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

We have audited the accompanying consolidated financial statements of Powszechna Kasa Oszczędności Bank Polski SA Group (hereinafter called 'the Group'), of which Powszechna Kasa Oszczędności Bank Polski SA is the parent company (hereinafter called 'the Parent Company'), with its registered office in Warsaw, 15 Puławska Street, which comprise the consolidated statement of financial position as at 31 December 2014, showing total assets and total equity and liabilities of PLN 248,700,589 thousand; the consolidated income statement for the financial year from 1 January to 31 December 2014, showing a net profit attributable to the equity holders of the Parent Company of PLN 3,254,122 thousand; the consolidated statement of comprehensive income for the financial year from 1 January to 31 December 2014, showing total comprehensive income of PLN 3,398,726 thousand; the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year and additional information on accounting policies and other relevant matters.

The Management Board of the Parent Company is responsible for preparing consolidated financial statements and Directors' Report which comply with the applicable regulations. The Management Board and the members of the Supervisory Board of the Parent Company are required to ensure that the consolidated financial statements and the Directors' Report meet with the requirements of the Accounting Act of 29 September 1994 ('the Accounting Act', Journal of Laws of 2013, item 330 as amended).

Our responsibility was to perform an audit of the accompanying consolidated financial statements and to express an opinion on whether, in all material respects, the financial statements comply with the applicable accounting policies and whether they present, in all material respects, fairly the financial position and results of the Group.

We conducted our audit in accordance with the following:

(a) the provisions of Chapter 7 of the Accounting Act;

(b) national auditing standards issued by the National Chamber of Registered Auditors;

(c) International Standards on Auditing.

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

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

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

(a) present fairly and clearly the Group's financial position as at 31 December 2014 and the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union;

(b) comply in form and contents with the relevant laws applicable to the Group;

(c) have been prepared on the basis of properly maintained consolidation documentation.

Information provided in the Directors' Report for the Group for the financial year from 1 January to 31 December 2014 has been prepared in accordance with the provisions of the Decree of the Minister of Finance of 19 February 2009 on publication of current and periodic information by issuers of securities and the conditions for acceptance as equivalent information required by the laws of another state not being member state ('The Decree' - Journal of Laws of 2014, item 133) and is consistent with the information presented in the audited consolidated financial statements.

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

Adam Celiński

Principal Registered Auditor
No. 90033

Warsaw, 16 March 2015

The Powszechna Kasa Oszczędności Bank Polski SA Group

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

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

This report contains 18 consecutively numbered pages and consists of:

Page

pwc

I. General information about the Group

(a) Powszechna Kasa Oszczędności Bank Polski SA (the Parent Company, the Bank) was established in 1919 as Pocztowa Kasa Oszczędnościowa (Postal Savings Bank).

In 1950, the Bank started operating as Powszechna Kasa Oszczędności bank państwowy (state-owned bank). On 18 January 2000, on the basis of a Decree of the Council of Ministers, Powszechna Kasa Oszczędności Bank Państwowy was transformed into a joint-stock company wholly owned by the State Treasury, under the name of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna. On 12 April 2000, the Bank was entered in the Business Register maintained by the District Court for the City of Warsaw, Business Court, the 16th Registration Division. Currently, the Bank is registered under the number KRS0000026438, and the District Court for the City of Warsaw, 13th Business Division of the National Court Register is the competent registration court.

On 14 June 1993, the Parent Company was assigned a tax identification number (NIP) 525-000-77-738 for making tax settlements. For statistical purposes, the Parent Company was assigned a REGON number 016298263 on 18 April 2000.

(b) As at 31 December 2014, the Parent Company's registered share capital amounted to PLN 1,250,000 thousand and comprised 1,250,000,000 ordinary shares with PLN 1 par value each, including:

- 312,500,000 A-series registered shares;
- 197,500,000 A-series bearer shares;
- 105,000,000 B-series bearer shares;
- 385,000,000 C-series bearer shares;
- 250,000,000 D-series bearer shares.

(c) In the audited period, the Group's operations comprised:

- performing activities typical of a universal bank;
- brokerage activities;
- managing pension funds;
- managing investment funds;
- managing real estate;
- services in the area of life insurance;
- services in the area of technical assistance for electronic banking;
- services in the area of card transaction processing and settlement;
- leasing.

(d) During the year, the following people were on the Parent Company's Management Board:

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

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

I. General information about the Group (cont.)

(e) As at 31 December 2014, the Powszechna Kasa Oszczędności Bank Polski SA Group was composed of the following entities:

Company name	Description of equity relationship (interest in %)	Consoli-dation method	Auditor of the financial statements	Type of opinion	Balance date of the financial statements
Powszechna Kasa Oszczędności Bank Polski SA	Parent company	Not applicable	Pricewaterhouse-Coopers Sp. z o.o.	unqualified	31 December 2014
Bankowe Towarzystwo Kapitałowe SA	Subsidiary (100%)	Acquisition accounting	Pricewaterhouse-Coopers Sp. z o.o.	audit in progress [1]	31 December 2014
Centrum Haffnera Sp. z o.o.	Subsidiary (72.98%)	Acquisition accounting	Pricewaterhouse-Coopers Sp. z o.o.	audit in progress [1]	31 December 2014
Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.	Subsidiary (95.47%)	Acquisition accounting	LLC AF Pricewaterhouse-Coopers (Audit)	audit in progress [1]	31 December 2014
Inter-Risk Ukraina Spółka z dodatkową odpowiedzialnością (additional liability company)	Subsidiary (100%)	Acquisition accounting	LLC AF Pricewaterhouse-Coopers (Audit)	audit in progress [1]	31 December 2014
KREDOBANK SA	Subsidiary (99.57%)	Acquisition accounting	LLC AF Pricewaterhouse-Coopers (Audit)	audit in progress [1]	31 December 2014
Merkury Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Non-Public Assets Closed-End Investment Fund)	Subsidiary (100%)	Acquisition accounting	PricewaterhouseCoopers Sp. z o.o.	audit in progress [1]	31 December 2014
PKO Bank Hipoteczny SA	Subsidiary (100%)	Acquisition accounting	the company was not required to perform audit	Not applicable	31 December 2014
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	Subsidiary (100%)	Acquisition accounting	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2014
PKO BP Finat Sp. z o.o.	Subsidiary (100%)	Acquisition accounting	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2014
PKO Finance AB	Subsidiary (100%)	Acquisition accounting	Öhrlings Pricewaterhouse-Coopers AB	unqualified	31 December 2014
PKO Leasing SA	Subsidiary (100%)	Acquisition accounting	PricewaterhouseCoopers Sp. z o.o.	audit in progress [1]	31 December 2014
PKO Towarzystwo Funduszy Inwestycyjnych SA	Subsidiary (100%)	Acquisition accounting	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2014
PKO Życie Towarzystwo Ubezpieczeń SA	Subsidiary (100%)	Acquisition accounting	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2014
Qualia Development Sp. z o.o.	Subsidiary (100%)	Acquisition accounting	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2014

and the subsidiaries of Bankowe Towarzystwo Kapitałowe SA, PKO Leasing SA, PKO Życie Towarzystwo Ubezpieczeń SA, Qualia Development Sp. z o.o., KREDOBANK SA, Merkury Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Non-Public Assets Closed-End Investment Fund) and Centrum Haffnera Sp. z o.o.

[1] The consolidation was based on the audited consolidation package of the Company.

I. General information about the Group (cont.)

(f) The parent company also had joint ventures and associates accounted for under the equity method:

Centrum Elektronicznych Usług Płatniczych "eService" Sp. z o.o.	-	joint venture
Centrum Obsługi Biznesu Sp. z o.o.	-	joint venture
Bank Pocztowy SA	-	associate
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	associate

(g) The Parent Company is an issuer of securities admitted to trading on the Warsaw Stock Exchange and in accordance with the Accounting Act it prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

(h) In 2014, the Bank acquired shares of Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA and Nordea Finance Polska SA, as well as a portfolio of receivables from corporate clients (the assets of so-called Swedish portfolio). As a result of the acquisition, goodwill of PLN 985,221 thousand was created.
From the date of the acquisition (i.e. from 1 April 2014) to the date of the legal merger (i.e. to 31 October 2014) Nordea Bank Polska SA was a separate company in the Group.
The legal merger took place on 31 October 2014, and as of that date Nordea Bank Polska SA ceased to be a separate entity.
Additionally, on 30 September 2014, a legal merger took place between PKO Leasing Pro SA (formerly Nordea Finance Polska SA) and PKO Leasing SA.
In 2014, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA changed its name to PKO Życie Towarzystwo Ubezpieczeń SA and as at 31 December 2014 it was the Bank's subsidiary.

II. Information about the audit

(a) The audit of the consolidated financial statements as at and for the year ended 31 December 2014 was conducted by PricewaterhouseCoopers Sp. z o.o., Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. On behalf of the registered audit company, the audit was conducted under the supervision of Key Registered Auditor, Adam Celiński (Registered Auditor No. 90033).

(b) PricewaterhouseCoopers Sp. z o.o. was appointed auditor to the Bank by Resolution no. 3/2014 of the Supervisory Board passed on 5 March 2014 on the basis of § 15.1.3 of the Bank's Memorandum of Association.

(c) PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the Group entities within the meaning of Art. 56.2-4 of the Act on registered auditors and their self-government, registered audit companies and public supervision dated 7 May 2009 (Journal of Laws No. 77, item 649 as amended).

(d) The audit was conducted on the basis of an agreement concluded on 18 June 2014 in the following periods:

- interim audit from 20 October to 22 December 2014;
- final audit from 7 January to 16 March 2015.

III. The Group's results and financial position

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

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

Powszechna Kasa Oszczędności Bank Polski SA is the parent company of the Group, which as at 31 December 2014 comprised 14 direct subsidiaries and 32 indirect subsidiaries. The data of two direct associates was disclosed in the consolidated financial statements by the equity method. Additionally, as at 31 December 2014 the Bank accounted for two companies classified as joint ventures. In 2013, the Group consisted of 12 direct subsidiaries and 28 indirect subsidiaries, two direct associates and three companies classified as jointly controlled entities.

- As at 31 December 2014, total assets amounted to PLN 248,700,589 thousand and it was PLN 49,469,479 thousand (i.e. 25%) higher than as at 31 December 2013.

- This increase was financed mainly with an increase in the amounts due to customers of PLN 22,482,585 thousand (i.e. 15%), resulting mainly from the increases in retail deposits, increase in theamounts due to banks of PLN 15,647,145 (i.e. 418%), liabilities in respect of issue of securities of PLN 2,754,164 thousand (i.e. 26%), liabilities resulting from negative valuation of derivatives of PLN 2,216,930 (i.e. 67%) and liabilities incurred in respect of insurance activities of PLN 2,679,722 thousand. At the same time, equity increased by PLN 2,461,226 thousand (i.e. 10%).

- The main source of financing assets in 2014 was amounts due to customers (similarly to the prior year). The balance of amounts due to customers amounted to PLN 174,386,766 thousand as at the balance date and represented 70% of the total liabilities and equity (a decrease of 6 pp. compared with the balance as at 31 December 2013). The change in the balance of amounts due to customers was mainly due to an increase of the funds on current accounts and overnight deposits of individuals (an increase of PLN 6,443,062 thousand, i.e. 12%, compared with the balance as at 31 December 2013) and an increase in the funds on current accounts and overnight deposits of corporate entities (an increase of PLN 6,339,359 thousand, i.e. 48%, compared with the balance as at 31 December 2013). The structure of the balance of amounts due to corporate entities as at the balance date changed compared with 31 December 2013. The share of the balance of term deposits decreased from 42% to 39% of total amounts due to corporate entities. At the same time, the share of current accounts and overnight deposits increased (from 41% to 47% of total amounts due to corporate entities).

- As at the end of 2014, the balance of amounts due to banks was PLN 19,394,482 thousand (an increase of PLN 15,647,145 thousand, i.e. 418%, compared with the previous year) and comprised mainly loans and advances received of PLN 17,643,643 thousand (PLN 2,606,482 thousand as at 31 December 2013), bank deposits of PLN 823,815 thousand (PLN 959,712 thousand as at the end of 2013), and current accounts of PLN 609,836 thousand (PLN 116,145 thousand as at the end of 2013). The increase in the balance of loans and advances received was mainly due to incurring a liability to Nordea AB (publ) for the financing of the acquired portfolio of mortgage loans of Nordea Bank Polska SA in the amount of PLN 14,927,552 thousand.

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

- The balance of liabilities in respect of issues of securities as at the balance date amounted to PLN 13,300,610 thousand (PLN 10,546,446 thousand as at 31 December 2013), of which PLN 12,032,368 thousand represented bonds issued for international markets (PLN 9,129,100 thousand as at 31 December 2013). The increase in the balance as at 31 December 2014 was mainly due to the fact that in 2014 a Bank's subsidiary (PKO Finance AB) issued bonds denominated in EUR for international markets (the par value of the bonds issued as at 31.12.2014 was PLN 2,175,873 thousand).

- The balances of amounts due to banks, amounts due to customers and liabilities in respect of issues of securities represented 94% of total liabilities as at 31 December 2014 (a decrease of 1% compared with the previous balance date). Significant balances as at the end of 2014 comprised also subordinated liabilities (1% of total liabilities both at the end of 2014 and at the end of 2013) and negative valuation of derivatives (3% of total liabilities as at the end of 2014 and 2% as at the end of 2013).

- The balance of subordinated liabilities as at the balance date was PLN 2,413,985 thousand (PLN 1,620,857 thousand as at 31 December 2013) and comprised the valuation of bonds issued by the Bank in 2012 in the nominal amount of PLN 1,600,700 thousand with a redemption date on 14 September 2022 and a subordinated loan taken over from Nordea Bank Polska SA in the nominal amount of PLN 780,013 thousand with a redemption date on 24 April 2022.

- As at 31 December 2014, the liabilities in respect of the negative valuation of derivatives amounted to PLN 5,545,141 thousand (PLN 3,328,211 thousand as at 31 December 2013). The decrease in the balance as at the balance date was mainly the result of a higher valuation of IRS transactions whose balance increased by PLN 1,949,009 thousand (i.e. 78%) compared with the balance as at 31 December 2013.

- The balance of other liabilities as at 31 December 2014 was PLN 2,954,603 thousand and it was PLN 407,366 thousand (i.e. 16%) higher than as at the end of 2013. The increase in the balance as at the balance date was mainly due to incurring liabilities in respect of funds transferred by the Bank Guarantee Fund for the disbursements to holders of deposits with SKOK (credit union) in Wołomin of PLN 356,461 thousand, an increase in the balance resulting from settlement of financial instruments of PLN 66,103 thousand (i.e. 89%), settlement of the purchases of plant, machinery and materials, work and services relating to the construction of fixed assets and investing activities of PLN 65,754 thousand (i.e. 642%) and costs payable of PLN 60,678 thousand (i.e. 13%).

- The balance of consolidated equity as at 31 December 2014 amounted to PLN 27,615,551 thousand (PLN 25,154,325 thousand as at 31 December 2013) and was PLN 2,461,226 thousand (i.e. 10%) higher than as at the end of the previous year. The increase in the balance was mainly due to a profit of PLN 3,254,122 thousand generated by the Group in 2014. At the same time, the Parent Company's shareholders earmarked PLN 937,500 thousand of the profit for 2013 for paying a dividend. The remaining part of the profit for 2013 was transferred to the supplementary capital (PLN 2,041,701 thousand) and the reserves (PLN 5,020 thousand).

- The balance of own funds calculated on the regulatory basis was PLN 24,743,185 thousand as at 31 December 2014 (PLN 21,305,056 thousand as at 31 December 2013) and it was PLN 9,473,586 thousand higher than the total capital requirement (PLN 15,269,599 thousand as at the end of 2014). The capital adequacy ratio calculated as at the balance date based on the banking portfolio and the trading portfolio was 12.96% (a decrease of 0.62 pp. compared with the end of the previous year).

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

- The higher level of financing mainly translated into an increase in the balance of loans granted (an increase of PLN 29,874,122 thousand, i.e. 20%), investment securities available for sale (an increase of PLN 8,206,147 thousand, i.e. 58%), and cash and balances with the Central Bank (an increase of PLN 4,492,251 thousand, i.e. 62%). At the same time, the balance of inventories was lower than in the previous year (a decrease of PLN 411,758 thousand, i.e. 63%).

- As at the balance date, the balance of loans and advances to customers amounted to PLN 179,497,384 thousand and represented 73% of total assets (a decrease of 2 pp. compared with the end of the previous year). The gross loan portfolio value as at 31 December 2014 was PLN 187,519,861 thousand and it was PLN 31,245,819 thousand (i.e. 20%) higher than as at 31 December 2013. This increase was mainly due to an increase in the housing loans portfolio of PLN 21,474,198 thousand, i.e. 28%) and the portfolio of corporate loans to the non-financial sector (an increase of PLN 5,959,953 thousand, i.e. 12%, compared with the previous year), which was mainly a result of the acquisition of Nordea Bank Polska SA assets.

- The quality of the portfolio of loans and advances and lease receivables in the Group as at the balance date measured with the ratio of impaired loans to the total balance of gross loans and advances to customers improved compared with the end of 2013. As at 31 December 2014, the share of impaired loans in total loans and advances decreased by 1.3 pp. and amounted to 6.9%. At the same time, the coverage ratio of impairment allowances to impaired loans and advances to customers amounted to 56.8% as at the balance date and was 9.8 pp. higher than as at the end of 2013.

- As at the balance date, cash and balances with the central bank amounted to PLN 11,738,371 thousand. It comprised mainly an increase in the balances with the central bank of PLN 3,754,519 thousand, i.e. 93%, and a simultaneous increase in cash in hand and in vaults of PLN 738,126 thousand, i.e. 23%).

- The increase in amounts due from banks concerned both deposits with other banks, which increased by PLN 228,108 thousand (i.e. 16%) compared with the balance as at 31 December 2013 and current account balances, which as at the balance date were PLN 365,770 thousand (i.e. 78%) higher than as at the end of 2013. This increase was partly offset with a decrease in the balance of loans and advances granted of PLN 18,192 thousand, i.e. 53%, compared with the balance as at 31 December 2013, and a lack of repurchase agreements (which amounted to PLN 14,033 thousand as at 31 December 2013). As at the balance date, amounts due from banks amounted to PLN 2,486,686 thousand.

- The balance of financial assets designated at fair value through profit or loss as at the balance date amounted to PLN 15,723,148 thousand. The increase in this balance of PLN 518,392 thousand, i.e. 3%, was mainly due to the recognition of participation units in insurance equity funds of PLN 1,918,288 (in connection with the acquisition of PKO Życie Towarzystwo Ubezpieczeń SA) and an increase in the balance of Treasury bonds held by the Bank of PLN 1,521,815 thousand, i.e. 159%, accompanied by a decrease in the balance of short-term NBP bills of PLN 2,998,416 thousand, i.e. 21%.

- The balance of investment securities available for sale as at the balance date amounted to PLN 22,279,225 thousand and was PLN 8,206,147 thousand (i.e. 58%) higher than as at the end of 2013. The main increases were recorded in treasury bonds (of PLN 3,962,551 thousand, i.e. 45%) and in corporate bonds (of PLN 3,088,246 thousand, i.e. 192%) and they resulted from the acquisition of Nordea Bank Polska SA assets.

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

- Financial assets held for trading amounted to PLN 1,924,426 thousand as at 31 December 2014. Their increase of PLN 1,444,545 thousand (i.e. 301%) was mainly due to an increase in the Group's exposure to Polish treasury bonds - between the end of 2013 and the end of 2014, their balance increased by PLN 1,434,794 thousand (i.e. 367%).
- The balance of intangible assets as at 31 December 2014 was PLN 3,379,501 thousand and it was PLN 1,149,279 thousand higher than as at the end of the previous year, which was mainly due to goodwill recognized in connection with the acquisition of Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA and Nordea Finance Polska SA (PLN 985,221 thousand).
- The Group's cumulative liquidity gaps up to 1 month and up to 3 months, calculated based on data on the maturities of assets and liabilities according to real terms maturity dates, amounted to PLN 26,091,205 thousand and PLN 26,628,041 thousand respectively (PLN 20,304,151 thousand and PLN 10,043,066 thousand as at the end of 2013).
- The share of interest-bearing assets in total assets decreased slightly compared with 31 December 2013 and amounted to 92.4% as at the end of 2014 (a decrease of 0.6 pp. compared with the previous year). The loans to deposits ratio (L/D) amounted to 102.9% as at the end of 2014 (98.5% as at the end of 2013).
- The operating profit for 2014 amounted to PLN 4,002,753 thousand and was PLN 43,689 thousand (i.e. 1%) lower than the result for 2013. It comprised mainly: net interest income of PLN 7,522,931 thousand (an increase of PLN 800,969 thousand, i.e. 12%), net fee and commission income of PLN 2,933,506 thousand (a decrease of PLN 72,246 thousand, i.e. 2%) and other operating income of PLN 570,779 thousand (a decrease of PLN 510,166 thousand, i.e. 47%). At the same time, the operating profit was reduced by administrative expenses of PLN 5,245,141 thousand (an increase of PLN 622,598 thousand, i.e. 13%), net impairment allowance and write-downs of PLN 1,898,670 thousand (a decrease of PLN 139,211 thousand, i.e. 7%) and other operating expenses of PLN 348,198 thousand (a decrease of PLN 123,002 thousand, i.e. 26%).
- The increase in the net interest income was mainly due to lower interest expenses (a decrease of PLN 827,032 thousand, i.e. 20%) and higher interest income on investment securities (an increase of PLN 101,602 thousand, i.e. 19%) and on loans and advances to customers (an increase of PLN 84,005 thousand, i.e. 1%). This increase was offset with lower income on derivative hedging instruments (by PLN 110,962 thousand, i.e. 24%). In 2014, the interest margin calculated as the ratio of net interest income to interest income grew by 8 pp. compared with 2013 and amounted to 70%. The interest spread, calculated as the difference between the profitability ratio on interest-bearing assets and the cost of borrowings, was 3.5% (up 0.1 pp. compared with 2013).
- The fee and commission expenses increased compared with 2013 by PLN 147,799 thousand, i.e. 16%, to PLN 1,068,649 thousand, which was mainly due to the increases in commission expenses on cards of PLN 94,174 thousand, commission expenses on canvassing services of PLN 10,759 thousand, and other commission expenses, including mainly the fees paid by Dom Maklerski PKO BP SA to the WSE and the Central Securities Depository of Poland (KDPW) (an increase of PLN 23,558 thousand). At the same time, the fee and commission income increased by PLN 75,553 thousand, i.e. by 2%, to PLN 4,002,155 thousand.

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

- The decrease in other operating income was mainly due to the fact that in 2013 the Bank recognized income on the sale of a majority block of shares in the subsidiary Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. amounting to PLN 311,381 thousand and income from fair value measurement of PLN 162,171 thousand.

- The increase in administrative expenses comprised mainly the increases in material costs of PLN 195,618 thousand, i.e. 15%, amortization and depreciation of PLN 167,924 thousand, i.e. 29%, and costs of employee benefits of PLN 157,672 thousand, i.e. 6%). The overall business effectiveness, calculated as the costs to income ratio (C/I), deteriorated in 2014 (C/I increased by 3.9 pp. to 47.1%). The adverse change in this ratio was due to the fact that income was lower than in 2013.

- Net impairment allowance in respect of loans and advances to customers (recognized in the income statement) decreased by PLN 294,659 thousand. The decrease in net impairment allowance (recognized in the income statement) was mainly related to corporate loans to the non-financial sector (a decrease of PLN 271,796 thousand, i.e. 21%) and consumer loans (a decrease of PLN 173,339 thousand, i.e. 42%). At the same time, the impairment allowance in respect of housing loans increased by PLN 96,069 thousand (i.e. 36%). In 2013, the cost of risk amounted to 1.0% (2013: 1.3%).

- Gross profitability (calculated as profit before income tax to total income) amounted to 25.5% in the audited year and was 0.4 pp. higher than in the previous year.

- Income tax expense in 2014 amounted to PLN 791,747 thousand (PLN 816,271 thousand in 2013). The effective tax rate in 2014 was 19.6% and was 0.6 pp. lower than in 2013.

- As a result, in 2014 the Group generated a net profit attributable to the parent company of PLN 3,254,122 thousand, which was PLN 24,329 thousand (i.e. 1%) higher than the net profit for 2013. Net profitability (calculated as net profit attributable to the parent company to total income) amounted to 20.6% in 2014 (2013: 20.0%).

- The return on assets (calculated as net profit attributable to the parent company to average total assets) amounted to 1.5% in 2014 and was 0.1 pp. lower than in 2013. In the audited year, the return on equity amounted to 12.3% and was 0.7 pp. lower than in 2013.

The consolidated financial statements have been prepared on the going concern basis.

IV. Discussion of consolidated financial statement components

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2014

ASSETS	31.12.2014 PLN '000	31.12.2013 PLN '000	Change PLN '000	Change (%)	31.12.2014 Structure (%)	31.12.2013 Structure (%)
Cash and balances with the central bank	11,738,371	7,246,120	4,492,251	62	5	4
Amounts due from banks	2,486,686	1,893,441	593,245	31	1	1
Financial assets held for trading	1,924,426	479,881	1,444,545	301	1	-
Derivative financial instruments	5,494,822	3,000,860	2,493,962	83	2	2
Financial instruments designated upon initial recognition at fair value through profit and loss	15,723,148	15,204,756	518,392	3	7	8
Loans and advances to customers	179,497,384	149,623,262	29,874,122	20	73	75
Investment securities available for sale	22,279,225	14,073,078	8,206,147	58	9	7
Investment securities held to maturity	233,358	38,005	195,353	514	-	-
Investments in associates and joint ventures	322,486	309,692	12,794	4	-	-
Non-current assets held for sale	624,992	172,219	452,773	263	-	-
Inventories	237,883	649,641	(411,758)	(63)	-	-
Intangible assets	3,379,501	2,230,222	1,149,279	52	1	1
Tangible fixed assets	2,653,555	2,611,233	42,322	2	1	1
Current income tax receivables	118,810	206,401	(87,591)	(42)	-	-
Deferred tax assets	863,677	562,421	301,256	54	-	-
Other assets	1,122,265	929,878	192,387	21	-	1
Total assets	**248,700,589**	**199,231,110**	**49,469,479**	25	**100**	**100**

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

LIABILITIES AND EQUITY	31.12.2014 PLN '000	31.12.2013 PLN '000	Change PLN '000	Change (%)	31.12.2014 Structure (%)	31.12.2013 Structure (%)
Amounts due to the central bank	4,427	4,065	362	9	-	-
Amounts due to other banks	19,394,482	3,747,337	15,647,145	418	8	2
Derivative financial instruments	5,545,141	3,328,211	2 216 930	67	2	2
Amounts due to customers	174,386,766	151,904,181	22,482,585	15	70	76
Liabilities in respect of insurance operations	2 679 722	-	2,679,722	-	1	-
Liabilities in respect of assets classified as held for sale	34,964	2,880	32,084	1 114	-	-
Debt securities in issue	13,300,610	10,546,446	2,754,164	26	6	5
Subordinated liabilities	2,413,985	1,620,857	793,128	49	1	1
Other liabilities	2,954,603,	2,547,237,	407,366,	16	1	1
Current income tax liabilities	17,453,	22,595,	(5,142)	(23)	-	-
Deferred income tax provision	29,047,	32,106,	(3,059)	(10)	-	-
Provisions	323,838,	320,870,	2,968,	1	-	-
Total liabilities	**221 085 038**	**174,076,785**	**47 008 253**	27	**89**	**87**
Share capital	1,250,000	1,250,000	-	-	1	1
Other capital	23,374,794	21,108,673	2,266,121	11	9	10
Currency translation differences from foreign operations	(192,692)	(129,420)	(63,272)	49	-	-
Unappropriated profits/ (Accumulated losses)	(60,658)	(306,230)	245,572	(80)	-	-
Net profit/(loss) for the current year	3,254,122	3,229,793	24,329	1	1	2
Capital and reserves attributable to equity holders of the parent company	**27,625,566**	**25,152,816**	**2 472 750**	10	**11**	**13**
Non-controlling interests	(10,015)	1,509	(11,524)	(764)	-	-
Total equity	**27,615,551**	**25,154,325**	**2,461,226**	10	**11**	**13**
Total liabilities and equity	**248,700,589**	**199,231,110**	**49,469,479**	25	**100**	**100**

CONSOLIDATED INCOME STATEMENT
for the financial year from 1 January to 31 December 2014

	2014 PLN '000	2013 PLN '000	Change PLN '000	Change (%)	2014 Structure (%)	2013 Structure (%)
Interest income	10,737,431	10,763,494	(26,063)	-	68	67
Interest expenses	(3,214,500)	(4,041,532)	827,032	(20)	27	33
Net interest income/(expenses)	**7,522,931**	**6,721,962**	**800,969**	12		
Fee and commission income	4,002,155	3,926,602	75,553	2	25	24
Fee and commission expenses	(1,068,649)	(920,850)	(147,799)	16	9	8
Net fee and commission income / (expenses)	**2,933,506**	**3,005,752**	**(72,246)**	(2)		
Dividend income	6,511	5,766	745	13	-	-
Net income from financial instruments designated at fair value	75,188	54,309	20,879	38	1	-
Gains less losses from investment securities	150,050	67,484	82,566	122	1	1
Net foreign exchange gains/ (losses)	235,797	241,848	(6,051)	(3)	1	1
Other operating income	570,779	1,080,945	(510,166)	(47)	4	7
Other operating expenses	(348,198)	(471,200)	123,002	(26)	3	4
Net impairment allowance and write-downs	(1,898,670)	(2,037,881)	139,211	(7)	16	17
Administrative expenses	(5,245,141)	(4,622,543)	(622,598)	13	45	38
Operating profit/ (loss)	**4,002,753**	**4,046,442**	**(43,689)**	(1)		
Share of profits and losses of associates and joint ventures	31,810	(1,978)	33,788	(1.708)	-	-
Profit before tax	**4,034,563**	**4,044,464**	**(9,901)**	-		

CONSOLIDATED INCOME STATEMENT
for the financial year from 1 January to 31 December 2014 (cont.)

	2014 PLN '000	2013 PLN '000	Change PLN '000	Change (%)	2014 Structure (%)	2013 Structure (%)
Profit before tax	**4,034,563**	**4,044,464**	**(9,901)**	-		
Corporate income tax	(791,747)	(816,271)	24,524	(3)		
Net profit (including non-controlling shareholders)	**3,242,816**	**3,228,193**	**14,623**	-		
including:						
Net profit attributable to the parent company	3,254,122	3,229,793	24,329	1		
Profits (losses) attributable to non-controlling shareholders	(11,306)	(1,600)	(9,706)	607		
Total income	15,809,721	16,140,448	(330,727)	(2)	100	100
Total expense	(11,775,158)	(12,095,984)	320,826	(3)	100	100
Profit before tax	**4,034,563**	**4,044,464**	**(9,901)**	-		

Selected ratios characterizing the Group's financial position and results

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

	2014	2013
Profitability ratios		
Gross profitability (profit before income tax/total income)	25.5%	25.1%
Net profitability (net profit attributable to the parent company / total income)	20.6%	20.0%
Return on equity (net profit attributable to the parent company /average net assets) (2)	12.3%	13.0%
Return on assets (net profit attributable to the parent company /average total assets) (2)	1.5%	1.6%
Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) (2)	5.2%	5.9%
Cost to income ratio (administrative expenses / profit on banking activities) (3)	47.1%	43.2%
Cost of borrowings (interest expense / average interest-bearing liabilities) (2)	1.7%	2.5%
Asset quality ratios		
Interest-bearing assets to total assets (4)	92.4%	93.0%
Impaired loans to total gross loans and advances to customers	6.9%	8.2%
Coverage with impairment allowances of impaired loans and advances to customers	56.8%	47.0%
Cost of risk (5)	1.0%	1.3%
Liquidity ratios		
Liquidity up to 1 month	26,091,205	20,304,151
Liquidity up to 3 months	26,628,041	10,043,066
Loans to deposits	102.9%	98.5%
Other ratios		
Capital adequacy ratio	12.96%	13.58%
Own funds (PLN '000)	24,743,185	21,305,056
Total capital requirement (PLN '000)	15,269,599	12,552,200

(1) The values of the individual ratios may differ from those presented in the consolidated financial statements due to a different calculation method.
(2) The average balances of balance sheet items were calculated based on the balances of individual items at the beginning and end of the current and prior financial year.
(3) The profit on banking activities defined as operating profit less administrative expenses and net impairment allowances.
(4) Interest-bearing assets are defined as balances with the central bank (excluding cash), amounts due from banks and customers, investment securities, securities designated at fair value through profit and loss and held for trading.
(5) The cost of risk is calculated by dividing net impairment allowances on loans and advances to customers for the year by the average balance of gross loans and advances to customers.

V. Statements of the independent registered auditor

(a) The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the accounting records and the disclosure of all contingent liabilities and subsequent events which occurred up to the date on which that letter was signed.

(b) The scope of the audit was not limited.

(c) The accounting policies of the Group specified by the Parent Company's Management and disclosures complied with the International Financial Reporting Standards as adopted by the European Union in all material respects. There were no changes to the accounting policies compared with the previous year.

(d) The calculation of goodwill arising in the audited year and its recognition in the consolidated financial statements complied in all material respects with the IFRS as adopted by the European Union.

(e) The consolidation of equity items and the determination of non-controlling interests were carried out properly in all material respects.

(f) The elimination of intercompany balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out in accordance with the IFRS as adopted by the European Union in all material respects.

(g) Eliminations of gains/losses unrealized by the consolidated entities included in the value of assets and in respect of dividends were conducted in accordance with the IFRS as adopted by the European Union in all material respects.

(h) The impact of disposal or partial disposal of shares in subordinated entities was accounted for in accordance with the IFRS as adopted by the European Union in all material respects.

(i) The consolidation documentation was complete and accurate and it is stored in a manner ensuring its proper safeguarding.

(j) The consolidated financial statements of the Group as at and for the financial year from 1 January to 31 December 2013 were approved by Resolution no. 5/2014 of the General Shareholders' Meeting of 26 June 2014 and filed with the National Court Register in Warsaw on 8 July 2014.

(k) The consolidated financial statements for the previous financial year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.

(l) The Notes to the consolidated financial statements present all the material information required by the IFRS as adopted by the European Union.

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

(m) The information in the Group Directors' Report for the year ended 31 December 2014 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodical information to be reported by issuers of securities and the conditions for treating information required by the laws of a state other than a member state as equivalent (Journal of Laws of 2014, item 133).

(n) We determined the materiality levels at the planning stage. Materiality levels specify the limits up to which identified irregularities may be left unadjusted without any detriment to the quality of the financial statements and to the correctness of the underlying books of account, since failing to make such adjustments will not be misleading for the readers of the financial statements. Materiality measures both the quantity and quality of audited items and that is why it varies for different statement of financial position and income statement items. Due to the complexity and quantity of the materiality levels adopted for audit purposes, they are included in the audit documentation.

(o) The total capital requirement, calculated on the consolidated basis, amounted to PLN 15,269,599 thousand as at the balance date. The capital adequacy ratio, calculated on the consolidated basis, as at 31 December 2014 amounted to 12.96%. As at the balance date, the Group complied with the prudence principle in all material respects.

VI. Final information and comments

This report has been prepared in connection with our audit of the consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group, whose parent company is Powszechna Kasa Oszczędności Bank Polski SA with its registered office in Warsaw, 15 Puławska Street. The consolidated financial statements were signed by the Management Board of the Parent Company on 11 March 2015.

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

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

Adam Celiński

Principal Registered Auditor
No. 90033

Warsaw, 16 March 2015