Bank Polski

Financial Statements of PKO Bank Polski SA for the year ended 31 December 2015

Report publication date:
7 March 2016

SELECTED FINANCIAL DATA DERIVED FROM THE FINANCIAL STATEMENTS

SELECTED STAND-ALONE FINANCIAL DATA	PLN thousand		EUR thousand	
	period from 01.01.2015 to 31.12.2015	period from 01.01.2014 to 31.12.2014	period from 01.01.2015 to 31.12.2015	period from 01.01.2014 to 31.12.2014
Net interest income	6 820 138	6 948 853	1 629 740	1 658 715
Net fee and commission income	2 604 542	2 614 589	622 381	624 111
Operating profit	3 137 010	3 810 738	749 620	909 636
Profit before income tax	**3 137 010**	**3 810 738**	**749 620**	**909 636**
Net profit	**2 571 142**	**3 079 471**	**614 400**	**735 080**
Earnings per share for the period – basic (in PLN/EUR)	**2.06**	**2.46**	**0.49**	**0.59**
Earnings per share for the period – diluted (in PLN/EUR)	**2.06**	**2.46**	**0.49**	**0.59**
Total net comprehensive income	**2 615 731**	**3 295 911**	**625 055**	**786 745**
Net cash flows used in operating activities	14 730 042	(452 325)	3 519 892	(107 971)
Net cash flows used in investing activities	(4 624 695)	(9 034 934)	(1 105 117)	(2 156 669)
Net cash flows generated from/used in financing activities	(6 968 367)	14 895 337	(1 665 161)	3 555 567
Net cash flows	3 136 980	5 408 078	749 613	1 290 926

SELECTED STAND-ALONE FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 31.12.2015	as at 31.12.2014	as at 31.12.2015	as at 31.12.2014
Total assets	262 380 030	243 760 527	61 569 877	57 189 904
Total equity	30 217 887	27 602 156	7 090 904	6 475 883
Share capital	1 250 000	1 250 000	293 324	293 269
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	24.17	22.08	5.67	5.18
Diluted number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN/EUR)	24.17	22.08	5.67	5.18
Capital adequacy ratio	15.28%	13.37%	15.28%	13.37%
Basic funds (Tier 1)	24 820 848	22 558 648	5 824 439	5 292 600
Supplementary funds (Tier 2)	2 428 511	2 321 062	569 872	544 556

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 2015 and 2014, respectively: EUR 1 = PLN 4.1848 and EUR 1 = PLN 4.1893,

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

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INCOME STATEMENT

	Note	2015	2014
Continuing operations			
Interest and similar income	6	9 382 901	9 908 359
Interest expense and similar charges	6	(2 562 763)	(2 959 506)
Net interest income		**6 820 138**	**6 948 853**
Fee and commission income	7	3 323 686	3 513 357
Fee and commission expense	7	(719 144)	(898 768)
Net fee and commission income		**2 604 542**	**2 614 589**
Dividend income	8	137 257	91 465
Net income from financial instruments measured at fair value	9	25 128	57 967
Gains less losses from investment securities	10	103 380	161 651
Net foreign exchange gains (losses)		417 870	324 895
Other operating income	11	162 011	154 452
Other operating expense	11	(96 194)	(94 827)
Net other operating income and expense		**65 817**	**59 625**
Net impairment allowance and write-downs	12	(1 474 630)	(1 980 723)
Administrative expenses	13	(5 562 492)	(4 467 584)
Operating profit		**3 137 010**	**3 810 738**
Profit before income tax		**3 137 010**	**3 810 738**
Income tax expense	14	(565 868)	(731 267)
Net profit		**2 571 142**	**3 079 471**

Earnings per share	15		
– basic earnings per share for the period (PLN)		2.06	2.46
– diluted earnings per share for the period (PLN)		2.06	2.46
Weighted average number of ordinary shares during the period (in thousand)		1250000	1250000
Weighted average diluted number of ordinary shares during the period (in thousand)		1250000	1250000

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

STATEMENT OF COMPREHENSIVE INCOME

	Note	2015	2014
Net profit		2 571 142	3 079 471
Other comprehensive income		44 589	216 440
Items that may be reclassified to the income statement		48 172	217 450
Cash flow hedges (gross)	21	(77 607)	161 478
Deferred tax on cash flow hedges	14	14 746	(30 681)
Cash flow hedges (net)		(62 861)	130 797
Unrealised net gains on financial assets available for sale (gross)	24	137 078	106 978
Deferred tax on unrealised net gains on financial assets available for sale	14	(26 045)	(20 325)
Unrealised net gains on financial assets available for sale (net)		111 033	86 653
Items that may not be reclassified to the income statement		(3 583)	(1 010)
Actuarial gains and losses (net)		(3 583)	(1 010)
Actuarial gains and losses (gross)		(4 491)	(1 247)
Deferred tax	14	908	237
Total net comprehensive income		2 615 731	3 295 911

STATEMENT OF FINANCIAL POSITION

	Note	31.12.2015	31.12.2014
ASSETS			
Cash and balances with the central bank	17	13 707 730	11 698 248
Amounts due from banks	18	4 592 360	2 608 547
Trading assets	19	793 213	1 928 659
Derivative financial instruments	20	4 348 034	5 483 508
Financial assets designated upon initial recognition at fair value through profit and loss	22	12 796 036	13 417 667
Loans and advances to customers	23	188 552 440	177 557 571
Investment securities available for sale	24	27 859 727	22 092 136
Investments in subsidiaries. joint ventures and associates	25	2 037 987	1 813 774
Non-current assets held for sale	26	422 676	416 760
Intangible assets	27	2 797 791	2 898 612
Tangible fixed assets. of which:	28	2 276 322	2 251 373
investment properties		8 239	184
Current income tax receivables	14	40 762	94 343
Deferred income tax asset	14	644 611	671 404
Other assets	29	1 510 341	827 925
TOTAL ASSETS		**262 380 030**	**243 760 527**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the central bank	30	4 219	4 427
Amounts due to banks	31	18 249 857	18 439 584
Derivative financial instruments	20	4 627 189	5 545 502
Amounts due to customers	32	201 809 202	185 920 562
Debt securities in issue	33	1 717 661	866 087
Subordinated liabilities	34	2 499 163	2 413 985
Other liabilities	35	3 009 074	2 665 058
Current income tax liabilities	14	-	-
Provisions	36	245 778	303 166
TOTAL LIABILITIES		**232 162 143**	**216 158 371**
Equity			
Share capital	37	1 250 000	1 250 000
Other capital	37	25 146 745	23 139 892
Undistributed profits	37	1 250 000	132 793
Net profit for the year	37	2 571 142	3 079 471
TOTAL EQUITY		**30 217 887**	**27 602 156**
TOTAL LIABILITIES AND EQUITY		**262 380 030**	**243 760 527**
Capital adequacy ratio	68	15.28%	13.37%
Book value (in PLN thousand)		30 217 887	27 602 156
Number of shares (in thousand)	37	1 250 000	1 250 000
Book value per share (in PLN)		24.17	22.08
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		24.17	22.08

(IN PLN THOUSAND)

STATEMENT OF CHANGES IN EQUITY

2015	Share capital	Other capital								Undistributed profits	Net profit for the period	Total equity
		Reserves			Other comprehensive income			Total other capital				
		Reserve capital	General capital	Other capital	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses					
Note 37												
As at 1 January 2015	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
Transfer of net profit from previous years	-	-	-	-	-	-	-	-		3 079 471	(3 079 471)	-
Total comprehensive income, of which:	-	-	-	-	111 033	(62 861)	(3 583)	44 589		-	2 571 142	2 615 731
Net profit	-	-	-	-	-	-	-	-		-	2 571 142	2 571 142
Other comprehensive income	-	-	-	-	111 033	(62 861)	(3 583)	44 589		-	-	44 589
Transfer from undistributed profits	-	1 900 000	-	62 264	-	-	-	1 962 264		(1 962 264)	-	-
Paid-out dividend	-	-	-	-	-	-	-	-		-	-	-
As at 31 December 2015	1 250 000	20 518 111	1 070 000	3 484 177	144 673	(57 657)	(12 559)	25 146 745		1 250 000	2 571 142	30 217 887

2014	Share capital	Other capital								Undistributed profits	Net profit for the period	Total equity
		Reserves			Other comprehensive income			Total other capital				
		Reserve capital	General capital	Other capital	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses					
Note 37												
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
Paid-out dividend	-	-	-	-	-	-	-	-		(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

(IN PLN THOUSAND)

Bank Polski

STATEMENT OF CASH FLOWS

	Note	2015	2014
Net cash flow from operating activities			
Profit before income tax		**3 137 010**	**3 810 738**
Adjustments:		**11 593 032**	**(4 263 063)**
Amortisation and depreciation	13	755 659	643 210
(Gains) losses from investing activities	40	(14 014)	(12 699)
Interest and dividends	40	(187 297)	(170 649)
Change in amounts due from banks	40	(811 929)	1 978 768
Change in trading assets and financial assets designated upon initial recognition of fair value through profit and loss		1 757 077	1 057 589
Change in derivative financial instruments (asset)		1 135 474	(2 466 302)
Change in loans and advances to customers	40	(10 786 486)	(5 257 677)
Change in other assets and non-current assets held for sale	40	(647 275)	(65 611)
Change in amounts due to banks		1 499 409	(14 303 228)
Change in derivative financial instruments (liability)		(918 313)	2 209 278
Change in amounts due to customers	40	20 748 761	12 690 292
Change in provisions and impairment allowances	40	18 780	770 361
Change in other liabilities and subordinated liabilities	40	423 422	22 397
Income tax paid		(512 174)	(756 327)
Other adjustments	40	(868 062)	(602 465)
Net cash used in operating activities		**14 730 042**	**(452 325)**
Net cash flow from investing activities			
Wpływy z działalności inwestycyjnej		47 685 017	44 995 402
Proceeds from sale and interest on investment securities		47 268 912	44 846 055
Proceeds from sale of intangible assets and tangible fixed assets		14 014	57 882
Subsidies on acquisition		279 309	-
Other investing inflows (dividends)		122 782	91 465
Outflows from investing activities		(52 309 712)	(54 030 336)
Purchase of equity of subsidiaries		(181 000)	(2 389 901)
Increase in equity of a subsidiary		(56 000)	(526 470)
Objęcie akcji w nowoutworzonej spółce		-	(300 000)
Purchase of investment securities		(51 397 895)	(50 111 014)
Purchase of intangible assets and tangible fixed assets		(674 817)	(702 951)
Net cash used in investing activities		**(4 624 695)**	**(9 034 934)**
Net cash flows from financing activities			
Proceeds from debt securities in issue		3 631 201	1 485 674
Redemption of debt securities in issue		(2 800 594)	(1 612 922)
Dividends paid	40	-	(937 500)
Repayment of interest from issued debt securities and subordinated loans		(101 209)	(107 835)
Long-term borrowings		-	16 499 507
Repayment of long-term borrowings		(7 697 765)	(431 587)
Net cash generated from/used in financing activities		**(6 968 367)**	**14 895 337**
Net cash flows		**3 136 980**	**5 408 078**
of which currency translation differences on cash and cash equivalents		73 800	146 748
Cash and cash equivalents at the beginning of the period		14 052 760	8 644 682
Cash and cash equivalents at the end of the period	40	17 189 740	14 052 760
of which restricted	17	10 117	11 440

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NOTES TO THE FINANCIAL STATEMENTS

1. General information

Basic information about Bank

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 2015 and include comparative data for the year ended 31 December 2014. 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 (Cedula 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 the financial data for the year ended 31 December 2015 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 2015, 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, 1228 branches. None of the organisational units listed above prepares separate financial statements. Moreover, as at 7 December 2015 the new branch in German Federal Republic has set off its operational activity (German branch). The strategy of the Branch is to offer to a key corporate customers and their subsidiaries with seat in Germany services and banking products on a German market.

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.

(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 ENTY	HEAD OFFICE	RANGE OF ACTIVITY	% SHARE IN EQUITY *	
			31.12.2015	31.12.2014
PKO Towarzystwo Funduszy Inwestycyjnych SA	**Warsaw**	**investment funds management**	**100.00**	**100.00**
PKO BP BANKOWY PTE SA	**Warsaw**	**pension funds management**	**100.00**	**100.00**
PKO Leasing SA	**Łódź**	**leasing services**	**100.00**	**100.00**
PKO Bankowy Leasing Sp. z o.o.	Łódź	leasing services	100.00	100.00
PKO Leasing Sverige AB	Stockholm, Sweden	leasing services	100.00	100.00
PKO BP Faktoring SA[1]	Warsaw	factoring services	100.00	-
PKO BP Finat Sp. z o.o.	**Warsaw**	**services, including transfer agent services and outsourcing of IT specialists**	**100.00**	**100.00**
PKO Życie Towarzystwo Ubezpieczeń SA	**Warsaw**	**life insurance**	**100.00**	**100.00**
Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	Warsaw	services	100.00	100.00
PKO Towarzystwo Ubezpieczeń SA	**Warsaw**	**other personal and property insurance**	**100.00**	**-**
PKO Bank Hipoteczny SA	**Gdynia**	**banking activities**	**100.00**	**100.00**
PKO Finance AB	**Stockholm, Sweden**	**financial services**	**100.00**	**100.00**
KREDOBANK SA	**Lviv, Ukraine**	**banking activities**	**99.5655**	**99.5655**
Finansowa Kompania „Idea Kapitał" Sp. z o.o.	Lviv, Ukraine	financial services	100.00	100.00
„Inter-Risk Ukraina" Spółka z dodatkową odpowiedzialnością[2]	**Kiev, Ukraine**	**debt collection services**	**100.00**	**100.00**
Finansowa Kompania „Prywatne Inwestycje" Sp. z o.o.[3]	**Kiev, Ukraine**	**factoring services**	**95.4676**	**95.4676**
Qualia Development Sp. z o.o.[4]	**Warsaw**	**real estate development**	**100.00**	**100.00**
Qualia 3 Sp. z o.o.	Warsaw	general partner in limited partnerships of the Qualia 3 spółka z ograniczoną odpowiedzialnością – - Neptun Park Sp. k.	100.00	-
Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.[5]	Warsaw	real estate development	99.9975	99.9975
Qualia 2 Sp. z o.o.	Warsaw	general partner in limited partnerships of the Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wianów Sp.k.	100.00	-
Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.[6]	Warsaw	real estate development	99.9750	99.9750
Qualia Sp. z o.o.	Warsaw	general partner in limited partnerships of other entities of the Qualia Development Group	100.00	100.00
Qualia sp. z o.o. – Sopot Sp. k.	Warsaw	real estate development	99.9902	99.9811
Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k.	Warsaw	real estate development	99.9770	99.9770
Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k.	Warsaw	real estate development	99.9123	99.9123
Qualia spółka z ograniczoną odpowiedzialnością – Pomeranka Sp. k.	Warsaw	real estate development	99.8951	99.8951
Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k.	Warsaw	real estate development	50.00	50.00
Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Sp. k.	Warsaw	real estate development	50.00	50.00
Qualia Hotel Management Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Qualia - Residence Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Qualia – Rezydencja Flotylla Sp. z o.o.	Warsaw	real estate development	100.00	100.00
„Fort Mokotów Inwestycje" Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Sarnia Dolina Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Giełda Nieruchomości Wartościowych Sp. z o.o.	Warsaw	intermediation in the sale of real estate	100.00	100.00
FORT MOKOTÓW Sp. z o.o. w likwidacji	Warsaw	in liquidation	51.00	51.00
Merkury - fiz an[7]	**Warsaw**	**placement of funds collected from fund members**	**100.00**	**100.00**
„Zarząd Majątkiem Górczewska" Sp. z o.o.	Warsaw	real estate management	100.00	100.00
Molina Sp. z o.o.	Warsaw	general partner in limited joint-stock partnership entities of the Fund	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
NEPTUN - fizan[7]	**Warsaw**	**placement of funds collected from fund members**	**100.00**	**-**
Bankowe Towarzystwo Kapitałowe SA[8]	Warsaw	services	100.00	-
„CENTRUM HAFFNERA" Sp. z o.o.[9]	Sopot	subsidiaries' real estate management	72.9766	-
„Sopot Zdrój" Sp. z o.o.	Sopot	real estate management	100.00	-
„Promenada Sopocka" Sp. z o.o.	Sopot	rental services and real estate management	100.00	-

* Share in equity of direct parent entity
1) The Entity was a subsidiary of Bankowe Towarzystwo Kapitałowe SA at the end of 2014
2) As of end of 2015 the Entity is recognised as non-current assets held for sale.
3) The second shareholder of the Entity is 'Inter-Risk Ukraina' Additional Liability Company.; As of end of 2015 the Entity is recognised as non-current assets held for sale.
4) The Entity is recognised as non-current assets held for sale; For limited partnership entities of Qualia Development Group the total contribution made by the limited partner - Qualia Development Sp. z o.o. is presented in the position 'Share in equity'.
5) Formerly - Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.
6) Formerly - Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.
7) PKO Bank Polski SA has investment certificates of the Fund; the share of possessed investment certificates of the Fund is presented in the position 'Share in equity';
8) As at the end of 2014 The Entity was a subsidiary of PKO Bank Polski SA.
9) As at the end of 2014 the Entity was subsidiary of PKO Bank Polski SA, and its subsidiaries are indirect subsidiaries of PKO Bank Polski SA

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

(IN PLN THOUSAND)

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

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

NAME OF ENTY	HEAD OFFICE	RANGE OF ACTIVITY	% SHARE IN EQUITY *	
			31.12.2015	31.12.2014
Join ventures of PKO Bank Polski SA				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	**Warszawa**	**activities supporting financial services, including servicing transactions made by using payment instruments**	**34,00**	**34,00**
EVO Payments International Sp. z o.o.	Warsaw	activities supporting financial services	100,00	-
EVO Payments International s.r.o.	Prague, Czech Republic	activities supporting financial services	100,00	-
Join ventures of NEPTUN - fizan				
„Centrum Obsługi Biznesu" Sp. z o.o.[1]	**Poznań**	**hotel management**	**41,44**	-
Associates of PKO Bank Polski SA				
Bank Pocztowy SA	**Bydgoszcz**	**banking activities**	**25,0001**	**25,0001**
Centrum Operacyjne Sp. z o.o.	Bydgoszcz	activities supporting financial services	100,00	100,00
Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o.	Warsaw	intermediary financial services	100,00	100,00
„Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o	**Poznań**	**guarantees**	**33,33**	**33,33**
FERRUM SA	**Katowice**	**production of welded steel pipes, production of structural hollow section and delivering coating services**	**20,97**	-
Zakład Konstrukcji Spawanych FERRUM SA	Katowice	production of steel structures and their parts	100,00	-
FERRUM MARKETING Sp. z o.o.	Katowice	marketing services	100,00	-

* Share in equity of direct parent entity.

1) As of 2014 The Entity was joint venture of the PKO Banku Polskiego SA.

Information on changes in the share in equity of the subsidiaries is set out in the note 25 '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 2015, the Bank's Supervisory Board consisted of:

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

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

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

Moreover the Extraordinary General Shareholders' Meeting of the Bank on the basis of Article 385 § 1 of the Commercial Companies Code appointed the Supervisory Board: Mr Mirosław Barszcz, Mr Adam Budnikowski, Mr Wojciech Jasiński, Mr Andrzej Kisielewicz, Mr Janusz Ostaszewski, Mr Piotr Sadownik and Mrs Agnieszka Winnik – Kalemba. The State Treasury, as the Entitled Shareholder on the basis of § 12 item 1 of the Bank's Statue appointed Mr Piotr Sadownik as Chairman of the Supervisory Board of the Bank and Mrs Agnieszka Winnik – Kalemba as Deputy-Chairman of the Supervisory Board of the Bank.

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

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

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

Acceptance of the Financial Statement

This financial statement, subject to a review of Audit Committee of the Supervisory Board of the Bank on 3 March 2016, was accepted for publication by Management Board of Bank on 1 March 2016 and will be accepted by the Supervisory Board of the Bank on 3 March 2016.

2. Summary of significant accounting policies

2.1 Compliance with accounting standards

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) as at 31 December 2015, and in the areas not regulated by these standards, in accordance with the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330 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 7 March 2016. 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.

The Bank prepares a report covering the cumulative data of the Bank and Branch in Germany, except for the following:

1) mutual receivables and liabilities and other similar accounts,
2) revenues and costs of economic transactions between the Bank and Branch,
3) gains or losses resulting from economic transactions between the Bank and Branch,
4) mutual flows in the statement of cash flows.

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. The functional currency in Poland is Polish Zloty, while the functional currency of the branch conducting its activities in Germany is the Euro. 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.

Items of the statement of financial position of the Branch in Germany are translated into the presentation currency from the functional currency (EUR) using the average exchange rate at the end of the reporting period. Items in the Branch's profit and loss are translated into the presentation currency using the average exchange rate from the end of each month of the reporting period. The resulting exchange differences are recognized in other comprehensive income.

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 2015 and as at 31 December 2014, 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 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 and standardized 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 financial 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 asset is derecognised from the statement of financial position, when the cumulative gain/loss is recognized in the profit or loss account. Interest determined using effective interest rate from financial assets available for sale is presented in the net interest income. Allowances for impairment losses are recognized in the net write-down for impairment losses and provisions.

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 2.5.6

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

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 2015 and 31 December 2014 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.

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 51.4 'Forbearance practices'),
4) high probability of bankruptcy or reorganisation of the issuer or the debtor,
5) evidence that there is a measurable reduction in the estimated future cash flows from a group of financial assets, including collectability of these cash flows.

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

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

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

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

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

In determining impairment allowances for exposures not assessed on an 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 real loss amount.

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 51.4 'Forbearance practices'),
4) deterioration of the issuer's financial condition in the period of maintaining the exposure,
5) high probability of bankruptcy or other financial reorganisation of the issuer,
6) 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.

2.11.2 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.

2.11.3 Software

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

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

2.11.4 Other intangible assets

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

(IN PLN THOUSAND)

2.11.5 Development costs

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

2.11.6 Tangible fixed assets

Tangible fixed assets are stated at the end of the reporting period at acquisition cost or 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.

2.11.7 Capital expenditure accrued

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

1) probability exists that the 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.

2.11.8 Depreciation/amortisation

Depreciation/amortisation is charged on all non-current assets, whose value decreases due to usage or passage of time, using the straight-line 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.

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 2.11.9, are not amortised.

2.11.9 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

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.

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 employees, counterparties, customers and external institutions (e.g. UOKiK) after obtaining information from the right person in DPR or any other person representing Bank before courts and other adjudicating authorities in the connection with provision of legal adviser of high probability of losing a court case (refer to note 39 "Legal disputes")
- provisions for retirement benefits (look 2.14 "Employee benefits"),
- provisions for liabilities of financial and guarantee nature,
- other provisions, in particular restructuring provision and provision for potential claims on impaired loans portfolios sold.

A detailed description of the changes is presented in note 36 "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 51.9 'Off-balance sheet provisions exposures'.

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 necessarily result from the restructuring and are not associated with the ongoing activities of the Group. The restructuring provision does not cover future operating losses.

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

2.14 Employee benefits

According to the Labour Code (Kodeks Pracy), employees of 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'.

2.15 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 IAS 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 fulfilment of the obligation is negligible, in respect of each type of contingent liabilities, the entity discloses a short description of the type of the contingent liability at the balance sheet date and, where practicable, discloses:

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

Detailed information is presented in the Note 38 'Contingent liabilities and off-balance sheet liabilities received'.

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

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

2.16 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.

2.16.1 Interest income and expense

Interest income and expense comprise interest, including premiums and discounts in respect of financial instruments measured at amortised cost and instruments at fair value, with the exception of derivative financial instruments. Interest income 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.

2.16.2 Fee and commission income and expense

Fee and commission income is generally recognised on an accrual basis at the time when the related service is performed. Fee and commission income includes one-off amounts charged by the 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.

2.16.3 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.

2.16.4 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.

2.16.5 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.

2.16.6 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.

2.16.7 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.

2.16.8 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.

2.17 Income tax

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

2.17.1 Current income tax

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

While calculating corporate income tax, regulations resulting from the Act on corporate income tax dated 15 February 1992 have been taken into consideration (Journal of Laws of 2014, item 857 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 of 2001 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.

2.17.2 Deferred income tax

The amount of deferred income tax is calculated as the difference between the tax base and book value of assets and liabilities for financial reporting purposes. The 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.

(IN PLN THOUSAND)

2.18 Changes in financial reporting rules

Bank prepares financial statement according to the rules of the ISSF, accepted by the EU in form of the EU Commission acts.

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

Standard/ interpretation	Introduction/ publication date by the IASD	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 later 1.01.2014 (retrospective application) In the EU, mandatory application from the beginning of its 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 BFG is to be covered by the BGF guarantee system in a given year, fees in this respect must be recognised as liability already as at 1 January 2015.
Decree of the EU Commission No. 1361/2014 of 18 December 2014			
Improvements to IFRS 2011-2013	12.2013	Financial year starting on or after 1.07.2014. In the EU 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 amendments had no impact on the financial statements of the Bank for 2015.

(IN PLN THOUSAND)

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

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

Standard/ interpretation	Introduction/ publication date by the IASB	Application date	Description of potential changes
Decree of the EU Commission No. 2015/29 of 17 December 2014			
IAS 19 'Employee Benefits'	11.2013	Financial year starting on or after 1.07.2014. In the EU mandatory application from the beginning of its financial year on or after 1.02.2015.	The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. These changes had no impact on the financial statements of the Bank.
Decree of the EU Commission 2015/28 of 17 December 2014			
Improvements to IFRS 2010-2012	12.2013	Financial year starting on or after 1.07.2014. In the EU mandatory application from the beginning of its 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 2016 and they will have a presentation character, requiring a possible extension of disclosures.

(IN PLN THOUSAND)

Standard/ interpretation	Introduction/ publication date by the IASB	Application date	Description of potential changes
Decree of the EU Commission No. 2015/2173 of 24 November 2015			
Amendments to IFRS 11 'Joint Arrangements'	05.2014	Financial year starting on or after 1.01.2016 In the EU mandatory application from the beginning of its financial year 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 2016 and it will have a presentation character, requiring a possible extension of disclosures.
Decree of the EU Commission No. 2015/2231 of 2 December 2015			
Amendments to 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 In the EU mandatory application from the beginning of its financial year on or after 1.01.2016.	The amendment relates to amortisation/depreciation methods, in particular those other than straight-line that are based on benefiting from asset over time. Unequivocally prohibited is an amortisation/depreciation method that is based on the revenues generated directly or indirectly from an asset, due to the fact that many factors, other than amortisation/depreciation, affect revenues. Additionally, price fall should not result in reduction of amortisation/depreciation – it is rather indication of an impairment. The above-mentioned amendments will not have an impact on the Bank.
Decree of the EU Commission No. 2015/2343 of 15 December 2015			
IFRS 5 'Non-current assets held for sale and discontinued operations'	09.2014	Financial year starting on or after 1.01.2016 In the EU mandatory application from the beginning of its financial year on or after 1.01.2016.	Amendments introduced based on the 'Improvements to IFRSs 2012-2014' consist of guidelines clarifications for the reclassification of assets between categories - 'held for sale' and 'held for distribution to owners' and the situation when assets cease to be treated as 'held for distribution to owners'. These amendments will not have an impact on the Bank.
IFRS 7 'Financial instruments: disclosures'	09.2014	Financial year starting on or after 1.01.2016 In the EU mandatory application from the beginning of its financial year on or after 1.01.2016.	Amendments introduced based on the 'Improvements to IFRSs 2012-2014' 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. These amendments will not have an impact on the Bank.
IAS 19 'Employee Benefits'	09.2014	Financial year starting on or after 1.01.2016In the EU, obligatory use with the start of the first financial year on 1.01.2016 or later	Amendments introduced based on the 'Improvements to IFRSs 2012-2014' clarifies the approach to determine the discount rate for currencies, for which there is no developed market of corporate bonds with high creditworthiness; These amendments will not have an impact on the Bank.

(IN PLN THOUSAND)

Standard/ interpretation	Introduction/ publication date by the IASB	Application date	Description of potential changes
IAS 34 'Interim financial reporting'	09.2014	Financial year starting on or after 1.01.2016. In the EU mandatory application from the beginning of its financial year on or after 1.01.2016.	Amendments introduced based on the 'Improvements to IFRSs 2012-2014' 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.
Decree of the EU Commission No. 2015/2406 of 18 December 2015			
IAS 1 - 'Presentation of the financial statements'	12.2014	Financial year starting on or after 1.01.2016. In the EU mandatory application from the beginning of its financial year on or after 1.01.2016.	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. The Bank has reviewed the financial statements for significance and relevance of disclosure in the notes.
Decree of the EU Commission No. 2015/2441 of 18 December 2015			
Amendments to IAS 27 'Separate Financial Statements'	08.2014	Financial year starting on or after 1.01.2016 In the EU mandatory application from the beginning of its financial year 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 IFRS 9. In the case the Bank applies of the equity method, this will enable the Bank to diagnosis results of subsidiaries, associates and joint ventures earlier.

(IN PLN THOUSAND)

3) Not yet approved by the EU

Standard/ interpretation	Introduction/ publication date by the IASB	Application date	Description of potential changes
IFRS 15, 'Revenue from contracts with customers'	05.2014	Date of implementation moved on financial year starting on or after 1.01.2018 (according to the IASB from 9.2015)	IFRS 15 replaces IAS 11 'Construction contracts', IAS 18 'Revenue', IFRIC 13 'Customer Loyalty Programmes', IFRIC 15 'Agreements for the construction of real estate', IFRIC 18 'Transfers of Assets from Customers', SIC 31 'Revenue – barter transactions involving advertising services'. 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.
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 based 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 because of the large portfolio of financial assets carried at amortized cost. Currently the Bank finalizes the process of selecting a consultant in the design gap analysis in the preparation of the Bank for the implementation of IFRS 9. The aim of the project is to conduct a review containing defined information needs, gaps, concepts and how addressing identified gaps , recommendations and capabilities (solutions) in respect of the Bank's adjustment to changes resulting from IFRS 9, including: Module on the measurement of impairment, module on recognition, classification and measurement of financial instruments , hedge accounting, and reporting.

(IN PLN THOUSAND)

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

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

3. 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 and the notes to these financial statements and enclosed supplementary information. The estimates and assumptions that are used by the Bank in determining the value of assets and liabilities as well as revenues and costs, are made based on historical data and other factors which are available and are considered to be proper in the given circumstances.

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

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

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

3.1 Impairment of loans and advances

An impairment loss is incurred when there is an objective evidence of impairment due to one or more events that occurred after the initial recognition of the asset (‘a loss event’), and the loss event has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets. Future cash flows are assessed by the 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 method 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:	31.12.2015		31.12.2014	
	+10% scenario	-10% scenario	+10% scenario	-10% scenario
change in the present value of estimated cash flows for the Bank’s loans and advances portfolio assessed on an individual basis (individually determined to be impaired)	(204)	364	(260)	405
change in probability of default	60	60	84	(84)
change in recovery rates	(435)	435	(478)	479

More on impairment of loans and advances is described in Note 51 Credit Risk Management

3.2 Valuation of derivatives and unlisted debt securities available for sale

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

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

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

The valuation techniques used by the 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 outcomes of simulation of estimated changes in valuation of non-option derivative instruments for parallel movements of yield curves are presented below:

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

Estimated change in valuation due to parallel movement of yield curve by:	31.12.2015		31.12.2014	
	+50 b.p. scenario	-50 b.p. scenario	+50 b.p. scenario	-50 b.p. scenario
IRS	(35)	35	(47)	47
CIRS	(95)	99	(99)	104
other derivatives	(1)	1	(2)	2
Total	(131)	135	(148)	153

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

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

3.3 Calculation of provision for employee benefits

The provision for retirement 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 2015, on the basis of calculation conducted by an independent external actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance sheet date. An important factor affecting the amount of the provision is the adopted financial discount rate which was adopted by the Bank at the level of 2.75%, same as the last year.

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 2015 and as at 31 December 2014 is presented in the table below (in PLN million):

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

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

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

The 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.

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

In estimating useful economic lives of particular types of tangible fixed assets, intangible assets and investment properties, 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 economic useful life 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	31.12.2015		31.12.2014	
	+10 years scenario	-10 years scenario	+10 years scenario	-10 years scenario
Depreciation costs	(37)	232	(46)	236

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

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

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

The table below presents the impact of changes in range of presentation for comparative data.

	01.01-31.12.2014 data before conversion	Change in recognition of the result under the bancassurance	01.01-31.12.2014 converted
Continuing operations			
Interest and similar income	9 908 359	-	9 908 359
Interest expense and similar charges	(2 959 506)	-	(2 959 506)
Net interest income	**5 657 577**	-	**6 948 853**
Fee and commission income	3 613 576	(100 219)	3 513 357
Fee and commission expense	(998 987)	100 219	(898 768)
Net fee and commission income	**2 215 790**	-	**2 614 589**
Operating result	**3 810 738**	-	**3 810 738**
Profit before income tax	**3 160 944**	-	**3 810 738**
Income tax expense	(731 267)	-	(731 267)
Net profit	**2 429 677**	-	**3 079 471**

(IN PLN THOUSAND)

5. The takeover of the Spółdzielcza Kasa Oszczędnościowo- Kredytowa Wesoła in Mysłowice by PKO Bank Polski SA on 1 August 2015

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

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

The takeover was settled in accordance with IFRS 3. According to IFRS 3.45 Bank has 12 months - ie until 31 July 2016. to determine the final values. The takeover of SKOK Wesoła did not involve a transfer of the payment by the Bank. Whereas the takeover of SKOK Wesoła was conducted with the financial support granted by the BFG pursuant to art. 20g of the Act of 14 December 1994 on the Bank Guarantee Fund. The Bank received support from the BFG in the form of subsidies to cover the difference between the value of the taken over property rights and liabilities from guaranteed funds in the accounts of depositors in the amount of PLN 278 858 thousand and guarantees to cover losses arising from the risks associated with the taken over property rights of SKOK Wesoła.bn

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

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

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

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

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

Loans and advances to customers measured at fair value

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

(IN PLN THOUSAND)

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

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

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

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

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

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

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

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

(IN PLN THOUSAND)

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

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

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

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

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

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

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

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

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

(IN PLN THOUSAND)

NOTES TO THE INCOME STATEMENT

6. Interest income and expense

Interest income	2015	2014
Income from loans and advances to customers, of which:	7 881 024	8 389 267
from impaired loans	318 566	445 479
Income from investment securities available for sale	668 381	602 015
Income from placements with banks	99 170	142 660
Income from loans to banks	5 932	26 049
Other	2 691	3 208
Other income, of which:	725 703	745 160
Income from derivative hedging instruments (Note 19)	450 929	343 316
Income from financial assets designated upon initial recognition at fair value through profit and loss	219 624	340 831
Income from trading assets	55 150	61 013
Total	9 382 901	9 908 359

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

Interest expense	2015	2014
Interest expense on amounts due to customers	(2 330 752)	(2 735 319)
Interest expense on debt securities in issue and subordinated liabilities	(74 311)	(88 575)
Interest expense on loans from banks	(57 627)	(61 329)
Premium expense on debt securities available for sale	(57 230)	(40 927)
Interest expense on deposits from banks	(9 088)	(11 115)
Expense on financial assets designated upon initial recognition at fair value through profit and loss	(15 178)	(10 234)
Expense on trading assets	(18 577)	(12 007)
Total	(2 562 763)	(2 959 506)

(IN PLN THOUSAND)

Bank Polski

7. Fee and commission income and expense

Fee and commission income	2015	2014
income from loans and advances granted	632 826	574 291
payment cards	937 659	1 252 819
maintenance of bank accounts	883 328	895 195
loans insurance	95 341	153 904
maintenance of investment funds (including management fees)	291 250	230 083
cash transactions	91 794	101 584
securities transactions	98 670	89 068
servicing foreign mass transactions	74 435	60 250
providing services of an agent for the issue of Treasury bonds	23 218	23 037
sale and distribution of court fee stamps	12 265	9 613
investment and insurance products	17 742	2 345
From fiduciary activities	4 270	4 385
other (comissions of Brokerage House for service of the prmiray issue and comissions for the administraiting the borrowers debt to the state budget)	160 888	116 783
Total	3 323 686	3 513 357

Fee and commission expense	2015	2014
payment cards	(468 114)	(659 864)
acquisition services	(64 965)	(81 876)
settlement services	(29 896)	(27 274)
fee and commissions for operating services provided by banks	(18 061)	(13 249)
Other (cost of fees incurred by the Brokerage House to WSE and NDFS).	(138 108)	(116 505)
Total	(719 144)	(898 768)

8. Dividend income

Dividend income	2015	2014
Dividend income from the issuers of:	10 658	6 365
Investment securities available for sale	8 298	5 677
Trading assets held for sale	2 360	688
Dividend income from subsidiaries, joint ventures and associates, of which:	126 599	85 100
PKO Towarzystwa Funduszy Inwestycyjnych SA	51 069	35 033
CEUP eService Sp. z o.o.	25 571	21 387
Inteligo Financial Services SA	-	14 500
PKO Bankowy PTE SA	30 567	10 465
PKO BP Finat Sp. z o.o.	18 302	2 664
PKO Finance AB	1 090	1 051
Total	137 257	91 465

9. Net income from financial instruments measured at fair value

Net income from financial instruments measured at fair value	2015	2014
Derivative instruments, of which:	35 430	3 343
an ineffective portion related to cash flow hedges	(2 685)	(6 078)
Structured bank securities measured at fair value through profit and loss	(4 722)	(8 616)
Debt securities	(5 935)	62 156
Equity instruments	(5 898)	1 084
Other	6 253	-
Total	25 128	57 967

(IN PLN THOUSAND)

10. Gains less losses from investment securities available for sale

Profits	2015	2014
Equity instruments	18 466	35
issued by other financial intermediaries, sharesPLN	685	-
issued by non-financials, shares PLN	17 781	35
Debt securities	98 496	168 946
issued by the State Treasury, of which:	90 901	155 802
Treasury bonds PLN	88 440	155 802
Treasury bonds EUR	2 461	-
issued by the local government bodies, municipal bonds PLN	5 647	5 636
issued by non-financials, corporate bonds PLN	107	1 065
issued by other financial intermediaries, corporate bonds PLN	1 841	6 443
Total	**116 962**	**168 981**

Losses	2015	2014
Equity securities	**(2 357)**	**(3 204)**
issued by non-financials intermediaries, shares PLN	(2 357)	(3 204)
Debt securities	**(11 225)**	**(4 126)**
issued by the State Treasury, of which:	(11 109)	(2 948)
Treasury bonds PLN	(11 109)	(2 930)
Treasury bonds USD	-	(18)
issued by the local government bodies, municipal bonds PLN	(111)	(2)
issued by non-financials, corporate bonds PLN	(5)	(1 176)
Total	**(13 582)**	**(7 330)**
Result on investment securities available for sale	**103 380**	**161 651**

11. Other operating income and expense

Other operating income	2015	2014
Sale, disposal of tangible fixed assets, intangible assets and assets held for sale	44 802	57 881
Sundry income	23 191	18 580
Recovery of expired and written-off receivables	42 281	16 840
Other	51 737	61 151
Total	162 011	154 452

Other operating costs	2015	2014
Cost of sale, disposal of tangible fixed assets, intangible assets and assets held for sale	(30 788)	(45 182)
Donations	(11 284)	(14 724)
Sundry expense	(7 482)	(4 332)
Other	(46 640)	(30 589)
Total	(96 194)	(94 827)

(IN PLN THOUSAND)

12. Net impairment allowance and write-downs

For the year ended 31 December 2015	Note	Value at the beginning of the period	Increases			Decreases			Value at the end of the period	Net- impact on the 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	24	127 747	-	55 748	523	130 333	432	-	53 253	(55 316)
Debt securities available for sale		-	-	52 630	523	-	-	-	53 153	(52 630)
Equity securities		127 747	-	3 118	-	130 333	432	-	100	(2 686)
Amounts due from banks	18	11 596	-	2 011	378	-	13 723	2	260	11 712
Loans and advances to customers measured at amortised cost	23	7 527 200	332 460	4 801 076	194 880	1 531 427	3 373 362	60 590	7 890 237	(1 427 714)
Non-financial sector		7 504 886	332 460	4 633 569	193 154	1 466 255	3 308 605	59 282	7 829 927	(1 324 964)
corporate loans		3 869 710	-	2 474 396	35 225	702 924	1 741 321	6 053	3 929 033	(733 075)
housing loans		2 247 418	-	1 123 835	157 846	367 288	836 827	33 602	2 291 382	(287 008)
consumer loans		1 295 876	332 460	1 032 661	-	396 043	704 799	19 627	1 540 528	(327 862)
debt securities		91 882	-	2 677	83	-	25 658	-	68 984	22 981
Financial sector		6 854	-	134 317	923	63 569	51 574	1 241	25 710	(82 743)
corporate loans		6 854	-	134 317	923	63 569	51 574	1 241	25 710	(82 743)
Public sector		15 460	-	33 190	803	1 603	13 183	67	34 600	(20 007)
corporate loans		12 638	-	33 190	803	1 603	13 123	-	31 905	(20 067)
debt securities		2 822	-	-	-	-	60	67	2 695	60
Non-current assets held for sale	26	155 934	-	11 041	267 003	-	-	6 920	427 058	(11 041)
Tangible fixed assets	28	18	-	2 218	26 971	-	7 097	1 908	20 202	4 879
Intangible assets	27	15 373	-	-	-	-	-	-	15 373	-
Investments in subsidiaries. joint ventures and associates	25	1 120 101	-	35 399	-	62 062	32 419	265 878	795 141	(2 980)
Other receivables		145 672	-	58 238	53 211	10 179	41 995	-	204 947	(16 243)
Provision for legal claims. loan commitments and guarantees granted	36	133 078	2 343	297 740	13 716	21 422	320 225	3 026	102 204	22 485
Provisions for future liabilities		9 250	-	1 172	-	124	760	7 462	2 076	(412)
Total		**9 245 969**	**334 803**	**5 264 643**	**556 682**	**1 755 547**	**3 790 013**	**345 786**	**9 510 751**	**(1 474 630)**

(IN PLN THOUSAND)

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 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	24	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	18	40 237	18	3 205	5 378	5 956	31 286	-	11 596	28 081
Loans and advances to customers measured at amortised cost	23	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	26	165 226	-	154 273	-	236	-	163 329	155 934	(154 273)
Tangible fixed assets	28	34	-	4	-	20	-	-	18	(4)
Intangible assets	27	17 154	-	-	-	-	1 781	-	15 373	1 781
Investments in subsidiaries, joint ventures and associates	25	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)
Provision for legal claims, loan commitments and guarantees granted	36	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)

13. Administrative expenses

	2015	2014
Employee benefits	(2 544 741)	(2 343 178)
Overheads	(1 288 359)	(1 193 773)
Amortisation and depreciation, of which:	(755 659)	(643 210)
tangible fixed assets	(314 626)	(264 837)
intangible assets	(440 967)	(378 370)
investments properties	(66)	(3)
Taxes and other charges	(48 582)	(72 130)
Contribution and payments to the Bank Guarantee Fund	(445 254)	(215 293)
Borrower Support Fund	(337 932)	-
Additional payment to the BFG (SBRiR Wołomin bankruptcy)	(141 965)	-
Total	**(5 562 492)**	**(4 467 584)**

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

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

Employee benefits

	2015	2014
Wages and salaries, of which:	(2 125 240)	(1 967 097)
expenses on employee pension programme	(44 738)	(38 549)
Social insurance, of which:	(345 483)	(312 418)
contributions for retirement pay and pensions	(283 060)	(262 441)
Other employee benefits	(74 018)	(63 663)
Total	(2 544 741)	(2 343 178)

In 2013 the Employee Pension Programme was launched. Entry into the register Employee Pension Programme 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 Towarzystwo Funduszy Inwestycyjnych SA.

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

Operating lease – lessee

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:	**31.12.2015**	**31.12.2014**
up to 1 year	223 573	208 714
from 1 year to 5 years	453 930	384 865
over 5 years	150 196	81 083
Total	**827 699**	**674 662**

Lease and sub-lease payments recognised as an expense of a given period, from 1 January 2015 to 31 December 2015 amounted to PLN 229 739 thousand (in the period from 1 January 2014 to 31 December 2014 PLN 227 981 thousand).

(IN PLN THOUSAND)

14. Income tax expense

	2015	2014
Current income tax expense	(568 191)	(863 477)
Deferred income tax related to creating and reversal of temporary differences	2 323	132 210
Tax expenses in the income statement	**(565 868)**	**(731 267)**
Tax expense in other comprehensive income related to creating and reversal of temporary differences	(10 391)	(50 769)
Total	**(576 259)**	**(782 036)**

	2015	2014
Profit before income tax	3 137 010	3 810 738
Corporate income tax calculated using the enacted tax rate (19%) in force in Poland	(596 032)	(724 040)
Permanent differences between profit before income tax and taxable income, of which:	(12 058)	(39 686)
Impairment allowances not constituting taxable expense (KREDOBANK SA)	(6 270)	(2 834)
Exposure impairment allowances not constituting taxable expense/income	(17 049)	(31 302)
Other non-tax deductible expenses	(15 071)	(20 330)
Dividend income	26 079	16 930
Other permanent differences	253	(2 150)
Other differences between profit before income tax and taxable income, including donations, overpayments	42 222	32 459
Income tax in the income statement	(565 868)	(731 267)
Effective tax rate	18.04%	19.19%
Temporary difference due to the deferred tax presented in the income statement	2 323	132 210
Total current income tax expense in the income statement	**(568 191)**	**(863 477)**

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 2015 will be settled within regulatory due dates.

(IN PLN THOUSAND)

Deferred tax asset/liability

DEFERRED TAX LIABILITY	Statement of financial position		Take-over effect SKOK w 2015	Income statement	
	31.12.2015	31.12.2014		2015	2014
Interest accrued on receivables (loans)	260 743	238 026	28 671	5 954	3 260
Capitalised interest on performing housing loans	129 020	142 227	-	13 206	13 058
Interest on securities	27 592	37 627	-	10 035	(14 406)
Valuation of derivative financial instruments, of which:	7 880	3 062	-	-	-
recognised in income statement	21 404	1 841	-	(19 563)	(444)
recognised in other comprehensive income	(13 524)	1 221	-	-	-
Valuation of securities, of which:	-	7 891	-	-	-
recognised in income statement	-	-	-	-	900
recognised in other comprehensive income	-	7 891	-	-	-
Difference between carrying amount and tax value of tangible fixed assets and intangible fixed assets	342 761	348 433	852	6 524	(10 200)
Gross deferred tax liability, of which:	767 996	777 266	29 523	-	-
recognised in income statement	712 565	728 722	-	16 156	(7 832)
recognised in other comprehensive income	(13 524)	9 112	-	-	-
recognised at the date of the merger with a subsidiary (no impact on the income statement)	68 955	39 432	29 523	-	-

DEFERRED TAX ASSET	Statement of financial position		Take-over effect SKOK w 2015	Income statement	
	31.12.2015	31.12.2014		2015	2014
Interest accrued on liabilities	161 382	214 153	1 834	(54 605)	49 755
Interest on securities	-	-	-	-	(1 212)
Valuation of derivative financial instruments, of which:	-	8 062	-	-	-
recognised in income statement	-	8 062	-	(8 062)	26 991
Valuation of securities, of which:	(26 734)	16 673	-	-	-
recognised in income statement	7 201	16 673	-	(9 472)	15 196
recognised in other comprehensive income	(33 935)	-	-	-	-
Provision for employee benefits	84 823	86 746	-	-	-
recognised in income statement	81 879	84 710	-	(2 831)	2 771
recognised in other comprehensive income	2 944	2 036	-	-	-
recognised in other comprehensive income	579 135	575 238	1 923	1 974	15 166
Adjustment of straight-line valuation method and ESP	509 816	449 916	2 102	57 798	28 298
Other temporary negative differences	104 185	97 882	4 937	1 366	3 077
Gross deferred income tax asset, of which:	1 412 607	1 448 670	10 796	-	-
recognised in income statement	1 190 599	1 204 431	-	(13 832)	140 042
recognised in other comprehensive income	(30 991)	2 036	-	-	-
recognised at the date of the merger with a subsidiary (no impact on the income statement)	252 999	242 203	10 796	-	-

	Statement of financial position		Take-over effect SKOK w 2015	Income statement	
	31.12.2015	31.12.2014		2015	2014
Total deferred tax impact, of which:	**644 611**	**671 404**	**(18 727)**	**-**	**-**
recognised in income statement	478 034	475 709	-	2 323	132 210
recognised in other comprehensive income	(17 467)	(7 076)	-	-	-
recognised at the date of the merger with a subsidiary (no impact on the income statement)	184 044	202 771	(18 727)	-	-
DEFERRED INCOME TAX ASSET (presented in the statement of financial position)	644 611	671 404	18 727	-	-
Net deferred tax impact on the income statement	-	-	-	2 323	132 210

15. Earnings per share

	2015	2014
Profit per ordinary shareholders (in PLN thousand)	2 571 142	3 079 471
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000
Earnings per share (in PLN per share)	2.06	2.46

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

16. Dividends divided by shares

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

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

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

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

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

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

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

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

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

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

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

(IN PLN THOUSAND)

NOTES TO THE STATEMENT OF FINANCIAL POSITION

17. Cash and balances with the central bank

	31.12.2015	31.12.2014
Current account in the central bank	9 854 133	7 772 856
Cash	3 853 596	3 925 385
Other funds	1	7
Total	13 707 730	11 698 248

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 National Bank of Poland (NBP). However, the Bank must ensure that the average monthly balance on this account complies with the requirements set in the obligatory reserve declaration.

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

Restricted cash

Cash in the amount of PLN 10 117 thousand (PLN 11 440 thousand as at 31 December 2014) pledged as collateral for securities' transactions conducted by the Brokerage House of PKO Bank Polski SA are deposited in the 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.

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

Cash and cash equivalents

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

18. Amounts due from banks

	31.12.2015	31.12.2014
Deposits with banks	2 484 552	1 602 613
Current accounts	858 326	721 366
Loans and advances granted	269 027	295 004
Receivables due from repurchase agreements	980 630	-
Cash in transit	85	1 160
Total	4 592 620	2 620 143
Impairment allowances on receivables, of which:	(260)	(11 596)
impairment allowances on receivable to a foreign bank	(1)	(11 515)
Net total	4 592 360	2 608 547

Details on risk related to amounts due from banks were presented in the note 51 ‘Credit risk management’.

Liabilities from negative valuation of derivative instruments

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

Cash and cash equivalents

Current amounts due from banks as well as other cash equivalents with maturities up to 3 months from the date of acquisition, amounting to PLN 3 482 010 thousand are entirely treated as cash and cash equivalents for the purposes of the statement of cash flows (as at 31 December 2014 amounted to PLN 2 354 512 thousand).

(IN PLN THOUSAND)

19. Trading assets

At carrying amounts	31.12.2015	31.12.2014
Debt securities	776 655	1 919 353
issued by the State Treasury, of which:	648 695	1 825 454
Treasury bonds PLN	640 009	1 825 454
Treasury bonds EUR	8 686	-
issued by local government bodies, municipal bonds PLN	48 596	50 563
issued by non-financial institutions, of which:	46 122	22 146
corporate bonds PLN	46 052	22 137
corporate bonds EUR	70	9
issued by other financial institutions, of which:	5 344	6 559
bonds issued by WSE PLN	5 238	2 248
bonds issued by PKO Finance AB EUR	-	4 233
corporate bonds PLN	106	78
issued by banks	27 898	14 631
corporate bonds PLN	17 884	14 631
mortgage-backed securities	10 014	-
Shares in other entities – listed on stock exchange	9 910	5 137
Investment certificates	6 648	3 891
Rights to shares	-	278
Total	793 213	1 928 659

Debt securities by nominal value	31.12.2015	31.12.2014
Treasury bonds PLN	630 764	1 741 972
Treasury bonds EUR	8 630	-
corporate bonds PLN	69 992	38 323
corporate bonds EUR	75	4 058
municipal bonds PLN	46 156	48 067
mortgage-backed securities	10 000	-

The average yield on debt securities issued by the State Treasury	31.12.2015	31.12.2014
	2.1472%	1.9975%

Change in trading assets	2015	2014
Balance at the beginning of the period	1 928 659	484 485
Currency translation differences	14 919	58
Increases	153 972 032	204 794 395
Decreases	(155 121 809)	(203 348 345)
Changes in fair value	(588)	(1 934)
Balance at the end of the period	793 213	1 928 659

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

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).

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

(IN PLN THOUSAND)

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

Debt securities by maturity as at 31 December 2015 (the carrying amount)	up to 1 month	1 - 3 months	3 months – 1 year	1 - 5 years	over 5 years	Total
Debt securities						
issued by the State Treasury	188 761	-	267 575	98 281	94 078	648 695
issued by local government bodies	-	-	3 587	2 940	42 069	48 596
issued by other financial institutions	-	-	47	4 287	1 010	5 344
issued by non-financial institutions	-	-	5 768	31 322	9 032	46 122
issued by banks	-	-	40	24 512	3 346	27 898
Total	188 761	-	277 017	161 342	149 535	776 655

Debt securities by maturity as at 31 December 2014 (the carrying amount)	do 1 miesiąca	powyżej 1 miesiąca do 3 miesięcy	powyżej 3 miesięcy do 1 roku	powyżej 1 roku do 5 lat	powyżej 5 lat	Razem
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

20. Derivative financial instruments

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 2015 and as at 31 December 2014, the Bank held the following types of derivative instruments:

Type of instruments	31.12.2015		31.12.2014	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	508 665	998 527	599 841	494 961
Other derivative instruments	3 839 369	3 628 662	4 883 667	5 050 541
Total	**4 348 034**	**4 627 189**	**5 483 508**	**5 545 502**

Type of contract	31.12.2015		31.12.2014	
	Assets	Liabilities	Assets	Liabilities
IRS	3 208 234	3 053 133	4 592 893	4 439 830
CIRS	472 355	1 212 581	340 970	616 997
FX Swap	309 928	85 953	227 857	237 542
Options	236 757	177 513	172 680	133 912
FRA	16 226	22 192	59 078	63 505
Forward	104 534	72 588	89 113	53 043
Other	-	3 229	917	673
Total	**4 348 034**	**4 627 189**	**5 483 508**	**5 545 502**

(IN PLN THOUSAND)

Nominal amounts of underlying instruments as at 31.12.2015						
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Currency transactions						
FX Swap	31 367 772	10 782 600	7 271 374	2 218 167	-	51 639 913
Purchase of currency	15 720 094	5 432 226	3 668 250	1 137 414	-	25 957 984
Sale of currency	15 647 678	5 350 374	3 603 124	1 080 753	-	25 681 929
FX forward	4 674 755	2 128 625	5 855 274	3 353 261	-	16 011 915
Purchase of currency	2 337 607	1 075 483	2 926 778	1 657 658	-	7 997 526
Sale of currency	2 337 148	1 053 142	2 928 496	1 695 603	-	8 014 389
Options	2 026 608	3 215 545	10 167 256	8 121 441	153 990	23 684 840
Purchase	1 087 980	1 787 204	5 413 169	4 123 394	76 995	12 488 742
Sale	938 628	1 428 341	4 754 087	3 998 047	76 995	11 196 098
Cross Currency (CIRS)	1 719 726	168 970	1 899 495	25 332 339	12 779 312	41 899 842
Purchase	797 283	84 485	914 645	12 373 756	6 436 317	20 606 486
Sale	922 443	84 485	984 850	12 958 583	6 342 995	21 293 356
Interest rate transactions						
Interest Rate Swap (IRS)	17 391 880	44 323 846	82 568 528	225 685 272	41 366 188	411 335 714
Purchase	8 695 940	22 161 923	41 284 264	112 842 636	20 683 094	205 667 857
Sale	8 695 940	22 161 923	41 284 264	112 842 636	20 683 094	205 667 857
Forward Rate Agreement (FRA)	16 313 000	17 500 000	18 215 000	750 000	-	52 778 000
Purchase	8 824 000	8 625 000	7 155 000	750 000	-	25 354 000
Sale	7 489 000	8 875 000	11 060 000	-	-	27 424 000
Other transactions						
Other (including stockmarket index derivatives)	2 309 481	8 374	17 047	1 000	-	2 335 902
Purchase	834 315	43	15 752	-	-	850 110
Sale	1 475 166	8 331	1 295	1 000	-	1 485 792
Total derivative instruments	**75 803 222**	**78 127 960**	**125 993 974**	**265 461 480**	**54 299 490**	**599 686 126**

Nominal amounts of underlying instruments as at 31.12.2014						
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Currency transactions						
FX Swap	33 134 592	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 stockmarket 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**

21. Derivative hedging instruments

As at 31 December 2015 the Bank applies the following hedging strategies:

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

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

Hedged risk - currency risk and interest rate risk

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

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

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

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

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

Hedged risk - interest rate risk.

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

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

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

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

Description of hedge relationship:

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

Hedged risk - interest rate risk.

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

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

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

21.4. 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 2016 - July 2016.

(IN PLN THOUSAND)

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

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

Hedged risk - currency risk and interest rate risk.

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

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

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

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

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

Hedged risk - currency risk and interest rate risk.

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

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

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

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

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

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

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

Type of instrument:	Carrying amount/fair value of derivative instruments constituting cash flow hedges related to the interest rate and/or exchange rate			
	30.12.2015		31.12.2014	
	Assets	Liabilities	Assets	Liabilities
IRS	269 122	-	421 101	-
CIRS	239 543	998 527	178 740	494 961
Total	**508 665**	**998 527**	**599 841**	**494 961**

(IN PLN THOUSAND)

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

Type of instrument:	Nominal value as at 31 December 2014					
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
IRS PLN fixed - float	-	2 540 000	3 264 000	6 114 000	-	**11 918 000**
IRS EUR fixed - float:						
w przeliczeniu na PLN	-	-	1 538 690	473 115	-	**2 011 805**
EUR (waluta oryginalna)	-	-	361 000	111 000	-	**472 000**
IRS CHF fixed - float:						
w przeliczeniu na PLN	-	-	-	886 175	-	**886 175**
CHF (waluta oryginalna)	-	-	-	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**

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

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

(IN PLN THOUSAND)

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

By carrying amount	31.12.2015	31.12.2014
Debt securities	12 796 036	13 417 667
issued by central banks, NBP money market bills	9 996 910	10 998 812
issued by the State Treasury, Treasury bonds PLN	2 551 863	2 165 038
treasury bonds PLN	1 466 614	2 165 038
treasury bonds EUR	91 634	-
treasury bonds CHF	993 615	-
issued by local government bodies, of which:	247 263	253 817
municipal bonds EUR	131 341	139 882
municipal bonds PLN	115 922	113 935
Total	12 796 036	13 417 667

Debt securities by nominal value	31.12.2015	31.12.2014
treasury notes NBP PLN	10 000 000	11 000 000
treasury bonds PLN	1 452 909	2 091 696
treasury bonds EUR	98 015	-
treasury bonds CHF	984 850	-
municipal bonds EUR	106 538	106 558
municipal bonds PLN	100 000	100 000

The average yield on debt securities issued by the State Treasury	31.12.2015	31.12.2014
	0.9957%	1.9612%

Change in financial instruments designated upon initial recognition at fair value through profit and loss	2015	2014
Balance at the beginning of the period	13 417 667	15 179 188
Currency translation differences	(69 916)	3 989
Increases, of which:	586 034 421	625 937 575
arising from business combinations	-	740 242
Decreases	(586 564 261)	(627 717 761)
Changes in fair value	(21 875)	14 676
Balance at the end of the period	12 796 036	13 417 667

As at 31 December 2015 and 31 December 2014 in the Bank's portfolio were no financial assets designated at initial recognition as at fair value through profit and loss account that provided hedge sell-buy-back (bonds) and related liabilities.

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

Debt securities by maturity as at 31 December 2015 (the carrying value)	up to 1 month	over 3 months to 1 year	over 1 year to 5 years	over 5 years	Total
Debt securities					
issued by central banks	9 996 910	-	-	-	9 996 910
issued by the State Treasury	3 387	86 736	2 131 438	330 302	2 551 863
issued by local government bodies	-	-	247 263	-	247 263
Total	10 000 297	86 736	2 378 701	330 302	12 796 036

(IN PLN THOUSAND)

Debt securities by maturity as at 31 December 2014 (the carrying value)	up to 1 month	over 3 months to 1 year	over 1 year to 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**

23. Loans and advances to customers

Loans and advances to customers by sector and product type	**31.12.2015**	**31.12.2014**
Loans and advances to customers, gross, of which:	196 442 677	185 084 771
financial sector	9 901 760	5 334 058
corporate, of which:	5 458 869	5 031 085
deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee Fund and initial deposit	10 217	11 440
receivables due from repurchase agreements	4 432 239	302 973
international financial organizations	10 652	-
non-financial sector	176 609 803	169 725 839
housing	102 162 396	97 959 884
corporate	48 446 610	48 201 845
consumer	23 339 924	21 455 129
debt securities (corporate)	2 660 873	2 108 981
public sector	9 931 114	10 024 874
corporate	7 235 743	7 202 375
debt securities (municipal)	2 695 371	2 822 499
Impairment allowances on loans and advances	(7 890 237)	(7 527 200)
Loans and advances to customers, net	**188 552 440**	**177 557 571**

In the first quarter of 2015, the PKO Bank Polski SA remitted USD 8 250 thousand loan granted to Finansowa Kompania „Prywatne Inwestycje" Sp. z o.o. and USD 8 284 thousand loan granted to Finansowa Kompania „Idea Kapitał" Sp. z o.o. and also interest payable on the loans mentioned above (i.e. The value of loans that remained to be repaid). Remission were carried out at the request of the companies, due to the economic situation of Ukraine, in particular on progressive devaluation of the hryvnia resulting in the inability to obtain the Company's revenues from recoveries of receivables in UAH at the amount required to repay the loans received from the Bank and the limitations of the National Bank of Ukraine in terms of exchange and transfer of currency abroad.

Loans and advances to customers by method of calculating impairment allowances	**31.12.2015**	**31.12.2014**
Assessed on an individual basis, of which:	6 799 156	6 616 005
impaired	4 972 235	5 138 087
not impaired	1 826 921	1 477 918
Assessed on a portfolio basis, impaired	7 552 256	7 209 870
Assessed on a group basis (IBNR)	182 091 265	171 258 896
Loans and advances to customers, gross	**196 442 677**	**185 084 771**
Impairment allowances on exposures assessed on an individual basis, of which:	(2 630 480)	(2 599 180)
impaired	(2 617 808)	(2 583 402)
Impairment allowances on exposures assessed on a portfolio basis	(4 713 044)	(4 322 663)
Impairment allowances on exposures assessed on a group basis (IBNR)	(546 713)	(605 357)
Impairment allowances - total	**(7 890 237)**	**(7 527 200)**
Loans and advances to customers, net	**188 552 440**	**177 557 571**

A detailed description of the changes in impairment losses are presented in note 12 "Net write-downs for impairment losses and provisions".

On 31 December 2015 the share of impaired loans amounted to 6.4% (as at 31 December 2014: 6.7%), while the coverage ratio of impaired loans as at 31 December 2015 (calculated as total loans and advances to customers write-offs to total gross carrying value of impaired loans) amounted to 63.0% (as at 31 December 2014: 61.0%).

At 31 December 2015 the share of loans overdue more than 90 days in relation to the value of gross loans and advances amounted to 4.8% (as at 31 December 2014: 4.9%).

(IN PLN THOUSAND)

As at 31 December 2015 and 31 December 2014 the Bank did not have transferred financial assets that are excluded from the financial statements as a whole for which the Bank would maintain a commitment to these assets.

Loans and advances to customers by client segment	31.12.2015	31.12.2014
Loans and advances granted, gross, of which:	196 442 677	185 084 771
mortgage banking	95 217 252	90 622 919
corporate	52 119 477	51 188 599
retail and private banking	23 339 924	21 455 129
small and medium enterprises	21 312 916	21 503 711
dopłaty do kapitałów podmiotów zależnych	10 652	-
receivables due from repurchase agreements	4 432 239	302 973
deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee Fund	10 217	11 440
Impairment allowances on loans and advances	(7 890 237)	(7 527 200)
Loans and advances granted, net	**188 552 440**	**177 557 571**

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

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

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

Securities reclassification

In 2012 due to the change of intention as regards holding of the selected portfolio of non-Treasury securities classified upon initial recognition as available for sale, the 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 amortized 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

(IN PLN THOUSAND)

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

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

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

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

24. Investment securities available for sale

the carrying value	31.12.2015	31.12.2014
Debt securities available for sale, gross	27 312 620	21 794 141
issued by the State Treasury, of which:	18 021 339	12 458 348
Treasury Bonds PLN	17 710 719	12 458 348
Treasury Bonds EUR	310 620	-
issued by local government bodies, municipal bonds PLN	4 613 726	4 480 325
issued by non-financial institutions	3 161 994	3 466 982
corporate bonds PLN	2 617 664	2 951 605
corporate bonds EUR	320 712	315 965
corporate bonds USD	223 618	199 412
issued by other financial institutions, corporate bonds PLN	239	184 914
issued by banks, corporate bonds	1 515 322	1 203 572
corporate bonds PLN	1 470 753	1 112 705
corporate bonds EUR	44 569	90 867
Impairment allowances on debt securities available for sale	(53 153)	-
corporate bonds PLN	(22 959)	-
corporate bonds USD	(30 194)	-
Total net debt securities available for sale	27 259 467	21 794 141
Equity securities available for sale, gross	403 717	239 616
Equity securities not admitted to public trading	346 893	209 219
Equity securities admitted to public trading	56 824	30 397
Impairment allowances on equity securities available for sale	(100)	(127 747)
Total net equity securities available for sale	403 617	111 869
Shares in investment funds	196 643	186 126
Total net investment securities available for sale	27 859 727	22 092 136

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

(IN PLN THOUSAND)

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

Debt securities by nominal value	31.12.2015	31.12.2014
Treasury Bonds PLN	17 746 014	12 212 276
Treasury Bonds EUR	304 697	-
municipal bonds PLN	4 498 391	4 388 019
corporate bonds PLN	4 082 236	4 217 122
corporate bonds EUR	362 228	404 919
corporate bonds USD	223 572	200 998

The average yield on debt securities issued by the State Treasury	31.12.2015	31.12.2014
	2.2939%	2.1232%

Change in investment securities available for sale	2015	2014
Balance at the beginning of the period	22 092 136	13 736 698
Currency translation differences	(37 117)	34 134
Increases, of which	52 701 955	52 939 123
arising from business combinations	-	1 686 180
impairment change	130 765	-
Decreases	(47 034 325)	(44 724 797)
of which change in impairment allowance	(55 748)	(94 392)
Change in fair value recognised in other comprehensive income	137 078	106 978
Balance at the end of the period	**27 859 727**	**22 092 136**

Debt securities available for sale by maturity as at 31 December 2015 by carrying value	up to 1 month	over 1 month to 3 months	over 3 months to 1 year	over 1 year to 5 years	over 5 years	Total
Debt securities available for sale						
issued by the State Treasury	-	-	113 983	6 772 184	11 135 172	**18 021 339**
issued by local government bodies	366	4 399	269 987	1 640 552	2 698 422	**4 613 726**
issued by non-financial institutions	-	81 146	56 215	2 280 778	690 702	**3 108 841**
issued by other financial institutions	-	239	-	-	-	**239**
issued by banks	-	-	44 569	1 470 753	-	**1 515 322**
Total	**366**	**85 784**	**484 754**	**12 164 267**	**14 524 296**	**27 259 467**

Debt securities available for sale by maturity as at 31 December 2015 by carrying value	up to 1 month	over 1 month to 3 months	over 3 months to 1 year	over 1 year to 5 years	over 5 years	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 2015 and as at 31 December 2014 the Bank did not have transferred financial assets, which are derecognised from the financial statements in their entirety for which the Bank would continue involvement in those assets.

(IN PLN THOUSAND)

Bank Deposit Guarantee Fund

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

	31.12.2015	31.12.2014
Value of the fund	608 499	901 339
Nominal value of the pledge	650 000	930 000
Type of the pledge	treasury bonds	treasury bonds
Maturity of the pledge	25.01.2024	25.01.2025
Carrying amount of the pledge	627 367	915 957

Assets represent Treasury bonds with maturities sufficient to secure their carrying amount over the period defined by the Act. The Fund is increased or decreased on 1 July of each year, in proportion to the amount providing the basis for calculation of mandatory reserve deposits. Those funds are treated as assets held as collateral for own liabilities. In connection with suspension of activities and filled bankruptcy motion by Polish Financial Supervision Authority (KNF) on 21 November 2015 of the Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołominie (the Co-operative Crafts and Agriculture Bank in Wołomin), the Bank Guarantee Fund obliged the Bank to make payment in amount of PLN 337 932 thousand, intended for the payment of the guaranteed deposits held by the depositors of Co-operative Crafts and Agriculture Bank in Wołomin.

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

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

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

25.1 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 2015	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA[1]	1 018 069	(793 641)	224 428
PKO Bank Hipoteczny SA	300 000	-	300 000
PKO Życie Towarzystwo Ubezpieczeń SA	240 636	-	240 636
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
PKO Leasing SA	178 000	-	178 000
PKO BP BANKOWY PTE SA	150 841	-	150 841
Merkury - fiz an[2]	120 000	-	120 000
NEPTUN - fizan[2]	94 663	-	94 663
PKO Towarzystwo Ubezpieczeń SA	88 000	-	88 000
PKO BP Finat Sp. z o.o.	71 295	-	71 295
PKO Finance AB	172	-	172
Joint ventures			
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197 320	-	197 320
Associates			
Bank Pocztowy SA	161 500	-	161 500
Ferrum SA	24 143	-	24 143
„Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	1 500	(1 500)	-
Total	**2 833 128**	**(795 141)**	**2 037 987**

1) The above listed value does not include the contributions paid by PKO Polish Bank SA for new shares valued at UAH 330 000 thousand; the increase in the share capital was not registered as at 31 December 2015
2) PKO Polish Bank SA holds investment certificates in the fund allowing, in accordance with IFRS, to control the Fund.

In accordance with IAS 36 'Impairment of assets' the recoverable value of shares in subsidiaries was assessed.

In 2015 the Bank increased, on the basis of valuation, impairment loss on equity investment in KREDOBANK SA by PLN 33 000 thousand and dissolved the impairment loss on shares of Bank Pocztowy SA in the amount of PLN 28 854 thousand.

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.

(IN PLN THOUSAND)

The banking sector of Ukraine in 2015 was in a difficult financial situation due to the outflow of deposits from some banks in the first half of 2015 (in the first place in foreign currency), significant losses due to the devaluation of the hryvnia and a deterioration in the quality of loans. More than 60 Ukrainian banks have ceased their activities in 2014-2015, and the total number of banks operating in Ukraine decreased to 120 at the end of 2015.

In spite of the problems in the banking sector KREDOBANK SA continues its credit action, has a stable liquidity, capital support and strategic shareholder support in the form of PKO Bank Polski SA. Today KREDOBANK SA is perceived as one of the safest banks in Ukraine with the highest ability to survive the period of the system instability.

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

The recoverable amount of shares of Bank Pocztowy SA was estimated based on fair value calculated used discounted dividend model.

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 ubezpieczen SA (dawna „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" Spółka z dodatkową odpowiedzialnością	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.

Selected information on associates

Bank Pocztowy SA	30.09.2015	30.09.2014
Total assets	6 880 000	7 028 000
Amounts due to customers	5 567 000	5 925 000
	9 months 2015	**9 months 2014**
Revenues	245 500	256 800
Profit (loss) for 9 months of the year	33 700	34 600
		2014
Profit (loss) for the year	-	43 639

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

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

In 2015, Bank Pocztowy SA conducted preparatory works to raise capital through an initial public offering and listing on the Stock Exchange in Warsaw. PKO Bank Polski SA participated in the process as a potential selling shareholder, i.e. considering selling of part of the package of shares of the Company by the above-mentioned offer. Given the current status of the work on offer, the Bank ceased to demonstrate shares of Bank

(IN PLN THOUSAND)

Pocztowy SA in the position of non-current assets held for sale (in which position the Company shares were recorded from 31 March 2015). Shares of the Company as at 31 December 2015 are recognised in investments in associates and joint ventures.

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

Presented data on “Poznański fundusz Poręczeń Kredytowych” Sp. z o.o. are derived from the audited financial statements of the Company prepared in accordance with Polish Accounting Standards. According to the Bank's estimates, the differences between these statements and the financial statements prepared in accordance with IFRS are not significant for the Bank's financial statements. Data for 2014 are derived from audited financial statements.

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

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

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

As at 31 December 2015 and 31 December 2014 the Bank had no share in contingent liabilities of associates acquired jointly with other investors.

FERRUM SA

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

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

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

The Company has two subsidiaries in which maintains full control.

25.2 Changes to the entities of the Group

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

1. concerning entity PKO Towarzystwo Ubezpieczeń SA

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

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

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

At the end of 2015 the Company achieved initial operation capability. On 9 January 2016 PKO Towarzystwo Ubezpieczeń SA launched offer of property insurance for individual clients of PKO Bank Polski SA who take credit cards. In February 2016, the Company launched the sale of property insurance, movables insurance, MTPL in private life, Assistance and insurance against the loss of income for the clients of PKO Bank Polski SA and Bank Hipoteczny PKO SA mortgage borrowers and for cash loans borrowers in PKO Bank Polski SA.

2. concerning entity PKO Towarzystwo Ubezpieczeń SA

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

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

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

3. concerning entities of the PKO Leasing SA Group

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

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

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

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

4. concerning PKO BP BANKOWY PTE SA

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

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

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

5. concerning entity PKO BP Faktoring SA

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

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

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

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

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

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

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

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

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

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

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

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

Qualia 3 Sp. z o.o. took over from Qualia Sp. z o.o. all the rights and obligations of the general partner in Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k. – agreement of sale of all rights and obligations in this regard was concluded on 4 November 2015

At the same time, in connection with the above-described changes, on 7 December 2015, the change of the name of Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k. was registered with the National Court Register - the current name is: Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.

On 3 November 2015 an increase in the limited partner's contribution (entity Qualia Development Sp. z o.o.) of the entity Qualia sp. z o.o. – Sopot Sp. k. by PLN 4 900 thousand, i.e from PLN 5 300 thousand to PLN 10 200 thousand, was registered with the National Court Register.

On 26 November 2015 an increase in the share capital of the entity Qualia – Rezydencja Flotylla Sp. z o.o by PLN 22 300 thousand was registered with the National Court Register. All shares in the increased capital were acquired by Qualia Development Sp. z o.o.

As at 31 December 2015 the share capital of Qualia – Rezydencja Flotylla Sp. z o.o. is PLN 33 826 thousand and is divided into 33 826 shares with nominal value of PLN 1 thousand each.

In 2015 the entity Qualia Development Sp. z o.o. made a contribution to the share capital of Qualia 2 Sp. z o.o in the amount of PLN 49 500 and a contribution to the share capital of Qualia 3 Sp. z o.o in the amount of PLN 30 thousand, and also received PLN 7 000 thousand from the entity Qualia - Residence Sp. z o.o. as a repayment of part of the contributions to the share capital of this entity.

8. concerning entity 'Centrum Majkowskiego' Sp. z o.o. in liquidation

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

9. concerning subsidiaries recognized in the non- current assets held for sale

In June 2015, according to IFRS 5, PKO Bank Polski SA reclassified shares in the entity Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and in the entity 'Inter-Risk Ukraina' Sp. z d.o. 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 inside PKO Bank Polski SA Group.

Under this position are also recognized shares in the company Qualia Development Sp. z o.o.

10. concerning events which will cause changes in the Group in the following quarters

On 9 November 2015 PKO Bank Polski SA paid for the acquisition of 33 billion shares of KREDOBANK SA in new emission of nominal and emission value UAH 330 000 thousand. The abovementioned increase has not been registered before 31 December 2015.

After registration of the abovementioned increase, the share of PKO Bank Polski SA in the share capital of KREDOBANK SA and share in voting rights at the General Shareholders' Meeting of the Company will increase to 99.6293%

As regards to the companies constituting joint ventures and associates, in 2015 following events took place:

1. concerning entity Bank Pocztowy SA

On 20 November 2015 an increase in the share capital of the entity Bank Pocztowy SA by PLN 12 842 480 was registered with the National Court Register. PKO Bank Polski SA acquired 321 062 shares of PLN 3 210 620.00 total nominal value and PLN 15 000 016.64 total emission value. The remaining shares were acquired by Poczta Polska SA. In sum Bank Pocztowy SA was recapitalized by current shareholders in the amount of PLN 60 000 thousand.
As a result of the abovementioned increase in the capital PKO Bank Polski SA still holds 25% of the share capital of the Company plus 10 shares.

(IN PLN THOUSAND)

2. concerning entities of the Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. Group

Entity Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. (constituting a joint venture of the Bank) established two subsidiaries, including:

a) EVO Payments International Sp. z o.o. with its registered office in Poland which was registered with the National Court Register on 9 February 2015; the share capital of the Company at the end of 2015 is PLN 282 thousand (wherein shares in the increased share capital with nominal value of PLN 277 thousand were acquired for the emission price of PLN 13 850 thousand),
b) EVO Payments International s.r.o. with its registered office in the Czech Republic which was registered with the Commercial Register of the Czech Republic on 16 February 2015; the share capital at the end of 2015 is CZK 30 200 thousand.

The object of the above mentioned companies is to conduct activities supporting financial services.

3. concerning FERRUM SA

On 28 December 2015 PKO Bank Polski SA acquired through debt collection activities (foreclosure of the collateral) 5 147 730 shares of the public company FERRUM SA, which account for 20.97% in the share capital of the Company and entitle to 20.97% of voting rights at the General Shareholders' Meeting. The Company became an associate. The main activity of the Company is production of welded steel pipes, production of structural hollow section and delivering coating services.

The Company owns two subsidiaries. Zakład Konstrukcji Spawanych FERRUM SA produces steel structures and their parts and FERRUM MARKETING Sp. z o.o. provides marketing services.

26. Non-current assets held for sale

	31.12.2015	31.12.2014
Fixed assets available for sale reclassified from subsidiaries	203 210	165 000
Finansowa Kampania "Prywatne Inwestycje" Sp. Z o. o.	34 020	-
"Inter-Risk Ukraina" Spółka z dodatkową odpowiedzialnością	4 190	-
Qualia Development Sp. Z o. o.	165 000	165 000
Land and buildings	217 359	251 600
Other	2 107	160
Total	**422 676**	**416 760**

27. Intangible assets

For the year ended 31 December 2015	Software	Goodwill	Relations with customers	Other, including capital expenditure	Total
Gross carrying amount at the beginning of the period	3 664 268	871 047	86 499	273 950	4 895 764
Increases, of which:	17 679	-	-	345 533	363 212
purchase	17 679	-	-	345 533	363 212
Decreases, of which:	(14 597)	-	-	(10 168)	(24 765)
other	(13)	-	-	(7 433)	(7 446)
Transfers from capital expenditure on software	368 711	-	-	(368 711)	-
Gross carrying amount at the end of the period	**4 036 061**	**871 047**	**86 499**	**240 604**	**5 234 211**
Accumulated amortisation at the beginning of the period	(1 931 938)	-	(19 247)	(30 594)	(1 981 779)
Increases, of which:	(419 301)	-	(19 138)	(4 110)	(442 549)
amortisation for the period	(417 719)	-	(19 138)	(4 110)	(440 967)
other	(1 582)	-	-	-	(1 582)
Decreases, of which:	2 985	-	-	296	3 281
other	3	-	-	-	3
Accumulated amortisation at the end of the period	(2 348 254)	-	(38 385)	(34 408)	(2 421 047)
Impairment allowances at the beginning of the period	(15 373)	-	-	-	(15 373)
Impairment allowances at the end of the period	(15 373)	-	-	-	(15 373)
Net carrying amount at the beginning of the period	1 716 957	871 047	67 252	243 356	2 898 612
Net carrying amount at the end of the period	**1 672 434**	**871 047**	**48 114**	**206 196**	**2 797 791**

(IN PLN THOUSAND)

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	(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

To the Bank, a 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 2005–2015 amounted to PLN 1 185 473 thousand. Net carrying amount of the Integrated Information System (Zintegrowany System Informatyczny - ZSI) amounted to PLN 717 414 thousand as at 31 December 2015 (PLN 735 623 thousand as at 31 December 2014). The expected useful life of the ZSI system is 17 years. As at 31 December 2015, the remaining useful life is 8 years.

Goodwill

Net goodwill related to the assets of the acquired company	31.12.2015	31.12.2014
Nordea Bank Polska SA	863 262	863 262
Centrum Finansowe Puławska Sp. z o.o.	7 785	7 785
Total	871 047	871 047

As at 31 December 2015, the Group carried out compulsory impairment test for goodwill arising from the acquisition of Nordea Bank Polska SA, according to the model developed based on the guidance in IAS 36. The impairment test is performed by comparing the carrying value of cash-generating units (CGU) to their recoverable value. Two CGU were distinguished to which the value of goodwill was assigned arising from the acquisition of Nordea Bank Polska SA – retail and corporate.

The recoverable amount is estimated on the basis of value in use of the CGU. Value in use is the present value of the future cash flows for the period of 10 years, taking into account the residual value of the CGU. Residual value of the CGU has been calculated by extrapolating the cash flow projections beyond the forecast period, using the growth rates adopted at the level of 1.5%.

Cash flow projections are based on the assumptions contained in the financial plan of the Bank for 2016. For discounting of the future cash flows the discount rate of 7.6% was used, taking into account the risk-free rate and risk premium.

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

In 2015, as a result of acquisition of the credit union "Wesoła" Bank recognized goodwill in the amount of PLN 451 thousand. On 31 December 2015 the Bank recognized an impairment loss of the full amount of goodwill.

The Bank does not produce patents and licenses on its own. In 2015 PKO Bank Polski SA incurred capital expenditures related to the acquisition of fixed assets and intangible assets in the amount of PLN 674 817 thousand (in 2014 in the amount of PLN 702 951 thousand).

In the years ended 31 December 2015 and 31 December 2014, there were no intangible assets which ownership by the Bank were subject to restrictions and pledged as collateral for liabilities.

(IN PLN THOUSAND)

28. Tangible fixed assets

For the year ended 31 December 2015	Land and buildings	Machinery and equipment	Means of transport	Assets under construction	Investment properties	Other	Total
Gross value of tangible fixed assets at the beginning of the period	2 429 331	1 882 672	135	182 792	203	548 510	5 043 643
Increases, of which:	82 015	5 922	1 486	334 229	13 964	7 877	445 493
purchase and other changes	28 564	5 760	1 486	334 229	13 964	7 752	391 755
take of control over subsidiaries	28 029	5 236	1 484	52	-	7 580	42 381
classification from assets held for sale	53 451	162	-	-	-	125	53 738
Decreases, of which:	(130 495)	(244 132)	(936)	(5 656)	(118)	(26 792)	(408 129)
disposal and sale	(87 625)	(235 232)	(936)	(530)	-	(25 995)	(350 318)
classification to assets held for sale	(26 755)	(2 227)	-	-	(108)	(6)	(29 096)
other	(16 115)	(6 673)	-	(5 126)	(10)	(791)	(28 715)
Transfers from capital expenditure on software	77 848	115 991	-	(246 264)	-	52 425	-
Gross value of tangible fixed assets at the end of the period	**2 458 699**	**1 760 453**	**685**	**265 101**	**14 049**	**582 020**	**5 081 007**
Accumulated depreciation at the beginning of the period	(961 730)	(1 443 003)	(132)	-	(19)	(387 368)	(2 792 252)
Increases, of which:	(97 933)	(169 562)	(1 486)	-	(66)	(56 059)	(325 106)
depreciation for the period	(95 714)	(166 668)	(28)	-	(66)	(52 216)	(314 692)
other	(2 219)	(2 797)	(1 458)	-	-	(3 843)	(10 317)
take of control over subsidiaries	(2 219)	(2 792)	(1 458)	-	-	(3 741)	(10 210)
classification to assets held for sale	-	(97)	-	-	-	-	(97)
Decreases, of which:	68 264	238 397	935	-	10	25 269	332 875
disposal and sale	52 338	231 917	935	-	-	24 671	309 861
classification to assets held for sale	-	-	-	-	10	-	10
other	15 926	6 480	-	-	-	598	23 004
Accumulated depreciation at the end of the period	**(991 399)**	**(1 374 168)**	**(683)**	**-**	**(75)**	**(418 158)**	**(2 784 483)**
Impairment allowances at the beginning of the period	(18)	-	-	-	-	-	(18)
Increases, of which:	(22 665)	(128)	-	-	(5 735)	(660)	(29 188)
classification to assets held for sale	(6 626)	(97)	-	-		-	(6 723)
recognised during the period	(2 218)	-	-	-	-	-	(2 218)
other	(13 821)	(31)	-	-	(5 735)	(660)	(20 247)
Decreases, of which:	(13 683)	-	-	-	-	(651)	(14 334)
Zmniejszenia, w tym:	8 882	113	-	-	-	9	9 004
disposal and sale	1 891	16	-	-	-	-	1 907
released during the period	6 991	97	-	-	-	9	7 097
Impairment allowances at the end of the period	**(13 801)**	**(15)**	**-**	**-**	**(5 735)**	**(651)**	**(20 202)**
Net carrying amount at the beginning of the period	1 467 583	439 669	3	182 792	184	161 142	2 251 373
Net carrying amount at the end of the period	**1 453 499**	**386 270**	**2**	**265 101**	**8 239**	**163 211**	**2 276 322**

As at 31 December 2015 the off-balance sheet value of machinery and equipment used under operating lease agreements and operating leases with purchase options contracts amounted to PLN 74 930 thousand (as at 31 December 2014 it amounted to PLN 66 705 thousand). In the years ended 31 December 2015 and 31 December 2014, 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 PLN THOUSAND)

In 2015, the Bank received compensation from third parties for the impairment or loss of tangible fixed assets, recognized in the income statement in the amount of PLN 59 thousand (in 2014 in the amount of PLN 161 thousand).

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)
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**

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

(IN PLN THOUSAND)

29. Other assets

	31.12.2015	31.12.2014
Settlements of payment cards transactions	384 236	267 806
Settlements of financial instruments	178 687	191 950
Receivables from other transactions with financial and non-financial institutions	6 767	95 920
Trade receivables	64 991	63 991
Assets for sale	69 479	48 084
Accruals and prepayments	59 213	47 878
Inventories related to utilisation, auxiliary operations and investment	20 247	23 118
Receivables from the State budget due to court fee stamps' distribution carried out by the Bank	10 191	10 588
Receivables and settlements of securities turnover	140 369	9 995
Receivables from unsettled transactions related to derivatives	2 040	6 985
Receivables from BFG subsidy regarding SKOK	429 516	-
Other*	144 605	61 610
Total	**1 510 341**	**827 925**
of which financial assets**	1 216 797	647 235

* 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'.

30. Amounts due to the central bank

	31.12.2015	31.12.2014
Up to 1 month	4 219	4 427
Total	**4 219**	**4 427**

31. Amounts due to banks

	31.12.2015	31.12.2014
Loans and advances received, of which:	16 371 687	16 393 118
Nordea Bank AB (publ)*	16 371 687	14 927 552
Bank deposits	1 177 407	1 122 090
Amounts due from repurchase agreements	197 023	299 530
Current accounts	472 193	607 188
Other money market deposits	31 547	17 658
Total	**18 249 857**	**18 439 584**

* Financing of the credit porfolio acquired during in merger transaction with Bank Polska Nordea

32. Amounts due to customers

	31.12.2015	31.12.2014
Amounts due to retail clients	134 967 428	128 230 900
Term deposits	70 756 674	68 882 671
Current accounts and overnight deposits	63 926 647	59 126 815
Other liabilities	284 107	221 414
Amounts due to corporate entities	57 707 408	52 911 331
Term deposits	23 185 159	16 562 690
Current accounts and overnight deposits	22 276 890	19 270 916
Loans and advances received, of which:	10 435 617	15 051 131
- received from PKO Finance AB	7 332 263	12 036 601
Other liabilities	980 628	1 170 470
Amounts due from repurchase agreements	829 114	856 124
Amounts due to public entities	9 134 366	4 778 331
Current accounts and overnight deposits	5 679 394	4 018 024
Term deposits	3 435 443	740 995
Other liabilities	19 529	19 312
Total	**201 809 202**	**185 920 562**

(IN PLN THOUSAND)

By client segment	31.12.2015	31.12.2014
Amounts due to customers, of which:		
retail and private banking	127 833 147	121 893 357
corporate	42 908 352	30 907 441
loans and advances received	10 435 617	15 051 131
small and medium enterprises	19 802 972	17 212 509
amounts due from repurchase agreements	829 114	856 124
Total	201 809 202	185 920 562

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 31.12.2015	Carrying value as at 31.12.2014
21.10.2010	800 000	EUR	21.10.2015	-	3 431 769
07.07.2011	250 000	CHF	07.07.2016	1 003 047	901 443
25.07.2012	50 000	EUR	25.07.2022	214 573	213 768
21.09.2012	500 000	CHF	21.12.2015	-	1 772 805
26.09.2012	1 000 000	USD	26.09.2022	3 938 519	3 540 943
23.01.2014	500 000	EUR	23.01.2019	2 176 124	2 175 873
Total				7 332 263	12 036 601

33. Debt securities in issue

	31.12.2015	31.12.2014
Financial instruments designated at fair value through profit and loss - bank securities	71 744	118 262
Financial instruments measured at amortised cost – bank bonds	1 645 917	747 825
Total	1 717 661	866 087

Debt securities in issue by maturity	31.12.2015	31.12.2014
from 1 month to 3 months	71 744	747 825
from 3 months to 1 year	1 645 917	46 668
from 1 year to 5 years	-	71 594
Total	1 717 661	866 087

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

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

(IN PLN THOUSAND)

34. Subordinated liabilities

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

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

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

- own issue performed on 14 September 2012, subordinated bonds with ten-year maturity, with the Bank's right to a premature redemption of all debt securities from this program, 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	31.12.2015	31.12.2014
As at the beginning of the period	2 413 985	1 620 857
Increases, of which:	168 033	870 178
business combinations	-	783 583
currency transation differences	111 744	13 410
accrued interest	56 204	73 062
other	85	123
Decreases (of which):	(82 855)	(77 050)
repayment of interest	(82 854)	(76 569)
other	(1)	(481)
Subordinated liabilities as at the end of the period	**2 499 163**	**2 413 985**

(IN PLN THOUSAND)

35. Other liabilities

	31.12.2015	31.12.2014
Accounts payable	587 251	487 274
Deferred income	384 383	358 567
Other liabilities (due to):	2 037 440	1 819 217
liabilities due to funds transferred from BGF for payments to depositors of SKOK in Wołomin	-	356 461
interbank settlements	245 428	313 318
liabilities relating to investment activities and internal operations	141 782	235 231
liabilities and settlements of securities turnover	484 163	228 008
financial instruments settlements	135 549	139 971
liabilities due to suppliers	130 170	93 943
social and legal settlements	93 439	88 914
liabilities arising from foreign currency activities	198 571	88 609
settlement of acquisition of machines, equipments, materials, works and services regarding construction of tangible fixed assets and their usage	141 868	75 990
liabilities related to payment cards	11 318	33 177
liabilities due to insurance companies	21 904	23 750
liabilities arising from transactions with financial and non-financial institutions	24 140	23 216
liabilities from interest rates temporarily redeemed from the State budget	18 662	18 603
liabilities due to distribution of court fee stamps	10 989	10 059
BH liabilities araising from share subscriptions	306 549	-
other*	72 908	89 967
Total	**3 009 074**	**2 665 058**
of which financial liabilities**	2 151 795	2 127 610

* 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', 'Brokerage house liabilities arising from share subscriptions' and 'Other'.

As at 31 December 2015 and as at 31 December 2014, PKO Bank Polski SA had no overdue contractual liabilities.

36. Provisions

Provisions for legal claims has been described in the note 39 'Legal claims'.

Details on the provisions for off-balance sheet loan commitments granted are described in the note 51.9 'Off-balance sheet provisions' and in the note 2.15 'Contingent liabilities'.

Other provisions mainly include restructuring provision, and provisions for potential claims on impaired loans portfolios sold details on which has been presented in the note 69 'Sale of impaired loan portfolios'.

For the year ended 31 December 2015	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2015, of which:	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
Arising from business combinations	2 343	128	-	-	2 471
Increase/reassessment of provision	11 577	3 370	286 163	2 228	303 338
Use of provision	(21 422)	-	-	(27 436)	(48 858)
Release of provision	(16 159)	(1 728)	(304 066)	(7 439)	(329 392)
Other changes and reclassifications	13 716	4 363	(3 026)	-	15 053
As at 31 December 2015, of which:	**19 512**	**45 496**	**82 692**	**98 078**	**245 778**
Short term provision	19 512	3 549	64 029	98 078	185 168
Long term provision	-	41 947	18 663	-	60 610

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

(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.

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

37. Equity and shareholding structure of the Bank

	31.12.2015	31.12.2014
Share capital	**1 250 000**	**1 250 000**
Reserve capital	20 518 111	18 618 111
General banking risk fund	1 070 000	1 070 000
Other reserves	3 484 177	3 421 913
Other comprehensive income	74 457	29 868
Financial assets available for sale	144 673	33 640
Cash flow hedges	(57 657)	5 204
Actuarial gains and losses	(12 559)	(8 976)
Undistributed profits	1 250 000	132 793
Net profit for the period	2 571 142	3 079 471
Total other capital	30 217 887	27 602 156

Equity constitutes capital and reserves created in accordance with the legal regulations. The classification to particular components, discussed below, results from the Polish Commercial Companies' Code, the Banking Law and the requirements of IAS 1.7, IAS 1.78.e, IAS 1.54.q-r and IAS 1.79.b.

Equity components:

- Share capital is stated at nominal value in accordance with Memorandum of Association and the Register of Entrepreneurs.
- 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.
- 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 2015, item 128 with subsequent amendments) further referred to as 'The Banking Law', and it is to cover unidentified risks of the Bank's operations.
- Other reserves are created from the appropriation of net profits. It is uniquely to cover the potential losses in the statement of financial position.
- 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.

(IN PLN THOUSAND)

The Bank's shareholding structure

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

Name of entity	Number of shares	Number of votes %	Nominal value of 1 share	Share in equity %
As at 31 December 2015				
The State Treasury	367 918 980	29.43	1 PLN	29.43
Aviva Otwarty Fundusz Emerytalny[1]	83 952 447	6.72	1 PLN	6.72
Nationale Nederlanden Otwarty Fundusz Emerytalny	64 594 448	5.17	1 PLN	5.17
Other shareholders	733 534 125	58.68	1 PLN	58.68
Total	**1 250 000 000**	**100.00**	---	**100.00**
As at 31 December 2014				
The State Treasury	392 406 277	31.39	1 PLN	31.39
Aviva Otwarty Fundusz Emerytalny[1]	83 952 447	6.72	1 PLN	6.72
Nationale Nederlanden Otwarty Fundusz Emerytalny	64 594 448	5.17	1 PLN	5.17
Other shareholders	709 046 828	56.72	1 PLN	56.72
Total	**1 250 000 000**	**100.00**	---	**100.00**

1) Number of shares held as at 29 January 2013, reported by Aviva OFE after exceeding 5% of share in PKO Bank Polski SA's shareholding structure after settlement the transaction of sale of 153.1 million of PKO Bank Polski SA's shares by BGK and the State Treasury.

2) Including Bank Gospodarstwa Krajowego, which at the publication date of the report for the third quarter of 2015 held 24 487 297 shares, which entitles to 1.96% of votes at the General Shareholders' Meeting.

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

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

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

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

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

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

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

(IN PLN THOUSAND)

OTHER NOTES

38. Contingent liabilities and off-balance sheet liabilities received

38.1. 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 2015			
Company A	corporate bonds	1 950 000	31.12.2020
Company B	corporate bonds	1 055 000	31.07.2020
Company C	corporate bonds	342 700	15.06.2022
Company D	corporate bonds	80 600	31.12.2022
Company E	corporate bonds	60 000	23.11.2021
Company F	corporate bonds	28 224	31.12.2029
Company G	corporate bonds	17 900	31.12.2026
Company H	corporate bonds	4 424	31.01.2016
Company I	corporate bonds	3 403	30.09.2030
Total		3 542 251	
As at 31 December 2014			
Company B	corporate bonds	1 055 000	31.07.2020
Company C	corporate bonds	1 049 000	15.06.2022
Company D	corporate bonds	91 700	31.12.2022
Company J	corporate bonds	50 000	19.12.2022
Total		2 245 700	

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

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

38.2. Contractual commitments

As at 31 December 2015 the value of contractual commitments concerning intangible assets amounted to PLN 177 404 thousand (as at 31 December 2014 it amounted to PLN 196 807 thousand).

As at 31 December 2015 the value of contractual commitments concerning tangible fixed assets amounted to PLN 20 399 thousand (as at 31 December 2014 it amounted to PLN 95 322 thousand).

38.3. Loan commitments granted

by nominal value	31.12.2015	31.12.2014
Credit lines and limits		
to financial entities	3 313 918	998 133
to non-financial entities	35 057 214	34 023 705
to public entities	4 080 379	3 258 574
Total	42 451 511	38 280 412
of which: irrevocable loan commitments	30 513 878	27 730 846

(IN PLN THOUSAND)

38.4. Guarantee liabilities granted

	31.12.2015	31.12.2014
Guarantees in domestic and foreign trading	8 836 503	10 003 696
to financial entities	1 374 964	919 391
to non-financial entities	7 454 243	9 062 391
to public entities	7 296	21 914
Guarantees and pledges granted – domestic corporates bonds	5 665 178	4 526 126
to financial entities	734 529	12 076
to non-financial entities	4 930 649	4 514 050
Letters of credit granted	1 838 101	704 504
to financial entities	-	1 736
to non-financial entities	1 838 000	702 768
to public entities	101	-
Guarantees and pledges granted – payment guarantee to financial entities	143 646	17 278
Guarantees and pledges granted – domestic municipal bonds to public entities	59 320	55 008
Total	16 542 748	15 306 612
of which: performance guarantees	2 378 395	1 942 582

In the years ended on 31 December 2015 and 31 December 2014 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 36 'Provisions'.

38.5. Liabilities granted by maturity

31 December 2015

	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	28 671 366	805 273	3 817 954	3 061 290	6 095 628	**42 451 511**
Guarantee liabilities granted	1 415 147	1 603 873	2 447 114	9 783 413	1 293 201	**16 542 748**
Total	30 086 513	2 409 146	6 265 068	12 844 703	7 388 829	58 994 259

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

38.6. Off-balance sheet liabilities received

By nominal value	31.12.2015	31.12.2014
Financial	48 365	1 747 327
Guarantees*	6 660 698	4 587 353
Total	6 709 063	6 334 680

* 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 Bank has made a valuation of the Special Indemnity Agreement on the basis of conducted analysis of probability of cash flows arising from the Agreement. The estimated expected value is zero.

Right to sell or pledge collateral established for the Bank

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

39. Legal claims

As at 31 December 2015, the total value of court proceedings in which the Bank is a defendant was PLN 577 712 thousand (as at 31 December 2014 amounted to PLN 411 182 thousand), while the total value of court proceedings in which the Bank is the plaintiff as at 31 December 2015 was PLN 532 402 thousand (as at 31 December 2014 amounted to PLN 553 428 thousand).

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

a) Unfair competition proceeding

- **Proceeding against practices that limit competition in the payments market using payment cards in Poland**

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

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

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

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

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

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

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

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

   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 29 064 thousand. The Bank appealed against this decision. By judgment of 9 July 2015 SOKiK fully annulled the decision of the President of the UOKiK. On 28 August 2015 the President of UOKiK appealed against that judgment. On 11 September 2015 the Bank responded to the appeal rejecting the allegations of the President of the UOKiK. No trial date has been set. The appeal proceeding is pending
   As at 31 December 2015 the Bank had no provision in this respect.

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

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:

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

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

- <u>before SOKiK initiated by on individual:</u>

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

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

1) a preliminary proceeding initiated on 29 August 2014 in order to determine whether the Bank, in the Aurum loan agreement, misled its customers by presenting insurance costs in these agreement and the information forms. The Bank answered to UOKiK,
2) a preliminary proceeding initiated on 9 October 2014 concerning the possibility of customers using the 'chargeback' complaint procedure. The Bank replied to the UOKiK's call. There is no such complaint procedure in the Bank's relationship with its customers (it is typical of the Bank – card organisation relationship);

3) preliminary proceeding of 26 January 2015 concerning the provision of information on currently applied policies for securing and conversion of mortgage loans denominated in CHF by the Bank, in the context of the recent changes in the exchange rate of the Swiss franc; Since today, letters were only exchanged as part of the proceedings;
4) preliminary proceeding of 5 February 2015 concerning the Bank's treatment of housing loans secured with a mortgage and expressed in/denominated in/indexed to CHF (negative LIBOR, spread reduction, exchange rate tables); The proceeding is in progress;
5) preliminary proceeding initiated on 12 February 2015 concerning whether the Bank applies the fee of PLN 20 to former clients of Nordea Bank Polska SA, as specified in Nordea Bank Polska SA's Tariff, for servicing a seizure of receivables in case when an enforcement order has been issued. By letter dated 24 February 2015, the Bank gave an answer to UOKiK explaining that The Bank does not use such tariff;
6) preliminary proceeding of 2 March 2015 concerning the Bank's cooperation with property appraisers in the preparation of appraisal report used for the valuation of a property securing a loan. On 23 March 2015 and on 7 May 2015 the Bank answered to UOKiK. By letter dated 26 October 2015 the Bank responded to additional to UOKiK's call;
7) preliminary proceeding of 9 March 2015 concerning the documents specifying fees and commissions applied by the Bank, identification of all amendments to these documents in 2014-2015, the reasons behind the amendments implemented by the Bank and the manner of communicating the amendments to consumers. Respectively on 13 April 2015, 21 April 2015 and 8 May 2015 the Bank submitted required documentation and information to UOKiK;
8) preliminary proceeding of 2 April 2015 concerning the analysis of consumer loans market, including specification of its structure and the structure of fees in this group of products. On 29 April 2015 the Bank delivered to UOKiK questionnaire with required information. On 16 October 2015 the Bank submitted additional questionnaires to UOKiK's call;
9) preliminary proceeding of 2 April 2015 concerning the analysis of mortgage loans market. On 24 September 2015 the Bank delivered a questionnaire containing the required information to UOKiK. By letter dated 22 December 2015 UOKiK requested the Bank to deliver additional questionnaire. The Bank submitted the questionnaire to UOKiK;
10) preliminary proceeding of 20 April 2015 concerning the fees applied by the Bank for the transactions made by customers using credit cards abroad. On 28 May 2015 the Bank delivered all required information and documents to UOKiK. On 28 May 2015 the Bank submitted required documentation and information to UOKiK;
11) preliminary proceeding of 10 September 2015 concerning debit cards, including debit card fees and conditions for exemption from the fees. the Bank submitted required documentation and information to UOKiK.

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

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

1) two administrative proceedings, of which one is suspended, 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; 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,
2) five court proceedings, including two are suspended, in relation to Bank's two properties pertaining to release or return the premises and the property, payment of fee for non-contractual use of property and regulation of the legal status of the property,

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

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

(IN PLN THOUSAND)

40. 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.

	31.12.2015	31.12.2014
Cash and balances with the Central Bank	13 707 730	11 698 248
Current receivables due from banks	3 482 010	2 354 512
Total	17 189 740	14 052 760

Cash flows from interests and dividends, both received and paid

Dividend income - received	2015	2014
Dividend income from subsidiaries, joint ventures and associates - received	112 124	85 099
Dividend income from other entities - received	10 658	6 366
Total	122 782	91 465

Interest income – received	2015	2014
Interest income from loans and advances granted - received	5 944 985	6 433 374
Interest income from securities designated upon initial recognition at fair value through profit and loss - received	240 451	327 096
Interest income from placements - received	103 748	169 817
Interest income from investment securities - received	677 426	555 401
Interest income from securities from held for trading portfolio - received	55 917	60 282
Interest income from hedging instruments	476 850	276 638
Other interest – received (mainly interest income on current accounts. purchased debt. realised guarantees)	1 123 930	1 180 033
Total	8 623 307	9 002 641

Interest expense – paid	2015	2014
Interest expense on deposits - paid	(1 715 887)	(1 562 269)
Interest expense on loans and advances - paid	(518 597)	(422 230)
Interest expense on debt securities in issue - paid	(77 103)	(89 866)
Other interest paid (mainly interest expense on current accounts, premium from debt securities, interest expense on cash collateral liabilities)	(525 612)	(591 906)
Total	(2 837 199)	(2 666 271)

Dividend expense - paid	2015	2014
Dividend paid to shareholders	-	(937 500)
Total	-	(937 500)

(IN PLN THOUSAND)

Cash flow from operating activities – other adjustments

Other adjustments	2015	2014
Interest accrued, discount, premium on debt securities	(898 745)	(591 735)
Hedge accounting	(62 861)	130 797
Actuarial gains and losses	(3 583)	(1 247)
Valuation of debt securities in issue	111 033	86 653
Valuation and impairment allowances for investments in subsidiaries, joint ventures and associates and other changes	(15 032)	(47 761)
Disposal and impairment allowances for tangible fixed assets and intangible assets	(4 970)	(38 978)
Changes resulting from the business combination	6 096	(140 194)
Total	(868 062)	(602 465)

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

(Gains) losses on sale and disposal of tangible fixed assets and intangible assets under investing activities	2015	2014
Income from sale and disposal of tangible fixed assets and intangible assets	(44 802)	(57 881)
Costs of sale and disposal of tangible fixed assets and intangible assets	30 788	45 182
Total	(14 014)	(12 699)

Interests and dividends	2015	2014
Interest received from investment securities, presented under investing activities	(718 896)	(618 606)
Dividends received, presented under investing activities	(122 782)	(91 465)
Repayment of interest on loans	553 172	431 587
Repayment of subordinated and unsubordinated liabilities	101 209	107 835
Total	(187 297)	(170 649)

Change in amounts due from banks	2015	2014
Change in the balance of the statement of financial position	(1 983 813)	(519 460)
Change in impairment allowances on amounts due from banks	11 336	28 641
Exclusion of a change in the balance of cash and cash equivalents	1 127 498	898 236
Changes resulting from the business combination	33 050	1 571 351
Total	(811 929)	1 978 768

Change in loans and advances to customers	2015	2014
Change in the balance of the statement of financial position	(10 994 869)	(30 185 245)
Change in the impairment allowances on amounts due from customers	(363 037)	(1 145 968)
Changes resulting from the business combination	571 420	26 073 536
Total	(10 786 486)	(5 257 677)

(IN PLN THOUSAND)

Change in other assets and non-current assets available for sale	2015	2014
Change in the balance of the statement of financial position and reclassification to other items	(693 108)	(89 693)
Changes resulting from the business combination	45 833	24 082
Total	(647 275)	(65 611)

Change in amounts due to customers	2015	2014
Change in the balance of the statement of financial position	15 859 058	25 962 891
Recognition of long-term loans and advances received from financial institutions other than banks/repayments of these loans and advances in financing activities	5 484 831	(2 083 950)
Changes resulting from the business combination	(595 128)	(11 188 649)
Total	20 748 761	12 690 292

Change in provisions and impairment allowances	2015	2014
Change in the balance of the statement of financial position	(57 388)	(7 315)
Change in the balance of the statement of financial position	(11 336)	(28 641)
Change in impairment allowances on amount due from customers	363 037	1 145 968
Change in impairment allowances in subsidiaries	-	268 976
Change in provisions for other receivables	59 275	2 337
Changes resulting from the business combination	(334 808)	(610 964)
Total	18 780	770 361

Change in other liabilities and subordinated liabilities	2015	2014
Change in the balance of the statement of financial position	429 194	1 023 465
Changes resulting from the business combination	(5 772)	(1 001 068)
Total	423 422	22 397

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

41. Transactions with the State Treasury and related parties

The State Treasury has control over the Bank as it holds a 29.43% interest in the Bank's share capital. The Bank's shareholding structure is described in detail in the note 37 '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, as amended) PKO Bank Polski SA receives payments from the State budget in respect of redemption interest receivable on housing loans.

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

(IN PLN THOUSAND)

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

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

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

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

	2015	2014
Fee and commission income	3 081	3 226

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

	2015	2014
Fee and commission income	12 265	9 613

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

	2015	2014
Fee and commission income	23 218	23 037

(IN PLN THOUSAND)

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

The transactions were concluded at arm's length terms.

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

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

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

(IN PLN THOUSAND)

42. Related party transactions

In 2015 the Bank did not conclude significant transactions with related parties not on arm's length.

At the same time, in the first quarter 2015, the Bank redeemed loan granted to Financial Company „Prywatne Inwestycje" Sp. z o.o. in amount of USD 8 250 thousand and loan granted to Financial Company „Idea Kapitał" Sp. z o.o., in amount of USD 8 284 thousand, as well as interest due on the above-mentioned loans (ie . residual amount of the loans). Redemptions were carried out at the request of the companies, due to the economic situation of Ukraine, including in particular a progressive devaluation of the hryvnia causing the lack of the ability to recover the revenues from recoveries of receivables in UAH at the level required to repay the loans received from the Bank and the limitations of the National Bank of Ukraine in exchanging and transfer of the currencies.

Margins on loan transactions are within a range of 0.28% -3.75%. Repayment terms are within a range from one month to fifteen years.

31 December 2015

Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct subsidiaries				
PKO Bank Hipoteczny SA	481 088	39 782	15 254	160 218
KREDOBANK SA	312 081	205 420	9 189	74 589
Merkury - fiz an	39 200	39 200	1 336	-
PKO BP BANKOWY PTE SA	69 710	-	2 857	-
PKO BP Finat Sp. z o.o.	192	-	151 263	593
PKO Finance AB	-	-	7 332 263	-
PKO Leasing SA	1 730 988	1 730 354	104 909	1 396 657
PKO Towarzystwo Funduszy Inwestycyjnych SA	19 031	-	60 239	-
PKO Towarzystwo Ubezpieczeniowe	-	-	7 140	
PKO Życie Towarzystwo Ubezpieczeń SA	35 082	35 067	133 735	55 000
Qualia Development Sp. z o.o.	-	-	6 203	428
Indirect subsidiaries				
Bankowe Towarzystwo Kapitałowe SA	1	-	11 637	-
„CENTRUM HAFFNERA" Sp. z o.o.	-	-	2 338	-
Finansowa Kompania „Idea Kapitał" Sp. z o.o.	22 321	22 321	-	-
FORT MOKOTÓW Sp. z o.o. w likwidacji	-	-	3 008	-
Molina Sp. z o.o.	-	-	18 583	-
PKO BP Faktoring SA	329 612	329 610	990	522 307
PKO Bankowy Leasing Sp. z o.o.	2 827 053	2 825 105	1 084	84 120
PKO Leasing Sverige AB	109 849	109 849	226	7 294
„Promenada Sopocka" Sp. z o.o.	42 762	42 762	4 380	-
Qualia - Rezydencja Flotylla Sp. z o.o.	55 124	55 124	1 193	-
Qualia Hotel Management Sp. z o.o.	-	-	4 222	-
Qualia 2 spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp.k.	-	-	15 598	-
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp.k.	76 798	76 798	1 147	-
Qualia sp. z o.o. - Sopot Sp.k.	-	-	3 663	-
„Sopot Zdrój" Sp. z o.o.	194 228	194 228	19 479	-
Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	-	-	1 454	-
„Zarząd Majątkiem Górczewska" Sp. z o.o.	-	-	2 521	-
Other	-	-	1 158	-
Total Subsidiaries	**6 345 120**	**5 705 620**	**7 917 069**	**2 301 206**

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

(IN PLN THOUSAND)

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
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
Others	-	-	644	-
Indirect subsidiaries				
Finansowa Kompania „Idea Kapitał" Sp. z o.o.	72 930	72 930	-	-
FORT MOKOTÓW Sp. z o.o. w likwidacji	-	-	3 395	-
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 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 spółka z ograniczoną odpowiedzialnością - Jurata Sp.k.	-	-	1 342	-
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp.k.	-	-	4 444	1 035
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp.k.	-	-	8 510	-
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp.k.	76 770	76 770	1 245	-
Qualia sp. z o.o. - Sopot Sp.k.	3 887	3 887	431	-
„Sopot Zdrój" Sp. z o.o.	198 542	198 542	16 086	-
Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	-	-	1 826	-
„Zarząd Majątkiem Górczewska" Sp. z o.o.	-	-	6 778	-
Others	-	-	1 051	-
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

12 months ended 31 December 2015

Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct subsidiaries				
PKO Bank Hipoteczny SA	9 460	4 908	1 687	1 671
Finansowa Kompania „Prywatne Inwestycje" Sp. z o.o.	-	-	30 683	-
KREDOBANK SA	5 937	4 954	-	-
Merkury - fiz an	2 362	2 362	21	21
PKO BP BANKOWY PTE SA	1 433	66	92	92
PKO BP Finat Sp. z o.o.	2 058	41	6 093	2 443
PKO Finance AB	84	84	443 974	443 974
PKO Leasing SA	39 481	34 314	18 210	1 981
PKO Towarzystwo Funduszy Inwestycyjnych SA	239 863	238 291	1 088	1 088
PKO Życie Towarzystwo Ubezpieczeń SA	892	892	1 746	1 746
pozostałe	61	30	625	625
Indirect subsidiaries				
Finansowa Kompania „Idea Kapitał" Sp. z o.o.	2 378	2 378	31 218	-
PKO BP Faktoring SA	7 541	7 200	15	15
PKO Bankowy Leasing Sp. z o.o.	63 162	62 141	120	8
PKO Leasing Sverige AB	1 941	1 941	-	-
Qualia - Rezydencja Flotylla Sp. z o.o.	3 578	3 578	47	47
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp.k.	3 594	3 594	18	18
„Sopot Zdrój" Sp. z o.o.	3 768	3 768	221	221
other	1 192	1 142	834	834
Total subsidiaries	388 785	371 684	536 692	454 784

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

(IN PLN THOUSAND)

12 months ended 31 December 2014

Entity	Total income	of which interest and fee and commission	Total expenses	of which interest and fee and commission
Direct subsidiaries				
PKO Bank Hipoteczny SA	171	1	1 415	1 415
Finansowa Kompania „Prywatne Inwestycje" Sp. z o.o.	11 555	11 555	-	-
Inteligo Financial Services 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 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
others	992	90	371	371
Indirect subsidiaries				
Finansowa Kompania „Idea Kapitał" Sp. z o.o.	1 300	1 300	-	-
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	-	-
Qualia - Rezydencja Flotylla Sp. z o.o.	3 956	3 956	14	14
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp.k.	4 255	4 255	44	44
„Sopot Zdrój" Sp. z o.o.	4 118	4 118	176	176
Other	2 790	2 760	481	481
Total subsidiaries	512 442	502 042	594 760	536 024

Entity	Total income	of which interest and fee and commission	Total expenses	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

43. Personal related party transactions

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

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

(IN PLN THOUSAND)

44. Remuneration – PKO Bank Polski SA key management

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

Name	Title	2015	2014
The Supervisory Board of the Bank			
Jerzy Góra	Chairman of the Supervisory Board	192	82
Mirosław Czekaj	Deputy-Chairman of the Supervisory Board	161	144
Małgorzata Dec-Kruczkowska	Secretary of the Supervisory Board	72	-
Zofia Dzik	Member of the Supervisory Board	120	120
Krzysztof Kilian	Member of the Supervisory Board	62	-
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	120
Remuneration of the Supervisory Board Members who ceased their functions in 2015 or 2014			
Cezary Banasiński	Chairman of the Supervisory Board	-	110
Tomasz Zganiacz	Deputy-Chairman of the Supervisory Board	82	168
Mirosława Boryczka	Member of the Supervisory Board	90	52
Jarosław Klimont	Member of the Supervisory Board	59	52
Ryszard Wierzba		-	69
Total short-term employee benefits of the Supervisory Board		**1 198**	**1 157**

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

Name	Title	2015						
		Total short-term employee benefits of the Management Board		Other long-term benefits of the Management Board		Total share-based payments settled in cash to Management Board		
		Remuneration in 2015*	other received in 2015	received in 2015	potential for 31.12.2015	received in 2015	due as 31.12.2015	potential for 31.12.2015
Zbigniew Jagiełło	President of the Management Board	2 018	289	168	447	417	357	447
Piotr Alicki	Vice-President of the Management Board	1 524	243	112	326	297	277	326
Bartosz Drabikowski	Vice-President of the Management Board	1 687	243	134	364	365	295	364
Piotr Mazur	Vice-President of the Management Board	1 520	215	60	261	257	213	261
Jarosław Mujak	Vice-President of the Management Board	1 504	215	104	296	276	250	296
Jacek Obłękowski	Vice-President of the Management Board	1 531	242	108	323	298	274	323
Jakub Papierski	Vice-President of the Management Board	1 527	247	118	343	330	286	343
Total		**11 311**	**1 694**	**804**	**2 360**	**2 240**	**1 952**	**2 360**

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

Name	Title	2014						
		Total short-term employee benefits of the Management Board		Other long-term benefits of the Management Board		Total share-based payments settled in cash to Management Board		
		Remuneration in 2014*	other received in 2014	received in 2014	potential for 31.12.2014	received in 2014	due as 31.12.2014	potential for 31.12.2014
Zbigniew Jagiełło	President of the Management Board	1 909	356	79	419	339	430	419
Piotr Alicki	Vice-President of the Management Board	1 437	250	59	274	266	306	274
Bartosz Drabikowski	Vice-President of the Management Board	1 592	315	65	334	293	376	334
Piotr Mazur	Vice-President of the Management Board	1 441	272	1	176	-	265	176
Jarosław Mujak	Vice-President of the Management Board	1 420	233	55	255	242	284	255
Jacek Obłękowski	Vice-President of the Management Board	1 437	257	54	268	241	307	268
Jakub Papierski	Vice-President of the Management Board	1 427	290	56	295	258	340	295
Total		**10 663**	**1 973**	**369**	**2 021**	**1 639**	**2 308**	**2 021**

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

Short-term employee benefits are employee benefits, which are settled in full within 12 months from the end of the annual reporting period, in which the employees performed work related to them. As a short-term employee benefits next to the base salary, not deffered part was recognized as the variable component of remuneration paid in cash (As described in the note 'The principles for determining the variable salary components policy for key management personnel at the Bank').

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

(IN PLN THOUSAND)

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

As at 31 December 2015 and respectively as at 31 December 2014, benefits due to termination of employment or post-employment benefits were not paid.

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

Name	Title	2015	2014
The Management Board of the Bank			
Jakub Papierski	Vice-President	42	39
Total short-term employee benefits		42	39

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

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

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

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

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

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

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

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

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

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

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

(IN PLN THOUSAND)

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

46. Fair value of financial assets and liabilities

46.1. 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 2015:

Assets and liabilities measured at fair value as at 31.12.2015	Note	Carrying value	Level 1	Level 2	Level 3
			Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	19	793 213	793 213	-	-
Debt securities		776 655	776 655	-	-
Shares in other entities		9 910	9 910	-	-
Investment certificates		6 648	6 648	-	-
Derivative financial instruments	20	4 348 034	2 163	4 345 871	-
Hedging instruments		508 665	-	508 665	-
Trade instruments		3 839 369	2 163	3 837 206	-
Financial instruments measured upon initial recognitionat fair value through profit and loss	22	12 796 036	2 551 863	10 244 173	-
Debt securities		12 796 036	2 551 863	10 244 173	-
Investment securities available for sale	24	27 841 564	18 941 736	5 264 964	3 634 864
Debt securities		27 259 467	18 883 905	5 264 964	3 110 598
Equity securities		385 454	57 831	-	327 623
Shares in investment funds		196 643	-	-	196 643
Financial assets measured at fair value – total:		**45 778 847**	**22 288 975**	**19 855 008**	**3 634 864**
Derivative financial instruments	20	4 627 189	1 476	4 625 713	-
Hedging instruments		998 527	-	998 527	-
Trade instruments		3 628 662	1 476	3 627 186	-
Liabilities from securities issue	33	71 744	-	71 744	-
Financial instruments designated at fair value through profit and loss		71 744	-	71 744	-
Financial liabilities measured at fair value - total		**4 698 933**	**1 476**	**4 697 457**	**-**

Trading assets as at 31.12.2015 (Note 19)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	776 655	776 655	-	-
Treasury bonds PLN	640 009	640 009	-	-
Treasury bonds EUR	8 686	8 686	-	
municipal bonds PLN	48 596	48 596	-	-
corporate bonds PLN	46 158	46 158	-	-
corporate bonds EUR	70	70	-	-
bonds issued by WSE	5 238	5 238	-	-
bonds issued by banks	17 884	17 884	-	-
mortgage-backed securities	10 014	10 014	-	-
Shares in other entities	9 910	9 910	-	-
Investment certificates	6 648	6 648	-	-
TOTAL	**793 213**	**793 213**	**-**	**-**

(IN PLN THOUSAND)

Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2015 (Note22)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	12 796 036	2 551 863	10 244 173	-
NBP money market bills	9 996 910	-	9 996 910	-
Treasury bonds PLN	1 466 614	1 466 614	-	-
Treasury bonds EUR	91 634	91 634	-	-
Treasury bonds CHF	993 615	993 615		
municipal bonds EUR	131 341	-	131 341	-
municipal bonds PLN	115 922	-	115 922	-
Total	12 796 036	2 551 863	10 244 173	-

Investment securities available for sale as at 31.12.2015 (Note 24)	Wartość bilansowa	Poziom 1	Poziom 2	Poziom 3
Debt securities available for sale	27 259 467	18 883 905	5 264 964	3 110 598
Treasury bonds PLN	17 710 719	17 710 719	-	-
Treasury bonds EUR	310 620	310 620		
municipal bonds PLN	4 613 726	-	4 613 726	-
corporate bonds PLN	4 065 697	541 854	651 238	2 872 605
corporate bonds USD	193 424	-	-	193 424
corporate bonds EUR	365 281	320 712	-	44 569
Equity securities	385 454	57 831	-	327 623
Shares in investment funds	196 643	-	-	196 643
TOTAL	27 841 564	18 941 736	5 264 964	3 634 864

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 value	Level 1	Level 2	Level 3
			Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	19	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	20	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	22	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	24	22 080 344	12 546 249	9 335 793	198 302
Debt securities		21 794 141	12 458 348	9 335 793	-
Equity securities		100 077	87 901	-	12 176
Shares in undertakings for collective investment		186 126	-	-	186 126
Financial assets measured at fair value – total:		**42 910 178**	**16 641 343**	**26 070 533**	**198 302**
Derivative financial instruments	20	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	33	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**	**-**

(IN PLN THOUSAND)

Trading assets as at 31.12.2014 (Note 19)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	1 919 353	1 919 353	-	-
Treasury bonds	1 825 454	1 825 454	-	-
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	-	-

Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2014 (Note 22)	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 (Nota 24)	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	100 077	87 901	-	12 176
Shares in investment funds	186 126	-	-	186 126
TOTAL	22 080 344	12 546 249	9 335 793	198 302

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, or Bloomberg and Reuters information service,
- 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
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.
Financial assets designated upon initial recognition at fair value through profit and loss - municipal bonds EUR	Valuation in accordance with an accepted valuation model	Inputs to a valuation model are market rates, market data: money market, IRS transactions market, CDS transactions market, volatility of interest rate options market.
Financial assets designated upon initial recognition at fair value through profit and loss - municipal bonds PLN	Valuation in accordance with a yield curve and a risk margin	Yield curves are built based on market rates, money market data, IRS transactions market.
Investment securities available for sale - municipal bonds	Valuation in accordance with a yield curve and a risk margin	Yield curves are built based on market rates, money market data, IRS transactions market.
Investment securities available for sale - corporate bonds	Valuation in accordance with a yield curve and a risk margin	Yield curves are built based on market rates, money market data, IRS transactions market.
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 financial instruments, which are valued with internal valuation models:

a) participation units in mutual fund (Fund) - the fair value of these financial instruments is determined based on the net asset value of the Fund, i.e. the fair value of investment projects (of the companies) in the Fund, which are subject to semi-annual review or examination by the registered auditor,

(IN PLN THOUSAND)

b) shares of Visa Europe Limited (VEL), which were measured at fair value on the basis of information received from VEL in December 2015 about proposed participation of the Group in the settlement of transaction of VEL acquisition by Visa Inc. which is expected to amount in total EUR 88 875 079 (EUR 66 167 319 in cash, EUR 22 707 761 EUR in Visa Inc shares). The above mentioned amounts are not final and may change due to the objection submitted by the Group to the proposed method of determining the Groups's participation in the settlement of the transaction or if any objections of remaining members of VEL, costs of the transaction, as well as in the cases indicated in the documentation. The final confirmation of amounts due to the Bank should take place by the 30 June 2016,

c) Corporate bonds recognized as investment securities available for sale and measured at fair value through profit or loss – valuation of these financial instruments is performed in accordance with a yield curve and a risk margin model. Yield curves are built based on market rates, money market data, IRS transactions market. Credit margins are determined on the basis of initial margins modified by credit indices quotes ascribed to issuers based on their ratings and business sector.

The impact of parameters estimated on measurement of financial instruments at fair value, for which the Bank uses fair value measurement on Level 3 as at 31 December 2015 is as follows:

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	206 475	186 811
Shares Visa Europe Limited	announced transaction price (the amount of cash and the value of shares in Visa Inc.) and the discount applied to the valuation of the shares in the costs of potential future lawsuits and the limited liquidity of these shares	the final value of the Bank's share in the settlement of transactions	378 741	281 972
Corporate bonds	Credit index method	credit spread	3 122 413	3 098 968

Instruments transfers between Level 1 and Level 2 are based on the availability of quotations in an active market at the end of the reporting period. Transfer from Level 2 to Level 3 occurs in the situation of the conversion of an observable factor for an unobservable in the valuation or applying a new unobservable risk factor to the valuation, which also results in a significant impact on the valuation of the instrument. Transfer from Level 3 to Level 2 occurs in the situation of the conversion of an unobservable factor for an observable in the valuation or when an impact of an unobservable factor on the instrument valuation ceases to be relevant. Transfers between levels of valuation occur at the date and at the end of the reporting period. In 2015 the Bank made partial transfers of corporate bonds recognized as investment securities available for sale from Level 2 to Level 1 and 3 of fair value hierarchy.

The table below presents a reconciliation during the periods of measurement from 1 January to 31 December 2015 and from 1 January to 31 December 2014, at fair value at level 3 of fair value hierarchy:

Investment securities available for sale	2015	2014
Opening balance at the beginning of the period	**198 302**	**137 315**
Total gains or losses	337 609	29 965
recognised in other comprehensive income	337 609	29 965
Foreign exchange differences	355	19 022
Conclusion of an agreement of the contingent sale of shares of the listed company	-	12 000
Sale of shares of the Company listed on the stock exchange	(12 000)	-
Transfers from Level 2 to Level 3	3 110 598	-
Closing balance as the end of the period	**3 634 864**	**198 302**

46.2. 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.

For loans and advances to customers with no impairment triggers, present value of discounted cash flow model was used that includes current interest rate with credit margin risk and real maturities that steam from loan agreements. The current level of margins was calculated based on financial instrument transactions with similar risk level, that took place the last quarter that ended on the balance sheet date. For currency loans, the current loan margin for PLN loans was used and it was corrected with the cost of currency acquisition in basis-swap transaction. For loans for which impairment were recognized fair value is assumed to equal to the carrying value. The valuation does not take into consideration potential currency conversion of loans denominated in CHF in regards to the draft law on possible measures to restore the equality of parties to some loan and advances agreements. For loans with recognised impairment, it is assumed that for them, the fair value equals their carrying value.

The fair value of deposits and other amounts due to customers other than banks, with specified maturities has been calculated using the discounted expected future cash flows and applying current interest rates for given deposit products. The fair value is calculated for each deposit and liability, then the fair values of the entire deposit portfolio are grouped by type of product and customer segment. For demand deposits, it is assumed that the fair value equals their carrying value.

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

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

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 2015:

	level of fair value hierarchy	valuation method	31.12.2015	
			carrying amount	fair value
Cash and balances with the central bank	nd	value at cost to pay	13 707 730	13 707 730
Amounts due from banks	2	discounted cash flows	4 592 360	4 592 359
Loans and advances to customers			188 552 440	181 648 571
housing loans	3	discounted cash flows	99 871 014	92 632 582
corporate loans	3	discounted cash flows	57 154 574	57 756 844
consumer loans	3	discounted cash flows	21 799 396	21 639 652
receivables due from repurchase agreements	3	discounted cash flows	4 432 239	4 432 239
international financial organizations	3	discounted cash flows	10 652	10 652
debt securities	3	discounted cash flows	5 284 565	5 176 602
Other financial assets	3	value at cost to pay including impairment allowance	1 216 797	1 216 797
Amounts due to the central bank	2	value at cost to pay	4 219	4 219
Amounts due to banks	2	discounted cash flows	18 249 857	18 249 855
Amounts due to customers			201 809 202	202 043 766
due to corporate entities	3	discounted cash flows	57 707 408	57 982 333
due to public entities	3	discounted cash flows	9 134 366	9 134 366
due to retail clients	3	discounted cash flows	134 967 428	134 927 067
Debt securities in issue	2	discounted cash flows	1 645 917	1 647 575
Subordinated debt	2	discounted cash flows	2 499 163	2 486 132
Other financial liabilities	3	value at cost to pay	2 151 795	2 151 795

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	nd	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
international financial organizations	3	discounted cash flows	-	-
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
Amount due to 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	747 825	747 847
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

47. 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 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).

31.12.2015	Total Financial assets	Derivatives	Receivable due from repurchase agreement
The amount of recognised financial assets (gross)	9 767 819	4 354 950	5 412 869
The amount of financial liabilities, which are offset in accordance with the criteria set out in § 42 of IAS 32 (gross)	(6 916)	(6 916)	-
The value of financial assets recognised in the statement of financial position (net)	9 760 903	4 348 034	5 412 869
The value of financial instruments not subject to offsetting in the financial statements	3 631 779	3 631 779	-
The value of financial liabilities subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial guarantees)	2 794 948	2 794 948	-
Guarantee in cash and in the form of securities received	836 831	836 831	-
The net amount	6 129 124	716 255	5 412 869

31.12.2015	Total Financial assets	Derivatives	Receivable due from repurchase agreement
The amount of recognised financial liabilities (gross)	5 660 242	4 634 105	1 026 137
The amount of financial assets, which are offset in accordance with the criteria set out in § 42 of IAS 32 (gross)	(6 916)	(6 916)	-
The value of financial liabilities recognised in the statement of financial position (net)	5 653 326	4 627 189	1 026 137
The value of financial instruments not subject to offsetting in the financial statements	4 072 660	4 048 592	24 068
The value of financial assets subject to enforceable framework agreement or similar agreement concerning offsetting (excluding financial guarantees)	2 794 948	2 794 948	-
Guarantee in cash and in the form of securities received	1 277 712	1 253 644	24 068
The net amount	1 580 666	578 597	1 002 069

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 assets	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

48. Fiduciary services

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.

49. The impact of the macroeconomic situation on the financial results of the Bank

The macroeconomic situation in the world had a complex effect on the operations and financial position of the Bank in 2015. On 15 January 2015 the Central Bank of Switzerland (SNB) resigned from the upper limit for the EURCHF pair. This resulted in abrupt strengthening of the CHF against other currencies, including PLN. SNB decided to lower the target for 3M LIBOR by 50 bp to -0,75% to offset the negative effects of the franc's strengthening. Due to the persistence of reduced inflation (partly because of a decline in oil prices), and in order to defend against the strengthening of the euro, in March 2015 the European Central Bank (ECB) introduced asset purchases program (QE) providing the purchase of bonds and other asset-backed securities and Treasury bonds (EUR 60 billion of securities a month until September 2016.). Due to the deepening decreases in oil prices and continuingly declining inflation, in December 2015 the ECB lowered the deposit rate by 10bps to -30%, the QE program was extended to March 2017, extending its scope to bonds issued by the local public sector and decided to reinvest interests from maturing securities. Apart from the ECB actions, resulting in a positive credit impulse and a weak euro, euro zone economy benefited from the drop in oil prices. As a result, euro zone GDP growth accelerated in 2015 to 1.5% y/y from 0.9% in 2014. Slowing economic growth in China (from 7.4% in 2014 to 6.9% in 2015) has not significantly harmed European economy. Uncertainty about economic situation in China and other emerging markets, was a major factor contributing to the delayed start of monetary policy tightening by the Federal Reserve System (FED). The continuation of robust GDP growth in the US (2.5% y/y in 2015 compared to 2.4% y/y in 2014) and a further decline in an unemployment rate (down to 5% at the end of 2015 from 5.6% at the end of 2014) prompted the Federal Open Market Committee (FOMC) to make the first increase of interest rates in eight years (increase of the range for the fed funds rate by 25bp to 0.25-0.50% in December).

Polish economy growth rate throughout 2015 remained stable at around 3.5% y/y, despite the volatility in external environment. Deep recession in Russia and Ukraine, together with the slowdown / recession in many emerging countries (mainly in China) limited the strength of external demand, but was overweighed by the positive impact of the recovery in the euro zone. Significant drop in oil prices was an positive external environment impulse. As a result, domestic demand remained on a clear path of recovery. Consumption growth remained stable at just over 3% while the situation on the labour market further improved and the deflation increased the real purchasing power of households. Strong investment demand at the beginning of the year was supported, among others, by favourable weather conditions, while in the second half of the year nearly double-digit growth of investment dynamics was fuelled by expansion of production potential in the automotive industry and the energy sector. On the other hand, decrease in municipal investment in the second half of the year reflects the end of the financial prosperity of the EU 2007-2013. Throughout 2015, GDP growth amounted to 3.6%. In March 2015 the Monetary Policy Council (RPP) decided to reduce all NBP interest rates by 50bps (reference rate: 1,50%), which was influenced by the decline in inflation to the lowest level in the contemporary history of the Polish economy. Later in the year, RPP decided not to cut rates, which was supported by: progressively shallowing deflation, maintaining GDP growth above 3% y/y and the depreciation of the PLN.

PKO Bank Polski SA successfully passed the stress tests during the second half of 2015, conducted by the PFSA. They were aimed at determining the potential impact of variable macroeconomic events on financial situation and particularly capital situation of Polish financial sector institutions. Test results confirm the Bank's high resistance on the occurrence of macroeconomic shocks. In each of the scenarios, the Bank recorded a net profit and the level of capital adequacy ratios remains above the internal and external limits.

Taking into account the impact of the macroeconomic events on the financial condition of customers of PKO Polish Bank SA, the Bank consistently applies a conservative approach to credit risk, recognizing impairment losses which scale and structure reflects the impact of the current macroeconomic situation on the financial statements of the Bank.

Net profit of the PKO Bank Polski SA for 2015 amounted to PLN 2 571.1 million and was PLN 508.3 million lower than in 2014. After eliminating non-recurring events: - payment to the Bank Guarantee Fund (BFG) within the fund for the protection of guaranteed deposits (FOŚG) to cover payment of the guaranteed deposits to depositors of the Cooperative Bank Wołomin due to its bankruptcy in the amount of PLN 338 million, - payment for Borrowers Support Fund (FWK) in the amount of PLN 142 million, comparable net profit amounted to PLN 2 959.million and was lower than in 2014 by PLN 120.4 million. The structure of the statement of financial position of the PKO Bank Polski SA, characterized by strong deposit base and safe level of equity, made it possible to maintain a high result on business activities. As a result of actions taken in 2015 the Bank increased its total assets by more than PLN 18 billion, including nearly PLN 11 billion portfolio of loans to customers, while maintaining a high market share in loans and deposits. The quality of loan portfolio, measured by ratio of impaired loans and cost of risk, has improved.

Due to the capital commitment in Ukrainian companies, in particular in KREDOBANK SA, the Bank is exposed to the effects of risks typical for the Ukrainian market. In Ukraine the bottom of recession was reached in the first quarter of 2015 (-17.2% y/y). Subsequently, GDP growth increased to - 1.2% y/y in the fourth quarter of 2015. Collapse of hryvnia and increase in administered prices in April 2015 (hot water, gas, electricity) have led to a drastic rise in CPI inflation. It amounted on average 48.2% y/y with a peak of 60.9% y/y in March and 43.3% y/y at the end of 2015. Very high inflation contributed to deterioration in households' situation (real wages fell in the period between January-December 2015 at an average rate of -18.5% y/y). In 2016 a downward trend in inflation is to be seen. It will be supported by expiring effect of increases in utility prices in April 2015.

Strong depreciation of the hryvnia exchange rate (from 15.82 UAH/USD at the end of December 2014 to 33.75 UAH/USD on 26 February 2015) forced the central bank to raise interest rates to 30% (from 14% at the end of 2014). Stabilization of the exchange rate allowed (from August) reduction in the main interest rate to 22%. After reaching the bottom in February ($ 5.6 billion) foreign exchange reserves grew steadily reaching 13.3 billion US dollars in December (which is 3.6 times the monthly imports). National Bank of Ukraine (NBU) continued to finance the Ukrainian budget (increase in government bonds holders' structure from 69.5% to 77.1% at the end of the year). At the beginning of the year reversal of this trend can be seen resulting from the increase in purchases of bonds by commercial banks.

An important achievement of 2015 became the restructuring of Ukraine's Eurobonds, which will allow for a significant reduction in the cost of external debt over the next four years, while creating favourable conditions for economic reforms. Due to the debt restructuring credit ratings of Ukraine were raised to B- with a stable outlook (Standard & Poor 's on 19 October 2015), to Caa3 with a stable outlook (Moody's on 19 November 2015) and CCC (Fitch on 19 November 2015). This led to an increase in the rating of banks operating in Ukraine - including KREDOBANK SA to CCC +.

The banking sector was in a difficult financial situation. The number of banks operating in Ukraine dropped in 2015 (latest data from 1 December 2015) from 163 to 120. Share of foreign capital in the sector declined in the first half of the year (from 32.5% in December 2014 to 27.5 % in June 2015) to rise to 35.3% at the end of November. The value of total assets in the Ukrainian banking sector in 2015 decreased (with exception of period of rapid UAH depreciation) and in early December amounted to UAH 1 275.4 billion (down by UAH 41.5 billion against the end of 2014). Until the end of 2015 the value of loan portfolio fell by UAH 30.2 billion (insignificant scale of the decline in the volume of loans resulted mainly from the depreciation of the hryvnia - the increase in the volume of foreign currency loans amounted to UAH 86 billion, i.e. 17.5%). The decrease in volume of loans to households by UAH 36.3 billion has not been compensated by an increase in corporate loan portfolio of UAH 9 billion. The deposit base of the banking sector in Ukraine in 2015 increased by UAH 47.1 billion, mainly due to the growth in UAH deposits (UAH 28.1 billion). Volume of foreign currency deposits increased (UAH 19 billion), however it only resulted from depreciation of the hryvnia. Household deposits fell by UAH 7.2 billion, and enterprises deposits increased by UAH 46.7 billion. Major changes in volumes of loans and deposits occurring in the first half of the year were associated with fluctuations in the hryvnia exchange rate. In 2015, the ratio of loans to deposits improved (down from 147.4% to 134% in December). The share of currency loans in the currency structure of the loan portfolio increased to 56.9% in December 2015 (against 47.0% at the end of 2014). In 2015, banks gradually rebuild its capital base after a sharp decline in the 1st quarter. Compared to the end of 2014 the share of defaulted loans significantly increased (21.2% at the end of November 2015 vs. 13.5% in December 2014). In the period January-November ROA ratio fell (-5.1% vs -4.1% in 2014) while ROE fell deeply (-47.8% vs -30.5% in 2014). In 2016, the economy should recover from the recession and grow by approx. 1-2%.

Simultaneously, there are significant risks to the GDP growth in Ukraine (the risk of macroeconomic instability and insolvency, the risk of foreign financing availability, the risk of instability of the financial market and the hryvnia exchange rate, risks to the stability of the banking sector and regulatory uncertainty). Other relevant circumstances that may affect prospects of economic growth in Ukraine, escalation of military conflict in the east of Ukraine and turbulence in political environment.

PKO Bank Polski SA continues efforts to ensure the safe operation of its companies in Ukraine under the current political and macroeconomic situation, including the strengthening of supervisory activities, i.a. tracking the funds transferred by the Bank to its subsidiaries and changes in regulatory requirements set by the National Bank of Ukraine. The Bank constantly analyses the macroeconomic operational risks of KREDOBANK SA. Development of the situation in Ukraine can bear a significant impact on Group's entities operating on that market.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

50. Risk Management in PKO Bank Polski SA

Risk management is one the most important internal processes in PKO Bank Polski SA including the Bank's branch in Germany. 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 risk have been identified, which are subject to management: credit risk, interest rate risk, currency risk, liquidity risk, commodity price risk, price risk of equity securities, derivative instruments risk, operational risk, compliance risk, macroeconomic changes risk, model risk, business risk (including strategic risk), loss of reputation, capital risk and excessive leverage.

50.1. Elements of risk management process

The process of 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 on the activity 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 determination of risk assessment measures adequate to the type and significance of the risk, data availability and quantitative risk assessment by means of determined measures, as well as risk assessment aimed at identifying the scale or scope of risk, taking into account the achievement of goals of risk management. Within risk measurement, work related to the valuation of the risks for the purpose of bank's pricing policy and stress-test are being conducted for every type of risk on the basis of assumptions providing a fair risk assessment,
- risk control:

  consisting in determination of tools used for measuring or reducing the level of risk in specific areas of the Bank's activity,

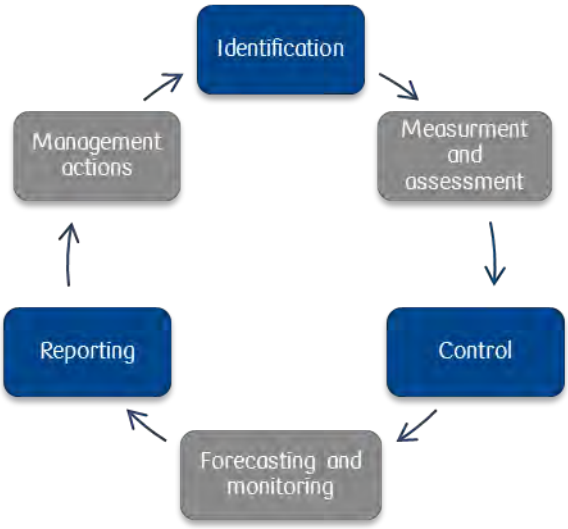
  This includes determination of control mechanisms adjusted to the scale and complexity of the Bank's activities especially in the form of strategic tolerance limits for the individual types of risk.
- risk forecasting and monitoring:

  preparing risk level forecasts and monitoring deviations from forecasts or adopted reference points (e.g. limits, thresholds, plans, measurements from the previous period, recommendations and suggestions issued by the supervisory and control authority) and also carrying out stress tests (specific and complex). Forecasts of the level of risk shall be reviewed. Risk monitoring is performed with the frequency adequate to the materiality and volatility of a specific risk type,
- risk reporting:

  periodic informing the authorities of the Bank about the results of risk measurement or risk assessment, taken actions and actions recommendations. Scope, frequency and the form of reporting are adjusted to the managing level of the recipients,
- management actions:

  including, particularly, issuing internal regulations affecting the management process of different types of risk, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management. The objective of taking management actions is to form the risk management and the risk level.

The risk management process is described on the chart below:



50.2. Main principles of risk management

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

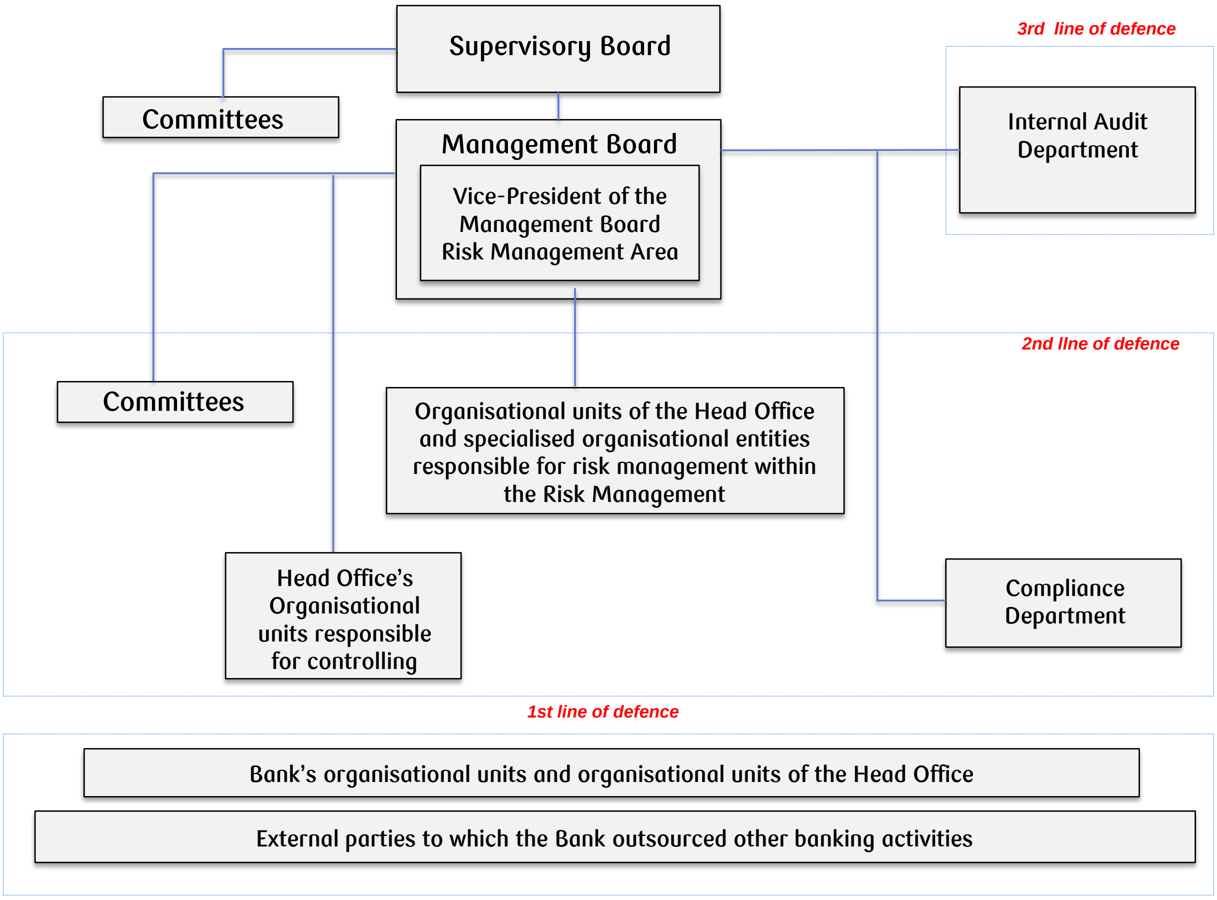
- the Bank manages all of the identified types of risk,
- the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
- the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk, current and envisaged Bank's activity and environment in which the Bank operates, and are also verified and validated on a periodical basis,
- the area of risk management and debt recovery remains organisationally independent from business activities,
- risk management is integrated with the planning and controlling systems,
- the risk level is monitored on a current basis,
- the risk management process supports the implementation of the Bank's strategy in compliance with the risk management strategy, in particular with regard to the level of tolerance of the risk.

50.3. The organisation of risk management in the Banks

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



In the fourth quarter of 2015 the Bank appointed the Committee for the Risks of the Supervisory Board, which specifically gives opinions on the Bank's willingness to take risks, expressed particularly by the strategic limits of risk tolerance. In the scope of competence of the Committee for the Risks of the Supervisory Board is to supervise the implementation of the risk management system in the Bank by the Bank's Management Board and to evaluate the adequacy and effectiveness of the risk management system, as well to support the Supervisory Board in overseeing the strategy of risk management strategy.

The 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 defines a system of effective risk management, internal control and internal capital assessment. In the area of risk management it is responsible for 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, Compliance Department, Planning and Controlling Department, relevant committees, as well as the other organisational units of the Head Office responsible for controlling.

The risk management area is formed within the Banking Risk Division, Department of Risk Integration, Department of Restructuring and Debt Collection of Corporate Client and Analysis and Credit Risk Assessment Centre as well as Restructuring and Debt Collection Centre and Planning Department manage risk within the limits of competence assigned to them.

The Banking Risk Division is responsible in particular for:

- identifying risk factors and sources,
- measuring, assessing, controlling, monitoring and reporting risk levels on a regular basis,
- coordinating implementation activities of the Risk Management strategy in PKO Bank Polski,
- measuring and assessing capital adequacy,
- preparing recommendations for the Management Board or committees regarding the permissible level of risk,
- creating and expressing opinions on internal regulations on managing risk and capital adequacy,
- developing IT systems and software designated to support risk and capital adequacy management.

The Department of Risk Integration is responsible in particular for:

- validation of risk models,
- implementation an effective system of the models risk management in the Group,
- coordinating the implementation of integrated risk management system in the Group,
- initiating and coordinating integration activities related to risk management in the Group.

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

- recovering receivables from difficult corporate clients,
- acquisition of assets as a result of pursuing receivables,
- coordination of implementation of integrated risk management system in the Group,
- performing review and classification of receivables being managed within the Department and off-balance sheet liabilities granted as well as determination of their impairment allowances.

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

- recovering and selling difficult receivables effectively,
- monitoring of delays in the collection of receivables,
- effective management of assets taken over and settled as a result of recovering the Bank's receivables,
- creation and development of models and system solutions used in difficult debts monitoring processes.

Analysis and Credit Risk Assessment Centre is responsible in particular for:

- evaluation, assessment and moderation of the credit risk of individual credit exposures,
- risk assessment of financial institutions and monitoring of the limits on the wholesale market related to the credit risk of financial institutions,
- improving and optimizing credit processes and IT tools used within the its scope of responsibilities.

Risk management is supported by the following committees:

The Risk Committee ('the RC')

- monitors the integrity, adequacy and efficiency of the 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 Risk Management Strategy,
- supports the Management Board in the risk management process by formulating recommendations and making decisions concerning capital adequacy and the efficiency of the risk monitoring system.

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

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

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

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

The Operating Risk Committee (the 'ORC')

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

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

The third line of defence Is being performed as part of internal audit, including the audit of the effectiveness of the system of managing the risk.

50.4. 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 2015:

- in February, May and November 2015, turned the maturing own short-term bonds, on bonds with a maturity from three to six months in the amounts from PLN 800 million to PLN 1 billion,
- in November 2015, acquired financing due to issuance of short-term bonds with a maturity of six months on domestic market in the amount of EUR 200 million.
- reduced level of risk-weighted assets. The most important reason for optimization was to improve the quality of data (eg. Inclusion in the category of retail exposures all SME customers meeting the criteria for segmentation), and a review of off balance-sheet liabilities, including verification of assigned risk weights to the product.

In 2015 in the area of operational risk management, the Bank carried out preparatory works for the launch of the new Bank's branch in the Federal Republic of Germany, which the opening took place in December 2015. As the part of the works in July 2015, the Bank obtained the permit of the Polish Financial Supervision Authority's on the combined use of the Advanced Measurement Approach (AMA) and the Basic Indicator Approach (BIA) for calculating the own funds requirement in respect of operating risk. The BIA approach will be used to calculate the requirement for operational risk with regard to the activities of the branch of the Bank in the Federal Republic of Germany.

On 1 April of 2015, the PKO Bank Hipoteczny S.A, which is a 100% subsidiary of PKO Bank Polski commenced its operations. It specializes in providing mortgage loans for individual clients. Within the Group, the mortgage portfolios granted by PKO Bank Polski will be transffered to the PKO Bank Hipoteczny. The value of portfolio transferred in 2015 (transfer took place in December) amounted to PLN 429.5 million.

The acquisition in the second half of 2015 of Spółdzielcza Kasa Oszczędnościowo Kredytowa "Wesoła" in Mysłowice, has not changed the nature of the risks identified in the Bank's activities.

50.5. The Bank's policy in the area of the CHF

As the result of the abandonment of EUR/CHF peg by the Swiss National Bank in January 2015 there was a significant appreciation of the Swiss franc against foreign currencies, including the Polish zloty. The bank constantly analyses the impact of these events on the financial results including the risk of deterioration in the quality of the portfolio of mortgage loans denominated in CHF. The risk is partly mitigated by a decline in reference interest rates, CHF LIBOR.

Due to the fact that the significant appreciation of the CHF against Polish zloty is a risk arising of an excessive burden for household which took mortgage loans indexed to CHF, thus timely debt service, from the beginning of the year the public debate continues on how to reduce the risk of insolvency of these borrowers. Emerging proposals for system solutions, submitted in form of civil or parliamentary bills, as well as presented by the public and supervisory authorities, may result in incurring losses by the Bank on the portfolio in the future periods.

The Bank has taken a number of actions designed to help the clients and at the same time to reduce the growth of the credit risk associated with the appreciation of the CHF– among other, lowering transaction exchange rates CHF/PLN at which amount payable in CHF is converted (ie. currency spread) and taking into account the negative LIBOR for all customers.

In the Bank's opinion these measures allow to retain ability of the Clients to service the mortgage loans denominated in CHF at a level no lower than of December 2014. The Bank constantly monitors the volatility of the CHF, the value of the portfolio of housing loans denominated in CHF and the impact of changes in exchange rate on the level of capital adequacy measures.

(IN PLN THOUSAND)

The following tables presents qualitive analysis of the loans denominated in CHF

Loans and advances to customers in impairment valuation method in CHF (translated into PLN)	31.12.2015			
	Financial institutions	Entities	Households	Total
Valuated on an individual basis, of which:	-	170 986	223 586	394 572
impaired	-	134 743	208 089	342 832
Valuated with portfolio method, impaired	-	32 034	1 126 528	1 158 562
Valuated with group method (IBNR)	6 098	372 332	30 309 066	30 687 496
Loans and advances to customers - gross	**6 098**	**575 352**	**31 659 180**	**32 240 630**
Allowances on exposures valuated on an individual basis, of which:	-	(45 601)	(95 867)	(141 468)
impaired	-	(45 185)	(93 751)	(138 936)
Allowances on exposures valuated with portfolio method	-	(18 199)	(699 206)	(717 405)
Allowances on exposures valuated with group method (IBNR)	(171)	(2 711)	(100 384)	(103 266)
Allowances - total	**(171)**	**(66 511)**	**(895 457)**	**(962 139)**
Loans and advances to customers - net	**5 927**	**508 841**	**30 763 723**	**31 278 491**

CHF exchange rate as at 31 December 2015 was equal to 3.9394 PLN

Loans and advances to customers in impairment valuation method in CHF (translated into PLN)	31.12.2014			
	Financial institutions	Entities	Households	Total
Valuated on an individual basis, of which:	2 912	169 951	188 969	361 832
impaired	2 912	169 951	188 969	361 832
Valuated with portfolio method, impaired	-	29 737	1 042 503	1 072 240
Valuated with group method (IBNR)	3 837	309 293	29 252 287	29 565 417
Loans and advances to customers - gross	6 749	508 981	30 483 759	30 999 489
Allowances on exposures valuated on an individual basis, of which:	(15)	(43 789)	(75 402)	(119 206)
impaired	(15)	(43 789)	(75 402)	(119 206)
Allowances on exposures valuated with portfolio method	-	(14 034)	(601 131)	(615 165)
Allowances on exposures valuated with group method (IBNR)	(23)	(4 401)	(96 252)	(100 676)
Allowances - total	(38)	(62 224)	(772 785)	(835 047)
Loans and advances to customers - net	6 711	446 757	29 710 974	30 164 442

CHF exchange rate as at 31 December 2014 was equal to 3.5447 PLN

Loans and advances to customers valuated in the group method (IBNR)	31.12.2015		
	PLN	CHF	Other currencies
Gross loans and advances to customers	137 032 884	30 687 496	14 370 885
expired	1 856 370	719 752	74 127
not expired	135 176 514	29 967 744	14 296 758
Impairment on exposures valuated using the group method (IBNR)	(403 833)	(103 266)	(39 614)
expired	(146 169)	(49 835)	(4 822)
not expired	(257 664)	(53 431)	(34 792)
Net loans and advances to customers	**136 629 051**	**30 584 230**	**14 331 271**

Loans and advances to customers valuated in the group method (IBNR) covered by forbearance by currencies	31.12.2015		
	PLN	CHF	Other currencies
Gross loans and advances to customers forbearance	1 709 390	776 522	65 185
Impairment on exposures valuated using the group method(IBNR) forbearance	(51 304)	(35 930)	(2 088)
Net loans and advances to customers forbearance	**1 658 086**	**740 592**	**63 097**

As at 31 December 2015, the avearge LTV for loans portfolio in CHF amounted to 88.5% - compared to the average LTV for the whole portfolio amounting to 74.3%

50.6. 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,
- derivative risk,
- excessive leverage risk.

When determining criteria of classifying a given type of risk as significant, an influence of the significance of the risk on the Bank's activities is taken into account, whereas risk are recognised:

- considered as significant a priori – being managed actively,
- potentially significant – for which significance monitoring is performed periodically,
- other non-defined or non-occurring in the Bank 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.

51. 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 is separated from the sales function by ensuring proper organizational structure, independence of development and validation of tools supporting the credit risk assessment and independence of decisions accepting derogations from indication of these tools,
- 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.

In 2015, the Bank implemented application and procedural solutions streamlining the process of measuring loan impairment and interest income. Methods for calculation of write-offs and provisions were developed, including the methodology for estimation of portfolio parameters, with due regard to the portfolio acquired through the merger with Nordea Bank Polska and acquired portfolio of SKOK Wesoła.

51.1. Measurement and assessment of credit risk

Credit risk measurement and assessment methods

In order to assess the level of credit risk and profitability of loan portfolios, the Bank uses different credit risk measurement and valuation methods, including:

- Probability of Default (PD),
- Expected Loss (EL),
- Unexpected Loss (UL),
- Loss Given Default (LGD),
- Credit Value at Risk (CVaR),
- share and structure of impaired loans (according to IAS),
- coverage ratio (CR),
- cost of risk.

The Bank extends regularly the scope of credit risk measures used, taking into account the internal rating-based method (IRB) requirements, and extends the use of risk measures to fully cover the whole Bank's loan portfolio with these methods.

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

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

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

Rating models for corporate clients

The evaluation of credit risk related to financing corporate clients is performed in two dimensions: in respect of the client and of the transaction. The assessment measures comprise the assessment of the credibility of the client, i.e. rating: and the assessment of the transaction, i.e. liability repayment capacity in the specified amount and timing.

Rating models for corporate clients were prepared using internal data of the Bank which ensures that they are tailored to the risk profile of the Bank's clients. Models are based on a statistical dependence analysis between the default and a customer's risk scoring. Scoring includes an assessment of the financial indicators, qualitative factors and evaluation of behavioural factors. The client's risk assessment depends on the size of the enterprise for which analysis is made. In addition, the Bank uses 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 assess the credit risk of retail clients in two dimensions: creditworthiness assessed quantitatively and qualitatively. The quantitative assessment of creditworthiness consists of evaluation of the financial situation, whereas the qualitative assessment involves scoring and evaluating the client's credit history obtained from internal records of the Bank and external databases.

The credit risk assessment process in Bank takes into account the requirements of the Polish Financial Supervision Authority as defined in the Recommendation S, relating to best practices for the management of mortgage-secured loan exposures and Recommendation T relating to best practices for the management of retail credit exposures.

Assessment of credit risk relating to the financing of corporate clients

In the case of corporate clients from the small and medium enterprises segment that meet certain criteria, the Bank assesses credit risk using the scoring method. Such assessment refers to low-value, uncomplicated loan transactions and it is performed in two dimensions: clients' borrowing capacity and his creditworthiness. The assessment of borrowing capacity involves examination of the client's economic and financial situation, whereas the creditworthiness assessment involves scoring and evaluation of the client's credit history obtained from internal records of the Bank and external databases. In other cases, rating method is widely used.

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.

(IN PLN THOUSAND)

51.2. 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	
	31.12.2015	31.12.2014
Amounts due from banks impaired, of which:	375	41 535
assessed on an individual basis	-	41 173
Amounts due from banks not impaired, of which:	4 592 245	2 578 608
not past due	4 592 245	2 578 608
Gross total	4 592 620	2 620 143
Impairment allowances	(260)	(11 596)
Net total by carrying amount	4 592 360	2 608 547

Loans and advances to customers	Exposure	
	31.12.2015	31.12.2014
Loans and advances impaired, of which:	12 524 491	12 347 957
assessed on an individual basis	4 972 235	5 138 087
Loans and advances not impaired, of which:	183 918 186	172 736 814
with recognised individual impairement trigger	1 746 700	1 381 687
not past due	1 423 097	931 515
past due	323 603	450 172
without recognised individual impairement trigger	182 171 486	171 355 127
not past due	179 521 234	167 902 219
past due	2 650 252	3 452 908
Gross total	196 442 677	185 084 771
Impairment allowances	(7 890 237)	(7 527 200)
for impaired exposures	(7 330 852)	(6 906 065)
for not impaired exposures	(559 385)	(621 135)
with recognised impairement trigger	(12 646)	(12 622)
without recognised impairement trigger	(546 739)	(608 513)
Net total by carrying amount	188 552 440	177 557 571

Investment securities available for sale - debt securities	Exposure	
	31.12.2015	31.12.2014
Debt securities impaired, of which:	393 662	-
assessed on an individual basis	393 662	-
Debt securities not impaired, of which:	26 918 958	21 794 141
not past due	26 918 958	21 794 141
with external rating	21 380 292	13 702 637
with internal rating	5 538 666	8 091 504
Gross total	**27 312 620**	**21 794 141**
Impairment allowances	(53 153)	-
Net total by carrying amount	**27 259 467**	**21 794 141**

Other assets – other financial assets	Exposure	
	31.12.2015	31.12.2014
Other assets impaired	106 696	60 318
Other assets not impaired, of which:	1 215 587	643 604
not past due	1 209 237	636 898
past due	6 350	6 706
Gross total	1 322 283	703 922
Impairment allowances	(105 486)	(56 687)
Net total by carrying amount	1 216 797	647 235

(IN PLN THOUSAND)

Maximum exposure to credit risk

Items of the statement of financial position	31.12.2015	31.12.2014
Current account in the central bank	**9 854 133**	**7 772 856**
Amounts due from banks	**4 592 360**	**2 608 547**
Trading assets – debt securities	**776 655**	**1 919 353**
issued by banks	27 898	14 631
issued by other financial institutions	5 344	6 559
issued by non-financial institutions	46 122	22 146
issued by the State Treasury	648 695	1 825 454
issued by local government bodies	48 596	50 563
Derivative financial instruments	**4 348 034**	**5 483 508**
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	**12 796 036**	**13 417 667**
issued by the State Treasury	2 551 863	2 165 038
issued by central banks	9 996 910	10 998 812
issued by local government bodies	247 263	253 817
Loans and advances to customers	**188 552 440**	**177 557 571**
financial sector (excluding banks)	**9 876 050**	**5 327 204**
corporate loans	5 433 159	5 024 231
receivables due from repurchase agreements	4 432 239	302 973
non-financial sector	10 652	-
housing loans	168 779 876	162 220 953
corporate loans	99 871 014	95 712 466
consumer loans	44 517 577	44 332 135
debt securities	21 799 396	20 159 253
public sector	2 591 889	2 017 099
corporate loans	9 896 514	10 009 414
debt securities	7 203 838	7 189 737
receivables due from repurchase agreements	2 692 676	2 819 677
Investment securities available for sale - debt securities	**27 259 467**	**21 794 141**
issued by the State Treasury	18 021 339	12 458 348
issued by banks	1 515 322	1 203 572
issued by other financial institutions	239	184 914
issued by non-financial institutions	3 108 841	3 466 982
issued by local government bodies	4 613 726	4 480 325
Other assets - other financial assets	**1 216 797**	**647 235**
Total	**249 395 922**	**231 200 878**

Off-balance sheet items	31.12.2015	31.12.2014
Irrevocable liabilities granted	30 513 878	27 730 846
Guarantees granted	8 980 149	10 020 974
Letters of credit granted	1 838 101	704 504
Guarantees of issue	5 724 498	4 581 134
Total	**47 056 626**	**43 037 458**

(IN PLN THOUSAND)

Credit quality of financial assets - neither past due nor impaired

Financial assets neither past due nor impaired	**31.12.2015**	**31.12.2014**
Amounts due from banks	**4 592 245**	**2 578 608**
of which:		
with external rating	2 174 657	2 429 086
without rating	2 417 588	149 522
Loans and advances to customers	**180 944 331**	**168 833 734**
with internal rating – customers of financial, non-financial and public sector (corporate loans)	52 704 841	45 160 976
A (first rate)	989 788	1 059 550
B (very good)	1 408 816	1 455 548
C (good)	5 612 740	2 721 287
D (satisfactory)	11 860 952	5 663 335
E (average)	13 291 549	15 696 903
F (acceptable)	16 588 223	14 672 537
G (poor)	2 952 773	3 891 816
with internal rating – customers of non-financial sector (consumer and housing loans)	114 282 687	103 891 292
A (first rate)	93 971 113	74 155 239
B (very good)	8 101 614	10 614 538
C (good)	5 344 515	11 313 955
D (average)	4 093 884	5 802 187
E (acceptable)	2 771 561	2 005 373
without internal rating – customers of financial, non-financial and public sector (consumer, housing and other loans)	13 956 803	19 781 466
Investment securities available for sale – debt securities - with internal rating	**5 538 666**	**8 091 504**
A (first rate)	86 527	-
B (very good)	209 520	37 815
C (good)	685 010	1 381 794
D (satisfactory)	1 532 872	2 000 235
E (average)	1 270 219	1 954 217
F (acceptable)	1 030 807	2 239 109
G (poor)	628 366	478 334
H (bad)	95 345	-
Other assets – other financial assets	**1 209 237**	**643 604**
Total	**192 284 479**	**180 147 450**

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

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

(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 2015

Portfolio/Rating	AAA	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	CCC- to CCC+	without rating	Total
Amounts due from banks	45 073	695 083	698 684	470 261	10 011	255 545	2 417 588	**4 592 245**
Trading assets – debt securities	-	-	660 029	25 373	22 869	-	68 384	**776 655**
of which:								
issued by the State Treasury	-	-	648 695	-	-	-	-	**648 695**
issued by local government bodies	-	-	1 134	-	-	-	47 462	**48 596**
issued by banks	-	-	10 200	3 805	13 837	-	56	**27 898**
issued by other financial institutions	-	-	-	-	-	-	5 344	**5 344**
issued by non-financial institutions	-	-	-	21 568	9 032	-	15 522	**46 122**
Investment securities available for sale – debt securities	-	-	12 664 695	-	-	-	131 341	**12 796 036**
of which:								
issued by the central bank	-	-	9 996 910	-	-	-	-	**9 996 910**
issued by the State Treasury	-	-	2 551 863	-	-	-	-	**2 551 863**
issued by local government bodies	-	-	115 922	-	-	-	131 341	**247 263**
Investment securities available for sale – debt securities	-	-	19 519 083	1 448 391	412 818	-	-	**21 380 292**
of which:								
issued by the State Treasury	-	-	18 021 339	-	-	-	-	**18 021 339**
issued by local government bodies	-	-	31 053	102 166	43 475	-	-	**176 694**
issued by banks	-	-	1 466 691	-	48 631	-	-	**1 515 322**
issued by non-financial institutions	-	-	-	1 346 225	320 712	-	-	**1 666 937**
Total	**45 073**	**695 083**	**33 542 491**	**1 944 025**	**445 698**	**255 545**	**2 617 313**	**39 545 228**

31 December 2014

Portfolio/Rating	AAA	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**
Investment securities available for sale – 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

(IN PLN THOUSAND)

51.3. 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. 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 the large exposure limit (exposure concentration limit) which, in accordance to Article 395 item 1 of CRR regulation amounts to 25% of the Bank's recognized capital.

As at 31 December 2015 and 31 December 2014, those concentration limits had not been exceeded. As at 31 December 2015, the level of concentration of the Bank risk due to the largest exposure to a single entity was equal to 14.9% of the Bank's recognised capital.

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

31.12.2015			31.12.2014		
No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures **	Share in credit portfolio, which includes off-balance sheet and capital exposures	No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures **	Share in credit portfolio, which includes off-balance sheet and capital exposures
1.	4 073 403	1.54%	1.	3 157 166	1.26%
2.*	3 906 454	1.48%	2.	2 474 087	0.99%
3.*	2 909 827	1.10%	3.*	2 431 471	0.97%
4.	2 721 659	1.03%	4.	2 266 960	0.90%
5.	2 080 000	0.79%	5.	2 172 936	0.87%
6.	1 910 368	0.72%	6.	2 080 000	0.83%
7.	1 841 906	0.70%	7.*	2 400 512	0.96%
8.	1 668 558	0.63%	8.	1 643 091	0.66%
9.	1 593 902	0.60%	9.	1 266 301	0.51%
10.	1 214 307	0.46%	10.	1 177 665	0.47%
11.	1 212 610	0.46%	11.	1 130 843	0.45%
12.	1 007 768	0.38%	12.	1 007 768	0.40%
13.*	964 006	0.36%	13.	957 362	0.38%
14.	894 795	0.34%	14.	911 026	0.36%
15.	893 556	0.34%	15.	904 016	0.36%
16.	870 879	0.33%	16.	834 655	0.33%
17.	852 887	0.32%	17.	815 680	0.33%
18.*	851 917	0.32%	18.	793 137	0.32%
19.	811 349	0.31%	19.	746 933	0.30%
20.	775 703	0.29%	20.	712 771	0.28%
Total	**33 055 853**	**12.50%**	**Razem**	**29 884 380**	**11.93%**

* Concentration exempted from concentration limits under the Article 493 item 3 letter c of the CRR regulation.
** Off-balance sheet exposure includes liability resulting from derivative transactions in the amount of their equivalent in the statement of financial position (according to the provisions of Article 274 item 2 of the CRR regulation.

(IN PLN THOUSAND)

Concentration by the largest capital groups

The greatest concentration of PKO Bank Polski SA towards the capital group amounted to 2.94% of the loan portfolio of the Bank.

As at 31 December 2015 the greatest exposure of PKO Bank Polski SA towards a Group amounted to 28.6%* and 15.5% of the Bank's recognised equity.

Exposure of the Bank towards the 5 largest capital groups:

31.12.2015			31.12.2014		
No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposure**	Share in credit portfolio, which includes off-balance sheet and capital exposures off-balance sheet and capital exposures	No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposure**	Share in credit portfolio, which includes off-balance sheet and capital exposures off-balance sheet and capital exposures
*1	7 785 223	2.94%	*1	4 966 979	1.98%
2	4 213 825	1.59%	2	3 497 840	1.40%
3	3 288 888	1.24%	3	3 157 647	1.26%
4	2 925 561	1.11%	4	2 972 372	1.19%
5	2 741 367	1.04%	5	2 315 214	0.92%
Total	**20 954 865**	**7.92%**	**Total**	**16 910 052**	**6.75%**

* Concentration exempted from concentration limits under the Article 493 item 3 letter c of the CRR regulation.
** Off-balance sheet exposure includes liability resulting from derivative transactions in the amount of their equivalent in the statement of financial position (according to the provisions of Article 274 item 2 of the CRR regulation.

Concentration by 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 2014 the exposure of PKO Bank Polski SA in industry sectors has increased by approx. PLN 0.3 billion. The total exposure in the four largest industry groups 'Industrial processing', 'Maintenance of real estate', 'Wholesale and retail trade (...)', and 'Public administration and national defence' amounted to approx. 60% of the total loan portfolio covered by an analysis of the sector.

Structure of exposure by industry as at 31 December 2015 and as at 31 December 2014 is presented in the table below:

Section	Section name	31.12.2015		31.12.2014	
		Exposure	Number of entities	Exposure	Number of entities
C	Industrial processing	17.01%	10.62%	15.84%	11.19%
L	Maintenance of real estate	17.99%	21.91%	17.96%	19.60%
G	Wholesale and retail trade; repair of motor vehicles	14.83%	23.98%	14.82%	24.30%
F	Construction	8.32%	10.93%	9.15%	11.57%
O	Public administration and national defence, obligatory social security	9.84%	0.55%	9.86%	0.57%
D	Electricity, gas, water vapour, hot water and air to the mechanical systems production and supply	2.12%	0.17%	1.86%	0.21%
Other exposure		29.89%	31.83%	30.51%	32.56%
Total		**100.00%**	**100.00%**	**100.00%**	**100.00%**

The above industry structure does not include exposure arising from debt securities reclassified from the category 'available for sale' to 'advances and receivables'.

Concentration by geographical regions

The Bank's loan portfolio is diversified in terms of geographical concentration.

* Concentration exempted from concentration limits under the article 493 item 3 letter c of the of Regulation of European Parliament and of the Council (EU) No. 575 as of 26 June 2013 on prudential requirements for credit institutions and investment firms amending the regulation (EU) No. 648/2012 as amended.

(IN PLN THOUSAND)

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 2015, the largest concentration of the ORD loan portfolio occurs in region of Warsaw and Katowice (these regions account in total for 25% of the ORD portfolio).

Concentration of credit risk by geographical regions for retail clients	31.12.2015	31.12.2014
Polska		
warszawski	14.12%	11.50%
katowicki	10.85%	10.33%
poznański	9.88%	10.63%
krakowski	9.16%	8.39%
łódzki	8.96%	8.33%
wrocławski	8.93%	8.87%
gdański	8.66%	8.95%
bydgoski	7.61%	9.16%
lubelski	7.09%	8.47%
białostocki	6.55%	7.53%
szczeciński	6.21%	5.75%
central	0.98%	1.38%
other	1.00%	0.70%
Total	**100.00%**	**100.00%**

As at 31 December 2015, the largest concentration of the ORK loan portfolio occurs in the headquarter and in the central macroregion (22% and 15% of the OKI portfolio, respectively).

Concentration of credit risk by geographical regions for corporate clients	31.12.2015	31.12.2014
Poland		
central macroregion	15.47%	14.57%
north macroregion	13.28%	8.95%
west macroregion	10.03%	9.63%
south macroregion	9.65%	9.34%
north-east macroregion	6.66%	6.75%
south-east macroregion	6.55%	6.13%
south-west macroregion	6.20%	5.79%
headquarter	21.93%	29.28%
other	10.23%	9.57%
Total	**100.00%**	**100.00%**

Concentration of credit risk by currency

As at 31 December 2015, the share of exposure in convertible currencies, other than PLN, in the total loan portfolio of PKO Bank Polski SA amounted to 24.9 % which represents a decrease of approximately 0.2 p.p. compared to 31 December 2014 The greatest part of PKO Bank Polski SA currency exposures are those in CHF which amount to 67.4% of the currency portfolio.

Concentration of credit risk by currency	31.12.2015	31.12.2014
PLN	75.13%	74.93%
Foreign currencies, of which:	24.87%	25.07%
CHF	16.76%	16.75%
EUR	6.80%	7.20%
USD	1.20%	1.05%
GBP	0.03%	0.01%
Total	**100.00%**	**100.00%**

(IN PLN THOUSAND)

Other types of concentration

The Bank analyses the structure of the housing loan portfolio in terms of LTV levels. As at the end of 2015, as well as in 2014, the largest concentration was in the 71% - 90% LTV range. Due to the legal merger the ratio of loans at the highest LTV over 100%, has increased.

The structure of the housing loan portfolio in terms of LTV	31.12.2015	31.12.2014
0% - 50%	23.18%	24.90%
51%-70%	19.17%	19.68%
71% - 90%	27.72%	25.26%
91% - 100%	13.64%	14.96%
over 100%	16.29%	15.20%
Total	**100.00%**	**100.00%**

In accordance with the Recommendations S and T of the Polish Financial Supervision Authority, the Bank uses internal limits on credit exposures related to the Bank's customers defining the appetite for credit risk.

As at 31 December 2015, these limits have not been exceeded.

51.4. 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 introducing concessions that otherwise would not be granted). The aim of the forbearance activities is to restore a debtor or an issuer the ability to fulfil its liabilities to the Bank and to maximize the efficiency of non-performing loans management, ie. obtaining the highest recoveries while minimising the incurred costs.

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

- spreading the due debt into instalments,
- change in a repayment schedule (instalment annuity, decreasing instalments,
- extension of the lending period,
- change in interest rates,
- change in the credit margin,
- loans reduction.

As a result of signing and a timely service of forbearance agreement, the loans becomes unmatured. Evaluation of the ability of a debtor to fulfil the forbearance agreement conditions (debt repayment according to the agreed schedule). Forbearance agreements are monitored on an on-going basis. If, as regards to the credit exposure the impairment is recognized, the write-offs are created to balance identified loss.

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

- timely repayment of at least 12 consecutive instalments (the repayment for the requirements of forborne is understood as a situation when the payment of each instalment will take place no later than 30 days after the date of repayment specified in the schedule)
- at least 24 months have elapsed from the conclusion of a forbearance agreement
- impairment of exposures is not recognized

	31.12.2015	31.12.2014
Loans and advances to customers, gross	196 442 677	185 084 771
of which forbearance:	5 301 084	6 063 950
financial sector	3 269	395
corporate loans	3 269	395
non-financial sector	5 296 642	6 063 196
corporate loans	2 642 952	3 251 322
housing loans	2 124 512	2 148 875
consumer loans	529 178	662 999
public sector	1 173	359
corporate loans	1 173	359
Impairment allowances on loans and advances to forbearance customers	(911 172)	(818 621)
Loans and advances to customers, net forbearance	4 389 912	5 245 329

(IN PLN THOUSAND)

Loans and advances to customers subjected to forbearance by geographical region (gross)	31.12.2015	31.12.2014
Poland		
mazowiecki	1 103 003	1 072 270
śląsko-opolski	723 992	801 652
wielkopolski	493 274	525 427
łódzki	462 417	692 484
zachodnio-pomorski	441 864	556 844
podlaski	426 483	510 499
małopolsko-świętokrzyski	403 440	541 966
dolnośląski	380 675	411 922
pomorski	332 547	327 845
kujawsko-pomorski	295 125	350 527
lubelsko-podkarpacki	211 231	245 187
warmińsko-mazurski	27 033	27 327
Total	5 301 084	6 063 950

Loans and advances to customers subjected to forbearance	Exposure by gross carrying amount	
	31.12.2015	31.12.2014
Loans and advances impaired	2 246 505	2 240 556
Loans and advances not impaired, of which:	3 054 579	3 823 394
not past due	2 439 148	3 094 295
past due	615 431	729 099
Total gross	**5 301 084**	**6 063 950**

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

For the period ended 31 December 2015	Total
Carrying amount at the beginning of the period, net	5 245 329
Impairment allowance	(92 551)
Loans and advances derecognised in the period, gross	(2 318 646)
Loans and advances recognised in the period, gross	1 871 674
Other changes/repayment	(315 894)
Carrying amount at the end of the period, net	**4 389 912**

For the period ended 31 December 2014	Total
Carrying amount at the beginning of the period, net	3 326 784
Impairment allowance	172 750
Loans and advances derecognised in the period, gross	(1 308 783)
Loans and advances recognised in the period, gross	3 747 017
Other changes/repayment	(692 439)
Carrying amount at the end of the period, net	**5 245 329**

Loans and advances to customers gross by applied changes in terms of repayment for forbearance	Gross carrying amount	
	31.12.2015	31.12.2014
Spreading of due debt into instalments	3 786 492	3 964 817
Change in repayment formula (annuity instalments, diminishing instalments)	2 729 779	4 071 313
Extention of loan period	1 551 412	1 548 478
Change in interest rate	683 641	823 901
Change in margin	187 748	164 790
Loans reduction	158 968	257 591

(IN PLN THOUSAND)

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 315 740 thousand as at 31 December 2015 (as at 31 December 2014 it amounted to PLN 404 782 thousand).

51.5. Past due of financial assets

Financial assets which are past due but not impaired include the following financial assets:

Financial assets	31.12.2015			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	1 819 234	956 274	198 347	2 973 855
financial sector	-	-	-	-
non-financial sector	1 800 030	956 274	178 461	2 934 765
public sector	19 204	-	19 886	39 090
Other assets – other financial assets	40	20	6 290	**6 350**
Total	**1 819 274**	**956 294**	**204 637**	**2 980 205**

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**

Collaterals for the above receivables include: mortgages, registered pledges, transfers of property rights, account lock-ups, loan exposure insurances, warranties and guarantees.

The conducted assessment proved that for the above-mentioned financial assets the expected cash flows fully cover the carrying amount of these exposures.

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

	31.12.2015	31.12.2014
Amounts due from banks	-	41 173
Loans and advances to customers	4 972 235	5 138 087
Financial sector	43 219	76 110
corporate loans	43 219	76 110
Non-financial sector	4 912 546	5 045 096
corporate loans	3 456 214	3 664 094
housing loans	1 047 710	1 175 329
consumer loans	300 659	94 829
debt securities	107 963	110 844
Public sector	16 470	16 881
corporate loans	16 470	16 881
Investment debt securities available for sale issued by non-financial institutions	393 662	-
Total	**5 365 897**	**5 179 260**

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 2015 amounts to PLN 2 789 444 thousand (as at 31 December 2014 it amounted to PLN 3 179 897 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.

51.7. 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.

51.8. 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.

(IN PLN THOUSAND)

51.9. Provisions for off-balance sheet exposures

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.

51.10. Credit risk of financial institutions

Credit risk of financial institutions in the wholesale market.

As at 31 December 2015, 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	800 000	1 162	942 615	1 743 777
Counterparty 2	319 613	15 369	-	334 982
Counterparty 3	-	139 838	-	139 838
Counterparty 4	-	98 236	-	98 236
Counterparty 5	-	95 138	-	95 138
Counterparty 6	-	69 933	-	69 933
Counterparty 7	-	55 471	-	55 471
Counterparty 8	-	52 403	-	52 403
Counterparty 9	-	48 921	-	48 921
Counterparty 10	-	35 787	-	35 787
Counterparty 11	-	31 396	-	31 396
Counterparty 12	27 308	-	-	27 308
Counterparty 13	-	20 848	-	20 848
Counterparty 14	-	19 572	-	19 572
Counterparty 15	-	19 442	-	19 442
Counterparty 16	-	18 869	-	18 869
Counterparty 17	16 000	-	-	16 000
Counterparty 18	-	14 028	-	14 028
Counterparty 19	14 000	(925)	-	14 000
Counterparty 20	-	13 790	-	13 790

* Excluding exposure to the State Treasury and the National Bank of Poland.

(IN PLN THOUSAND)

For comparison, the largest exposures of PKO Bank Polski SA as at 31 December 2014 presents the table below:

Exposure on the interbank market*				
Counterparty	Type of instrument			Total
	Deposit	Derivatives	Securities	
Counterparty 1	-	9 031	585 246	594 277
Counterparty 27	384 162	-	-	384 162
Counterparty 4	-	169 566	-	169 566
Counterparty 28	51 175	75 202	-	126 377
Counterparty 12	94 261	-	-	94 261
Counterparty 5	-	93 074	-	93 074
Counterparty 9	-	31 165	50 000	81 165
Counterparty 8	-	73 060	-	73 060
Counterparty 7	-	62 516	-	62 516
Counterparty 3	-	59 435	-	59 435
Counterparty 10	-	37 743	-	37 743
Counterparty 29	-	29 418	-	29 418
Counterparty 11	-	24 333	-	24 333
Counterparty 15	-	23 420	-	23 420
Counterparty 2	-	22 583	-	22 583
Counterparty 16	-	16 465	-	16 465
Counterparty 30	-	15 887	-	15 887
Counterparty 31	-	12 912	-	12 912
Counterparty 32	10 000	(3 789)	-	10 000
Counterparty 33	10 000	(7 178)	-	10 000

* Excluding exposure to the State Treasury and the National Bank of Poland.

For the purpose of determining exposures, deposits and securities issued by the counterparties, are stated at nominal values, while derivative instruments are stated at market values, excluding the collateral established by the counterparty. Total exposure to each counterparty ('Total' column) is the sum of exposures arising from deposits and securities, increased by the exposure arising from derivative instruments, if it is positive (otherwise the exposure arising from derivatives is not included in total exposure). Exposure arising from all instruments is calculated from the moment of entering into transaction.

As at 31 December 2015, the Bank had access to two clearing houses (in one as an indirect participant, as a direct in the other), through which settled the defined in EMIR Regulation (Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories), derivative transactions on interest rate with selected national and foreign partners. In nominal terms, the share of transactions cleared centrally in case of FRA amounted to 8.2% of the total portfolio of FRA, in the case of the IRS 0.5% of the total portfolio of IRS transactions.

As at 31 December 2015 the Bank had signed framework agreements, in accordance with ISDA/PBA standards, with 23 local banks and 60 foreign banks and credit institutions. hedge agreements CSA/PBA of 20 local banks and 50 foreign banks and credit institutions. Additionally, the Bank was a party of 13 agreements on repo (for standard ISMA/GMRA).

Geographical location of counterparties

The counterparties generating the 20 largest exposures as at 31 December 2015 come from the following countries detailed in the table below (classified by location of registered office):

No.	Country	Counterparty
1	Belgium	Counterparty 15
2	Denmark	Counterparty 18
3	France	Counterparty 6, Counterparty 8
4	Canada	Counterparty 14
5	Germany	Counterparty 4, Counterparty 10
6	Poland	Counterparty 1, Counterparty 2, Counterparty 7, Counterparty 9, Counterparty 16, Counterparty 19
7	USA	Counterparty 3
8	Switzerland	Counterparty 11, Counterparty 17
9	Ukraine	Counterparty 12
10	The United Kingdom	Counterparty 5, Counterparty 13, Counterparty 20

(IN PLN THOUSAND)

Counterparty structure by rating

Exposure structure by rating is presented in the table below. The ratings were determined based on external ratings granted by Moody's, Standard&Poor's and Fitch agencies (when a rating was granted by two agencies, the lower rating was applied, whereas when a rating was granted by three agencies, the middle rating was applied). Rating for counterparties from 1 to 20 was accepted as at 31 December 2015.

Rating	Counterparty
AA	Counterparty 3, Counterparty 13, Counterparty 14, Counterparty 17
A	Counterparty 1, Counterparty 4, Counterparty 5, Counterparty 6, Counterparty 8, Counterparty 11, Counterparty 15, Counterparty 18
BBB	Counterparty 2, Counterparty 7,Counterparty 10, Counterparty 20
BB	Counterparty 9, Counterparty 16
CCC	Counterparty 12
Without rating	Counterparty 19

Credit risk of financial institutions on a retail market

In addition to the interbank market exposure discussed above, as at 31 December 2015 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 exposures over PLN 10 million is presented in the table below:

2015	Nominal value of exposure		Country of the counterparty
	Statement of financial posit	Off-balance sheet item	
Counterparty 1	500 000	-	Poland
Counterparty 3	511	59 489	USA
Counterparty 12	124 835	70 220	Ukraine
Counterparty 21	50 000	-	Poland
Counterparty 22	-	700 000	Poland
Counterparty 23	39 200	-	Poland
Counterparty 24	89 140	-	Poland
Counterparty 25	18 540	10 955	Sweden
Counterparty 26	2 670	17 830	Denmark

For comparison, the structure of exposure over PLN 10 million as at 31 December 2014 is presented in the table below:

2014	Nominal value of exposure		Country of the counterparty
	Statement of financial posit	Off-balance sheet item	
Counterparty 1	500 000	-	Poland
Counterparty 12	154 320	21 040	Ukraine
Counterparty 23	53 978	6 021	Poland
Counterparty 24	101 808	-	Poland
Counterparty 21	50 000	-	Poland

51.11. Management of foreclosed collateral

Foreclosed collaterals as a result of restructuring or debt collection activities are either designated for sale or used by PKO Bank Polski SA for internal purposes. 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 2015 and 31 December 2014, respectively, were designated for sale.

Activities undertaken by the Bank are aimed at selling assets as soon as possible. Primary procedure for sale of assets is open tender. In justified cases, the sale follows different procedure dependent on the specifics of sold property.

The carrying amounts of non-financial assets held by the Bank, gained as a result of collateral as at 31 December 2015 amounted to PLN 69 479 thousand (as at 31 December 2014 it amounted to PLN 48 084 thousand). The above-mentioned amounts are presented in the note 29 'Other assets' in line item 'Assets for sale'.

51.12. Credit risk reporting

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

51.13. Management actions concerning credit risk

Basic credit risk management tools used by the Bank include:

- minimum transaction requirements (risk parameters) determined for a given type of transaction (e.g. minimum LTV value, maximum loan amount, required collateral),
- the principles of defining credit availability, including cut-offs – the minimum number of points awarded in the process of creditworthiness assessment with the use of a scoring system (for retail clients and SMEs) or the client's rating class (for corporate clients), which a client must obtain to receive a loan,
- concentration limits – the limits defined in article 395, item 1 of the CRR Regulation
- industry-related limits – limits which reduce the risk level related to financing institutional clients that conduct business activities in industries characterised by high level of credit risk,
- limits on credit exposures related to the Bank's clients – the limits defining the appetite for credit risk as result of among others the recommendations S and T,
- credit limits defining the Bank's maximum exposure to a given client or country in respect of wholesale operations and settlement limits and limits for the period of exposure,
- competence limits – they define the maximum level of credit decision-making powers with regard to the Bank's clients, the limits depend primarily on the amount of the Bank's exposure to a given client (or a group of related clients) and the loan transaction period, the competence limit depends on the credit decision-making level (in the Bank's organisational structure),
- minimum credit margins – credit risk margins relating to a given credit transaction concluded by the Bank with a given corporate client, but the interest rate offered to a client cannot be lower than the reference rate plus credit risk margin.

Collateral management policy as regards credit risk plays a significant role in establishing minimum transaction terms. The Bank's 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 collateral for loan exposures:

- in the case of substantial loan transactions, several types of collaterals are established, including, if possible, combination of personal guarantees with collaterals established on assets,
- liquid types of collaterals, i.e. collaterals established on tangible assets, disposal of which is possible without a substantial reduction in their prices at a time, which does not expose the Bank to change the value of the collateral due to the appropriate price fluctuation of a particular collateral are preferred,
- when an asset is accepted as collateral, an assignment of cash receivables from the insurance policy relating to this asset or the insurance policy concluded to the Bank are accepted as additional collateral,
- collateral is assessed in terms of the actual possibility of its use as a potential source of the Bank's claim. The basis of the value assessment of the collateral established on tangible assets is the market value,
- effective establishment of collateral in compliance with the loan agreement is necessary to make the funds available.

The policy regarding collateral is defined by the Bank's internal regulations.

The type of collateral depends on the product and the client segment. With regard to mortgage loans the obligatory collateral are mortgages on the property. Until an effective protection is established (depending on the type and amount of a loan) the Bank may use an increased credit margin or accept temporary collateral in different form.

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

52. 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.

52.1. 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. In 2015 PKO Bank Polska SA introduced a method of determining the historical Var of interest rate risk.

The sensitivity of interest income is a measure determining changes in interest income resulting from abrupt changes in interest rates. This measure takes into account the diversity of revaluation dates of the individual interest-bearing items in each of the selected time horizons.

Stress-tests are used to estimate potential losses arising from a maintained structure of the statement of financial position and off-balance sheet items under market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which are based on arbitrary interest rate fluctuations: a parallel move in interest rate curves for the particular currencies by ±50 b.p., by ±100 b.p. and by ±200 b.p. and bend of yield curve scenarios (non-parallel fluctuations of 'peak' and 'twist' types),
2) historical scenarios – in which interest rate fluctuations are adopted based on the behaviour of interest rates in the past, including: the highest historical change, a bend of a yield curve along with portfolio positions, the largest historical non-parallel fluctuation of the interest rate curves for securities and derivative instruments that hedge them.

The repricing gap shows the difference between the present value of assets and liabilities exposed to interest rate risk, subject to revaluation in a given time range, and these balances are recognised on the transaction date.

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
PLN (in PLN thousand)								**31.12.2015**
Periodic gap	41 811 017	47 417 500	(21 008 436)	(22 234 848)	(9 121 907)	(18 071 603)	3 090 643	**21 882 366**
Cumulative gap	41 811 017	89 228 517	68 220 081	45 985 233	36 863 326	18 791 723	21 882 366	

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	

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)								**31.12.2015**
Periodic gap	374 325	(392 080)	(55 860)	127 224	12 190	(21 495)	(133 556)	**(89 252)**
Cumulative gap	374 325	(17 755)	(73 615)	53 609	65 799	44 304	(89 252)	-

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)	-

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
EUR (in EUR thousand)								**31.12.2015**
Periodic gap	(135 387)	674 570	218 000	(187 154)	(382 412)	(837 661)	212 303	**(437 741)**
Cumulative gap	(135 387)	539 183	757 183	570 029	187 617	(650 044)	(437 741)	-

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)	-

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)								**31.12.2015**
Periodic gap	(371 412)	3 658 473	124 194	(1 808 428)	(74 730)	(416 697)	(715 894)	**395 506**
Cumulative gap	(371 412)	3 287 061	3 411 255	1 602 827	1 528 097	1 111 400	395 506	-

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	-

As at the end of 2015 and 2014, PKO Bank Polski SA had a positive cumulative gap in PLN in all the time horizons.

52.2. 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 2015. The Bank was mainly exposed to PLN interest rate risk. Among all applied stress tests by the Bank involving a parallel shift of interest rate curves, the most unfavourable for the Bank was the scenario of a parallel shift of interest rate curves in PLN. The effect of materialization of this scenario as at December 2015, represents about PLN 1.62 billion, and on the date of 31 December 2014 this value amounts to approximately PLN 1.88 billion.

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	31.12.2015	31.12.2014
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)	271 674	282 268
Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress-test)*	2 040 191	2 369 729

*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 2015, the Bank's interest rate VaR for the 10-day time horizon (10-day VaR) amounted to PLN 271 674 thousand, which accounted for approximately 1.00% of the Bank's own funds. As at 31 December 2014, VaR for the Bank amounted to PLN 282 268 thousand, which accounted for approximately 1.13% of the Bank's own funds.

52.3. Reporting of the interest rate risk

The Bank prepares daily, weekly, monthly and quarterly interest rate risk reports. Reports present the information on interest rate risk exposure and usage of available limits regarding the risk.

52.4. Management decisions as regard 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 types 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.

53. 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 potential 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.

53.1. 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 likeiihood level and taking into account the correlation between the risk factors. In 2015 PKO Bank Polski introduced a method of determining the historical VaR for foreign exchange.

Stress-tests and crash-tests are used to estimate potential losses arising from currency positions under extraordinary conditions on the currency market that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which assume a hypothetical appreciation or depreciation of currency rates (by 20 percent and 50 percent),
2) historical scenarios – based on the behaviour of currency rates observed in the past.

53.2. 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	31.12.2015	31.12.2014
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)	25 384	6 230
Change in CUR/PLN by 20% (in PLN thousand) (stress-test)*	62 244	16 351

*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 2015 and as at 31 December 2014.

(IN PLN THOUSAND)

The volume of currency positions for particular currencies are presented in the table below:

Currency	31.12.2015	31.12.2014
EUR	388 754	16 776
USD	3 344	19 162
CHF	(50 352)	(16 762)
GBP	(1 839)	4 979
Other (Global Net)	84 687	52 888

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 31 December 2015 amounted to approx. 0.09%).

53.3. Currency Structure

The tables below present currency exposure by the specific types of assets, liabilities and off-balance sheet liabilities:

	Currency translated to PLN - 31.12.2015				
	PLN	EUR	CHF	Other	Total
Cash and balances with the central bank	12 559 243	721 023	61 779	365 685	13 707 730
Amounts due from banks	1 928 129	1 668 745	115 670	880 076	4 592 620
Loans and advances to customers	148 668 813	13 226 862	32 240 630	2 306 372	196 442 677
Securities	38 851 684	1 433 312	993 615	223 618	41 502 229
Tangible assets	13 148 276	42	-	28	13 148 346
Other assets and derivative financial instruments	7 250 836	215 725	41 735	90 133	7 598 429
Total assets (gross)	222 406 981	17 265 709	33 453 429	3 865 912	276 992 031
Depreciation / amortisation / impairment	(12 491 234)	(236 374)	(963 334)	(921 059)	(14 612 001)
Total assets (net)	**209 915 747**	**17 029 335**	**32 490 095**	**2 944 853**	**262 380 030**
Amounts due to the central bank	4 219	-	-	-	4 219
Amounts due to banks	1 044 805	2 527 550	14 372 281	305 221	18 249 857
Amounts due to customers	175 825 256	12 833 533	3 431 060	9 719 353	201 809 202
Debt securities in issue	866 074	851 587	-	-	1 717 661
Subordinated liabilities	1 616 619	-	882 544	-	2 499 163
Provisions	236 795	5 396	1 037	2 550	245 778
Other liabilities and derivative financial instruments and provision for deffered income tax liability	7 052 666	442 823	24 659	116 115	7 636 263
Equity	30 217 887	-	-	-	30 217 887
Total liabilities and equity	**216 864 321**	**16 660 889**	**18 711 581**	**10 143 239**	**262 380 030**
Off-balance sheet liabilites granted	49 295 501	5 032 113	218 798	4 447 847	58 994 259

(IN PLN THOUSAND)

	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 deffered 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 liabilites granted	44 548 659	5 095 797	147 731	3 794 837	53 587 024

53.4. 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.

53.5. 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.

54. 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.

As a part of liquidity risk management the Bank manages the financing risk, which takes into account the risk of loss of financing sources and the lack of opportunities to renew matured funding, or loss of access to new financing sources.

PKO Bank Polski SA's policy concerning liquidity is based on keeping a portfolio of appropriate level of liquidity surplus through an increase in portfolio of liquid securities and stable sources of financing (stable deposit base, in particular). In liquidity risk management money market instruments, including NBP open market operations are also used.

54.1. 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,
- liquidity surplus,
- ratio of stable funding to illiquid assets,
- liquidity coverage ratio (LCR),
- national supervisory liquidity measures (M1-M4),
- measure of stability of deposit and loan portfolios,
- stress-tests (liquidity stress-tests).

54.2. 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
31.12.2015								
Adjusted gap in real terms	14 038 877	16 783 091	52 969	3 643 433	8 518 231	7 597 329	11 794 304	(62 428 234)
Cumulative adjusted gap in real terms	14 038 877	30 821 968	30 874 937	34 518 370	43 036 601	50 633 930	62 428 234	-
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	-

In all time horizons, PKO Bank Polski SA's cumulative adjusted liquidity gap in real terms as at 31 December 2015 and as at 31 December 2014 was positive. This means a surplus of assets receivable over liabilities payable.

The table below presents liquidity reserve of the Bank as at 31 December 2015 and as at 31 December 2014

Name of sensitivity measures	31.12.2015	31.12.2014
Liquidity reserve up to 1 month* (in PLN million)	30 186	21 075

*Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.

As at 31 December 2015 the minimum level of liquidity surplus in the horizon to 30 days amounted to PLN 14 411 million. A measure of liquidity surplus determines the ability of the Bank to cover liquidity needs in a given period of survival in an implementation-defined stress scenarios.

The following table shows the supervisory liquidity measures of the Bank as at 31 December 2015 and as at 31 December 2014.

Measure	31.12.2015	31.12.2014
M1	18 907	15 859
M2	1.65	1.65
M3	9.87	7.01
M4	1.15	1.16
LCR	129.5%	132.7%

In the period from 31 December 2014 to 31 December 2015 ratios supervisory measures remained above the supervisory limits.

As at 31 December 2015 the level of permanent balances on deposits constituted approx. 93.6% of all deposits in the Bank (excluding interbank market), which means an decrease by approximately 1.1 pp. as compared to the end of 2014.

(IN PLN THOUSAND)

The table below presents the structure of the Bank's sources of financing as at 31 December 2015 and as at 31 December 2014.

	31.12.2015	31.12.2014
Total deposits (excluding interbank market)	75.96%	75.04%
Interbank market deposits	0.67%	0.20%
Equity	11.99%	10.57%
Market financing	11.38%	14.19%
Total	**100.00%**	**100.00%**

54.3. The contractual cash flows of the Bank's liabilities excluding derivative financial instruments as at 31 December 2015 and as at 31 December 2014 respectively, by maturity

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of statement of financial position and off-balance sheet liabilities, excluding derivative financial instruments as at 31 December 2015 and as at 31 December 2014 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2015 and as at 31 December 2014. The amounts disclosed comprise non-discounted cash future flows, both in respect of principal and interest (if applicable), in accordance with the contract, for the entire period to the date of the liability's maturity. In situations where the party to whom the 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.

Contractual flows of the Bank's liabilities as at 31 December 2015 by maturity

	Up to 1 monnth	1-3 months	3 months- 1 year	1-5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	4 219					4 219	**4 219**
Amounts due to banks	1 891 317	84	37 391	199 374	16 385 062	18 513 228	**18 249 857**
Amount due to customers	125 657 697	21 838 340	35 723 481	12 860 419	8 353 325	204 433 262	**201 809 202**
Debt securities in issue	-	59 600	1 652 300	-	-	1 711 900	**1 717 661**
Subordinated liabilities	-	32 982	44 239	319 264	2 650 337	3 046 822	**2 499 163**
Other liabilities	2 396 182	6 591	286 097	145 121	175 084	3 009 074	**3 009 074**
Off-balance sheet financial liabilities - granted	28 671 366	805 273	3 817 954	3 061 290	6 095 628	42 451 511	-
Off-balance sheet guarantee liabilities - granted	1 415 147	1 603 873	2 447 114	9 783 413	1 293 201	16 542 748	-

Contractual flows of the Bank's liabilities as at 31 December 2014 by maturity

	Up to 1 monnth	1-3 months	3 months- 1 year	1-5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	4 427	-		-	-	4 427	**4 427**
Amounts due to banks	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	-

(IN PLN THOUSAND)

54.4. The contractual cash flows related to derivative financial instruments as at 31 December 2015 and as at 31 December 2014 respectively, by maturity

Derivative financial instruments settled in net amounts

Derivative financial instruments settled by the 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 2015 and as at 31 December 2014 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2015 and as at 31 December 2014. In case of IRS transactions, non-discounted future net cash flows in respect of interest have been presented and in case of the remaining derivative instruments settled on a net basis, the amount of the valuation as at 31 December 2015 and as at 31 December 2014 respectively was adopted as the value of a cash flow.

Moreover, the cash flows from IRS transactions which constitute cash flow hedges in respect of loans with variable interest rates are shown separately in the table.

31 December 2015	Up to 1 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:	(208 295)	(263 283)	(602 581)	(1 625 707)	(363 137)	(3 063 003)
- hegde derivatives	-	-	-	-	-	-
- other derivative instruments: options, FRA, NDF	(153 840)	(122 865)	(507 263)	(886 046)	(378)	(1 670 392)

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)
- hegde derivatives	-	-	-	-	-	
- other derivative instruments: options, FRA, NDF	(179 655)	(464 273)	(425 585)	(291 679)	-	(1 361 192)

Derivative financial instruments settled in gross amounts

Derivative financial instruments settled by the 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 2015 and as at 31 December 2014 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2015 and as at 31 December 2014. The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable).

(IN PLN THOUSAND)

In the table cash flows from CIRS transactions which constitute cash flow hedges in respect of mortgage loans denominated in CHF, deposits negotiated in PLN and liabilities at a fixed rate in USD are shown separately.

31 December 2015	Up to 1 monnth	1-3 months	3 months- 1 year	1-5 years	Over 5 years	Contractual value
Derivative financial instruments:						
- outflows, of which:	(6 114 099)	(1 991 900)	(2 657 157)	(3 522 829)	(507 563)	(14 793 548)
- derivative hedging instruments	(150 112)	(1 223)	(103 682)	(1 457 241)	(300 000)	(2 012 258)
- inflows, of which:	5 991 818	1 676 483	2 983 153	9 679 829	1 336 019	21 667 302
- derivative hedging instruments	488 385	18 211	426 621	5 554 128	1 074 968	7 562 313

31 December 2014	Up to 1 monnth	1-3 months	3 months- 1 year	1-5 years	Over 5 years	Contractual value
Derivative financial instruments:						
- outflows, of which:	(5 566 617)	(4 810 958)	(6 306 363)	(3 288 097)	(793 347)	(20 765 382)
- derivative hedging instruments	(350 815)	(274 035)	(3 427 633)	(1 260 840)	(777 279)	(6 090 602)
- inflows, of which:	5 811 258	1 627 944	7 801 094	7 415 672	2 796 292	25 452 260
- derivative hedging instruments	552 181	18 010	4 792 330	4 623 608	2 738 845	12 724 974

54.5. Current and non-current assets and liabilities

The Bank classifies an asset as current (short-term) when:

- it expects to realize the asset or intends to sell or consume it in the course of the normal operating cycle,
- is in possession of the asset primarily for the purpose of trading,
- it expects that the asset will be realized within twelve months after the reporting period or
- the asset is cash or a cash equivalent (as defined in IAS 7) unless it is restricted from being exchanged or used to settle a liability for at least twelve months from the end of reporting period.

All other assets of the unit are classified as non-current assets (long-term)

The Bank classifies a liability as current when:

- it expect that it will be settled in the normal operating cycle
- it holds the liability for the purpose of trading
- it is due within twelve months after the reporting period or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as long-term liabilities

31 December 2015

	Short-term	Long-term	Impairment allowances	Total carrying amounts
Cash and balances with the central bank	13 707 730	-	-	13 707 730
Amounts due from banks	4 511 564	81 056	(260)	4 592 360
Trading assets	793 213		-	793 213
Derivative financial instruments	1 399 599	2 948 435	-	4 348 034
Financial instruments designated upon initial recognition at fair value through profit and loss	10 087 033	2 709 003	-	12 796 036
Loans and advances to customers	46 677 223	149 765 454	(7 890 237)	188 552 440
Investment securities available for sale	958 850	26 954 130	(53 253)	27 859 727
Other assets	4 041 971	7 151 240	(1 462 721)	9 730 490
Total assets	**82 177 183**	**189 609 318**	**(9 406 471)**	**262 380 030**
Amounts due to the central bank	4 219	-	-	4 219
Amounts due to banks	1 889 631	16 360 226	-	18 249 857
Derivate financial instruments	1 185 610	3 441 579	-	4 627 189
Amounts due to customers	182 364 144	19 445 058	-	201 809 202
Debt securities in issue	1 645 917	71 744	-	1 717 661
Subordinated liabilities	-	2 499 163	-	2 499 163
Other liabilities	2 874 038	380 814	-	3 254 852
Total liabilities	**189 963 559**	**42 198 584**	**-**	**232 162 143**
Equity	**-**	**30 217 887**	**-**	**30 217 887**
Total liabilities and equity	**189 963 559**	**72 416 471**	**-**	**262 380 030**

(IN PLN THOUSAND)

31 December 2014

	Short-term	Long-term	Impairment allowances	Total carrying amounts
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

54.6. Reporting of the liquidity risk

The Bank prepares daily, weekly, monthly and quarterly liquidity risk reports. Reports present the information on liquidity risk exposure and usage of available limits regarding the risk.

54.7. 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.

55. 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.

56. Price risk of equity securities management

The price risk of equity securities is the risk of incurring a loss due to changes in the prices of equity securities on the public market or stock exchange indices, generated by maintaining open positions in instruments sensitive to changes in these market parameters.

The price risk of equity securities results from operations conducted as part of trading activities (The Brokerage House of PKO Bank Polski SA), investing activities and from other operations as part of banking activities generating a position in equity securities.

Managing the price of risk equity securities is aimed at limiting possible losses due to changes in the prices of equity securities on the public market or stock exchange indices to acceptable level, by 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.

57. Other price risks

Taking into consideration other price risks, at the end of the year 2015, the Bank was exposed to price risk of investment fund participation units in collective investment funds.

Influence of this risk to the Bank's financial situation is immaterial. The capital requirement, pursuant to the CRR Regulation, to cover the above-mentioned risk amounted to approx. PLN 2 million as at 31 December 2015. The increase in relation to the requirement as at 31 December 2014 results from the purchased collective investment funds participation units.

58. 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.

58.1. 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.

58.2. 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.

58.3. 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.

58.4. 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).

59. 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, controlling, monitoring reduction and reporting of operational risk.

59.1. Measurement and assessment of the operational risk

Measurement of operational risk at the Bank aims at defining the scale of threats related to the existence of operational risk with the use of defined risk measures. The measurement of operational risk comprises:

- calculation of Key Risk Indicators (KRI),
- requirement calculation of own funds for operational risk under the BIA approach with respect to activities of the Bank's branch in the Federal Republic of Germany and AMA with respect to the other activity of the Bank
- stress-tests,
- calculation of Bank's 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,
- Information gathered during the measurement, monitoring and reporting of operational risk, including internal audits and safety audits.

59.2. Operational risk control

The objective of operational risk management is striving for maintaining the level of operational risk of the Bank at fixed level.

Control of operational risk includes setting tailored to the scale and complexity of the Bank's activities risk controls in the form of limits on operational risk., in particular the strategic limits of tolerance and operational risk, losses limits, KRI with thresholds and critical values.

59.3. Forecasting and monitoring of operational risk

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

The Bank regularly monitors:

- utilisation level of strategic tolerance for the Bank and operational risk losses limits for the Bank,
- operational events and their consequences,
- results of operational risk self-assessment,
- requirement in respect of Bank's own funds as regards to operational risk in accordance with the AMA and BIA approach,
- results of stress-tests,
- the level of risk, areas and tools for operational risk management,
- Key Risk Indicators (KRI) in relation to threshold and critical values,
- effectiveness and timeliness of actions undertaken to reduce or transfer the operational risk,
- management activities related to the presence of elevated or high levels of operational risk and their effectiveness in reducing the level of operational risk.

59.4. Reporting of operational risk

Reporting on information concerning operational risk is being performed for the purposes of:

- Bank's internal requirements, particularly of the senior management staff, ORC, RC, the Management Board, the and the Supervisory Board,
- external supervisory and control.

Reporting on information concerning operational risk of the Bank and 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 operational risk profile of the Bank resulting from the process of identifying and assessing the threats for products, processes and LDA measurement
- operational risk level, areas and tools of operational risk management,
- the results of measuring and monitoring of operational risk,
- actions taken to reduce operational risk and evaluate the effectiveness of actions taken to reduce the operational risk level,
- recommendation and decision of the ORC or the Management Board.

Each month, information on operational risk is prepared and forwarded to the members of the Management Board, the organisational units of the Head Office and specialised units as well as organisational units responsible for system-based operational risk management. The scope of information is diversified and tailored to the scope of responsibilities of individual recipients of the information.

59.5. 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 internal and external data about operational events and the causes and consequences of their occurrence, data on the factors of the business environment, results of operational risk self-assessment, data on KRI and data related to the quality of internal functional controls.

In order to mitigate exposure to operational risk, the following tools are used by the Bank:

1) control instruments (authorisation, internal control, function distributivity),
2) human resources management instruments (staff selection, enhancement of professional qualification of employees, motivation packages),
3) determination or verification of threshold values of Key Risk Indicators (KRI),
4) determination or verification of strategic tolerance limits and the losses limits of the Bank's operational risk,
5) contingency plans,
6) insurance,
7) outsourcing.

Management actions are taken in especially under the following cases

- on ORC's initiative or Management Board,
- on the initiative of organisational units and cells of the Bank managing operational risk,
- when operational risk exceeded levels described by Management Board or ORC.

Especially when the risk level is elevated or high, the Bank uses the following approach:

- risk reduction – mitigating the impact of risk factors or consequences of its materialisation,
- risk transfer – transfer of responsibility for covering potential losses on a third-party,
- risk avoidance – resignation from activity that generates risk or elimination the probability of the occurrence of a risk factor.

The correctness of operational risk management process is reviewed within the following framework::

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

60. 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, market standards adopted by the Bank.

The objective of the compliance risk management is ensuring the Bank proper application the provisions of the law, market adopted standards and functioning the Bank as a reliable, fair and honest institution through elimination compliance risk, preventing the possibility of losing reputation or reliability of the 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.

60.1. Compliance risk monitoring

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 Risk Committee and the Supervisory Board. Reports contain among others information on:

- the results of identification and assessment of compliance risk,
- the observed cases of non-compliance ,
- the most significant changes in the regulatory environment of the Bank
- the most significant activities undertaken as regards to system-based compliance risk management.

The Bank has adopted a zero tolerance policy against compliance risk, which means that the Bank focuses its actions on eliminating this risk.

61. 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.

61.1. 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'.

61.2. 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.

61.3. Controlling of business risk

The purpose of the business risk controlling is to strive for maintaining the level of business risk of the Bank at an acceptable level.

Control of business risk involves setting and periodic review of the risk controls in the form of tolerance limits on the business risk along with its thresholds and critical values, adequate to the scale and complexity of the Bank.

61.4. 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.

61.5. 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.

62. 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 and limiting the negative effect of image-related events on the Bank's reputation.

Reputation risk management in the Bank includes in particular:

1) Information monitoring of image-related events, taking into account every identified, negative information about the Bank, in the form of:
   - information disseminated in the media,
   - information disclosed within the principles of information policy of the Bank,
   - evaluation of audits firms, analytical institutions and external supervisory and control authorities
   - public protests and speeches
2) recording image-related events and their effects in the form of reputation losses,
3) analysing and evaluating reputation losses and determining the level of reputation risk losses,
4) execution of communication protective measures
5) identifying potential reputation threats

The activities related to reputation risk are undertaken on the basis of periodical management reports 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.

63. Model risk management

Model risk is the risk of incurring losses as a result of making incorrect business decisions on the basis of the models functioning.

The objective of model risk management is to mitigate the risk of incurring losses as a result of making incorrect business decisions on the basis of existing models through a well-defined and implemented process of models management.

All significant models in the Bank are covered by regular process of independent validation.

In the second half of 2015 the Bank run the work related to the adjustment to the requirements of Recommendation W concerning the risk management models of banks issued by the Polish Financial Supervision Authority in July 2015.

63.1. Identification and assessment of model risk

Identification of model risk in the Bank mainly consists of:

- gathering information on existing, built and planned to be build models,
- cyclical determining the relevance of models,
- determining potential threats that may occur during the life cycle of the model.

The model risk evaluation is aimed at determining scale of threats associated with the occurrence of the model risk and involves estimating the risk level of each model and the aggregated level of model risk.

Ratings may be aggregated mainly at the level of the Bank, particular risk types or classes of models. Assessment of the level of risk for each model shall be carried out not less frequently than once a year.

63.2. Model risk monitoring and reporting

The purpose of model risk monitoring is to control model risk and diagnose areas for management actions. Model risk monitoring contains, in particular: the update of level of model risk, the verification of status of implementation and the valuation of effectiveness of implementation of the activities on mitigation of model risk. Monitoring results are periodically presented in the reports addressed to the RC, the Management Board and the Supervisory 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.

63.3. 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.

64. 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.

64.1. 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.

64.2. 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

64.3. Macroeconomic changes risk reporting

Risk of macroeconomic changes reporting is realised in the form of reports summarising the results of each stress-tests. Reports are addressed to ALCO, RC and the Management Board. Reports include information such as:

- summary of the results of stress-tests,
- in case of elevated or high level of risk of macroeconomic changes: an analysis of reasons which led to an increase in the risk level, assessment of the potential consequences of this situation for the Bank, prediction of possible outcomes, proposals of actions aimed at reducing the level of risk, an initial assessment of their effectiveness.

64.4. 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.

65. 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'.

66. Management of the risk of excessive leverage

The risk of excessive leverage is defined as the risk resulting from vulnerability due to financial leverage or conditional leverage that may require unintended corrective actions of business plans, including emergency sale of assets which could result in losses or result in the need for valuation adjustments of other assets.
The risk of excessive leverage materializes as a mismatch of scale of activities and structure of the sources of financing and insufficient equipment of Bank's own funds.

The objective of managing the risk of excessive leverage is therefore ensuring a sound relationship between the size of the core capital (Tier 1) and the sum of the balance sheet assets and off-balance sheet liabilities granted by the Bank.

For the purpose of measuring the risk of excessive leverage, bank leverage ratio is calculated in accordance with Article 429 of CRR Ordinance ie. as a measure of Tier 1 capital divided by the measure of total exposure and is expressed as a percentage rate.
The following parameters are in particular subject to monitoring of the risk of excessive leverage:

- value of the leverage ratio,
- threshold of the risk of excessive leverage,
- deviation of the leverage ratio from forecasts.

The values are monitored on a quarterly basis.

The risk of excessive leverage of the Bank is reported on quarterly basis. The receivers of reports on the risk of excessive leverage are RC, the Management Board, the Risk Supervisory Board Committee and the Supervisory Board. Reports include, among others, information on the value of leverage ratio, the threshold values for excessive leverage risk and a forecast of the risk of excessive leverage.

67. 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,
- balance sheet
- own funds,
- the 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.

68. 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 own funds 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 regulations applicable in the process of the capital adequacy assessment process as at 31 December 2015 is:

- the Regulation (EU) No. 575/2013 of the European Parliament and of the Council as of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending the Regulation (EU) No. 648/2012, hereinafter called 'CRR Regulation'. The CRR Regulation constitutes a part of so-called CRD IV/CRR package, which apart from the Regulation comprises CRD IV Directive - Directive 2013/36/EU of the European Parliament and of the Council as of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (Referred to as "CRD" IV),
- The Act of 29 August 1997, the Banking Law (Journal of Laws 2015, item 128, as amended) (Hereinafter referred to as the „Banking Act"),
- The Act of 5 August 2015, on macroprudential supervision of the financial system and crisis management in the financial system (Journal of Laws of 2015, Item 1513) (Hereinafter referred to as the „Act on macroprudential supervision").

In case of conflict between provisions of CRR Regulation and national regulations, precedence is given to the CRR Regulation.

The level of capital adequacy of the Bank in 2015 remained on a safe level, significantly above the supervisory limits.

68.1. Own funds for capital adequacy purposes

As at 31 December 2015 own fund of the Bank for the purposes of capital adequacy were calculated in accordance with the provisions of the CRR Regulation and the Banking Act.

Own funds of the Bank comprise Tier 1 basic capital and Tier 2 capital. 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 accumulated comprehensive income (excluding gains and losses on cash flow hedges, whereas in respect of unrealised gains and losses on instruments classified to available for sale portfolio losses are recognized in full amount, and profits are recognized in the amount of 40% of their balance sheet value.
3) general banking risk fund,
4) retained earnings (undistributed profits from previous years),
5) net profit prior to approval and net profit for the current reporting period, calculated based on appropriate accounting standards, decreased by any expected charges and dividends, in amounts not exceeding amounts audited by certified auditor, whereas the term for inclusion of the above-mentioned net profit within Bank's own funds is its approval by the General Shareholders' Meeting, or prior to the approval by GSM, obtaining consent from the PFSA to its inclusion within own funds.

Tier 1 basic capital is reduced by the following items:

1) losses for the current financial year,
2) intangible assets stated at carrying amount less any associated deferred income tax liability, (the deducted amount includes goodwill taken into account in measurement of the Bank's significant investments),
3) additional value adjustments of assets measured at fair value (AVA),
4) additional adjustments of the valuation of derivatives reflecting the Bank's own credit risk (DVA)
5) deferred income tax assets based on future profitability and not arising from temporary differences,
6) deferred income tax assets based on future profitability and arising from temporary differences which exceed 10% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets),
7) the Bank's direct and indirect equity exposures to entities of financial sector in case the institution did not invest significantly in those entities, expressed as shares or other Tier 1 or 2 basic funds instruments of these entities, if total amount exceeds 10% of Tier 1 basic funds of the Bank (without considering deductions due to equity exposures and deferred income tax assets)
8) the Bank's direct and indirect equity exposures to entities of financial sector in case the institution invested significantly in those entities, expressed as shares or other Tier 1 basic funds instruments of these entities, if total amount exceeds 10% of Tier 1 basic funds of the Bank (without considering deductions due to equity exposures and deferred income tax assets)
9) the amount by which the sum of:
    a) deferred tax assets based on future profitability and arising from temporary differences, up to 10% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets), and
    b) the Bank's direct and indirect equity exposures to entities of financial sector in case the institution did not invest significantly in those entities, expressed as shares or other Tier 1 basic funds instruments of these entities up to 10% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets)

   exceeds the equivalent of 17.65% of Tier 1 basic funds (with considering deductions from points mentioned in positions 1-5 and the full value of the items referred in point 9 a-b, without the application of the threshold. The amount below the threshold in subject does not reduce own funds and is included within risk weighted assets.

Tier 2 basic capital comprise subordinated liabilities, which meet the CRR Regulation requirements and in case of which the Bank obtained consent from the PFSA to their inclusion within own funds.

Tier 2 capital is reduced by the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies in the form of Tier 2 funds instruments of these entities wherein, in accordance with Article 472 of CRR, the residual value of the item is deducted half from Tier 1 capital and half from Tier 2 capital.

If the value of deduction would decrease in Tier 2 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.

As at 31 December 2015 in the Bank's own funds calculated for the purposes of capital adequacy the Bank's net profit for the 2014 in the amount of PLN 3 079 471 thousand and the retained earnings from previous years in the amount of PLN 132 793 thousand have been included. Profit was included in Tier 1 basic funds of the Bank, whereas the amount of PLN 1 962 264 thousand increased other reserves of the Bank (spare and reserve capital) and the amount of PLN 1 250 000 thousand remained undivided.

(IN PLN THOUSAND)

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 2015 and as at 31 December 2014, according to the CRR Regulation, is presented in the table below:

BANK'S OWN FUNDS	31.12.2015	31.12.2014
Basic funds (Tier 1)	24 820 848	22 558 648
Share Capital	1 250 000	1 250 000
Other reserves	24 002 288	22 040 024
Other comprehensive income	(147 065)	(85 123)
General banking risk fund	1 070 000	1 070 000
Retained profits	1 250 000	1 004 300
Goodwill	(871 047)	(871 047)
Other intangible assets	(1 654 902)	(1 764 734)
Equity exposures deducted from own funds	(23 407)	(49 101)
Adjustments in equity Tier 1 under the prudential filters	(55 019)	(35 671)
Capital (Tier 2)	2 428 511	2 321 062
Subordinated liabilities classified as supplementary funds	2 483 126	2 394 713
Equity exposures deducted from own funds	(54 615)	(73 651)
Total own funds	**27 249 359**	**24 879 710**

68.2. Requirements as regard own funds (Pillar I)

In accordance with the CRR Regulation 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– in accordance with the Base Indicator Approach (BIA) in the activities of the branch of the Bank in the Federal Republic of Germany and in accordance with the Advanced Measurement Approach (AMA) in respect of other activities of the Bank,
- 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 (considering value of adjustments for specific credit risk), a risk weight of the exposure calculated according to the standardised method of credit risk requirement as regards own funds and 8% (considering recognised collaterals),
- in case of off-balance sheet liabilities granted – a product of value of liability (considering value of adjustments for specific credit risk), a risk weight of the product, a risk weight of off-balance sheet exposure calculated according to the standardised method of credit risk requirement for own funds and 8% (considering recognised collaterals),
- in case of off-balance sheet transactions (derivative instruments) – a product of risk weight of the off-balance sheet transaction calculated according to the standardised method of credit risk requirement for own funds, equivalent in the statement of financial position of off-balance sheet transaction and 8% (the value of the equivalent in the statement of financial position is calculated in accordance with the mark-to-market method).

The total requirement in respect of Bank's own funds comprises the sum of the own funds capital requirements in respect of:

1) credit risk, including counterparty credit risk and the risk in relation to exposures to a central counterparty (CCP)
2) market risk, including currency risk and commodity price
3) settlement and delivery risk
4) risk of credit valuation adjustment (CVA),
5) operational risk,
6) exceeding the of large exposures limit.

(IN PLN THOUSAND)

The following table presents the requirements for the Bank's own funds for particular types of risk. Data as of 31 December 2015 and 31 December 2014 have been calculated in accordance with CRR Regulation.

Requirements as regard own funds	31.12.2015	31.12.2014
Credit risk	13 176 070	13 590 324
Market risk	518 662	602 407
Credit valutaion adjustment risk	31 460	42 375
Settlement / delivery risk	-	68
Operational risk	543 163	655 419
Total capital requirements	14 269 355	14 890 593
Capital adequacy ratio	15.28%	13.37%
Tier 1 capital ratio	13.92%	12.12%

The decrease in own funds capital requirement in respect of credit risk in 2015 compared to 2014 by approx. PLN 0.4 billion is mainly due to the measures that reduced risk-weighted assets (AWR). The most important reason for performing optimization was to improve the quality, of data mainly through the inclusion in the category of retail exposures to SMEs meeting customer segmentation criteria and to perform a review of off-balance sheet exposures, including verification of assigned risk weights of the product.

The decrease in own funds requirement in respect of market risk in 2014 compared to 2014 by approx. about 14 % to the level of PLN 519 million is mainly due to changes in the treatment and optimization of the guaranteed bond issue structure.

There has been a decrease in the requirement of own funds for operational risk for the Bank of the amount of PLN 655 million (as at 31 December 2014) to PLN 543 million (as at 31 December 2015). The decrease is mainly due to the completion of the merger process of the Bank with Nordea Bank Polska SA.

68.3. Internal capital (Pillar 2)

PKO Bank Polski SA calculates internal capital in accordance with:

- the CRR Regulation and CRD IV directive,
- the Banking act,
- the CRD IV 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.
- Law about macroprudential supervision

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 2015, 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.

68.4. Disclosures (Pilar III)

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,
- the Banking Act,
- law on macroprudential supervision,
- recommendation M relating to operational risk management in banks, issued by Financial Supervision Authority.

Details of the scope of information disclosed, the method of its verification and publication are presented in PKO Bank Polski SA Capital Adequacy Information Policies and other information to be published, which are available on the Bank's website (www.pkobp.pl).

69. 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 of 2015, over 11.3 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities (including credit cards loans), with a total debt of PLN 163.7 million and CHF 1.7 million and 346 retail loans secured by mortgage, classified as 'loss', in relation to individuals who do not conduct business activities with a total debt of PLN 132 million, EUR 49.7 thousand and USD 441 thousand and CHF 37.7 million.
- In the second quarter of 2015, over 10.7 thousand retail loans classified as "loss" in relation to individuals who do not conduct business activities (including credit card loans), with a total debt of PLN 178.7 million, EUR 304.2 thousand and CHF 3.7 million and 851 retail loans classified as 'loss' with a total debt of PLN 102 million, EUR 0.3 thousand, CHF 283 thousand and USD 214.6 thousand and 30 loans from institutional customers classified as 'loss' with total debt of over PLN 100.3 million
- In the third quarter of 2015, over 10.6 thousand retail loans classified as "loss" in relation to individuals who do not conduct business activities (including credit card loans), with a total debt of PLN 168.5 million, EUR 5.8 thousand, USD 129.8 thousand and CHF 9.5 million and over 1.2 thousand of retail loans classified as 'loss' with a total debt of PLN 114.7 million, EUR 28.6 thousand, CHF 860.8 thousand.
- In the fourth quarter of 2015, over 10 thousand retail loans classified as "loss" in relation to individuals who do not conduct business activities (including credit card loans), with a total debt of PLN 175.3 million, CHF 6.5 million, EUR 99.5 thousand, USD 17.3 thousand and 1 thousand of retail loans classified as 'loss' with a total debt of PLN 103.2 million, EUR 38.2 thousand, CHF 1 million, 478 retail loans secured by mortgage classified as 'loss' in relation to individuals who do not conduct business activities with total debt of over PLN 120.7 million, EUR 82 thousand, USD 20.8 thousand and CHF 19.1 million, 185 of loans secured by mortgage, classified as "loss" with a total debt of PLN 88.3 million and CHF 2.9 million, 16 loans from institutional customers classified as "loss" with total debt of PLN 116.1 million.

The total carrying amount of the provision for potential claims on impaired loan portfolios sold as at 31 December 2015 amounted to PLN 2 068 thousand (as at 31 December 2014 it was PLN 1 785 thousand). As a result of loan sale all risks and rewards were transferred, hence the Bank derecognised these assets.

The Bank did not receive any securities on account of the above-mentioned transactions.

INFORMATION ON THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS AND EVENTS AFTER THE REPORTING PERIOD

70. Information on the entity authorised to audit financial statements

On 11 March 2015 the Supervisory Board of PKO Bank Polski selected KPMG Audit Sp. z o.o. Sp.k. as entity authorised to audit the financial statements of PKO Bank Polski and the consolidated financial statements of the PKO Bank Polski SA Group. KPMG Audyt Sp. z o.o. Sp.k. registered in Warsaw, Inflancka 4A is under the number of 3546 the list of entities authorized to audit financial statement, kept with the National Chamber of Statutory Auditors. The selection of the entity authorized to audit and review the financial statements was made by the Supervisory Board in accordance with applicable regulations and professional standards, on the basis of §15 section 1, point 3 of the Statue of the Bank

On 10 April 2015, PKO Bank Polski SA and the entity authorized to audit financial statements KPMG Audyt Sp. z o.o. Sp. k. sign an agreement for the audit and review of financial statements of the Bank and the PKO Bank Polski SA Group for the years 2015-2016.

In 2015 total net remuneration due to KPMG Audyt Sp. z o.o. Sp. k. for the audit of the separate financial statements and consolidated financial statements of PKO Bank Polski SA in 2015 amounted to PLN 1 250 thousand and total net remuneration for the assurance services, including the review of the financial statements in 2015 amounted PLN 974 thousand. In respect to other services net remuneration paid in 2015 amounted to PLN 34 thousand.

Moreover, in 2015 the company PricewaterhouseCoopers Sp. z o.o., the previous auditor of PKO Bank Polski SA was paid with total net remuneration for the assurance services, including the review of the financial statements amounted in 2015 to PLN 1 045 thousand.

In 2014 the company PricewaterhouseCoopers Sp. z o.o., was authorized to audit the financial statements PKO Bank Polski, total net remuneration of PricewaterhouseCoopers Sp. z o.o for auditing financial statement and the consolidated financial statement of PKO Bank Polski SA amounted to PLN 1 540 thousand, from the assurance services, including the review of the financial statements amounted to PLN 2 568 thousand. Total net remuneration of PricewaterhouseCoopers Sp. z o.o. related to tax advisory provided to PKO Bank Polski SA in 2015 amounted to PLN 1 787 thousand and other services: PLN 810 thousand.

71. Events after the reporting period

1. On 9 January 2016, PKO Towarzystwo Ubezpieczeń SA launched the first offer of property insurance for individual clients of PKO Bank Polski SA, who are credit card holders. The proposed insurance provides protection in case of loss of income sources or hospital treatment of the insured person resulting from an accident. On 13 February 2016, the company began selling insurance against loss of income for cash loans borrowers in PKO Bank Polski SA, and on 15 February 2016, the sale of real estate insurance, chattels, LI in private life, assistance and loss of income for the clients of PKO Bank Polski SA and PKO Bank Hipoteczny SA, taking mortgages loans.
2. On 18 January 2016, PKO Bank Polski SA took part in debt collection activities (transfer of ownership of the collateral) another batch of FERRUM SA shares, increasing its stake in the share capital and votes at the general meeting of the company from 20.97% to 22.14%
3. On 20 January 2016 the Extraordinary General Meeting of PKO Towarzystwo Ubezpieczeń SA passed a resolution to increase the Company's share capital through the subscription by PKO Bank Polski SA, 5000 shares with carrying value of PLN 1000 each and issue price of PLN 4 440 each ie. For a total amount equal to PLN 22 000 thousand. The above mentioned increase requires the approval of the Financial Supervisory Authority (amendment of the statute) and registration in the National Court Register.
4. On 26 January 2016 and 25 February 2016, PKO Bank Hipoteczny SA finalized the subsequent transfers of mortgage loans from PKO Bank Polski SA for a total amount of PLN 756 744 thousand.
5. On 29 January 2016, the Board approved the conditions of the Bank's participation in the acquisition of Visa Europe Limited by Visa Inc. ("No deal") provided to the Bank by Visa Europe Limited, according to which the total pre-estimated share of the Bank in the revenue from the transaction (excluding the potential deferred payment of "earn-out") is expected to amount EUR 88 875 079 which is equivalent to PLN 394 649 788 (according to the NBP average exchange rate of 29 January 2016), including EUR 66 167 319 in cash which is equivalent to PLN 293 815 980 (translated using the NBP average exchange rate of 29 January 2016) and EUR 22 707 761 in shares of Visa Inc., which is the equivalent of PLN 100 833 813 (translated using the NBP average exchange rate of 29 January 2016) (the amount after rounding), provided that above mentioned amounts are not final and may change due to the objection submitted by the Bank to the proposed method of determining the Bank's participation in the settlement of the Transaction or if any objections of remaining members of Visa Europe Limited, costs of the Transaction, as well as in the cases indicated in the documentation relating to the Transaction (the so-called "leakage"). The final confirmation of amounts due to the Bank should take place by the 30 June 2016.

   In accordance with the Transaction framework, it is expected to has possible additional deferred payment of "earn-out" payable in cash after sixteen quarters from the date of the Transaction settlement is expected, but its real value is currently not yet possible to determine.

   The transaction depends on the receiving of applicable regulatory approvals, and its finalization is expected in the second quarter of 2016 years.
6. On 29 January 2016, the Bank concluded a guarantee agreement with the contractor ("Guarantor") providing unfunded credit protection in respect of the portfolio of selected corporate credit claims of the Bank, in accordance with CRR Regulation (respectively the "Guarantee" and "Guarantee Agreement"). The value of the debt portfolio of the Bank covered by the Guarantee (Guarantee Amount) amounts PLN 5 034 581 thousand. The maximum duration of the warranty is 36 months, the Bank is entitled to terminate the guarantee before the expiry of its validity. Guarantee Agreement foresees penalties, that may be due to the Guarantor from PKO Bank Polski in case of infringement of the obligations of PKO Bank Polski under the Guarantee Agreement. The total maximum amount of these penalties cannot exceed the amount of PLN 24 000 thousand. The agreement does not preclude the possibility of pursuing the claim that exceeds the amount of contractual penalties.

   On 29 February 2016, the Bank concluded a guarantee agreement with the contractor ("Guarantor") providing unfunded credit protection in respect of the portfolio of selected corporate credit claims of the Bank, in accordance with CRR Regulation (respectively the "Guarantee" and "Guarantee Agreement"). The value of the debt portfolio of the Bank covered by the Guarantee (Guarantee Amount) amounts PLN 1 203 771 thousand. The maximum duration of the warranty is 36 months, the Bank is entitled to terminate the guarantee before the expiry of its validity. Guarantee Agreement foresees penalties, that may be due to the Guarantor from PKO Bank Polski in case of infringement of the obligations of PKO Bank Polski under the Guarantee Agreement. The total maximum amount of these penalties cannot exceed the amount of PLN 26 000 thousand. The agreement does not preclude the possibility of pursuing the claim that exceeds the amount of contractual penalties.

   The total value of the Bank's exposure under contracts concluded by the Bank with the Contractor and its subsidiaries during the last 12 months amounts to PLN 6 238 352 thousand. Guarantee Agreements constitute the largest of the contracts concluded by the Bank with the Contractor or its subsidiaries Contractor in the last 12 months.
7. On 29 January 2016, the Board of Powszechna Kasa Oszczednosci Banku Polskiego Spolki Akcyjnej pursuant to art. 399 § 1 and in connection with the submitted by a shareholder pursuant to art. 400 § 1 of the Commercial Companies Code requesting to convene the Extraordinary General Meeting of PKO Bank Polski SA, announced the convening of the Extraordinary General Meeting of PKO Bank Polski on 25 February 2016 at 10.00 in Warsaw at ul. Puławska 15.

   On 25 February 2016 the Extraordinary General Meeting of the Bank on the basis of art. 385 § 1 of the Commercial Companies Code, dismissed from the Supervisory Board: Jerzego Górę, Mirosław Czekaj, Piotr Marczak, Marek Mroczkowski, Krzysztof Kilan and Zofia Dzik. In addition, the Extraordinary General Meeting of the Bank on the basis of art. 385 § of the Commercial Companies Code, appointed to the Supervisory Board: Miroslaw Barszcz, Adam Budnikowski, Wojciech Jasinski, Andrzej Kisielewicz, Janusz Ostaszewski, Piotr Sadownik and Agnieszka Winnik-Kalemba. Treasury of the State, as the Eligible Shareholder pursuant to § 12 paragraph. 1 of the Bank Statue appointed Piotr Sadownik as a Chairman of the Supervisory Board and Agnieszka Winnik – Kalemba on the Vice-President of the Supervisory Board. In addition it adopted the proposed amendments to the Statue of Bank. (see Current Report No. 11/2016).
8. On 29 January 2016 the National Court Register recorded a decrease of the share capital of PKO BP Finat Sp. z o.o. from the amount of PLN 107 302 500 to PLN 32 202 500 through the cancellation of PLN 750 000 shares with a nominal value of PLN 100 each, belonging to the sole shareholder – PKO Bank Polski SA.

(IN PLN THOUSAND)

9. On 1 February 2016 the Act of 15 January 2016 on tax on certain financial institutions (Journal of Law of 2016 item 68) entered into force. Taxes are covered by domestic banks, branches of foreign banks, branches of credit institutions, cooperative credit unions (SKOK), national insurance companies, national reinsurance companies, branches of foreign insurance companies and foreign reinsurance companies, main branches of foreign insurance companies and foreign reinsurance companies, as well as lending institutions. The tax base represents the excess of the total assets of the entity (over PLN 4 billion in the case of banks, more than PLN 2 billion for insurance companies) resulting from the trial balance at the end of each month. Banks and credit unions are entitled to a reduction of the tax base, for the value of own funds, and the value of Treasury securities. In addition, banks will reduce the tax base by the value of the assets acquired from the NBP as collateral refinancing loan by the NBP. The tax rate for all taxpayers amounts to 0.0366%, and the tax is paid per month to the 25th day of the month following the month to which it relates. The tax for the first time will be paid for February 2016. The projected tax burden of the Bank in respect of that tax for the year 2016 will amount monthly around to PLN 75-80 million. The tax paid will not be deductible.
10. On 3 February 2016, the Extraordinary General Meeting of Shareholders of Qualia Hotel Management Sp. z o.o. and Qualia – Rezydencja Flotylla Sp. z o.o. and shareholders of a limited liability company – Pomeranka Sp. K. made resolutions concerning merger of the above mentioned companies. The merger will be accomplished through the transfer of all assets of the company Qualia-Residence Flotylla Sp z o.o. and Qualia Sp. z o.o. – Pomeranka Sp. k (as the acquired companies) to the company Qualia Hotel Management Sp. z o.o. (the acquiring company). The above mentioned merger was registered with the National Court Register on 29 February 2016.

Signatures of all Members of the Management Board of the Bank

01.03.2016	Zbigniew Jagiełło	President of the Mangement Board	.... (signature)
01.03.2016	Piotr Alicki	Vice-President of the Management Board	.... (signature)
01.03.2016	Bartosz Drabikowski	Vice-President of the Management Board	.... (signature)
01.03.2016	Piotr Mazur	Vice-President of the Management Board	.... (signature)
01.03.2016	Jarosław Myjak	Vice-President of the Management Board	.... (signature)
01.03.2016	Jacek Obłękowski	Vice-President of the Management Board	.... (signature)
01.03.2016	Jakub Papierski	Vice-President of the Management Board	.... (signature)

Signature of person responsible for
maintaining the books of account

01.03.2016

Danuta Szymańska
Director of the Accounting Division

....
(signature)