial positions except for the Bank's Management Board in the amount of PLN 3 million, for the Bank's Management Board in the amount of PLN 1.6 million.

Payment of phantom shares for 2012 and 2013, in accordance with law provisions, based on the share price in the third quarter of 2014 in the amount of PLN 38.52, was made in November 2014 for persons holding managerial positions except for the Bank's Management Board in the amount of PLN 4.6 million. In January 2014 for the Bank's Management Board paid - PLN 1.8 million (with charges).

(IN PLN THOUSAND)

44. Fair value of financial assets and liabilities

44.1. Categories of fair value valuation of financial assets and liabilities measured at fair value in the statement of financial position

The Bank classifies particular components of financial assets and liabilities measured at fair value to the following categories:

- Level 1: Prices quoted on the active markets
- Level 2: Valuation techniques based on observable market data
- Level 3: Other valuation techniques

The table below presents a classification of financial assets and liabilities presented in the financial statements at fair value divided into 3 levels as at 31 December 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 active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	17	1 928 659	1 928 659	-	-
Debt securities		1 919 353	1 919 353	-	-
Shares in other entities		5 137	5 137	-	-
Investment certificates		3 891	3 891	-	-
Rights to shares		278	278	-	-
Derivative financial instruments	18	5 483 508	1 397	5 482 111	-
Hedging instruments		599 841	-	599 841	-
Trade instruments		4 883 667	1 397	4 882 270	-
Financial instruments measured upon initial recognition at fair value through profit and loss	20	13 417 667	2 165 038	11 252 629	-
Debt securities		13 417 667	2 165 038	11 252 629	-
Investment securities available for sale	22	22 080 344	12 546 249	9 335 793	198 302
Debt securities		21 794 141	12 458 348	9 335 793	-
Equity securities		286 203	87 901	-	198 302
Financial assets measured at fair value – total:		42 910 178	16 641 343	26 070 533	198 302
Derivative financial instruments	18	5 545 502	523	5 544 979	-
Hedging instruments		494 961	-	494 961	-
Trade instruments		5 050 541	523	5 050 018	-
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		5 663 764	523	5 663 241	-

Trading assets as at 31.12.2014 (Note 17)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	1 919 353	1 919 353	-	-
Treasury bonds	1 825 454	1 825 454	-	-
Treasury bonds EUR	-	-	-	
municipal bonds PLN	50 563	50 563	-	-
corporate bonds PLN	22 137	22 137	-	-
corporate bonds EUR	9	9	-	-
bonds issued by WSE	2 248	2 248	-	-
bonds issued by PKO Finance AB in EUR	4 233	4 233	-	-
corporate bonds PLN	78	78	-	-
bonds issued by banks, of which BGK bonds	14 631	14 631	-	-
Shares in other entities	5 137	5 137	-	-
Investment certificates	3 891	3 891	-	-
Rights to shares	278	278	-	-
TOTAL	1 928 659	1 928 659	-	-

(IN PLN THOUSAND)

Financial instruments measured upon initial recognition at fair value through profit and loss as at 31.12.2014 (Note 20)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	13 417 667	2 165 038	11 252 629	-
NBP money market bills	10 998 812	-	10 998 812	-
Treasury bonds PLN	2 165 038	2 165 038	-	-
municipal bonds EUR	139 882	-	139 882	-
municipal bonds PLN	113 935	-	113 935	-
TOTAL	13 417 667	2 165 038	11 252 629	-

Investment securities available for sale as at 31.12.2014 (Note 22)	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	21 794 141	12 458 348	9 335 793	-
Treasury bonds PLN	12 458 348	12 458 348	-	-
municipal bonds PLN	4 480 325	-	4 480 325	-
corporate bonds PLN	4 249 224	-	4 249 224	-
corporate bonds USD	199 412	-	199 412	-
corporate bonds EUR	406 832	-	406 832	-
Equity securities	286 203	87 901	-	198 302
TOTAL	22 080 344	12 546 249	9 335 793	198 302

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 2013:

Assets and liabilities measured at fair value as at 31.12.2013	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	17	484 485	479 943	4 542	-
Debt securities		472 535	467 993	4 542	-
Shares in other entities		10 799	10 799	-	-
Investments certificates		1 151	1 151	-	-
Derivative financial instruments	18	3 002 220	1 015	3 001 205	-
Hedging instruments		361 639		361 639	-
Trade instruments		2 640 581	1 015	2 639 566	-
Financial instruments measured upon initial recognition at fair value through profit and loss	20	15 179 188	931 325	14 247 863	-
Debt securities		15 179 188	931 325	14 247 863	-
Investment securities available for sale	22	13 730 976	8 563 440	5 030 221	137 315
Debt securities		13 548 671	8 518 450	5 030 221	-
Equity securities		182 305	44 990	-	137 315
Financial assets measured at fair value – total:		32 396 869	9 975 723	22 283 831	137 315
Derivative financial instruments	18	3 328 149	912	3 327 237	-
Hedging instruments		414 804		414 804	-
Trade instruments		2 913 345	912	2 912 433	-
Debt securities in issue	31	290 509	-	290 509	-
Financial instruments designated at fair value through profit and loss		290 509		290 509	-
Financial liabilities measured at fair value - total		3 618 658	912	3 617 746	-

(IN PLN THOUSAND)

Trading assets as at 31.12.2013 (Note 17)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	472 535	467 993	4 542	-
Treasury bonds PLN	390 660	390 660	-	-
Treasury bonds EUR	4 542	-	4 542	-
municipal bonds	41 907	41 907	-	-
corporate bonds	24 026	24 026	-	-
bonds issued by WSE	6 628	6 628	-	-
bonds issued by PKO Finance AB in EUR	4 604	4 604	-	-
bonds issued by banks, of which BGK bonds	168	168	-	-
Shares in other entities	10 799	10 799	-	-
Investment certificates	1 151	1 151	-	-
TOTAL	484 485	479 943	4 542	-

Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2013 (Note 20)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	15 179 188	931 325	14 247 863	-
NBP money market bills	13 997 228	-	13 997 228	-
Treasury bonds PLN	931 325	931 325	-	-
municipal bonds EUR	136 700	-	136 700	-
municipal bonds PLN	113 935	-	113 935	-
TOTAL	15 179 188	931 325	14 247 863	-

Investment securities available for sale as at 31.12.2013 (Note 22)	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	13 548 671	8 518 450	5 030 221	-
Treasury bonds PLN	8 518 450	8 518 450	-	-
municipal bonds	3 440 753	-	3 440 753	-
corporate bonds	1 589 468	-	1 589 468	-
Equity securities	182 305	44 990	-	137 315
TOTAL	13 730 976	8 563 440	5 030 221	137 315

Depending on category of classification of financial assets and liabilities to hierarchy, different methods of fair value valuation are used:

Level 1: Prices quoted on the active markets:

Financial assets and liabilities whose fair value is stated directly at prices quoted (not adjusted) from active markets for identical assets and liabilities. The Bank classifies to this category financial and equity instruments measured at fair value through profit and loss and available for sale, for which there is an active market and for which the fair value is determined with reference to market value, which is a bid price:

- debt securities valued at fixing from Bondspot platform,
- debt and equity securities which are traded on regulated market, including in the Brokerage House of PKO Bank Polski SA portfolio,
- derivative instruments, which are traded on a regulated market.

Level 2: Valuation techniques based on observable market data

Financial assets and liabilities whose fair value is determined with use of valuation models where all significant entry data are observable on the market directly (as prices) or indirectly (based on prices). The Bank classifies to that category financial instruments for which there is no active market:

Financial assets and liabilities measured at fair value	Valuation method (technique)	Observable inputs
Trading assets - Treasury bonds EUR	Market price of Polish Treasury securities in foreign currency is obtained from information services, in which quotations of such securities are included (Bloomberg or brokerage websites in the Reuters system). This is not a regulated market.	The market price of securities obtained from information services.
Derivative financial instruments - hedging instruments	Valuation of derivatives: CIRS, IRS is made in accordance with the discounted future cash flows model. Discounting is based on the yield curves.	Yield curves are built based on market rates, market data of the money market, market transactions of FRA, IRS, basis swap.
Derivative financial instruments - Trade instruments	Valuation of derivatives: CIRS, IRS and FRA is made in accordance with the discounted future cash flows model. Discounting is based on the yield curves. Valuation of currency options is made in accordance with specified valuation models for a given type of a currency option. The prices of exotic options embedded in structured products are obtained from the market (they are market prices).	Yield curves are built based on market rates, market data of the money market, market transactions of FRA, IRS, basis swap. Inputs to currency options valuation models are yield curves built based on money market rates, market rate of swap points, volatility levels for specific currency pairs, NBP fixing exchange rates. For the purpose of valuation of exotic options embedded in structured products, market prices of these options are obtained.
Financial assets designated upon initial recognition at fair value through profit and loss		
- NBP money market bills	Yield curve valuation method	Yield curves for money market bills are built based on market prices, money market data and OIS (overnight index swap) transactions market.
- municipal bonds EUR	Valuation in accordance with an accepted valuation model	Inputs to a valuation model are market rates, market data: money market, IRS transactions market, CDS (credit-default swap) transactions market, volatility of interest rate options market.
- municipal bonds PLN	Valuation in accordance with a yield curve and a risk margin	Yield curves are built based on market rates, money market data, IRS transactions market.
Investment securities available for sale		
- municipal bonds	Valuation in accordance with a yield curve and a risk margin	Yield curves are built based on market rates, money market data, IRS transactions market.

(IN PLN THOUSAND)

- corporate bonds	Valuation in accordance with a yield curve and a risk margin	Yield curve is built based on market rates, money market data, IRS transactions market.
Debt securities in issue - financial instruments designated at fair value through profit and loss	Valuation in accordance with a yield curve and the prices of exotic options embedded in these securities	Yield curves are built based on market rates, money market data, IRS transactions market. For the purpose of valuation of exotic options embedded in structured products, market prices of these options are obtained.

Level 3: Other valuation techniques

Financial assets and liabilities, whose fair value is determined with use of valuation models, for which available input data are not derived from observable markets (unobservable input data).
The Bank classified to that category shares not listed on WSE, which are valued with internal valuation models:

a) Fund - 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 (of the companies) in the fund, which are subject to semi-annual review or examination by the registered auditor. If the Bank used the values of the unobservable parameters, that are extreme values from the range of possible values, the fair value of the equity financial instruments could be PLN 9 306 thousand higher or PLN 9 306 thousand lower as at 31 December 2014.
b) Listed company- the fair value of these securities is determined based on the price set out in a contingent sale agreement. If the Bank used the values of the unobservable parameters, that are extreme values from the range of possible values, the fair value of the equity financial instruments could be PLN 2 000 thousand higher or PLN 2 000 thousand lower as at 31 December 2014.

The impact of parameters estimated on measurement of financial instruments at fair value, for which the Bank uses fair value measurement on Level 3 as at 31 December 2014 is as follows:

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	195 432	176 820
Equity securities – listed company	price set out in the contingent sale agreement	price set out in the contingent sale agreement	14 000	10 000

In the fourth quarter of 2014, individual fair value measurement based on binding offers receive from potential buyers in respect of shares of Qualia Development Sp. z o.o. in the amount of PLN 165 000 thousand as well as a reclassification of a share in the above-mentioned company to non-current assets held for sale were made.

Instruments transfers between Level 1 and Level 2 are based on the availability of quotations in an active market at the end of the reporting period. Transfer from Level 2 to Level 3 occurs in the situation of the conversion of an observable factor for an unobservable in the valuation or applying a new unobservable risk factor to the valuation, which also results in a significant impact on the valuation of the instrument. Transfer from Level 3 to Level 2 occurs in the situation of the conversion of an unobservable factor for an observable in the valuation or when an impact of an unobservable factor on the instrument valuation ceases to be relevant. Transfers between levels of valuation occur at the date and at the end of the reporting period.

In the period from 1 January to 31 December 2014, there were no transfers between levels in the fair value hierarchy used in measuring financial instruments at fair value.

(IN PLN THOUSAND)

The table below presents a reconciliation during the periods of measurement from 1 January to 31 December 2014 and 2013 respectively, at fair value at level 3 of fair value hierarchy:

Investment securities available for sale	2014	2013
Opening balance at the beginning of the period	137 315	88 232
Total gains or losses	29 965	4 455
recognised in the income statement	-	4 455
recognised in other comprehensive income	29 965	-
Take up of shares in the Fund and currency transaltion differences	19 022	44 628
Conclusion of an agreement of the contingent sale of shares of the listed company	12 000	-
Closing balance as the end of the period	198 302	137 315

44.2. Financial assets and liabilities not presented at fair value in the statement of financial position

The Bank holds financial assets and liabilities which are not presented at fair value in the statement of financial position.
Where there is no market value of financial instruments available, their fair values have been estimated with the use of various valuation techniques. The fair value of financial instruments was measured using a model based on estimating the present value of future cash flows by discounting them using relevant interest rates.
All model calculations include certain simplifying assumptions and therefore are sensitive to those assumptions. Set out below is a summary of the main methods and assumptions used for estimation of fair values of financial instruments which are not presented at fair value.
For certain categories of financial instruments it has been assumed that their carrying amount equals approximately their fair values, which is due to lack of expected material differences between their carrying amount and their fair value resulting from the features of these groups (such as short term character, high correlation with market parameters, unique character of the instrument). This applies to the following groups of financial instruments:

- loans and advances granted by the Bank to its customers: a portion of the housing loans portfolio ('old' housing loans portfolio), loans with no specified repayment schedule, loans payable at the moment of valuation,
- amounts of the Bank due to customers: liabilities with no specified payment schedule, other specific products for which no active market exists,
- deposits and interbank placements with maturity date up to 7 days or with a variable interest rate,
- loans or advances granted and taken on interbank market at a variable interest rate (change of interest rate maximum on a 3 month basis),
- cash and balances with the central bank and amounts due to the central bank,
- other financial assets and liabilities.

With regard to loans and advances to customers, a model based on estimates of present value of future cash flows, through discounted future cash flows, and applying current interest rates plus a risk margin and relevant scheduled repayment dates were used. The current margin level has been established based on transactions on instruments with similar credit risk concluded in the last quarter of the reporting period.

The fair value of deposits and other amounts due to customers other than banks, with specified maturities has been calculated using the discounted expected future cash flows and applying current interest rates for given deposit products.

The fair value of the subordinated debt of the Bank has been estimated based on the expected future cash flows discounted using the yield curve.

The fair value of debt securities issued by PKO Bank Polski SA has been estimated based on the expected future cash flows discounted using the current interbank interest rates.

Interbank placements and deposits have been estimated based on the expected future cash flows discounted using the current interbank interest rates.

(IN PLN THOUSAND)

The table below presents a summary of the carrying amounts and fair values of individual groups of financial instruments not recognised at fair value in the statement of financial position as at 31 December 2014:

	level of fair value hierarchy	valuation method	31.12.2014	
			carrying amount	fair value
Cash and balances with the central bank	na	value at cost to pay	11 698 248	11 698 248
Amounts due from banks	2	discounted cash flows	2 608 547	2 608 553
Loans and advances to customers			177 557 571	168 577 617
housing loans	3	discounted cash flows	95 712 466	86 670 803
corporate loans	3	discounted cash flows	56 546 103	56 604 768
consumer loans	3	discounted cash flows	20 159 253	20 270 107
receivables due from repurchase agreements	3	discounted cash flows	302 973	302 973
debt securities	3	discounted cash flows	4 836 776	4 728 966
Other financial assets	3	value at cost to pay including impairment allowance	647 235	647 235
Amounts due to the central bank	2	value at cost to pay	4 427	4 427
Amounts due to banks	2	discounted cash flows	18 439 584	18 439 662
Amounts due to customers			185 920 562	186 323 433
due to corporate entities	3	discounted cash flows	52 911 331	53 349 090
due to public entities	3	discounted cash flows	4 778 331	4 778 331
due to retail clients	3	discounted cash flows	128 230 900	128 196 012
Debt securities in issue	2	discounted cash flows	866 087	866 109
Subordinated debt	2	discounted cash flows	2 413 985	2 398 946
Other financial liabilities	3	value at cost to pay	2 127 610	2 127 610

The table below presents a summary of the carrying amounts and fair values of individual groups of financial instruments not recognised at fair value in the statement of financial position as at 31 December 2013:

	level of fair value hierarchy	valuation method	31.12.2013	
			carrying amount	fair value
Cash and balances with the central bank	na	value at cost to pay	7 188 406	7 188 406
Amounts due from banks	2	discounted cash flows	2 089 087	2 084 806
Loans and advances to customers			147 372 326	150 080 006
housing loans	3	discounted cash flows	74 778 407	74 923 490
corporate loans	3	discounted cash flows	49 662 062	51 918 323
consumer loans	3	discounted cash flows	18 998 829	19 305 272
receivables due from repurchase agreements	3	discounted cash flows	2 144 088	2 144 088
debt securities	3	discounted cash flows	1 788 940	1 788 835
Other financial assets	3	value at cost to pay including impairment allowance	568 554	646 028
Amounts due to the central bank	2	value at cost to pay	4 065	4 065
Amounts due to banks	2	discounted cash flows	2 529 623	2 529 387
Amounts due to customers			159 957 671	160 183 673
due to corporate entities	3	discounted cash flows	40 702 728	40 932 353
due to public entities	3	discounted cash flows	3 473 476	3 473 476
due to retail clients	3	discounted cash flows	115 781 467	115 777 844
Debt securities in issue	2	discounted cash flows	692 614	692 728
Subordinated debt	2	discounted cash flows	1 620 857	1 605 265
Other financial liabilities	3	value at cost to pay	1 969 840	1 969 840

45. Offsetting financial assets and liabilities

A financial asset and a financial liability are offset only when the Bank has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously. It follows from the provisions of paragraph 42 of IAS 32 that, amongst others, offsetting to be possible, the legal right may not be conditioned on the occurrence of a specific future event.

The Bank enters into offsetting arrangements, i.e. International Swaps and Derivatives Association Master Agreements (ISDA) and Global Master Repurchase Agreements (GMRA), which make it possible to offset financial assets and liabilities (the so-called close out netting) in the event of an infringement with respect to one of the parties to the agreement. These agreements are of particular importance to mitigate the risk posed by derivative instruments, because they enable both matured liabilities (mitigating the settlement risk) and non-matured liabilities of the parties (mitigating the pre-settlement risk). However, these agreements do not meet the requirements set out in IAS 32 because the right to offset the amounts is conditioned on the occurrence of a specific future event (instances of infringement). In addition, offsetting a financial asset and a financial liability applies to financial instruments acquired as part of issuance stabilising actions taken by the Brokerage House of PKO Bank Polski SA for the selling shareholder, which is described in detail in the note 21 ‘Loans and advances to customers’.

(IN PLN THOUSAND)

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

31.12.2014	Total Financial assets	Derivatives	Receivable due from repurchase agreement
The amount of recognised financial assets (gross)	5 795 404	5 492 431	302 973
The amount of financial liabilities, which are offset in accordance with the criteria set out in § 42 of IAS 32 (gross)	(8 923)	(8 923)	-
The value of financial assets recognised in the statement of financial position (net)	5 786 481	5 483 508	302 973
The value of financial instruments not subject to offsetting in the financial statements	4 875 714	4 875 714	-
The value of financial liabilities subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial guarantees)	4 094 094	4 094 094	-
Guarantee in cash and in the form of securities received	781 620	781 620	-
The net amount	910 767	607 794	302 973

31.12.2014	Total Financial liabilities	Derivatives	Receivable due from repurchase agreement
The amount of recognised financial liabilities (gross)	6 710 079	5 554 425	1 155 654
The amount of financial assets, which are offset in accordance with the criteria set out in § 42 of IAS 32 (gross)	(8 923)	(8 923)	-
The value of financial liabilities recognised in the statement of financial position (net)	6 701 156	5 545 502	1 155 654
The value of financial instruments not subject to offsetting in the financial statements	5 262 583	5 257 067	5 516
The value of financial assets subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial guarantees)	4 094 094	4 094 094	-
Guarantee in cash and in the form of securities received	1 168 489	1 162 973	5 516
The net amount	1 438 573	288 435	1 150 138

31.12.2013	Total Financial assets	Derivatives	Receivable due from repurchase agreement
The amount of recognised financial assets (gross)	5 177 452	3 019 331	2 158 121
The amount of financial liabilities, which are offset in accordance with the criteria set out in § 42 of IAS 32 (gross)	(17 111)	(17 111)	-
The value of financial assets recognised in the statement of financial position (net)	5 160 341	3 002 220	2 158 121
The value of financial instruments not subject to offsetting in the financial statements	2 659 207	2 639 578	19 629
The value of financial assets subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial guarantees)	2 251 265	2 251 265	-
Guarantee in cash received	407 942	388 313	19 629
The net amount	2 501 134	362 642	2 138 492

31.12.2013	Total Financial liabilities	Derivatives	Receivable due from repurchase agreement
The amount of recognised financial liabilities (gross)	5 031 838	3 345 260	1 686 578
The amount of financial assets, which are offset in accordance with the criteria set out in § 42 of IAS 32 (gross)	(17 111)	(17 111)	-
The value of financial liabilities recognised in the statement of financial position (net)	5 014 727	3 328 149	1 686 578
The value of financial instruments not subject to offsetting in the financial statements	2 982 842	2 982 842	-
The value of financial assets subject to enforceable framework agreement or similar agreement concerning offsetting – financial liabilities	2 251 265	2 251 265	-
Guarantee in cash received	731 577	731 577	-
The net amount	2 031 885	345 307	1 686 578

46. Fiduciary activities

The Bank is a direct participant in the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych) and the Securities Register (at the National Bank of Poland). The Bank maintains securities accounts, services transactions on the domestic and foreign markets, and provides fiduciary services and performs depository role for pension and investment funds. Assets placed in the Bank within fiduciary services are not included in these financial statements as they do not meet the criteria of an asset.

Moreover, as a member of the Council of Depositary Banks and the Council of Non-treasury Debt Securities by the Polish Bank Association (PBA), PKO Bank Polski SA takes part in developing regulations and market standards.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

47. Risk management in PKO Bank Polski SA

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

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

47.1. Elements of banking risk management process

The process of banking risk management in PKO Bank Polski SA 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 Bank. Within the risk identification process, types of risk perceived as material in the Bank's activity are identified,
- risk measurement and assessment:

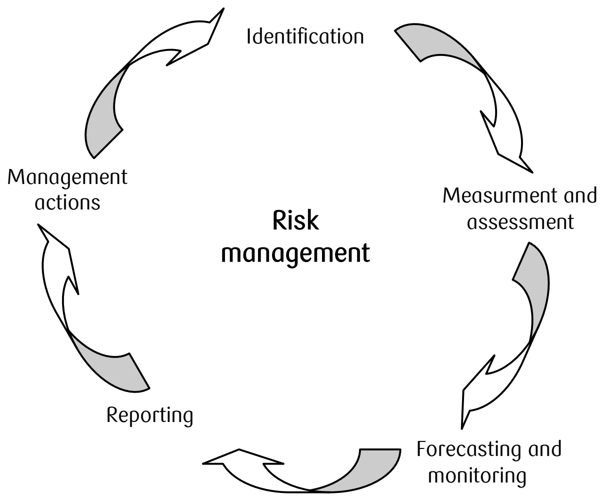
  risk measurement covering defining risk assessment measures adequate to the type and significance of the risk, data availability and quantitative risk assessment by means of determined measures, as well as risk assessment aimed at identifying the scale or scope of risk, taking into account the achievement of goals of risk management. Within risk measurement, stress-test are being conducted on the basis of assumptions 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. 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:



47.2. Main principles of risk management

Risk management in PKO Bank Polski SA is based especially on the following principles:

- the Bank 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,

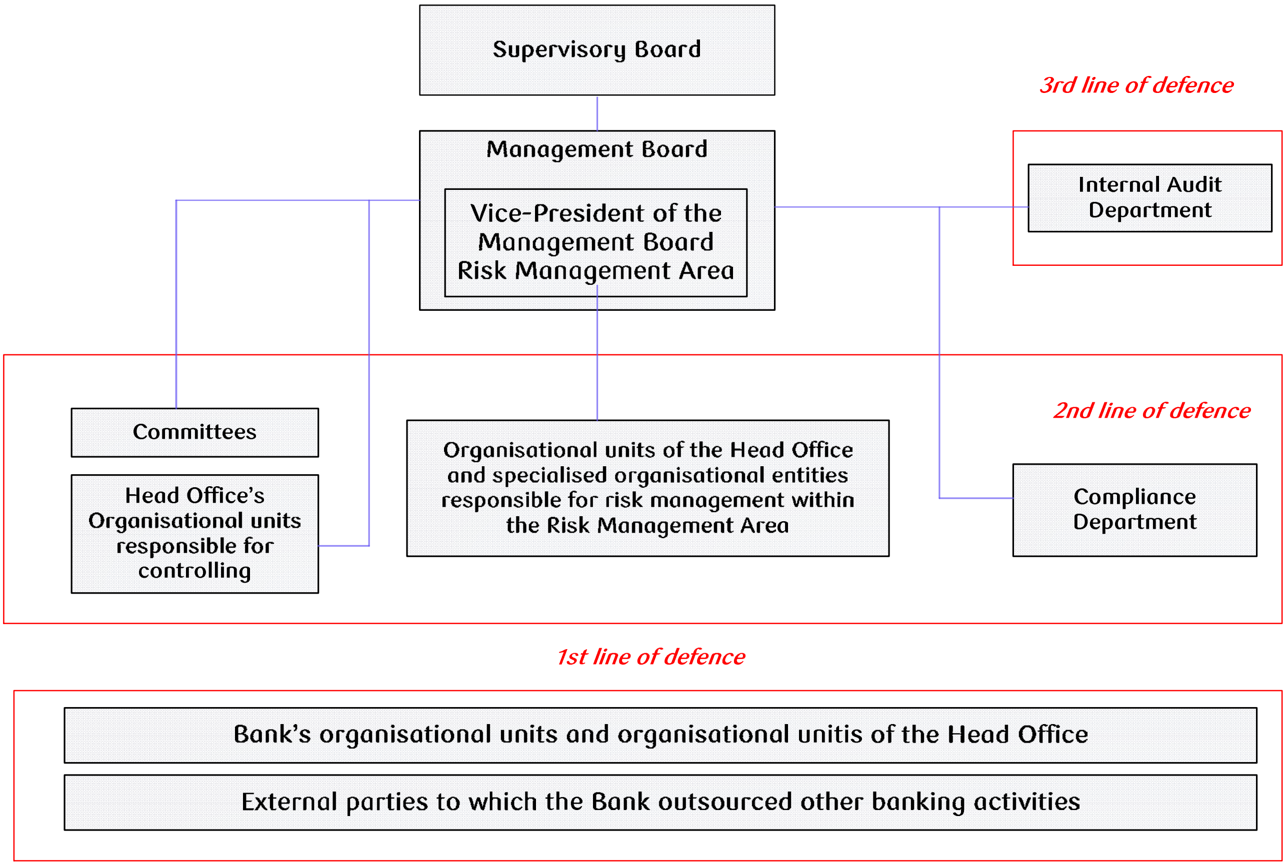
- the risk level is monitored on a current basis,
- the risk management process supports the implementation of the Bank's strategy in compliance with the risk management strategy, in particular with regard to the level of tolerance of the risk.

47.3. 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 PKO Bank Polski SA 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 concerning risk management.

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

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

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

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

The first line of defence is being performed particularly in the organisational units of the Bank, the organisational units of the Head Office and the external entities to which the Bank outsourced other banking activities and concerns the activities of those units', cells and entities which may generate risk. The units and entities are responsible for identifying risks, designing and implementing appropriate controls, including in the external entities, unless controls have been implemented as part of the measures taken in the second line of defence.

The second line of defence is being performed, in particular, in the Risk Management Area, in the organisational units 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 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.

The organisational units of the Head Office of the Bank that are grouped within the Banking Risk Division, Department of Risk Integration, Department of Restructuring and Debt Collection of Corporate Client and Analysis and Credit Risk Assessment Centre as well as Restructuring and Debt Collection Centre 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,
- 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 an effective system of the models risk management in the Group,
- coordinating the implementation of integrated risk management system in the Group,
- supervision over risk management in the Group.

The Department of Restructuring and Debt Collection of the Corporate Client is responsible in particular for:

- recovering receivables from difficult corporate clients effectively, with the amount not less than the amount specified in the separate internal regulations of the Bank, through their restructuring and debt collection,
- protection of the Bank's interests as a creditor in the course of compulsory pursuing claims,
- seling receivables effectively and 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:

- 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,
- selling difficult receivables effectively.

The objective of the Analysis and Credit Risk Assessment Centre is the reduction of the credit risk of individual credit exposures of the Bank's retail and corporate market clients and financial institutions, which are significant in particular due to the scale of exposure, client segment, or the level of risk 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, capital adequacy and implementation of the risk management policies binding in the Bank consistent with the Bank's Strategy,
- analyses and evaluates the application of strategic risk limits specified in PKO Bank Polski SA's Bank Risk Management Strategy,
- supports the Supervisory Board in the banking risk management process by formulating recommendations and making decisions concerning capital adequacy and the efficiency of the bank risk monitoring system.

The Assets & Liabilities Management Committee (the 'ALCO')

- makes decisions within the scope of limits and thresholds on particular types of risks, issues related to transfer pricing, models and portfolio parameters used to determine impairment allowances and provisions as well as other significant financial and business risk models and their parameters,
- gives recommendations to the Management Board i.a. with regard to determining the structure of the Bank's assets and liabilities, managing different types of risks, equity and price policy.

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

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

The Central Credit Committee (the 'CCC') and credit committees which operate in the regional retail and corporate branch offices.

- supports the decisions taken by the relevant division directors and the Management Board members with its recommendations and the credit committees operating in the regions support directors of the corporate macro-regions in matters bearing a higher risk.

The Operating Risk Committee (the 'ORC')

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

ALCO, RC, ORC, BCC, the Management Board and the Supervisory Board are recipients of cyclic reports concerning the individual risk types.

47.4. Activities in the area of risk management in the Bank

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

In this respect, the Bank took i.a. the following actions in 2014:

- in January 2014, acquired financing due to issuance of bonds under the EMTN programme in the amount of EUR 500 million,
- in February 2014, acquired financing due to Cross Currency Repo transactions in the amount of CHF 50 million,
- in April 2014, acquired long-term financing from Nordea AB in the amount of PLN 14 billion (described in the note 23 'Investments in subsidiaries, joint ventures and associates and description of changes to the entities of the Group'),
- in May and November 2014, rolled forward short-term bonds with a maturity of three months in the amount of PLN 700 million and issued additional PLN 50 million of this securites,
- transferred a part of the Bank's profit for 2013 and a part of the Bank's net profit for 2014, after deducting the expected charge and dividends, based on the decision of the Polish Financial Supervision Authority, to own funds.

The acquisition of Nordea Polska Entities as at 1 April 2014 and the legal merger as at 31 October 2014 had no impact on the change in the risks identified in the business of Bank.

In October 2014, the Bank obtained the Polish Financial Supervision Authority's consent to introduce a significant expansion of the Advanced Measurement Approach (AMA) used for calculating the own funds requirement in respect of operating risk, by including in this approach an additional part of the operations which resulted from the legal merger.

In 2014 in respect of operational risk, the Bank endeavoured to ensure that after the legal merger the Bank will be adapted to the requirements of Recommendation M of the Polish Financial Supervision Authority amended in January 2013 relating to operational risk management in banks.

47.5. Identification of significant types of risk

The significance of the individual types of risk is established at the Bank's level.

The following types of risk are considered to be significant of the Bank:

- credit risk,
- currency risk,
- interest rate risk,
- liquidity risk,
- operational risk,
- business risk,
- macroeconomic changes risk,
- models risk,
- compliance risk,
- loss of reputation risk,
- capital risk.

When determining criteria of classifying a given type of risk as significant, an influence of a given type of risk on the Bank'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 types of risk (insignificant and non-monitored).

Based on quantitative and qualitative information, an assessment of significance of given 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. In particular, monitoring is conducted if significant change in activities took place or the profile of the Bank changed.

48. 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 applies the following principles of credit risk management:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to loan transactions is measured on the stage of examining loan application and on a regular basis, as part of the monitoring process taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures which are significant due to their risk levels or its values 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 generated by the transaction,
- loan granting decisions are made only by authorised persons,
- credit risk is diversified particularly by geographical location, by industry, by product and by clients,
- expected credit risk level is mitigated by collateral received by the Bank, margins from clients and allowances (provisions) for credit losses.

The above-mentioned principles are executed by the Bank through the use of advanced credit risk management methods, both on the level of individual credit exposures and on the level of the whole credit portfolio of the Bank. These methods are verified and developed to ensure compliance with the internal rating – 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.

48.1. 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 fully cover the whole Bank's loan portfolio with these methods.

The portfolio credit risk measurement methods allow i.a. to reflect the credit risk in the price of products, determine the optimum conditions of financing availability and determine rates of impairment allowances.

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

The Bank assesses the risk of individual credit transactions with the use of scoring and rating methods, which are created, developed and supervised by the Banking Risk Division. These methods are supported by specialist IT application software. The scoring method is defined by Bank's internal regulations whose main aim is to ensure uniform and objective assessment of credit risk during the lending process.

(IN PLN THOUSAND)

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 of 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.

In 2014 in respect of credit risk, the Bank continued to adapt to the requirements of Recommendation S of the Polish Financial Supervision Authority amended in June 2013, relating to best practice in respect of management of mortgage-secured loan exposures. All recommendations were implemented in the Bank in accordance with expected two-stage period i.e. until 31 December 2013 and 30 June 2014.

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 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.

48.2. Forecasting and monitoring of credit risk

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

Amounts due from banks	Exposure	
	31.12.2014	31.12.2013
Amounts due from banks impaired, of which:	41 535	51 240
assessed on an individual basis	41 173	50 892
Amounts due from banks not impaired, of which:	2 578 608	2 078 084
not past due	2 578 608	2 078 084
Gross total	2 620 143	2 129 324
Impairment allowances	(11 596)	(40 237)
Net total by carrying amount	2 608 547	2 089 087

(IN PLN THOUSAND)

Loans and advances to customers	Exposure	
	31.12.2014	31.12.2013
Loans and advances impaired, of which:	12 347 957	12 265 138
assessed on an individual basis	5 138 087	5 091 377
Loans and advances not impaired, of which:	172 736 814	141 488 420
not past due	168 833 734	138 235 574
past due	3 903 080	3 252 846
past due up to 4 days	1 491 221	1 045 547
past due over 4 days	2 411 859	2 207 299
Gross total	185 084 771	153 753 558
Impairment allowances	(7 527 200)	(6 381 232)
Net total by carrying amount	177 557 571	147 372 326

Investment securities available for sale – debt securities	Exposure	
	31.12.2014	31.12.2013
Debt securities impaired, of which:	-	6 160
assessed on an individual basis	-	6 160
Debt securities not impaired, of which:	21 794 141	13 545 807
not past due	21 794 141	13 545 807
with external rating	13 702 637	9 077 514
with internal rating	8 091 504	4 468 293
Gross total	21 794 141	13 551 967
Impairment allowances	-	(3 296)
Net total by carrying amount	21 794 141	13 548 671

Other assets – other financial assets	Exposure	
	31.12.2014	31.12.2013
Other assets impaired	60 318	61 270
Other assets not impaired, of which:	643 604	567 643
not past due	636 898	559 602
past due	6 706	8 041
Gross total	703 922	628 913
Impairment allowances	(56 687)	(60 359)
Net total by carrying amount	647 235	568 554

(IN PLN THOUSAND)

Maximum exposure to credit risk

Items of the statement of financial position	31.12.2014	31.12.2013
Current account in the central bank	7 772 856	4 018 340
Amounts due from banks	2 608 547	2 089 087
Trading assets – debt securities	1 919 353	472 535
issued by banks	14 631	168
issued by other financial institutions	6 559	11 366
issued by non-financial institutions	22 146	23 892
issued by the State Treasury	1 825 454	395 202
issued by local government bodies	50 563	41 907
Derivative financial instruments	5 483 508	3 002 220
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	13 417 667	15 179 188
issued by the State Treasury	2 165 038	931 325
issued by central banks	10 998 812	13 997 228
issued by local government bodies	253 817	250 635
Loans and advances to customers	177 557 571	147 372 326
financial sector (excluding banks)	5 327 204	5 711 190
corporate loans	5 024 231	3 672 767
receivables due from repurchase agreements	302 973	2 038 423
non-financial sector	162 220 953	134 531 822
housing loans	95 712 466	74 778 407
corporate loans	44 332 135	39 942 827
consumer loans	20 159 253	18 998 829
debt securities	2 017 099	811 759
public sector	10 009 414	7 129 314
corporate loans	7 189 737	6 046 468
debt securities	2 819 677	977 181
receivables due from repurchase agreements	-	105 665
Investment securities available for sale - debt securities	21 794 141	13 548 671
issued by the State Treasury	12 458 348	8 518 450
issued by banks	1 203 572	558 814
issued by other financial institutions	184 914	33 401
issued by non-financial institutions	3 466 982	997 253
issued by local government bodies	4 480 325	3 440 753
Other assets - other financial assets	647 235	568 554
Total	231 200 878	186 250 921

Off-balance sheet items	31.12.2014	31.12.2013
Irrevocable liabilities granted	7 943 931	8 157 608
Guarantees granted	10 020 974	7 147 120
Letters of credit granted	704 504	494 586
Guarantees of issue	4 581 134	3 675 067
Total	23 250 543	19 474 381

(IN PLN THOUSAND)

Credit quality of financial assets - neither past due nor impaired

Internal rating classes

Exposures to corporate clients which are not individually impaired are classified according to customer rating as part of the internal rating classes, from A to G (in respect of financial institutions from A to F).

The following portfolios are covered by the rating system:

- corporate clients,
- housing market corporate clients,
- small and medium enterprises (excluding certain product groups which are assessed in a simplified manner).

Financial assets neither past due nor impaired	31.12.2014	31.12.2013
Amounts due from banks	2 578 608	2 078 084
of which:		
with external rating	2 429 086	1 702 673
without rating	149 522	375 411
Loans and advances to customers	**168 833 734**	**138 235 574**
with internal rating – customers of financial, non-financial and public sector (corporate loans)	45 160 976	41 248 589
A (first rate)	1 059 550	1 414 115
B (very good)	1 455 548	1 247 527
C (good)	2 721 287	4 164 801
D (satisfactory)	5 663 335	5 803 780
E (average)	15 696 903	10 339 621
F (acceptable)	14 672 537	9 314 520
G (poor)	3 891 816	8 964 225
with internal rating – customers of non-financial sector (consumer and housing loans)	103 891 292	84 848 494
A (first rate)	74 155 239	59 604 586
B (very good)	10 614 538	13 546 734
C (good)	11 313 955	5 261 693
D (average)	5 802 187	4 648 762
E (acceptable)	2 005 373	1 786 719
without internal rating – customers of financial, non-financial and public sector (consumer, housing and other loans)	19 781 466	12 138 491
Trading assets – debt securities - with internal rating	-	10
C (good)	-	10
Investment securities available for sale – debt securities - with internal rating	8 091 504	4 468 293
A (first rate)	-	53 776
B (very good)	37 815	336 547
C (good)	1 381 794	1 026 669
D (satisfactory)	2 000 235	912 529
E (average)	1 954 217	1 310 986
F (acceptable)	2 239 109	755 984
G (poor)	478 334	71 802
Other assets – other financial assets	643 604	559 602
Total	180 147 450	145 341 563

Loans and advances which are not individually impaired and are not rated, are characterised with a satisfactory level of the credit risk. It concerns, in particular, retail loans (including housing loans) which do not have individually significant exposures and thus do not create significant credit risk.

(IN PLN THOUSAND)

External rating classes

Structure of debt securities and amounts due from banks, neither past due nor impaired by external rating classes is presented below:

31 December 2014

Portfolio/Rating	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	CCC- to CCC+	without rating	Total
Amounts due from banks	496 846	1 445 444	101 071	6 611	379 114	149 522	2 578 608
Trading assets – debt securities	-	1 826 259	12 007	14 590	-	66 497	1 919 353
of which:							
issued by the State Treasury	-	1 825 454	-	-	-	-	1 825 454
issued by local government bodies	-	805	-	-	-	49 758	50 563
issued by banks	-	-	-	14 590	-	41	14 631
issued by other financial institutions	-	-	-	-	-	6 559	6 559
issued by non-financial institutions	-	-	12 007	-	-	10 139	22 146
Financial instruments measured at fair value through profit and loss - debt securities	-	13 277 785	139 882	-	-	-	13 417 667
of which:							
issued by the central bank	-	10 998 812	-	-	-	-	10 998 812
issued by the State Treasury	-	2 165 038	-	-	-	-	2 165 038
issued by local government bodies	-	113 935	139 882	-	-	-	253 817
Investment securities available for sale – debt securities	-	13 652 864	-	49 773	-	-	13 702 637
of which:							
issued by the State Treasury	-	12 458 348	-	-	-	-	12 458 348
issued by local government bodies	-	40 717	-	-	-	-	40 717
issued by banks	-	1 153 799	-	49 773	-	-	1 203 572
Total	496 846	30 202 352	252 960	70 974	379 114	216 019	31 618 265

31 December 2013

Portfolio/Rating	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	without rating	Total
Amounts due from banks	117 968	1 191 192	109 494	1 156	282 863	375 411	2 078 084
Trading assets – debt securities	-	400 284	21 031	-	-	51 210	472 525
of which:							
issued by the State Treasury	-	395 202	-	-	-	-	395 202
issued by local government bodies	-	320	-	-	-	41 587	41 907
issued by banks	-	158	-	-	-	-	158
issued by other financial institutions	-	4 604	-	-	-	6 762	11 366
issued by non-financial institutions	-	-	21 031	-	-	2 861	23 892
Financial instruments measured at fair value through profit and loss - debt securities	-	15 042 488	136 700	-	-	-	15 179 188
of which:							
issued by the central bank	-	13 997 228	-	-	-	-	13 997 228
issued by the State Treasury	-	931 325	-	-	-	-	931 325
issued by local government bodies	-	113 935	136 700	-	-	-	250 635
Investment securities available for sale – debt securities	-	9 027 734	49 530	-	-	250	9 077 514
of which:							
issued by the State Treasury	-	8 518 450	-	-	-	-	8 518 450
issued by local government bodies	-	-	-	-	-	250	250
issued by banks	-	509 284	49 530	-	-	-	558 814
Total	117 968	25 661 698	316 755	1 156	282 863	426 871	26 807 311

(IN PLN THOUSAND)

48.3. Concentration of credit risk within the Bank

PKO Bank Polski SA 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 Bank 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. 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 Bank's own funds.

As at 31 December 2014 and 31 December 2013, those concentration limits had not been exceeded. As at 31 December 2014, the level of concentration of the Bank risk with respect to individual exposures was low – the largest exposure to a single entity was equal to 12.7% of the Bank's recognised capital.

Total exposure of the Bank towards the 20 largest non-banking sector clients:

31.12.2014			31.12.2013		
No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures **	Share in credit portfolio, which includes off-balance sheet and capital exposures	No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures **	Share in credit portfolio, which includes off-balance sheet and capital exposures
1.	3 157 166	1.26%	1.*	2 800 744	1.37%
2.	2 474 087	0.99%	2.	2 080 000	1.01%
3.*	2 431 471	0.97%	3.	2 074 380	1.01%
4.	2 266 960	0.90%	4.	2 034 786	0.99%
5.	2 172 936	0.87%	5.*	1 396 115	0.68%
6.	2 080 000	0.83%	6.	1 139 935	0.56%
7.*	2 400 512	0.96%	7.	1 083 993	0.53%
8.	1 643 091	0.66%	8.	1 078 879	0.53%
9.	1 266 301	0.51%	9.	794 068	0.39%
10.	1 177 665	0.47%	10.	752 372	0.37%
11.	1 130 843	0.45%	11.	690 184	0.34%
12.	1 007 768	0.40%	12.	673 507	0.33%
13.	957 362	0.38%	13.	631 454	0.31%
14.	911 026	0.36%	14.	600 000	0.29%
15.	904 016	0.36%	15.	579 657	0.28%
16.	834 655	0.33%	16.	542 805	0.26%
17.	815 680	0.33%	17.	539 467	0.26%
18.	793 137	0.32%	18.	524 686	0.26%
19.	746 933	0.30%	19.	512 993	0.25%
20.	712 771	0.28%	20.	504 905	0.25%
Total	29 884 380	11.93%	Total	21 034 930	10.27%

* Concentration exempted from concentration limits under the Article 71 item 3 of the Banking Law.
** Off-balance sheet exposure includes liability resulting from derivative transactions in the amount of their equivalent in the statement of financial position (according to the provisions of paragraph 2.1 point 2 of the Resolution No. 208/2011 of the PFSA dated on 22 August 2011)

(IN PLN THOUSAND)

Concentration by the largest capital groups

The greatest concentration of PKO Bank Polski SA towards the capital group amounted to 1.98% of the loan portfolio of the Bank.

As at 31 December 2014 and as at 31 December 2013, the concentration risk level by the largest capital groups was low - the greatest exposure of PKO Bank Polski SA towards a capital group amounted to 20.0%* and 14.1% of the Bank's recognised equity.

Exposure of the Bank towards the 5 largest capital groups:

31.12.2014			31.12.2013		
No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposure**	Share in credit portfolio, which includes off-balance sheet and capital exposures	No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposure**	Share in credit portfolio, which includes off-balance sheet and capital exposures
*1	4 966 979	1.98%	*1	4 040 364	1.97%
2	3 497 840	1.40%	2	3 536 942	1.73%
3	3 157 647	1.26%	3	2 790 997	1.36%
4	2 972 372	1.19%	4	2 056 058	1.00%
5	2 315 214	0.92%	5	1 960 687	0.96%
Total	16 910 052	6.75%	Total	14 385 048	7.02%

* Concentration exempted from concentration limits under the Article 71 item 3 of the Banking Law.
** Off-balance sheet exposure includes liability resulting from derivative transactions in the amount of their equivalent in the statement of financial position (according to the provisions of paragraph 2.1 point 2 of the Resolution No. 208/2011 of the PFSA dated on 22 August 2011)

Concentration by industries

The Bank applies industry limits in order to mitigate credit risk related to corporate clients financing which operate in selected industries characterised by a high level of credit risk, as well as to avoid excessive level of concentration of exposure to individual industries.

As compared with 31 December 2013 the exposure of PKO Bank Polski SA in industry sectors has increased by approx. PLN 7.2 billion. The total exposure in the four largest industry groups 'Industrial processing', 'Maintenance of real estate', 'Wholesale and retail trade (...)', and 'Public administration and national defense' amounted to approx. 58% of the total loan portfolio covered by an analysis of the sector.

Structure of exposure by industry as at 31 December 2014 and as at 31 December 2013 is presented in the table below:

Section	Section name	31.12.2014		31.12.2013	
		Exposure	Number of entities	Exposure	Number of entities
C	Industrial processing	15.84%	11.19%	17.89%	11.15%
L	Maintenance of real estate	17.96%	19.60%	17.16%	18.35%
G	Wholesale and retail trade; repair of motor vehicles	14.82%	24.30%	15.31%	24.60%
F	Construction	9.15%	11.57%	10.84%	12.05%
O	Public administration and national defence, obligatory social security	9.86%	0.57%	9.83%	0.45%
D	Electricity, gas, water vapour, hot water and air to the mechanical systems production and supply	1.86%	0.21%	2.24%	0.18%
Other exposure		30.51%	32.56%	26.73%	33.22%
Total		100.00%	100.00%	100.00%	100.00%

The above industry structure does not include exposure arising from debt securities reclassified from the category 'available for sale' to 'advances and receivables'.

* Concentration in respect of the entity exempted from concentration limits under the article 71 item 3 of the Banking Law.

(IN PLN THOUSAND)

Concentration by geographical regions

The Bank's loan portfolio is diversified in terms of geographical concentration.

The structure of the loan portfolio by geographical regions is identified in the Bank due to the area – a separate area for the retail market (ORD), a separate area for the corporate and investment banking (OKI). 11 geographical regions are distinguished within ORD. As at 31 December 2014, the largest concentration of the ORD loan portfolio occurs in region of Warsaw and Poznań (circa 22% of the ORD portfolio).

Within OKI, the Bank distinguish 7 macro-regions and the headquarter. As at 31 December 2014, the largest concentration of the ORK loan portfolio occurs in the headquarter and in the central macroregion (29% and 15% of the OKI portfolio, respectively).

Concentration of credit risk by currency

As at 31 December 2014, the share of exposure in convertible currencies, other than PLN, in the total loan portfolio of PKO Bank Polski SA amounted to 25.1%. An increase compared to 31 December 2013 resulted from the legal merger, as a result of which the Nordea Bank Polska portfolio was included in the Bank's loan portfolio. The greatest part of PKO Bank Polski SA currency exposures are those in CHF. As a result of the above-mentioned merger, this share increased by 3.6 pp. compared to 2013.

Concentration of credit risk by currency	31.12.2014	31.12.2013
PLN	74.93%	80.41%
Foreign currencies, of which:	25.07%	19.59%
CHF	16.75%	13.12%
EUR	7.20%	5.14%
USD	1.05%	1.32%
GBP	0.01%	0.01%
Total	100.00%	100.00%

Other types of concentration

The Bank analyses the structure of the housing loan portfolio in terms of LTV levels. As at the end of 2014, the largest concentration was in the 71% - 90% LTV range. Due to the legal merger a share of loans in the highest LTV levels, i.e. in excess of 100%, increased.

The structure of the housing loan portfolio in terms of LTV	31.12.2014	31.12.2013
0%-50%	24.90%	29.73%
51%-70%	19.68%	19.86%
71%-90%	25.26%	21.95%
91% - 100%	14.96%	15.38%
over 100%	15.20%	13.08%
Total	100.00%	100.00%

In accordance with the Recommendations S and T of the Polish Financial Supervision Authority, the Bank uses internal limits on credit exposures related to the Bank's customers defining the appetite for credit risk.

As at 31 December 2014, these limits have not been exceeded.

48.4. Forbearance practices

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 activities 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, associated with obtaining recoveries, which are very high in case of executive proceedings.

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

- spreading the due debt into instalments,
- change in a repayment schedule,
- spreading of payments into instalments (introducing of payment schedule),
- suspension of the payment,
- change the payment formulas (annuity instalments, diminishing instalments),
- change in interest rates,
- loans reduction,
- change of the withdrawal period.

As a result of signing and a timely service of forbearance agreement, the loans becomes unmatured. Evaluation of the ability of a debtor to fulfil the forbearance agreement conditions (debt repayment according to the agreed schedule) constitutes an element of the forbearance process.

(IN PLN THOUSAND)

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:

- 3 consecutive payments under the forbearance agreement schedule were settled,
- at least 60 days from the date of the first instalment determined in accordance with the forbearance agreement schedule have elapsed,
- other contractual arrangements are realised on a regular basis and not raising concerns,
- a loan is not covered by the outsourcing of debt collection activities.

	31.12.2014	31.12.2013
Loans and advances to customers, gross	185 084 771	153 753 558
of which forbearance:	3 903 521	4 318 155
financial sector	9	183
corporate loans	9	183
non-financial sector	3 903 149	4 317 682
corporate loans	3 142 143	2 439 686
housing loans	446 902	1 437 655
consumer loans	314 104	440 341
public sector	363	290
corporate loans	363	290
Impairment allowances on loans and advances to forbearance customers	(764 226)	(991 371)
Loans and advances to customers, net forbearance	3 139 295	3 326 784

Loans and advances to customers subjected to forbearance by geographical region (gross)	31.12.2014	31.12.2013
Poland		
mazowiecki	2 257 276	1 772 532
małopolsko-świętokrzyski	241 778	337 180
śląsko-opolski	234 049	401 978
wielkopolski	185 623	434 487
łódzki	180 695	206 303
zachodnio-pomorski	167 717	157 392
dolnośląski	164 943	205 842
kujawsko-pomorski	130 681	160 294
pomorski	100 825	242 532
lubelsko-podkarpacki	95 298	101 949
podlaski	88 615	233 365
warmińsko-mazurski	56 021	64 301
Total	3 903 521	4 318 155

Loans and advances to customers subjected to forbearance	Exposure by gross carrying amount		Collateral value	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Loans and advances impaired	2 229 804	3 107 480	80 838	173 583
Loans and advances not impaired, of which:	1 673 717	1 210 675	42 147	83 947
not past due	1 190 519	880 476	36 012	18 220
past due	483 198	330 199	6 135	65 727
Total gross	3 903 521	4 318 155	122 985	257 530

(IN PLN THOUSAND)

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 year ended 31 December 2014	Total
Carrying amount at the beginning of the period, net	3 326 784
Impairment allowance	227 145
Loans and advances derecognised in the period, gross	(2 315 287)
Loans and advances recognised in the period, gross	2 148 902
Other changes/repayment	(248 249)
Carrying amount at the end of the period, net	3 139 295

For the year ended 31 December 2013	Total
Carrying amount at the beginning of the period, net	3 068 604
Impairment allowance	(72 215)
Loans and advances derecognised in the period, gross	(2 124 716)
Loans and advances recognised in the period, gross	2 630 100
Other changes/repayment	(174 989)
Carrying amount at the end of the period, net	3 326 784

Loans and advances to customers gross by applied changes in terms of repayment for forbearance	Gross carrying amount	
	31.12.2014	31.12.2013
Spreading of due debt into instalments	2 196 373	2 482 200
Change in repayment schedule	1 221 079	1 540 718
Spreading of payments into instalments (introducing of repayment schedule)	800 923	808 174
Suspension of repayment	530 642	-
Change in repayment formula (annuity instalments, diminishing instalments)	521 029	702 804
Change in interest rate	389 131	586 314
Loans reduction	196 579	307 501
Change in grace period	34	-

For a given loan exposure subject to forbearance more than one change in terms of repayment may be applied.

The amount of recognised interest income related to loans and advances to customers, which are subject to forbearance amounted to PLN 404 782 thousand as at 31 December 2014 (as at 31 December 2013 it amounted to PLN 391 983 thousand).

48.5. Past due of financial assets

Financial assets which are past due but not impaired include the following financial assets:

Financial assets	31.12.2014			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	2 977 474	728 352	197 254	3 903 080
financial sector	-	60 943	-	60 943
non-financial sector	2 876 490	652 285	164 923	3 693 698
public sector	100 984	15 124	32 331	148 439
Other assets – other financial assets	3 761	23	2 922	6 706
Total	2 981 235	728 375	200 176	3 909 786

Financial assets	31.12.2013			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	2 228 920	769 312	254 614	3 252 846
financial sector	14	273	-	287
non-financial sector	2 166 612	758 753	254 614	3 179 979
public sector	62 294	10 286	-	72 580
Other assets – other financial assets	694	27	7 320	8 041
Total	2 229 614	769 339	261 934	3 260 887

(IN PLN THOUSAND)

Collaterals for the above receivables include: mortgages, registered pledges, transfers of property rights, account lock-ups, loan exposure insurances, warranties and guarantees.

The condacted assessment proved that for the above-mentioned financial assets the expected cash flows fully cover the carrying amount of these exposures.

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

	31.12.2014	31.12.2013
Amounts due from banks	41 173	50 892
Loans and advances to customers	5 138 087	5 091 377
Financial sector	76 110	3 709
corporate loans	76 110	3 709
Non-financial sector	5 045 096	5 081 459
corporate loans	3 664 094	3 548 668
housing loans	1 175 329	1 326 840
consumer loans	94 829	101 214
debt securities	110 844	104 737
Public sector	16 881	6 209
corporate loans	16 881	6 209
Investment debt securities available for sale issued by non-financial institutions	-	6 160
Total	5 179 260	5 148 429

The above assets were secured by the following collaterals established for PKO Bank Polski SA:

- for loans and advances to customers: bail and ordinary mortgages, registered pledges, debtor's promissory notes and transfer of receivables. The financial effect of collaterals held in respect of the amount that best represents the maximum exposure to credit risk as at 31 December 2014 amounts to PLN 3 179 897 thousand (as at 31 December 2013 it amounted to PLN 3 755 204 thousand respectively),
- for investment securities available for sale: blank promissory notes, registered pledge on the bank account and on debtor's shares.

In determining impairment allowances for the above assets, the Bank 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 (with respect to non-financial clients 'H1' rating, with respect to financial institutions – G, H rating),
- 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.

48.7. Allowances for credit losses

The Bank performs a monthly review of loan exposures in order to identify credit exposures threatened with impairment, measure the impairment of loan exposures and recognition impairment charges or provisions.

The process of determining the impairment charges and provisions consists of the following stages:

- identifying the indications of impairment and events significant from the point of view of identifying those indications,
- registering in the Bank'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 individual; impairment identified and the individual significance of a credit exposure. The events considered as indications of individual impairment are, in particular, as follows:

- delay in repayment of principal or interest longer than 90 days,
- a significant deterioration in a customer's internal rating,
- entering into restructuring agreement or granting a discount concerning debt repayment (the indication of impairment is recognised, if the convenience granted to the consumer is a result of its difficult legal or economic position).

When determining the overdue period of a loan, the amounts of interest not paid according to the schedule or instalment payments exceeding accepted thresholds are taken into account.

48.7.1 Impairment estimating methods

PKO Bank Polski SA applies three methods of estimating impairment:

- an individual basis applied in respect of individually significant loans, for which the objective evidence of impairment was identified or requiring individual assessment due to the transactions specifics and resulting from events determining the repayment of exposure,
- a portfolio basis applied in respect of individually insignificant loans, for which the objective evidence of individual impairment was identified,
- a group basis (IBNR) applied in respect of the loans, for which the objective evidence of impairment was not identified, but there is a possibility of losses incurred but not recognised occurring.

Impairment allowance in respect of a loan exposure correspond to the difference between the carrying amount of the exposure and the present value of the expected future cash flows from a given exposure:

- while assessing impairment allowances on an individual basis, the expected future cash flows are estimated for each loan exposure individually, taking into account the possible scenarios relating to contract execution, weighted by the probability of their realisation,
- an impairment allowance in respect of loan exposures assessed on an portfolio basis or a group basis corresponds to the difference between the carrying amount of the exposures and the present value of the expected future cash flows estimated using statistical methods, based on historic observations of exposures from homogenous portfolios.

48.7.2 Off-balance sheet provisions

A provision for off-balance sheet loan exposures is recorded in an amount equal to the resulting from them, expected (possible to estimate) loss of economic benefits.

When determining a provision for off-balance sheet loan exposures, PKO Bank Polski SA:

- assesses on a individual basis in respect to the individually significant credit exposures on unconditional liabilities with the evidence of individual impairment or those relating to debtors whose other exposures fulfil such evidence, and the individually significant exposures which do not fulfil the evidence of individual impairment, for which determining provisions using the portfolio parameters would not be reasonable,
- assesses on a portfolio basis (if an exposure fulfil evidence of individual impairment) or a group basis (if an exposure only fulfils evidence of group impairment) - in respect to the remaining off-balance sheet loan 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 (from the date at which the assessment is performed till the date of overdue amounts due arising considered as constituting an indication of individual impairment) and the present value of the expected future cash flows obtained from the exposure in the statement of financial position arising out of the liability.

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 observation of exposures with the same features.

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

(IN PLN THOUSAND)

48.8. Credit risk of financial institutions

As at 31 December 2014, the largest exposures of PKO Bank Polski SA on the interbank market were as follows:

Exposure on the interbank market*				
Counterparty	Type of instrument			Total
	Deposit	Derivatives	Securities	
Counterparty 1	-	9 031	585 246	594 277
Counterparty 2	384 162	-	-	384 162
Counterparty 3	-	169 566	-	169 566
Counterparty 4	51 175	75 202	-	126 377
Counterparty 5	94 261	-	-	94 261
Counterparty 6	-	93 074	-	93 074
Counterparty 7	-	31 165	50 000	81 165
Counterparty 8	-	73 060	-	73 060
Counterparty 9	-	62 516	-	62 516
Counterparty 10	-	59 435	-	59 435
Counterparty 11	-	37 743	-	37 743
Counterparty 12	-	29 418	-	29 418
Counterparty 13	-	24 333	-	24 333
Counterparty 14	-	23 420	-	23 420
Counterparty 15	-	22 583	-	22 583
Counterparty 16	-	16 465	-	16 465
Counterparty 17	-	15 887	-	15 887
Counterparty 18	-	12 912	-	12 912
Counterparty 19	10 000	(3 789)	-	10 000
Counterparty 20	10 000	(7 178)	-	10 000

* Excluding exposure to the State Treasury and the National Bank of Poland.

For comparison, the largest exposures of PKO Bank Polski SA as at 31 December 2013 presents the table below:

Exposure on the interbank market*			
Counterparty	Type of instrument		Total
	Deposit	Derivatives	
Counterparty 19	325 000	(48 464)	325 000
Counterparty 24	200 000	4 706	204 706
Counterparty 18	-	74 384	74 384
Counterparty 25	-	58 479	58 479
Counterparty 26	-	56 339	56 339
Counterparty 27	50 000	(4 830)	50 000
Counterparty 8	-	46 844	46 844
Counterparty 5	45 619	-	45 619
Counterparty 3	-	39 817	39 817
Counterparty 4	22 349	15 318	37 667
Counterparty 28	-	33 641	33 641
Counterparty 1	5 000	18 131	23 131
Counterparty 29	20 000	1 601	21 601
Counterparty 14	-	18 806	18 806
Counterparty 30	12 204	-	12 204
Counterparty 20	-	9 617	9 617
Counterparty 13	-	9 583	9 583
Counterparty 16	-	7 785	7 785
Counterparty 31	-	7 548	7 548
Counterparty 32	-	6 308	6 308

* Excluding exposure to the State Treasury and the National Bank of Poland.

(IN PLN THOUSAND)

For the purpose of determining exposures, deposits and securities issued by the counterparties, are stated at nominal values, while derivative instruments are stated at market values, excluding the collateral established by the counterparty. Total exposure to each counterparty ('Total' column) is the sum of exposures arising from deposits and securities, increased by the exposure arising from derivative instruments, if it is positive (otherwise the exposure arising from derivatives is not included in total exposure). Exposure arising from all instruments is calculated from the moment of entering into transaction.

As at 31 December 2014 the Bank had signed framework agreements, in accordance with ISDA/PBA standards, with 24 local banks and 57 foreign banks and credit institutions. hedge agreements CSA/PBA of 21 local banks and 45 foreign banks and credit institutions. Additionally, the Bank was a party of 12 agreements on repo (for standard ISMA/GMRA).

Geographical location of counterparties

The counterparties generating the 20 largest exposures as at 31 December 2014 come from the following countries detailed in the table below (classified by location of registered office):

No.	Country	Counterparty
1	Belgium	Counterparty 14
2	France	Counterparty 8
3	Germany	Counterparty 3, Counterparty 11
4	Norway	Counterparty 2
5	Poland	Counterparty 1, Counterparty 4, Counterparty 7, Counterparty 9, Counterparty 15, Counterparty 16, Counterparty 17, Counterparty 19, Counterparty 20
6	Switzerland	Counterparty 13
7	Ukraine	Counterparty 5
8	USA	Counterparty 10
9	The United Kingdom	Counterparty 6, Counterparty 12, Counterparty 18

Counterparty structure by rating

Exposure structure by rating is presented in the table below. The ratings were determined based on external ratings granted by Moody's, Standard&Poor's and Fitch agencies (when a rating was granted by two agencies, the lower rating was applied, whereas when a rating was granted by three agencies, the middle rating was applied). Rating for counterparties from 1 to 20 was accepted as at 31 December 2014.

Rating	Counterparty
A	Counterparty 1, Counterparty 2, Counterparty 3, Counterparty 6, Counterparty 8, Counterparty 10, Counterparty 11, Counterparty 12, Counterparty 13, Counterparty 14, Counterparty 18, Counterparty 19
BBB	Counterparty 4, Counterparty 9, Counterparty 15, Counterparty 20
BB	Counterparty 7, Counterparty 16
CCC	Counterparty 5
Without rating	Counterparty 17

Credit risk of financial institutions on a retail market

In addition to the interbank market exposure discussed above, as at 31 December 2014 the Bank had an exposure to financial institutions on the retail market. (exposure generated by Entities other than Treasury Department, including e.g. loans granted, bonds purchased outside interbank market).

The structure of these exposures over PLN 10 million is presented in the table below:

2014	Nominal value of exposure		Country of the counterparty
	Statement of financial position item	Off-balance sheet item	
Counterparty 1	500 000	-	Poland
Counterparty 5	154 320	21 040	Ukraine
Counterparty 21	53 978	6 021	Poland
Counterparty 22	101 808	-	Poland
Counterparty 23	50 000	-	Poland

2013	Nominal value of exposure		Country of the counterparty
	Statement of financial position item	Off-balance sheet item	
Counterparty 5	150 600	-	Ukraine
Counterparty 1	500 000	-	Poland
Counterparty 23	50 000	-	Poland

48.9. Management of foreclosed collateral

Foreclosed collaterals as a result of restructuring or debt collection activities are either used by PKO Bank Polski SA for internal purposes or designated for sale. Details of the foreclosed assets are analysed in order to determine whether they can be used by the Bank for internal purposes. All of the assets taken over as a result of restructuring and debt collection activities in the years ended 31 December 2014 and 31 December 2013, respectively, were designated for sale.

Activities undertaken by the Bank 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, which are beyond the control, 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 tender. Other procedures are acceptable in cases where due to the nature of the assets sold they provide a better chance of finding a buyer and generate higher proceeds for the Bank.

The Bank takes steps to disseminate broadly to the public the information about assets being sold by publishing it on the Bank's website, placing announcements in the national press, using Internet portals e.g. to Internet auctions, sending offers. In addition, PKO Bank Polski SA 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 Bank as a result of restructuring and debt collection activities. The Bank has also entered into cooperation agreements with external companies, which perform valuations of the movable and immovable properties that the Bank has foreclosed or would like to foreclose in the course of realisation of collateral.

The carrying amounts of non-financial assets held by the Bank, gained as a result of collateral as at 31 December 2014 amounted to PLN 48 084 thousand (as at 31 December 2013 it amounted to PLN 7 594 thousand). The above-mentioned amounts are presented in the note 27 'Other assets' in line item 'Assets for sale'.

48.10. Credit risk reporting

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

48.11. 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 value, maximum loan amount, required collateral),
- the principles of defining credit availability, including cut-offs – the minimum number of points awarded in the process of creditworthiness assessment with the use of a scoring system (for retail clients) or the client's rating class and cumulative rating class (for corporate clients), which a client must obtain to receive a loan,
- concentration limits – the limits defined in article 71, item 1 of the Banking Law,
- industry-related limits – limits which reduce the risk level related to financing institutional clients that conduct business activities in industries characterised by high level of credit risk,
- limits on credit exposures related to the Bank's clients – the limits defining the appetite for credit risk as result of among others the recommendations S and T,
- credit limits defining the Bank's maximum exposure to a given client or country in respect of wholesale operations and settlement limits and limits for the period of exposure,
- competence limits – they define the maximum level of credit decision-making powers with regard to the Bank's clients, the limits depend primarily on the amount of the Bank's exposure to a given client (or a group of related clients) and the loan transaction period, the competence limit depends on the credit decision-making level (in the Bank's organisational structure),
- minimum credit margins – credit risk margins relating to a given credit transaction concluded by the Bank with a given corporate client, but the interest rate offered to a client cannot be lower than the reference rate plus credit risk margin.

Collateral management policy as regards credit risk plays a significant role in establishing minimum transaction terms. The Bank's collateral management is meant to secure properly the credit risk, to which the Bank is exposed, including first of all the fact of establishing collateral that will ensure the highest possible level of recovery in the event of realisation of debt collateral activity.

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

- in the case of substantial loans, several types of collaterals are established, including, if possible, combination of personal guarantees with collaterals established on assets,
- liquid types of collaterals, i.e. collaterals established on tangible assets, disposal of which is possible without a substantial reduction in their prices at a time, which does not expose the Bank to change the value of the collateral due to the appropriate price fluctuation of a particular collateral are preferred,
- when an asset is accepted as collateral, an assignment of cash receivables from the insurance policy relating to this asset or the insurance policy concluded to the Bank are accepted as additional collateral,
- collateral is assessed in terms of the actual possibility of its use as a potential source of the Bank's claim. The basis of the value assessment of the collateral established on tangible assets is the market value,
- effective establishment of collateral in compliance with the loan agreement is necessary to make the funds available.

The policy regarding legal collateral is defined by the Bank's internal regulations.

The type of collateral depends on the product and the type of the client. With regard to loans for the financing the housing market, collateral is required to be established as a mortgage on the property. Until an effective mortgage is established, the following types of collateral are used (depending on type and amount of a 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 receivables related to 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, his 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.

49. 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 potential losses arising from market interest rate changes to an acceptable level by appropriate shaping the structure of statement of financial position and off-balance sheet items.

49.1. Measurement of interest rate risk

In the process of interest rate risk management, PKO Bank Polski SA uses, in particular the Value at Risk (VaR) model, interest income sensitivity measure, stress-tests and a repricing gap.

The value at risk (VaR) is defined as a potential loss arising from the maintained the structure of the statement of financial position and off-balance sheet items and the volatility of interest rates, with the assumed probability level and taking into account the correlation between the risk factors.

The sensitivity of interest income is a measure determining changes in interest income resulting from abrupt changes in interest rates. This measure takes into account the diversity of revaluation dates of the individual interest-bearing items in each of the selected time horizons.

Stress-tests are used to estimate potential losses arising from a maintained structure of the statement of financial position and off-balance sheet items under market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which are based on arbitrary interest rate fluctuations: a parallel move in interest rate curves for the particular currencies by ±50 b.p., by ±100 b.p. and by ±200 b.p. and bend of yield curve scenarios (non-parallel fluctuations of 'peak' and 'twist' types),
2) historical scenarios – in which interest rate fluctuations are adopted based on the behaviour of interest rates in the past, including: the highest historical change, a bend of a yield curve along with portfolio positions, the largest historical non-parallel fluctuation of the interest rate curves for securities and derivative instruments that hedge them.

The repricing gap shows the difference between the present value of assets and liabilities exposed to interest rate risk, subject to revaluation in a given time range, and these balances are recognised on the transaction date.

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
PLN (in PLN thousand)								31.12.2014
Periodic gap	51 929 966	37 534 516	(11 183 461)	(24 670 619)	(16 297 895)	(17 379 770)	(38 446)	**19 894 291**
Cumulative gap	51 929 966	89 464 482	78 281 021	53 610 402	37 312 507	19 932 737	19 894 291	

PLN (in PLN thousand)								31.12.2013
Periodic gap	33 491 276	65 625 011	(21 545 509)	(58 315 244)	(3 495 832)	4 730 212	360 845	**20 850 759**
Cumulative gap	33 491 276	99 116 287	77 570 778	19 255 534	15 759 702	20 489 914	20 850 759	-

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
USD (in USD thousand)								31.12.2014
Periodic gap	35 713	31 862	(225 499)	86 526	166 377	8 030	(121 103)	**(18 094)**
Cumulative gap	35 713	67 575	(157 924)	(71 398)	94 979	103 009	(18 094)	-

USD (in USD thousand)								31.12.2013
Periodic gap	33 794	423 306	(1 020)	(432 499)	630	-	(198 927)	**(174 716)**
Cumulative gap	33 794	457 100	456 080	23 581	24 211	24 211	(174 716)	-

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
EUR (in EUR thousand)								31.12.2014
Periodic gap	(969 963)	1 405 377	164 865	(261 668)	50 079	(613 650)	48 009	**(176 951)**
Cumulative gap	(969 963)	435 414	600 279	338 611	388 690	(224 960)	(176 951)	-

EUR (in EUR thousand)								31.12.2013
Periodic gap	177 565	757 459	(96 278)	(680 680)	(474 881)	116 737	(13 300)	**(213 378)**
Cumulative gap	177 565	935 024	838 746	158 066	(316 815)	(200 078)	(213 378)	-

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
CHF (in CHF thousand)								31.12.2014
Periodic gap	(2 270 530)	2 949 306	264 666	(504 108)	(11 070)	(4 274)	(7 008)	**416 982**
Cumulative gap	(2 270 530)	678 776	943 442	439 334	428 264	423 990	416 982	-

CHF (in CHF thousand)								31.12.2013
Periodic gap	(740 322)	1 193 856	(1 676)	(40 262)	(499 979)	(7 676)	17 738	**(78 321)**
Cumulative gap	(740 322)	453 534	451 858	411 596	(88 383)	(96 059)	(78 321)	-

As at the end of 2014 and 2013, PKO Bank Polski SA had a positive cumulative gap in PLN in all the time horizons.

49.2. Forecasting and monitoring of interest rate risk

Exposure of PKO Bank Polski SA to interest rate risk was within accepted limits as at 31 December 2014. The Bank was mainly exposed to PLN interest rate risk, which represents about 90% of the Value at Risk (VaR) as at 31 December 2014. Interest rate risk was determined mainly by the risk of a mismatch between the repricing of interest rates of the Bank's assets and liabilities.

VaR of the Bank and stress-tests analysis of PKO Bank Polski SA's exposure to the interest rate risk are presented in the following table:

Name of sensitivity measure	31.12.2014	31.12.2013
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)	282 268	54 930
Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress-test)*	2 369 729	523 130

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

As at 31 December 2014, the Bank's interest rate VaR for the 10-day time horizon (10-day VaR) amounted to PLN 282 268 thousand, which accounted for approximately 1.13% of the Bank's own funds. As at 31 December 2013, VaR for the Bank amounted to PLN 54 930 thousand, which accounted for approximately 0.27% of the Bank's own funds.

49.3. Reporting of the interest rate risk

The Bank prepares daily, weekly, monthly and quarterly reports addressing interest rate risk. Reports present the information on interest rate risk exposure and usage of available limits regarding the risk.

49.4. Management decisions as regards interest rate risk

The main tools used in interest rate risk management in PKO Bank Polski SA include:

- procedures for interest rate risk management,
- limits and thresholds for interest rate risk,
- defining allowable transactions based on interest rates.

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

50. 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 the financial position and off-balance sheet items.

50.1. Measurement of the currency risk

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

The value at risk (VaR) is defined as a potential loss arising from currency positions held and foreign exchange rate volatility under the assumed confidence level and taking into account the correlation between the risk factors.

Stress-tests and crash-tests are used to estimate potential losses arising from currency positions under extraordinary conditions on the currency market that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which assume a hypothetical appreciation or depreciation of currency rates (by 20 percent and 50 percent),
2) historical scenarios – based on the behaviour of currency rates observed in the past.

50.2. Forecasting and monitoring of currency risk

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

Name of sensitivity measure	31.12.2014	31.12.2013
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)	6 230	2 443
Change in CUR/PLN by 20% (in PLN thousand) (stress-test)*	16 351	21 428

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

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

The valume of currency positions for particular currencies are presented in the table below:

Currency position	31.12.2014	31.12.2013
EUR	16 776	13 010
USD	19 162	79 507
CHF	(16 762)	6 526
GBP	4 979	3 673
Other (Global Net)	52 888	6 020

(IN PLN THOUSAND)

The volume of currency positions is a key factor determining the level of currency risk on which the Bank 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 Bank, both in the statement of financial position (such as loans) and off-balance sheet (such as derivatives, in particular CIRS transactions). In accordance with the principles of currency risk management at the Bank, the daily currency position opened by the Bank within the banking book (such as repayment of currency loan denominated in PLN by a client, conversion of currency loan) is closed every day, also using derivative instruments. This means that the currency position of the Bank at the end of the day may constitute only of generated unclosed position in banking book on this day and currency position in trading book within the limits, which results in a low exposure of the Bank to currency risk (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at 31December 2014 amounted to approx. 0.03%).

50.3. Currency structure

The tables below present currency exposure by the specific types of assets, liabilities and off-balance sheet liabilities:

	Currency translated to PLN – 31.12.2014				
	PLN	EUR	CHF	Other	Total
Cash and balances with the central bank	10 723 274	487 905	70 214	416 855	11 698 248
Amounts due from banks	165 679	1 259 436	64 977	1 130 051	2 620 143
Loans and advances to customers	138 692 982	13 323 656	30 999 489	2 068 644	185 084 771
Securities	36 629 052	737 744	-	199 413	37 566 209
Tangible assets	12 873 282	-	-	-	12 873 282
Other assets and derivative financial instruments	6 827 768	389 554	64 237	513 987	7 795 546
Total assets (gross)	205 912 037	16 198 295	31 198 917	4 328 950	257 638 199
Depreciation / amortisation / impairment	(12 721 996)	(186 362)	(836 054)	(133 260)	(13 877 672)
Total assets (net)	193 190 041	16 011 933	30 362 863	4 195 690	243 760 527
Amounts due to the central bank	4 427	-	-	-	4 427
Amounts due to banks	1 340 030	2 678 870	14 398 077	22 607	18 439 584
Amounts due to customers	158 957 048	14 018 190	4 909 016	8 036 308	185 920 562
Debt securities in issue	866 087	-	-	-	866 087
Subordinated liabilities	1 619 833	-	794 152	-	2 413 985
Provisions	288 108	9 352	818	4 888	303 166
Other liabilities and derivative financial instruments and provision for deferred income tax liability	7 101 629	432 376	532 569	143 986	8 210 560
Equity	27 602 156	-	-	-	27 602 156
Total liabilities and equity	197 779 318	17 138 788	20 634 632	8 207 789	243 760 527
Off-balance sheet liabilities granted	44 548 659	5 095 797	147 731	3 794 837	53 587 024

(IN PLN THOUSAND)

	Currency translated to PLN – 31.12.2013				
	PLN	EUR	CHF	Other	Total
Cash and balances with the central bank	6 358 891	574 455	39 611	215 449	7 188 406
Amounts due from banks	798 058	605 433	12 468	713 365	2 129 324
Loans and advances to customers	124 232 696	7 822 554	19 923 489	1 774 819	153 753 558
Securities	29 287 880	145 846	-	-	29 433 726
Tangible assets	10 939 262	-	-	-	10 939 262
Other assets and derivative financial instruments	4 421 587	224 233	27 488	44 956	4 718 264
Total assets (gross)	176 038 374	9 372 521	20 003 056	2 748 589	208 162 540
Depreciation / amortisation / impairment	(11 036 819)	(127 989)	(614 160)	(103 640)	(11 882 608)
Total assets (net)	165 001 555	9 244 532	19 388 896	2 644 949	196 279 932
Amounts due to the central bank	4 065	-	-	-	4 065
Amounts due to banks	553 944	306 606	1 389 847	279 226	2 529 623
Amounts due to customers	139 571 382	9 944 645	3 967 233	6 474 411	159 957 671
Debt securities in issue	983 123	-	-	-	983 123
Subordinated liabilities	1 620 857	-	-	-	1 620 857
Provisions	296 289	9 100	467	4 625	310 481
Other liabilities and derivative financial instruments and provision for deferred income tax liability	5 275 881	233 349	1 471	252 169	5 762 870
Equity	25 111 242	-	-	-	25 111 242
Total liabilities and equity	173 416 783	10 493 700	5 359 018	7 010 431	196 279 932
Off-balance sheet liabilities granted	39 813 240	3 763 305	117 918	1 819 781	45 514 244

50.4. Reporting of the currency risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing currency risk. Reports gather the information on currency risk exposure and updates on available limits regarding the risk.

50.5. Management decisions concerning currency risk

Main tools used in currency risk management in the Bank 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 Bank 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.

51. 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 the statement of financial position, misfit of cash flows, not received payments from counterparties, sudden withdrawal of cash by clients or other market events.

The objective of liquidity risk management is to ensure the necessary level the 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 statement of financial position and off-balance sheet liabilities.

PKO Bank Polski SA'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.

51.1. Measurement of the liquidity risk

The Bank 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).

51.2. Forecasting and monitoring of liquidity risk

Liquidity gaps presented below include among others the Bank's items of the statement of financial position in real terms concerning the following: permanent balances on deposits of non-financial institutions and their maturity, permanent balances on loans in current accounts for non-financial entities and their maturity and liquid securities and their maturity.

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 – 60 months	over 60 months
31.12.2014								
Adjusted gap in real terms	12 717 177	11 080 529	1 211 542	1 328 179	1 404 543	11 330 017	12 836 839	(51 908 826)
Cumulative adjusted gap in real terms	12 717 177	23 797 706	25 009 248	26 337 427	27 741 970	39 071 987	51 908 826	-
31.12.2013								
Adjusted gap in real terms	7 013 631	13 166 722	(9 759 378)	(768 599)	1 984 857	5 271 529	18 081 601	(34 990 363)
Cumulative adjusted gap in real terms	7 013 631	20 180 353	10 420 975	9 652 376	11 637 233	16 908 762	34 990 363	-

In all time horizons, PKO Bank Polski SA's cumulative adjusted liquidity gap in real terms as at 31 December 2014 and as at 31 December 2013 was positive. This means a surplus of assets receivable over liabilities payable.

The table below presents liquidity reserve of the Bank as at 31 December 2014 and as at 31 December 2013:

Name of sensitivity measures	31.12.2014	31.12.2013
Liquidity reserve up to 1 month* (in PLN million)	21 075	17 816

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

As at 31 December 2014 the level of permanent balances on deposits constituted approx. 94.7% of all deposits in the Bank (excluding interbank market), which means an decrease by approximately 1.2 pp. as compared to the end of 2013.

The table below presents the structure of the Bank's sources of financing as at 31 December 2014 and as at 31 December 2013.

	31.12.2014	31.12.2013
Total deposits (excluding interbank market)	75.04%	79.56%
Interbank market deposits	0.20%	0.25%
Equity	10.57%	12.82%
Market financing	14.19%	7.37%
Total	100%	100%

51.3. The contractual cash flows of the Bank's liabilities excluding derivative financial instruments as at 31 December 2014 and as at 31 December 2013 respectively, by maturity

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of statement of financial position and off-balance sheet liabilities, excluding derivative financial instruments as at 31 December 2014 and as at 31 December 2013 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2014 and as at 31 December 2013. The amounts disclosed comprise non-discounted cash future flows, both in respect of principal and interest (if applicable), in accordance with the contract, for the entire period to the date of the liability's maturity. In situations where the party to whom the Bank has a liability is able to select the settlement deadline, it has been assumed that the earliest date on which the Bank is obliged to settle the liability shall be taken into account. In situations where the Bank is obliged to settle the liabilities in instalments, each instalment is allocated to the earliest period in which the Bank might be obligated to settle. In the case of liabilities where the instalment is not fixed, the terms binding as at the reporting date have been adopted.

(IN PLN THOUSAND)

Contractual flows of the Bank's liabilities as at 31 December 2014 by maturity

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractul value	Carrying amount
Liabilities:							
Amounts due to the central bank	4 427	-	-	-	-	4 427	**4 427**
Amounts due to banks	1 995 315	128 499	1 499 840	129 158	14 968 572	18 721 384	**18 439 584**
Amount due to customers	109 269 238	12 541 210	40 311 459	20 823 636	6 293 988	189 239 531	**185 920 562**
Debt securities in issue	-	750 000	47 429	62 765	-	860 194	**866 087**
Subordinated liabilities	-	39 123	48 666	327 788	2 648 527	3 064 104	**2 413 985**
Other liabilities	2 001 413	85 563	466 752	71 169	40 161	2 665 058	**2 665 058**
Off-balance sheet financial liabilities – granted	23 513 936	962 714	4 763 167	3 911 060	5 129 535	38 280 412	-
Off-balance sheet guarantee liabilities – granted	225 344	1 333 666	2 551 284	9 123 529	2 072 789	15 306 612	-

Contractual flows of the Bank's liabilities as at 31 December 2013 by maturity

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractul value	Carrying amount
Liabilities:							
Amounts due to the central bank	4 065	-	-	-	-	4 065	**4 065**
Amounts due to banks	1 186 145	5 345	14 412	1 430 013	-	2 635 915	**2 529 623**
Amount due to customers	94 392 577	15 994 946	26 010 843	20 710 859	6 160 417	163 269 642	**159 957 671**
Debt securities in issue	-	69 624	788 778	114 714	-	973 116	**983 123**
Subordinated liabilities	-	34 688	35 292	348 471	2 013 270	2 431 721	**1 620 857**
Other liabilities	1 902 583	75 322	492 082	36 789	35 514	2 542 290	**2 434 721**
Off-balance sheet financial liabilities – granted	20 718 989	843 027	3 626 376	3 191 009	5 857 417	34 236 818	-
Off-balance sheet guarantee liabilities – granted	155 833	321 019	2 347 372	7 179 190	1 274 013	11 277 427	-

51.4. The contractual cash flows related to derivative financial instruments as at 31 December 2014 and as at 31 December 2013 respectively, by maturity

Derivative financial instruments settled in net amounts

Derivative financial instruments settled by the Bank on a net basis include:

- interest rate swaps (IRS),
- Forward Rate Agreements (FRA),
- Non Deliverable Forwards (NDF),
- options.

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments in respect of which the balance sheet date valuation was negative (a liability) as at 31 December 2014 and as at 31 December 2013 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2014 and as at 31 December 2013. In case of IRS transactions, non-discounted future net cash flows in respect of interest have been presented and in case of the remaining derivative instruments settled on a net basis, the amount of the valuation as at 31 December 2014 and as at 31 December 2013 respectively was adopted as the value of a cash flow.

Moreover, the cash flows from IRS transactions which constitute cash flow hedges in respect of loans with variable interest rates are shown separately in the table.

31 December 2014	Up to 1 month	1 - 3 months	3 months - 1 year	1 – 5 years	Over 5 years	Contractual value
Derivative financial instruments - liabilities:						
- Interest Rate Swap (IRS) transactions, of which:	(4 881)	5 559	732 845	(2 446 745)	(547 072)	(2 260 294)
- other derivative instruments: options, FRA, NDF	(179 655)	(464 273)	(425 585)	(291 679)	-	(1 361 192)

31 December 2013	Up to 1 month	1 - 3 months	3 months - 1 year	1 – 5 years	Over 5 years	Contractual value
Derivative financial instruments - liabilities:						
- Interest Rate Swap (IRS) transactions, of which:	90 370	(57 992)	111 747	111 310	(10 916)	244 519
- derivative hedging instruments	49 757	14 229	48 532	150 395	-	262 913
- other derivative instruments: options, FRA, NDF	(41 165)	(8 319)	(48 048)	(41 165)	-	(138 697)

(IN PLN THOUSAND)

Derivative financial instruments settled in gross amounts

Derivative financial instruments settled by the Bank on a gross basis include:

- foreign currency swaps,
- foreign currency forwards,
- Cross Currency IRS (CIRS).

The tables below show the contractual maturity analysis, presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments (inflows and outflows) in respect of which the balance sheet date valuation was negative (a liability) as at 31 December 2014 and as at 31 December 2013 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2014 and as at 31 December 2013. The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable).

In the table cash flows from CIRS transactions which constitute cash flow hedges in respect of mortgage loans denominated in CHF, deposits negotiated in PLN and liabilities at a fixed rate in USD are shown separately.

31 December 2014	Up to 1 month	1 - 3 months	3 months - 1 year	1 – 5 years	Over 5 years	Contractual value
Derivative financial instruments:						
- outflows, of which:	(5 566 617)	(4 810 958)	(6 306 363)	(3 288 097)	(793 347)	(20 765 382)
- derivative hedging instruments	(350 815)	(274 035)	(3 427 633)	(1 260 840)	(777 279)	(6 090 602)
- inflows, of which:	5 811 258	1 627 944	7 801 094	7 415 672	2 796 292	25 452 260
- derivative hedging instruments	552 181	18 010	4 792 330	4 623 608	2 738 845	12 724 974

31 December 2013	Up to 1 month	1 - 3 months	3 months - 1 year	1 – 5 years	Over 5 years	Contractual value
Derivative financial instruments:						
- outflows, of which:	(1 849 706)	(450 043)	(1 495 046)	(3 028 734)	(1 071 151)	(7 894 680)
- derivative hedging instruments	(9 510)	(104 562)	(76 941)	(762 546)	(799 481)	(1 753 040)
- inflows, of which:	2 667 156	660 715	1 277 266	4 458 373	1 601 828	10 665 338
- derivative hedging instruments	16 525	376 723	249 269	2 611 406	1 320 615	4 574 538

(IN PLN THOUSAND)

51.5. Current and non-current assets and liabilities

31 December 2014

	Short-term	Long-term	Impairment allowances	Total carrying amount
Cash and balances with the central bank	11 698 248	-	-	11 698 248
Amounts due from banks	2 301 899	318 244	(11 596)	2 608 547
Trading assets	1 928 659	-	-	1 928 659
Derivative financial instruments	1 134 573	4 348 935	-	5 483 508
Financial instruments designated upon initial recognition at fair value through profit and loss	11 325 933	2 091 734	-	13 417 667
Loans and advances to customers	39 031 288	146 053 483	(7 527 200)	177 557 571
Investment securities available for sale	2 142 926	20 076 957	(127 747)	22 092 136
Other assets	3 315 881	7 095 408	(1 437 098)	8 974 191
Total assets	72 879 407	179 984 761	(9 103 641)	243 760 527
Amounts due to the central bank	4 427	-	-	4 427
Amounts due to banks	3 519 457	14 920 127	-	18 439 584
Derivate financial instruments	1 307 847	4 237 655	-	5 545 502
Amounts due to customers	161 253 598	24 666 964	-	185 920 562
Debt securities in issue	794 493	71 594	-	866 087
Subordinated liabilities	-	2 413 985	-	2 413 985
Other liabilities	2 790 512	177 712	-	2 968 224
Total liabilities	169 670 334	46 488 037	-	216 158 371
Equity	-	27 602 156	-	27 602 156
Total liabilities and equity	169 670 334	74 090 193	-	243 760 527

31 December 2013

	Short-term	Long-term	Impairment allowances	Total carrying amount
Cash and balances with the central bank	7 188 406	-	-	7 188 406
Amounts due from banks	1 871 381	257 943	(40 237)	2 089 087
Trading assets	484 485	-	-	484 485
Derivative financial instruments	822 493	2 179 727	-	3 002 220
Financial instruments designated upon initial recognition at fair value through profit and loss	14 185 577	993 611	-	15 179 188
Loans and advances to customers	40 032 445	113 721 113	(6 381 232)	147 372 326
Investment securities available for sale	622 781	13 147 272	(33 355)	13 736 698
Other assets	1 752 547	6 642 764	(1 167 789)	7 227 522
Total assets	66 960 115	136 942 430	(7 622 613)	196 279 932
Amounts due to the central bank	4 065	-	-	4 065
Amounts due to banks	1 142 857	1 386 766	-	2 529 623
Derivative financial instruments	834 137	2 494 012	-	3 328 149
Amounts due to customers	134 878 913	25 078 758	-	159 957 671
Debt securities in issue	865 038	118 085	-	983 123
Subordinated liabilities	-	1 620 857	-	1 620 857
Other liabilities	2 613 104	132 098	-	2 745 202
Total liabilities	140 338 114	30 830 576	-	171 168 690
Equity	-	25 111 242	-	25 111 242
Total liabilities and equity	140 338 114	55 941 818	-	196 279 932

51.6. Reporting of the liquidity risk

The Bank prepares daily, weekly, monthly and quarterly reports addressing liquidity risk. Reports present the information on liquidity risk exposure and usage of available limits regarding the risk.

51.7. Management actions concerning liquidity risk

The main tools for liquidity risk management in PKO Bank Polski SA 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 the lending activities.

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

52. Commodity price risk management

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

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

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

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

53. Price risk of equity securities management

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

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

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

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

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

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

54. Other price risks

Taking into consideration other price risks, at the end of the year 2014, 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 capital requirement, 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 31 December 2014. The increase in relation to the requirement as at 31 December 2013 results from the purchased collective investment funds participation units.

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

55.1. Measurement of the derivative instruments risk

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

55.2. Forecasting and monitoring of 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 puts 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.

55.3. Reporting of derivative instruments risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing the risk of derivative instruments. Reports present the information on the derivative risk exposure and updates on available limits regarding the risk.

55.4. Management actions concerning risk of derivative instruments

The main tools used in derivative risk management are as follows:

- procedures for derivative risk management,
- limits and thresholds set for the risk related to derivative instruments,
- master agreements specifying i.a. settlement mechanisms,
- collateral agreements, under which selected clients of the Bank are required to establish a collateral on exposures due to derivative instruments.

Risk management is carried out by imposing limits on 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 Bank Association (domestic banks) and ISDA (foreign banks and credit institutions), which allow offsetting mutual liabilities, both due (mitigation of settlement risk) and not yet due (mitigation of pre-settlement risk), are particularly important for mitigating the risk associated with derivative instruments. Additional collateral for exposures, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreement (Credit Support Annex).

56. Operational risk management

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

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

56.1. 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),
- requirement calculation of own funds for operational risk under the AMA approach,
- stress-tests,
- calculation of internal capital.

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,
- results of inspections, proceedings and functional internal control,
- Key Risk Indicators (KRI)

56.2. 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:

- utilisation level of strategic tolerance and operational risk losses limits,
- effectiveness and timeliness of actions taken to reduce or transfer the operational risk,
- Key Risk Indicators (KRI) in relation to threshold and critical values,
- results of operational risk self-assessment,
- requirement in respect of own funds as regards to operational risk in accordance with the AMA approach,
- results of stress-tests,
- operating events and their effects.

56.3. 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,
- shareholders and financial market.

Reporting on information concerning operational risk of the Bank and for the Bank's internal purposes is performed on a quarterly and monthly basis. Recipients of quarterly reports are ORC, RC, the Management Board, 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

56.4. Management decision concerning operational risk management

The process of operational risk management is realised at the level of the entire Bank and at the levels of each system-based operational risk management areas.System-based operational risk management involves creation of solutions served for exercise of control by the Bank over the level of operational risk, enabling accomplishment of Bank's objectives. The ongoing operational risk management is conducted by every employee of the Bank in terms of their roles and responsibilities and involves prevention against materialisation of operational events arising during the product servicing, realisation of processes and use of applications as well as response on occurring operational events. In order to manage the operational risk, the Bank gathers data about operational events that occurred at the Bank and in 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 distributivity),
2) human resources management instruments (staff selection, enhancement of professional qualification of employees, motivation packages),
3) setting threshold values of Key Risk Indicators (KRI),
4) the Bank's tolerance and the Bank's operational risk limits,
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.

57. Compliance risk management

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

The objective of the compliance risk management is ensuring ensuring the Bank 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 Bank and preventing the risk of occurring financial losses or legal sanction risk, which may result from breach of regulations and standards of conduct.

Compliance department is responsible for finding systemic solutions in the area of ensuring the functioning of the Bank compliance with the binding regulations and operating standards, monitoring and reporting the compliance risk in the Bank.

It 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.

Compliance risk management involves in particular the following:

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

To identify and assess 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.

57.1. Monitoring of comppliance risk

Monitoring of compliance risk is run by the Bank, which covers i.a.:

- the results of the identification and assessment of compliance risk,
- occurring cases of non-compliance in the Bank and the banking sector, their causes and effects,
- changes to the key law regulations and standards of conduct affecting the Bank's operations,
- actions undertaken as a part of managing the compliance risk, execution of internal audits and external controls recommendations and execution of the Compliance Department recommendations.

Reporting of information related to compliance risk of the Bank is conducted on a quarterly basis. The reports are addressed to: the RC, the Management Board, the Supervisory Board's Audit Committee and the Supervisory Board. Reports contain among others information on:

- the results of identification and assessment of compliance risk,
- cases of non-compliance disclosed in the Bank and in the banking sector in Poland,
- the most important changes in the regulatory environment and adjusting activities to new regulations and standards conducted in the Bank,
- the results of external controls carried out in the Bank,
- the status of implementation of the recommendations issued following controls carried out in the Bank by the PFSA,
- significant correspondence with external supervisory and control authorities.

The Bank has adopted a zero tolerance policy against compliance risk, which means that the Bank focuses its actions on eliminating this risk.

58. Business risk management

Business risk is 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.

58.1. 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 Bank and which may significantly affect the financial position of the Bank, generating or change in the Bank's income and expense. Business Risk identification is made:

1) through the analysis of the results of the annual survey, targeted to senior management staff of the Bank,
2) through the analysis of selected items from the income statement related to the Bank's income and expense. Only income and expense arising from the Bank's business activity are selected for the analysis, excluding items included in the measurement of other risks.

Business risk identification is performed by identifying and analysing the factors that had an impact on the significant deviations of realisation of income and expense from their forecasted values.

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

- calculation of internal capital,
- conducting stress-tests.

The internal capital for covering business risk of the Bank is determined on the basis of analysis of historical volatility of deviations of realised net business income from their forecasted values, in accordance with the concept of 'Earnings at Risk'.

58.2. Forecasting and monitoring of business risk

Forecasting of business risk in the Bank 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 - on an annual basis.

58.3. Reporting of business risk

Business risk reporting of the Bank 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,
- 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.

58.4. 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.

59. 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 Bank's business decisions, operating events, instances of non-compliance or other events. The objective of managing the reputation risk is to protect the Bank's reputation by counteracting the occurrence of reputation losses and limiting the negative effect of image-related events on the Bank's reputation.

Reputation risk management in the Bank includes in particular:

- 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 Bank'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 presented to the Bank's Management Board. They concern, in particular, avoiding or discontinuing activities generating reputation risk and communication activities undertaken by the Bank for protection purposes.

60. 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 funcioning in the Bank.

The objective of models management and model risk management is to mitigate the level of model risk in the Bank.

60.1. Identification and assessment of model risk

Identification of model risk in the Bank mainly consists of:

- gathering information on existing, built and planned to be build models,
- cyclical determining the relevance of models,
- determining potential threats that may occur during the life cycle of the model.

The mode risk evaluation is aimed at determining scale of threats associated with the occurrence of the model risk. Assessment of the level of risk for each model shall be made at least than once a year.

Ratings may be aggregated mainly at the level of the Bank, particular risk types or classes of models, particular processes of model life-cycle. The model risk assessment is performed at least once a year and at the moment of appearing of new models, change the scale or business profile of the Bank.

60.2. Model risk monitoring and reporting

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

- information on the level of model risk,
- 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.

60.3. 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.

Management actions in particular consist of:

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

61. Macroeconomic changes risk management

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

The purpose of risk of macroeconomic changes management is to identify macroeconomic factors having a significant impact on the 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.

61.1. Identification and assessment of risk of macroeconomic changes

Identification of risk of macroeconomic changes is to determine scenarios of the potential macroeconomic changes and to determine risk factors having the greatest impact on the financial situation of the 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.

61.2. Macroeconomic changes risk monitoring

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

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

61.3. 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 such as:

- summary of the results of stress-tests,
- in case of elevated or high level of risk of macroeconomic changes: an analysis of reasons which led to an increase in the risk level, assessment of the potential consequences of this situation for the Bank, prediction of possible outcomes, proposals of actions aimed at reducing the level of risk, an initial assessment of their effectiveness.

61.4. Management actions concerning risk of macroeconomic changes

Management actions in particular consist of:

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

62. 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, taking into account of the assumptions of the Bank's dividend policy as well as supervisory instructions and recommendations concerning capital adequacy.

The capital risk level for the Bank is determined based on the minimum, threshold and maximum values of capital adequacy measures, amongst others, the total capital ratio and basic capital (Tier 1) ratio. In addition, threshold and maximum values are determined for capital adequacy measures, as an excess over the minimum values constituting strategic tolerance limits for the capital adequacy measures.

The Bank regularly monitors the level of capital adequacy measures in order to determine the degree of compliance with supervisory standards, internal strategic limits, and to identify instances which require taking capital contingency actions.

Should a high level of capital risk be identified, the Bank takes measures to bring capital adequacy measures to a lower level, taking into account of the assumptions of the dividend policy as well as the supervisory instructions and recommendations concerning capital adequacy.
The level of capital adequacy measures as well as the level and structure of the Bank's own funds are presented in the note 64 'Capital adequacy'.

63. Complex stress-tests

Complex stress-tests are an integral part of the Bank's risk management and are complementary for stress-tests specific to particular types of risks.

Complex stress-tests collectively include the following risks considered by the the Bank 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 Bank, in particular on:

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

Complex stress-tests for the own use of the Bank 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 period of time. The process of managing capital adequacy comprises in particular compliance with prevailing supervisory standards and risk tolerance level determined within the Bank, the process of capital planning, inclusive of policy regarding capital acquiring sources.

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

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

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

The fundamental regulation applicable in the capital adequacy assessment process as at 31 December 2014 is the Regulation (EU) No. 575/2013 of the European Parliament and of the Council as of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending the Regulation (EU) No. 648/2012, hereinafter called 'CRR Regulation'. 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 31 December 2014 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 CRR Regulation and national regulations, precedence is given to the CRR Regulation.

As at 31 December 2014 capital adequacy measures were calculated in accordance with the provisions of CRR Regulation, taking into account known to the Bank and planned to implement national options. As at 31 December 2014 the Bank meets requirements relating to capital adequacy measures defined within the CRR Regulation.

The level of capital adequacy of the Bank in 2014 remained on a safe level, significantly above the supervisory limits.

As at 31 December 2013 all capital adequacy measures were calculated in accordance with the provisions of the Banking Law, Resolution of the Polish Financial Supervision Authority No. 76/2010 of 10 March 2010 on the scope and detailed procedures for determining capital requirements for particular risks and Resolution of the Polish Financial Supervision Authority No. 325/2011 of 20 December 2011 on decreasing own funds.

64.1. Own funds for capital adequacy purposes

As at 31 December 2014 own fund of the Bank for the purposes of capital adequacy were calculated in accordance with the provisions of the CRR Regulation.

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

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

1) principal funds comprising: share capital, other reserves (reserve capital, reserves),
2) other comprehensive income (excluding gains and losses on cash flow hedges, whereas in respect of unrealised gains and losses on instruments classified to available for sale portfolio only losses of 80% of their carrying amount are recognised),
3) general banking risk fund,
4) retained earnings (undistributed profits from previous years),
5) net profit prior to approval and net profit for the current reporting period, calculated based on appropriate accounting standards, decreased by any expected charges and dividends, in amounts not exceeding amounts audited by certified auditor, whereas the term for inclusion of the above-mentioned net profit within Bank's own funds is its approval by the General Shareholders' Meeting, or prior to the approval by GSM, obtaining consent from the PFSA to its inclusion within own funds.

Tier 1 basic 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,
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 tax assets based on future profitability and arising from temporary differences, up to 10% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets), and
   b) the 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 15% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets). 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 Bank'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 deduction 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.

(IN PLN THOUSAND)

As at 31 December 2014 in the Bank's own funds calculated for the purposes of capital adequacy the Bank's net profit for the period from 1 January 2014 to 30 June 2014, in the amount of PLN 1 004 300 thousand after deducting any expected charges and dividends,on the basis of decision of the Polish Financial Supervision Authority, dated on 29 September 2014 has been included. Profit was included in Tier 1 basic funds of the Bank.

Information on the structure of the Bank's own funds included in prudential consolidation, set out for purposes of capital adequacy as at 31 December 2014, according to the CRR Regulation, is presented in the table below:

BANK'S OWN FUNDS	31.12.2014
Basic funds (Tier 1)	22 558 648
Share capital	1 250 000
Other reserves	22 040 024
Other comprehensive income	(85 123)
General banking risk fund	1 070 000
Net profit for the period 01.01.2014 – 30.06.2014	1 004 300
Goodwill	(871 047)
Other intangible assets	(1 764 734)
Equity exposures deducted from own funds	(49 101)
Additional adjustments of assets measured at fair value	(35 671)
Supplementary funds (Tier 2)	2 321 062
Subordinated liabilities classified as supplementary funds	2 394 713
Equity exposures deducted from own funds	(73 651)
Total own funds	24 879 710

As at 31 December 2013 the Bank's own funds for the purposes of capital adequacy are calculated in accordance with the provisions of the Banking Law and Resolution of the Polish Financial Supervision Authority No. 325/2011 of 20 December 2011 on deductions from own funds (Official Journal of PFSA of 30 December 2011 No. 13, item 49).

Information on the structure of the Bank's own funds set out for purposes of capital adequacy as at 31 December 2013 is presented in the table below:

BANK'S OWN FUNDS	31.12.2013
Basic funds (Tier 1)	19 346 921
Share capital	1 250 000
Reserve capital	16 598 111
Other reserves	3 416 893
General banking risk fund	1 070 000
Undistributed profits from previous years	(271 242)
Unrealised losses on debt and equity instruments and other receivables classified as available for sale	(134 128)
Assets valuation adjustments in trade portfolio	(5 656)
Intangible assets	(1 944 132)
Equity exposures	(632 925)
Supplementary funds (Tier 2)	1 022 720
Subordinated liabilities classified as supplementary funds	1 600 700
Unrealised profits on debt and equity instruments classifie d as available for sale (80% of their value before tax)	54 945
Equity exposures	(632 925)
Short-term equity (Tier 3)	154 112
Total own funds	20 523 753

(IN PLN THOUSAND)

64.2. Requirements as regard own funds (Pillar I)

In accordance with the CRR Regulation on prudential requirements for institutions and investment firms being in force since 1 January 2014, the Bank calculates requirements in respect of own funds for the following risk types:

- in respect of credit risk – using the standardised method,
- in respect of operational risk for the Bank – in accordance with the advanced measurement approach (AMA),
- in respect of market risk - using basic methods.

The Bank calculates requirements for own funds on account of credit risk using the following formula:

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

The total requirement in respect of Bank'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) settlement and delivery risk,
4) risk of credit valuation adjustment (CVA),
5) operational risk,
6) other types of own funds requirements in respect of:
   a) currency risk,
   b) commodity price risk,
   c) exceeding the exposure concentration limit and large exposure limit.

The table below presents the Bank's own funds requirements as regards particular types of risk. Data as at 31 Decmber 2014 were calculated pursuant to the CRR Regulation, whereas data as at 31 December 2013 were calculated in accordance with the Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 on scope and detailed principles of setting capital requirements in connection with the individual risk types (Official Journal of PFSA No. 2, item 11 of 9 April 2011 with subsequent amendments).

Requirements as regard own funds	31.12.2014	31.12.2013
Credit risk	13 590 324	11 391 785
Market risk	602 407	340 410
Credit valuation adjustment risk	42 375	-
Settlement / delivery risk	68	-
Operational risk	655 419	539 813
Total capital requirements	14 890 593	12 272 008
Capital adequacy ratio	13.37%	13.38%

The increase in own funds capital requirement in respect of credit risk in 2014 compared to 2013 by approx. PLN 2.2 billion is mainly due to an inclusion of Nordea Bank Polska SA (as a result of the legal merger) portfolio and a significant growth of loan portfolio.

The increase in own funds requirement in respect of market risk in 2014 compared to 2013 by approx. 77% to the level of PLN 602 million results mainly from an inclusion of corporate bonds portfolio and corporate bonds guarantees of Nordea Bank Polska SA.

The own funds requirement in respect of operational risk for the Bank was calculated in accordance with the advanced AMA approach. There was a slight increase in the requirement from PLN 540 million (as at 31 Decmeber 2013) to PLN 655 million (as at 31 December 2014). This increase is mainly due to the fact of taking into account the merger of the Bank with Nordea Bank Polska SA.

An increase in own funds requirements in respect of credit risk and in respect of market risk was mainly due to the acquisition of the Nordea Bank Polska portfolio in 2014 and the application of the new legislation.

An increase in own funds requirements in respect of operational risk is mainly due to the fact of taking into account the merger of the Bank with Nordea Bank Polska.

64.3. Internal capital (Pillar 2)

PKO Bank Polski SA calculates internal capital in accordance with:

- the CRR Regulation,
- the CRD Directive,
- the Resolution No. 258/2011 of the PFSA of 4 October 2011 on detailed principles for functioning of risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital and the principles for determining the variable salary components policy for key management personnel in the Bank.

Internal capital is the estimated amount of capital that is necessary to cover all of the identified significant types of risk characteristic of the Bank's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

The internal capital in PKO Bank Polski SA is calculated to cover each of the significant risk types:

- credit risk (including default risks),
- currency risk,
- interest rate risk,
- liquidity risk,
- operational risk,
- business risk (including strategy risk).

Materialisation of macroeconomic changes risk, model risk, compliance risk and loss of reputation risk is reflected in the estimates of internal capital for covering the types of risk: credit, interest rate, currency, operational and business.

The Bank regularly monitors the significance of the individual risk types relating to the Bank's activities.

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 the Bank is the sum of internal capital amount necessary to cover all of the significant risks for the Bank.

The Bank adopts a prudent approach to the aggregation of risks and does not rely on the diversification effect. In 2014, the relation of the Bank's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Bank's internal limits.

64.4. Disclosures (Pillar 3)

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

- The CRR Regulation,
- implementing acts to CRR Regulation in the national legislation acts transposing the provisons of the CRD Directive,
- the Recommendation M relating to operational risk management in banks, issued by Financial Supervision Authority,
- the resolution No. 385/2008 of the Polish Financial Supervision Authority dated 17 December 2008, on the detailed principles and methods for banks to disclose qualitative and quantitative information concerning capital adequacy and the scope of the information to be announced.

Details of the scope of information disclosed, the method of its verification and publication are presented in PKO Bank Polski SA Capital Adequacy Information Policies and other information to be published, which are available on the Bank's website (www.pkobp.pl).

65. Information on loan package sale

The Bank did not enter any securitisation transactions, although in 2014 it performed a bundle sales (statement of financial position and off-balance sheet loans):

- In the first quarter, over 10 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities (including credit cards loans), with a total debt of PLN 191.6 million, EUR 495 thousand and CHF 10.7 million and nearly 890 corporate loans classified as 'loss' with a total debt of PLN 107.9 million, EUR 34 thousand and CHF 360 thousand;
- In the second quarter, 182 mortgage-secured retail loans classified as 'loss' 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, nearly 830 corporate loans classified as 'loss' with a total debt of PLN 80.2 million, EUR 61 thousand, CHF 68.5 thousand and USD 0.6 thousand and 83 loans from institutional clients classified as 'loss', with a total debt of PLN 216 million, EUR 2.8 million and CHF 637 thousand;
- In the third quarter, over 7.2 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities with a total debt of PLN 159 million, EUR 37 thousand, CHF 4.8 million and USD 297 thousand;
- In the fourth quarter, 10.5 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities (including credit cards loans) with a total debt of PLN 146.8 million, EUR 123 thousand, CHF 3.8 million and USD 407 thousand and over 1.1 thousand corporate loans classified as 'loss' with a total debt of PLN 224 million, EUR 0.1 thousand, CHF 3.1 million and USD 0.2 thousand and 54 loans from institutional clients classified as 'loss', with a total debt of PLN 115.5 million and USD 2.2 million.

The total carrying amount of the provision for potential claims on impaired loan portfolios sold as at 31 December 2014 amounted to PLN 1 785 thousand (as at 31 December 2013 it was PLN 2 087 thousand). As a result of loan sale all risks and rewards were transferred, hence the Bank derecognised these assets.

The Bank did not receive any securities on account of the above-mentioned transactions.

(IN PLN THOUSAND)

INFORMATION ON THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS AND EVENTS AFTER THE REPORTING PERIOD

66. Information on the entity authorised to audit financial statements

Entity authorised to audit financial statements with which PKO Bank Polski SA concluded an agreement to audit of these financial statements is PricewaterhouseCoopers Sp. z o.o. The agreement concerns auditing the financial statements of PKO Bank Polski SA as well as auditing the consolidated financial statements of the PKO Bank Polski SA Group, which was concluded on 18 June 2014.

Total net remuneration of PricewaterhouseCoopers Sp. z o.o. for the audit of the separate financial statements and consolidated financial statements of PKO Bank Polski SA amounted in 2014 to PLN 1 540 thousand (2013: PLN 1 140 thousand), total net remuneration for the assurance services, including the review of the financial statements amounted in 2014 to PLN 2 568 thousand (2013: PLN 1 731 thousand).

Total net remuneration of PricewaterhouseCoopers Sp. z o.o. related to other services provided to PKO Bank Polski SA in 2014 amounted to PLN 2 597 thousand (2013: PLN 341 thousand).

67. Events after the reporting period

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

   The following table presents a qualitative analysis of loans in CHF

Loans and advances to customers by method of calculating impairment allowances in CHF (in orginal currency):	31.12.2014			
	Financial institutions	Enterprises	Households	Total
Assessed on an individual basis, of which	2 912	169 951	188 969	361 832
impaired	2 912	169 951	188 969	361 832
Assessed on a portfolio basis, impaired	-	29 737	1 042 503	1 072 240
Assessed on a group basis (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
Impairment allowances on exposures assessed on an individual basis, of which:	(15)	(43 789)	(75 402)	(119 206)
impaired	(15)	(43 789)	(75 402)	(119 206)
Impairment allowances on exposures assessed on a portfolio basis	-	(14 034)	(601 131)	(615 165)
Impairment allowances on exposures assessed on a group basis (IBNR)	(23)	(4 401)	(96 252)	(100 676)
Impairment 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

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

   A scale of PLN depreciation observed by PKO Bank Polski SA has impact on the volume of the Bank's portfolio of currency loans denominated in CHF, which contributes to an increase in the requirements as regards own funds in respect of credit risk and consequently causes a decrease of total capital adequacy ratio (TCR) and a ratio of Tier 1 basic funds - Common Equity Tier 1 (CET1).

   The Bank estimates, that with the CHF/PLN exchange rate at the level of 4.20:

   - a standalone total capital adequacy ratio would fall by 0.31 pp.
   - a standalone ratio of Tier 1 basic funds would fall by 0.35 pp.

   The above estimate was prepared on the basis of appropriate standalone data as at 31 December 2014.

2. In February 2015, as a result of the hryvnia exchange rate release by the National Bank of Ukraine, a significant depreciation of Ukrainian hryvnia against foreign currencies, including Polish zloty took place. From the beginning of March 2015, after the decision on significant increasing in reference interest rates in Ukraine, decreasing of scale of hryvnia depreciation is observed. The Bank regularly analyses the impact of these events on financial results, including the risk of deterioration of the Bank assets' quality in Ukraine.

3. On 30 January 2015, the Extraordinary General Shareholders' Meeting of PKO Bankowy Leasing Sp. z o.o. adopted a resolution on increasing the Company's share capital of PLN 20 000 thousand. All shares in the increased capital were covered by the current sole shareholder - PKO Leasing SA.

4. On 10 February 2015, PKO Bank Polski SA established PKO Towarzystwo Ubezpieczeń SA with a share capital of PLN 20 000 thousand. The main business of the Company shall be the provision of non-life insurance.

(IN PLN THOUSAND)

5. On 6 March 2015 the Polish Financial Supervision Authority issued a decision, in which granted its permit to starting operations by PKO Bank Hipoteczny S.A.

6. On 10 March 2015 the Polish Financial Supervision Authority granted its permit to the establishment an insurance company operating within branch II (non-life insurance) by PKO Bank Polski SA.

Signatures of all Members of the Management Board of the Bank

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

Signature of person responsible for
maintaining the books of account

10.03.2015

Danuta Szymańska
Director of the Accounting Division

....
(signature)