Bank Polski

Consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2014

Report publication date:
16 March 2015

Bank Polski

SELECTED FINANCIAL DATA DERIVED FROM THE FINANCIAL STATEMENTS

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	period from 01.01.2014 to 31.12.2014	period from 01.01.2013 to 31.12.2013	period from 01.01.2014 to 31.12.2014	period from 01.01.2013 to 31.12.2013
Net interest income	7 522 931	6 721 962	1 795 749	1 596 286
Net fee and commission income	2 933 506	3 005 752	700 238	713 786
Operating profit	4 002 753	4 046 442	955 471	960 922
Profit before income tax	4 034 563	4 044 464	963 064	960 452
Net profit (including non-controlling shareholders)	3 242 816	3 228 193	774 071	766 610
Net profit attributable to equity holders of the parent company	3 254 122	3 229 793	776 770	766 990
Earnings per share for the period – basic (in PLN/EUR)	2.60	2.58	0.62	0.61
Earnings per share for the period – diluted (in PLN/EUR)	2.60	2.58	0.62	0.61
Total net comprehensive income	3 398 726	2 967 917	811 287	704 801
Net cash flows generated from / used in operating activities	2 024 410	(1 136 695)	483 233	(269 935)
Net cash flows used in investing activities	(7 703 122)	(1 031 818)	(1 838 761)	(245 029)
Net cash flows generated from / used in financing activities	11 048 828	(1 442 380)	2 637 392	(342 527)
Net cash flows	5 370 116	(3 610 893)	1 281 865	(857 491)

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 31.12.2014	as at 31.12.2013	as at 31.12.2014	as at 31.12.2013
Total assets	248 700 589	199 231 110	58 348 917	48 039 909
Total equity	27 615 551	25 154 325	6 479 026	6 065 375
Capital and reserves attributable to equity holders of the parent company	27 625 566	25 152 816	6 481 375	6 065 012
Share capital	1 250 000	1 250 000	293 269	301 408
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	22.09	20.12	5.18	4.85
Diluted number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN/EUR)	22.09	20.12	5.18	4.85
Capital adequacy ratio	12.96%	13.58%	12.96%	13.58%
Basic funds (Tier 1)	22 348 472	19 611 274	5 243 289	4 728 799
Supplementary funds (Tier 2)	2 394 713	1 539 670	561 836	371 255
Short-term equity (Tier 3)	-	154 112	-	37 160

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

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

- the statement of financial position items – average NBP exchange rate as at 31 December 2014: EUR 1 = PLN 4.2623 and as at 31 December 2013: EUR 1 = PLN 4.1472.

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CONSOLIDATED INCOME STATEMENT

	Note	2014	2013
Continuing operations			
Interest and similar income	5	10 737 431	10 763 494
Interest expense and similar charges	5	(3 214 500)	(4 041 532)
Net interest income		7 522 931	6 721 962
Fee and commission income	6	4 002 155	3 926 602
Fee and commission expense	6	(1 068 649)	(920 850)
Net fee and commission income		2 933 506	3 005 752
Dividend income	7	6 511	5 766
Net income from financial instruments measured at fair value	8	75 188	54 309
Gains less losses from investment securities	9	150 050	67 484
Net foreign exchange gains (losses)		235 797	241 848
Other operating income	10	570 779	1 080 945
Other operating expense	10	(348 198)	(471 200)
Net other operating income and expense		222 581	609 745
Net impairment allowance and write-downs	11	(1 898 670)	(2 037 881)
Administrative expenses	12	(5 245 141)	(4 622 543)
Operating profit		4 002 753	4 046 442
Share in profit (loss) of associates and joint ventures		31 810	(1 978)
Profit before income tax		4 034 563	4 044 464
Income tax expense	13	(791 747)	(816 271)
Net profit (including non-controlling shareholders)		3 242 816	3 228 193
Profit (loss) attributable to non-controlling shareholders		(11 306)	(1 600)
Net profit attributable to equity holders of the parent company		3 254 122	3 229 793

	Note	2014	2013
Earnings per share	14		
– basic earnings per share for the period (PLN)		2.60	2.58
– diluted earnings per share for the period (PLN)		2.60	2.58
Weighted average number of ordinary shares during the period (in thousand)		1 250 000	1 250 000
Weighted average diluted number of ordinary shares during the period (in thousand)		1 250 000	1 250 000

Discontinued operations

In 2014 and 2013, no discontinued operations were conducted by the PKO Bank Polski SA Group.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2014	2013
Net profit (including non-controlling shareholders)		3 242 816	3 228 193
Other comprehensive income		155 910	(260 276)
Items that may be reclassified to the income statement		157 210	(252 600)
Cash flow hedges (gross)	20	161 478	(219 126)
Deferred tax on cash flow hedges	13	(30 681)	41 634
Cash flow hedges (net)		130 797	(177 492)
Unrealised net gains on financial assets available for sale (gross)	9; 23	110 437	(79 539)
Deferred tax on unrealised net gains on financial assets available for sale	13	(21 594)	14 644
Unrealised net gains on financial assets available for sale (net)		88 843	(64 895)
Currency translation differences from foreign operations		(63 490)	(8 829)
Share in other comprehensive income of an associate	25	1 060	(1 384)
Items that may not be reclassified to the income statement		(1 300)	(7 676)
Actuarial gains and losses / Shares settlement (net)		(1 300)	(7 676)
Actuarial gains and losses (gross)		(1 537)	(9 477)
Deferred tax	13	237	1 801
Total net comprehensive income		3 398 726	2 967 917
Total net comprehensive income, of which attributable to:		3 398 726	2 967 917
equity holders of PKO Bank Polski SA		3 410 250	2 969 231
non-controlling shareholders		(11 524)	(1 314)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.2014	31.12.2013
ASSETS			
Cash and balances with the central bank	16	11 738 371	7 246 120
Amounts due from banks	17	2 486 686	1 893 441
Trading assets	18	1 924 426	479 881
Derivative financial instruments	19	5 494 822	3 000 860
Financial assets designated upon initial recognition at fair value through profit and loss	21	15 723 148	15 204 756
Loans and advances to customers	22	179 497 384	149 623 262
Investment securities available for sale	23	22 279 225	14 073 078
Investment securities held to maturity	24	233 358	38 005
Investments in associates and joint ventures	25	322 486	309 692
Non-current assets held for sale	26	624 992	172 219
Inventories	27	237 883	649 641
Intangible assets	28	3 379 501	2 230 222
Tangible fixed assets, of which:	29	2 653 555	2 611 233
investment properties		129 693	114 589
Current income tax receivables	13	118 810	206 401
Deferred income tax asset	13	863 677	562 421
Other assets	30	1 122 265	929 878
TOTAL ASSETS		248 700 589	199 231 110
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the central bank	31	4 427	4 065
Amounts due to banks	32	19 394 482	3 747 337
Derivative financial instruments	19	5 545 141	3 328 211
Amounts due to customers	33	174 386 766	151 904 181
Liabilities due to insurance operations		2 679 722	-
Liabilities associated with assets classified as held for sale		34 964	2 880
Debt securities in issue	35	13 300 610	10 546 446
Subordinated liabilities	36	2 413 985	1 620 857
Other liabilities	37	2 954 603	2 547 237
Current income tax liabilities	13	17 453	22 595
Deferred income tax liability	13	29 047	32 106
Provisions	38	323 838	320 870
TOTAL LIABILITIES		221 085 038	174 076 785
Equity			
Share capital	39	1 250 000	1 250 000
Other capital	39	23 374 794	21 108 673
Currency translation differences from foreign operations	39	(192 692)	(129 420)
Undistributed profits	39	(60 658)	(306 230)
Net profit for the year	39	3 254 122	3 229 793
Capital and reserves attributable to equity holders of the parent company	39	27 625 566	25 152 816
Non-controlling interests	39	(10 015)	1 509
TOTAL EQUITY		27 615 551	25 154 325
TOTAL LIABILITIES AND EQUITY		248 700 589	199 231 110
Capital adequacy ratio	70	12.96%	13.58%
Book value (in PLN thousand)		27 615 551	25 154 325
Number of shares (in thousand)	1	1 250 000	1 250 000
Book value per share (in PLN)		22.09	20.12
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		22.09	20.12

Notes on pages 10 to 156 are an integral part of these consolidated financial statements

(IN PLN THOUSAND)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2014	Share capital	Other capital									Currency translation differences from foreign operations	Undistributed profits	Net profit for the period	Total capital and reserves attributable to equity holders of the parent company	Non-controlling interests	Total equity
		Reserves			Other comprehensive income				Total other capital							
		Reserve capital	General banking risk fund	Other reserves	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses								
Note 39																
As at 1 January 2014	1 250 000	16 760 686	1 070 000	3 469 107	(54)	(57 797)	(125 593)	(7 676)	21 108 673	(129 420)	(306 230)	3 229 793	25 152 816	1 509	25 154 325
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	-	3 229 793	(3 229 793)	-	-	-
Total comprehensive income, of which:	-	-	-	-	1 060	88 843	130 797	(1 300)	219 400	(63 272)	-	3 254 122	3 410 250	(11 524)	3 398 726
Net profit	-	-	-	-	-	-	-	-	-	-	-	3 254 122	3 254 122	(11 306)	3 242 816
Other comprehensive income	-	-	-	-	1 060	88 843	130 797	(1 300)	219 400	(63 272)	-	-	156 128	(218)	155 910
Transfer from undistributed profits	-	2 041 701	-	5 020	-	-	-	-	2 046 721	-	(2 046 721)	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	(937 500)	-	(937 500)	-	(937 500)
As at 31 December 2014	1 250 000	18 802 387	1 070 000	3 474 127	1 006	31 046	5 204	(8 976)	23 374 794	(192 692)	(60 658)	3 254 122	27 625 566	(10 015)	27 615 551

2013	Share capital	Other capital								Currency translation differences from foreign operations	Undistributed profits	Net profit for the period	Total capital and reserves attributable to equity holders of the parent company	Non-controlling interests	Total equity
		Reserves			Other comprehensive income				Total other capital						
		Reserve capital	General banking risk fund	Other reserves	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses							
Note 39															
As at 1 January 2013	1 250 000	15 364 728	1 070 000	3 437 957	1 330	7 098	51 899	51 953	19 984 965	(120 305)	(416 554)	3 738 640	24 436 746	(338)	24 436 408
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	-	3 738 640	(3 738 640)	-	-	-
Total comprehensive income, of which:	-	-	-	-	(1 384)	(64 895)	(177 492)	(7 676)	(251 447)	(9 115)	-	3 229 793	2 969 231	(1 314)	2 967 917
Net profit	-	-	-	-	-	-	-	-	-	-	-	3 229 793	3 229 793	(1 600)	3 228 193
Other comprehensive income	-	-	-	-	(1 384)	(64 895)	(177 492)	(7 676)	(251 447)	(9 115)	-	-	(260 562)	286	(260 276)
Transfer from undistributed profits	-	1 416 885	-	31 150	-	-	-	-	1 448 035	-	(1 448 035)	-	-	-	-
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(3 161)	-	(3 161)	3 161	-
Loss of control over a subsidiary	-	(20 927)	-	-	-	-	-	-	(20 927)	-	20 927	-	-	-	-
Transfer from other comprehensive income to undistributed profits	-	-	-	-	-	-	-	(51 953)	(51 953)	-	51 953	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	(2 250 000)	-	(2 250 000)	-	(2 250 000)
As at 31 December 2013	1 250 000	16 760 686	1 070 000	3 469 107	(54)	(57 797)	(125 593)	(7 676)	21 108 673	(129 420)	(306 230)	3 229 793	25 152 816	1 509	25 154 325

(IN PLN THOUSAND)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2014	2013
Net cash flows from operating activities			
Profit before income tax		4 034 563	4 044 464
Adjustments:		(2 010 153)	(5 181 159)
Amortisation and depreciation		747 164	579 240
(Gains) losses from investing activities	42	(17 629)	(432 805)
Interest and dividends	42	(70 072)	(526 650)
Change in amounts due from banks	42	516 391	932 282
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss	42	3 636 624	(2 777 360)
Change in derivative financial instruments (asset)	42	(2 465 578)	859 701
Change in loans and advances to customers	42	(6 368 592)	(6 014 711)
Change in other assets, inventories and non-current assets held for sale	42	22 298	(123 665)
Change in amounts due to banks	42	(10 148 916)	(254 374)
Change in derivative financial instruments (liability)	42	2 205 844	(635 887)
Change in amounts due to customers	42	9 077 138	4 704 388
Change in liabilities classified as held for sale		32 084	2 880
Change in debt securities in issue	42	797 462	542 532
Change in provisions and impairment allowances	42	1 298 353	(598 898)
Change in other liabilities, liabilities due to insurance operations and subordinated liabilities	42	315 877	719 951
Income tax paid		(842 623)	(1 033 741)
Other adjustments	42	(745 978)	(1 124 042)
Net cash generated from/used in operating activities		2 024 410	(1 136 695)
Net cash flows from investing activities			
Inflows from investing activities		44 158 212	45 064 980
Proceeds from sale of a subsidiary, net of cash disposed		-	383 561
Proceeds from sale of non-current assets held for sale		-	25 450
Proceeds from sale and interest on investment securities		44 056 862	44 610 734
Proceeds from sale of intangible assets and tangible fixed assets		73 451	43 347
Other investing inflows (dividends)		27 899	1 888
Outflows from investing activities		(51 861 334)	(46 096 798)
Purchase of subsidiaries, net of cash acquired		(1 797 972)	(39)
Purchase of investment securities		(49 249 230)	(45 040 357)
Purchase of intangible assets and tangible fixed assets		(814 132)	(1 056 402)
Net cash used in investing activities		(7 703 122)	(1 031 818)
Net cash flows from financing activities			
Proceeds from debt securities in issue		3 569 624	2 119 934
Redemption of debt securities in issue		(1 612 922)	(2 032 020)
Dividends paid		(937 500)	(2 250 000)
Repayment of interest from issued debt securities and subordinated loans		(475 673)	(478 531)
Long-term borrowings		15 287 591	1 974 081
Repayment of long-term borrowings		(4 782 292)	(775 844)
Net cash generated from/used in financing activities		11 048 828	(1 442 380)
Net cash flows		5 370 116	(3 610 893)
of which currency translation differences on cash and cash equivalents		125 680	(16 722)
Cash and cash equivalents at the beginning of the period		8 884 739	12 495 632
Cash and cash equivalents at the end of the period	42	14 254 855	8 884 739
of which restricted	16	11 440	32 078

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

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

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

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

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

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

Business activities of the Group

PKO Bank Polski SA is a universal deposit-loan commercial bank offering services to both residents and non-residents retail, corporate and other clients. PKO Bank Polski SA is licensed to hold foreign exchange and currencies and sell/buy them, as well as to perform a full range of foreign exchange services, to open and hold bank accounts abroad and to deposit foreign exchange in these accounts.

Moreover, through its subsidiaries, the Group provides financial services relating to leasing, factoring, investment funds, pension funds and life insurance and provides support services in the field of running a business, it conducts real estate development activities and manages real estate, and also through its subsidiaries in Ukraine it conducts banking, debt collection and factoring activities.

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

The Group operates in the Republic of Poland and through its subsidiaries: KREDOBANK SA, 'Inter-Risk Ukraina' Additional Liability Company, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., Finansowa Kompania 'Idea Kapitał' Sp. z o.o in Ukraine as well as through its subsidiaries PKO Finance AB and PKO Leasing Sverige AB in Sweden.

Approval of financial statements

These consolidated financial statements, reviewed by the Bank's Supervisory Board's Audit Committee on 11 March 2015, have been approved for issuance by the Bank's Management Board on 10 March 2015.

(IN PLN THOUSAND)

Structure of the PKO Bank Polski SA Group

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

NAME OF ENTITY	HEAD OFFICE	RANGE OF ACTIVITY	% SHARE IN EQUITY *	
			31.12.2014	31.12.2013
PKO Towarzystwo Funduszy 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
Bankowe Towarzystwo Kapitałowe SA	**Warsaw**	**services**	**100.00**	**100.00**
PKO BP Faktoring SA[1]	Warsaw	factoring	99.9889	99.9889
Inteligo Financial Services SA[2]	**Warsaw**	**-**	**-**	**100.00**
PKO BP Finat Sp. z o.o.	**Warsaw**	**services, including services supporting funds management**	**100.00**	**100.00**
PKO Życie Towarzystwo Ubezpieczeń SA[3]	**Warsaw**	**life insurance**	**100.00**	**-**
Ubezpieczeniowe Usługi Finansowe Sp. z o.o.[4]	Warsaw	services	100.00	-
PKO Bank Hipoteczny SA[5]	**Gdynia**	**banking activities**	**100.00**	**-**
PKO Finance AB	**Stockholm, Sweden**	**financial services**	**100.00**	**100.00**
KREDOBANK SA	**Lviv, Ukraine**	**banking activities**	**99.5655**	**99.5655**
Finansowa Kompania 'Idea Kapitał' Sp. z o.o.	Lviv, Ukraine	financial services	100.00	100.00
'Inter-Risk Ukraina' Additional Liability Company	**Kiev, Ukraine**	**debt collection services**	**100.00**	**100.00**
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.[6]	**Kiev, Ukraine**	**factoring**	**95.4676**	**91.8766**
Qualia Development Sp. z o.o.[7]	**Warsaw**	**real estate development**	**100.00**	**100.00**
Qualia Sp. z o.o.	Warsaw	general partner in limited partnerships of the Qualia Development Group	100.00	100.00
Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.	Warsaw	real estate development	99.9975	99.9975
Qualia spółka z ograniczoną odpowiedzialnością – Sopot Sp. k.	Warsaw	real estate development	99.9811	99.9787
Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k.	Warsaw	real estate development	99.9770	99.9608
Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.	Warsaw	real estate development	99.9750	99.9750
Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k.	Warsaw	real estate development	99.9123	99.9123
Qualia spółka z ograniczoną odpowiedzialnością – Pomeranka Sp. k.	Warsaw	real estate development	99.8951	99.8951
Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k.	Warsaw	real estate development	50.00	50.00
Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Sp. k.	Warsaw	real estate development	50.00	50.00
Qualia Hotel Management Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Qualia – Residence Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Qualia – Rezydencja Flotylla Sp. z o.o.	Warsaw	real estate development	100.00	100.00
'Fort Mokotów Inwestycje' Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Sarnia Dolina Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Giełda Nieruchomości Wartościowych Sp. z o.o.	Warsaw	intermediation in the sale of real estate	100.00	100.00
'Fort Mokotów' Sp. z o.o. in liquidation	Warsaw	in liquidation	51.00	51.00
'CENTRUM HAFFNERA' Sp. z o.o.[8]	**Sopot**	**subsidiaries' real estate management**	**72.9766**	**49.43**
'Sopot Zdrój' Sp. z o.o.	Sopot	real estate management	100.00	100.00
'Promenada Sopocka' Sp. z o.o.	Sopot	rental services and real estate management	100.00	100.00
'Centrum Majkowskiego' Sp. z o.o. in liquidation	Sopot	in liquidation	100.00	100.00
'Kamienica Morska' Sp. z o.o. in liquidation[9]	Sopot	-	-	100.00
Merkury – fiz an[10]	**Warsaw**	**placement of funds collected from fund members**	**100.00**	**100.00**
'Zarząd Majątkiem Górczewska' Sp. z o.o.	Warsaw	real estate management	100.00	100.00
Molina Sp. z o.o.	Warsaw	general partner in limited joint-stock partnership entities of the Fund	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00

* Share in equity of direct parent entity

1) PKO Bank Polski SA is the second shareholder of the Entity.
2) On 28 November 2014 a merger of the entity Inteligo Financial Services SA (as acquiree) and the entity PKO BP Finat Sp. z o.o. (as acquirer) was registered with the National Court Register of the domicile of the acquirer.
3) Subsidiary of PKO Bank Polski SA since 1 April 2014; formerly 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA.
4) Indirect subsidiary of PKO Bank Polski SA since 1 April 2014; formerly Nordea Usługi Finansowe Sp. z o.o.
5) The Entity was registered with the National Court Register on 24 October 2014.
6) The second shareholder of the Entity is 'Inter-Risk Ukraina' Sp. z d.o. (Additional Liability Company).
7) As at the end of 2014 the Entity is recognised as non-current assets held for sale; for limited partnership entities of the Qualia Development Group the total contribution made by the limited partner - Qualia Development Sp. z o.o. is presented in the position 'Share in equity'.
8) The Entity was recognised as a joint venture of PKO Bank Polski SA until 19 January 2014.
9) The Entity has been removed from the National Court Register on 24 January 2014.
10) PKO Bank Polski SA has investment certificates of the Fund; the share of possessed investment certificates of the Fund is presented in the position 'Share in equity'; the Fund's subsidiaries are consolidated at the level of the PKO Bank Polski SA Group.

(IN PLN THOUSAND)

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

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

* Share in equity of direct parent entity.

Information on changes in the participation in the share capital of the subsidiaries is set out in the note 48 'Changes to the entities of the Group'.

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

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

- Jerzy Góra — Chairman of the Supervisory Board
- Tomasz Zganiacz — Deputy-Chairman of the Supervisory Board
- Mirosław Czekaj — Secretary of the Supervisory Board
- Mirosława Boryczka — Member of the Supervisory Board
- Zofia Dzik — Member of the Supervisory Board
- Jarosław Klimont — Member of the Supervisory Board
- Piotr Marczak — Member of the Supervisory Board
- Elżbieta Mączyńska – Ziemacka — Member of the Supervisory Board
- Marek Mroczkowski — Member of the Supervisory Board

On 26 June 2014 the Ordinary General Shareholders' Meeting of the Bank dismissed from the Supervisory Board of PKO Bank Polski SA Mr Cezary Banasiński and Mr Ryszard Wierzba as of that day, and appointed to the Supervisory Board Mrs Mirosława Boryczka, Mr Jerzy Góra and Mr Jarosław Klimont.

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

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

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

2. Summary of significant accounting policies and estimates and judgements

2.1 Compliance with accounting standards

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

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

2.2 Going concern

The consolidated financial statements of the PKO Bank Polski SA Group have been prepared on the basis that the Group will continue as a going concern for at least the period of 12 months from the issue date, i.e. since 16 March 2015. As at the date of signing these consolidated financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the continuing activity (of the

PKO Bank Polski SA Group for 12 months following the issue date as a result of any intended or compulsory withdrawal or significant limitation in the activities of the PKO Bank Polski SA Group).

2.3 Basis of preparation of the financial statements

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

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

2.4 Basis of consolidation

2.4.1. Subsidiaries

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

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

The changes made to the definition of control did not affect the structure of the PKO Bank Polski SA Group compared with the previous financial periods. All entities classified as subsidiaries, according to the definition of control, are fully consolidated in the period from the date the parent company gains control over them until control has ceased.

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

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

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

IFRS 10 defines 'an investment entity' and introduces an exemption from the consolidation of subsidiaries for 'investment entities'.
An investment entity does not consolidate its subsidiaries. Instead, it measures its shares in subsidiaries at fair value through profit or loss. In order to classify a given entity as 'an investment entity' the following requirements must be met – i.e. an entity:

- obtains funds from one or more investors for the purpose of providing them with investment management services,
- gives a commitment to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both,
- measures and evaluates the performance of substantially all of its investments on a fair value basis.

The PKO Bank Polski SA Group does not meet the definition of 'an investment entity' and, consequently, the amendments made to the standards do not apply to the Group.

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

2.4.2. Acquisition method

The acquisition of subsidiaries by the Group is accounted for under the acquisition method.

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

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

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

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

over the net amount of the value of identifiable assets and liabilities acquired, designated at fair value as at the acquisition date, determined as at the acquisition date.

If the net value, determined as at the acquisition date, of identifiable assets and liabilities acquired, designated at fair value as at the acquisition date is higher than the total of:

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

the difference is recognised directly in the income statement.

2.4.3. Associates and joint ventures

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

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

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

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

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

At each balance sheet date, the Group makes an assessment of whether there are any indicators of impairment in the value of investments in associates and joint ventures. If any such indicators exist, the Group estimates recovery value, i.e. the value in use of the investment or the fair value of the investment less costs to sale, depending on which of these values is higher. If carrying amount of the asset exceeds its recovery value, the Group recognises an impairment allowance in the income statement. The projection for the recovery value requires making assumptions, e.g. about future cash flows that the Group may receive from dividends or the cash inflows from a potential disposal of the investment, less costs of the disposal. The adoption of different assumptions with reference to the projected cash flows could affect the carrying amount of certain investments.

2.5 Foreign currencies

2.5.1. Functional and presentation currency

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

(IN PLN THOUSAND)

2.5.2. Transactions and balances denominated in foreign currencies

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

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

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

UAH	2014	2013
Rate prevailing on the last day of the period	0.2246	0.3706
Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period	0.2637	0.3886
The highest rate in the period	0.3630	0.4044
The lowest rate in the period	0.2238	0.3706

EUR	2014	2013
Rate prevailing on the last day of the period	4.2623	4.1472
Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period	4.1893	4.2110
The highest rate in the period	4.2623	4.3292
The lowest rate in the period	4.1420	4.1429

2.6 Financial assets and liabilities

2.6.1. Classification

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

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

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

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

2.6.1.2. Financial assets available for sale

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

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

2.6.1.3. Loans, advances and other receivables

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

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

2.6.1.4. Financial assets held to maturity

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

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

2.6.1.5. Other financial liabilities

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

2.6.1.6. Reclassification of financial assets

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

The Group does not reclassify financial instruments to or from the category of designated at fair value through profit and loss since they are held or issued. The Group can reclassify financial instruments classified as held for trading, other than derivative financial instruments and financial instruments designated upon initial recognition at fair value through profit or loss, to loans, advances and other receivables category, if they meet criteria described in the note 2.6.1.3.

2.6.2. Accounting for transactions

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

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

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

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

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

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

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

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

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

2.6.4. Valuation

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

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

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

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

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

2.6.4.2. Financial assets available for sale

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

2.6.4.3. Loans, advances and investments held to maturity

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

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

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

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

2.6.5. Derivative instruments

2.6.5.1. Recognition and measurement

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

When the estimated fair value is lower or higher than the fair value as of the preceding balance sheet date (for transactions concluded in the reporting period – initial fair value), the Group includes the difference, respectively, in the net income from financial instruments designated at fair value through profit and loss or in the net foreign exchange gains in correspondence with 'Derivative financial instruments'. The above-mentioned recognition method applies to derivative instruments which do not qualify to the application of hedge accounting. The method of recording hedging derivatives is presented in the note 2.6.6.4.

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

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

2.6.5.2. Embedded derivative instruments

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract (both of a financial or non-financial nature), with the effect that some of the cash flows of the combined instrument vary in a way similar to the cash flow of a 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 at fair value of derivative instruments are recorded in the income statement under the 'Net income from financial instruments measured at fair value' or 'Net foreign exchange gains'.

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

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

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

2.6.6. Hedge accounting

2.6.6.1. Hedge accounting criteria

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

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

2.6.6.2. Discontinuing hedge accounting

The Group discontinues hedge accounting when:

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

2.6.6.3. Fair value hedge

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

2.6.6.4. Cash flow hedges

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

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

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

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

2.6.7. Offsetting financial instruments

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

2.7 Transactions with a commitment to sell or buy back

Sell-buy back and buy-sell back transactions are sale or purchase operations of a security with a commitment to buy or sell back the security 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 Impairment of financial assets

2.8.1. Assets measured at amortised cost

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

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

1) significant financial difficulties of the issuer or the debtor,
2) breach of a contract by the issuer or the debtor, such as a default or a delinquency in contracted payments of interest or principal,
3) granting of a concession by the lender to the issuer or the borrower, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would not otherwise consider (detailed description for forbearance practices is presented in the note 53.3 'Forbearance practices'),
4) high probability of bankruptcy or reorganisation of the issuer or the debtor,
5) evidence that there is a measurable reduction in the estimated future cash flows from a group of financial assets, including collectability of these cash flows.

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

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

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

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

IBNR evidences are in particular:

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

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

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

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

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

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

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

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

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

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

2.8.2. Assets available for sale

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

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

1) significant financial difficulties of the issuer,
2) breach of a contract by the issuer, such as lack of contracted payments of interest or principal or late payments,
3) granting of a concession by the lender to the issuer, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would not otherwise consider (detailed description for forbearance practices is presented in the note 53.3 'Forbearance practices'),
4) deterioration of the issuer's financial condition in the period of maintaining the exposure,
5) high probability of bankruptcy or other financial reorganisation of the issuer,
6) increase in risk of a certain industry in the period of maintaining a significant exposure, in which the borrower operates, reflected by the industry being qualified by the Bank as elevated risk industry.

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

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

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

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

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

2.9 Leasing

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

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

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

2.9.1. The Group as a lessor

As regards finance lease agreements, the Group, as a lessor, has receivables of the present value of contractual lease payments, increased by a possible unguaranteed residual value assigned to the lessor, fixed at the date of the lease agreement. These receivables are disclosed under 'Loans and advances to customers'. Finance lease payments are apportioned between the interest income and the reduction of balance of receivables in a way that provide fixed interest rate from an outstanding debt.
As regards operating lease agreements, initial direct costs that are incremental and directly attributable to negotiating and arranging a lease, are added to the carrying value of the leased asset during the period fixed in the lease agreement, on the same basis as in the case of contracts for hire. Conditional lease payments constitute income when they are due. Lease payments due from agreements, which do not meet the finance lease criteria (operating lease agreements) constitute income in the income statement and are recognised on a straight-line basis during the lease term.

2.9.2. The Group as a lessee

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

2.10 Tangible fixed assets and intangible assets

2.10.1. Intangible assets

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

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

2.10.2. Goodwill

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

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

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

2.10.3. 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.

2.10.4. Other intangible assets

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

2.10.5. 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.

2.10.6. Tangible fixed assets

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

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

2.10.7. Capital expenditure accrued

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

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

(IN PLN THOUSAND)

2.10.8. Depreciation/amortisation

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

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

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

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

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

Tangible fixed assets	Periods
Buildings, premises, cooperative rights to premises (including investment properties)	20-60 years
Leaseholds improvements (buildings, premises)	1-20 years (or term of the lease, if shorter)
Machinery and equipment	2-15 years
Computer hardware	2-10 years
Means of transport	3-8 years
Intangible assets	**Periods**
Software	2-17 years
Other intangible assets	1-10 years

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

Intangible assets with indefinite useful lives, which are subject to an annual impairment test in accordance with Note 2.10.9., are not amortised.

2.10.9. Impairment allowances of non-financial non-current assets

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

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

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

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

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

2.11 Other items in the statement of financial position

2.11.1. Non-current assets held for sale and discontinued operations

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

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

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

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

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

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

2.11.2. Inventories

Inventories are valued at the lower of two values: the purchase price/cost of production and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less costs of completion and the estimated costs necessary to make the sale.

The value of inventories disbursement is determined by specific identification of individual purchase prices or production costs of components, which relate to realisation of specific projects.

2.11.3. Accruals and deferred income

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

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

2.12 Provisions

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

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

The Bank creates provisions for legal claims with counterparties, customers and external institutions (e.g. UOKiK) after confirming with legal adviser the probability of losing a court case, provisions for retirement benefits, provisions for loan commitments and guarantees granted and other provisions, in particular restructuring provision and provision for potential claims on impaired loans portfolios sold. A detailed description of the changes is described in the note 38 'Provisions' and note 53.8 'Off-balance sheet provisions'.

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

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

A detailed description of the adopted policies is presented in the note 2.8.1 'Impairment of financial assets' - 'Assets measured at amortised cost' and note 53.8. 'Off-balance sheet provisions'.

A detailed description of changes in provisions is presented in the note 38 'Provisions'.

2.13 Restructuring provision

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

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

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

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

The restructuring provision does not cover future operating losses.

2.14 Employee benefits

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

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

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

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

2.15 Contingent liabilities

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

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

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

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

Detailed information is presented in the Note 40 'Contingent liabilities and off-balance sheet liabilities received'.

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

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

Principles of recognising provisions for off-balance sheet liabilities granted are described in the note 2.12 'Provisions' and in the note 53.8 'Off-balance sheet provisions'.

2.16 Shareholders' equity

Equity constitutes capital and reserves created in accordance with the legal regulations. The classification to particular components, discussed below, results from the Polish Commercial Companies' Code, the Banking Law and the requirements of IAS 1.7, IAS 1.78.e, IAS 1.54.q-r and IAS 1.79.b. In accordance with IAS 1, equity also includes undistributed profits and accumulated losses from previous years, currency translation differences on translating foreign operations, the effective portions of cash flow hedges, actuarial gains and losses and net gains or losses on the valuation of financial instruments classified as available for sale including their related deferred tax values. Equity components of the subsidiaries, other than share capital, in a proportion equal to the interest in the subsidiary held by the parent company, are added to respective equity components of the parent company. The Group's equity includes only those parts of the equity of the subsidiaries which arose after the acquisition of shares by the parent company. In accordance with the legislations which are in force in Poland, only the equity of the parent company and the equity of specific subsidiaries, determined on the basis of stand-alone financial statements, are distributable.

2.16.1. Share capital

Share capital comprises solely the share capital of the parent company and is stated at nominal value in accordance with Memorandum of Association and entry to the Register of Entrepreneurs.

2.16.2. Reserve capital

Reserve capital is created according to the Memorandum of Association of the Group entities, from the distribution of net profits and from share premium less issue costs and it is to cover the potential losses of Group entities.

2.16.3. Other comprehensive income

Other comprehensive income comprises the effects of valuation of financial assets available for sale and the amount of the related deferred tax, the effective part of cash flow hedging resulting from hedge accounting and the related deferred tax as well as actuarial gains and losses and the amount of the related deferred tax. Moreover, the item includes the share of the parent company in the revaluation reserve of associated entities and foreign exchange differences on translation to polish currency of the net result of the foreign operation as a rate constituting the arithmetical average of foreign exchange rates for the currency as at the day ending each of the months in the financial year published by the National Bank of Poland, and foreign exchange differences arising on the measurement of net assets in the foreign operation.

2.16.4. General risk fund

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

2.16.5. Other reserves

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

2.16.6. Non-controlling interests

Non-controlling interests represent the part of capital in a subsidiary, which cannot be directly or indirectly assigned to the parent company.

2.17 Determination of a financial result

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

2.17.1. Interest income and expense

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

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

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

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

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

2.17.2. Fee and commission income and expense

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

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

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

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

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

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

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

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

2.17.3. Dividend income

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

2.17.4. Net income from financial instruments measured at fair value

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

2.17.5. Gains less losses from investment securities

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

2.17.6. Net foreign exchange gains (losses)

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

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

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

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

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

2.17.7. Other operating income and expense

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

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

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

2.18 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.

2.18.1. Current income tax

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

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

2.18.2. Deferred income tax

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

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

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

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

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

2.19 Critical estimates and judgements

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

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

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

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

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

2.19.1. Impairment of loans and advances

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

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

The impact of an increase/decrease of cash flows for the 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:	31.12.2014		31.12.2013	
	+10% scenario	-10% scenario	+10% scenario	-10% scenario
change in the present value of estimated cash flows for the Bank's loans and advances portfolio assessed on an individual basis (individually determined to be impaired)	(260)	405	(287)	462
change in probability of default	84	(84)	73	(73)
change in recovery rates	(478)	479	(545)	545

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

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

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

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

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

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

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

Estimated change in valuation due to parallel movement of yield curve by:	31.12.2014		31.12.2013	
	+50 b.p. scenario	-50 b.p. scenario	+50 b.p. scenario	-50 b.p. scenario
IRS	(44)	44	(63)	64
CIRS	(99)	104	(77)	81
other derivatives	(2)	2	4	(4)
Total	(145)	150	(136)	141

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

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

2.19.3. Calculation of provision for employee benefits

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

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

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

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

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

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

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

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

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

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

In case of assets identified as a result of the transaction of acquisition of Nordea Bank Polska, i.e. customer relationships and value in force, depreciation is made using declining balance method over a period of 10 and 15 years respectively, based on the estimated rate of economic benefits consumption arising from their use.

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

Change in useful economic lives of assets being subject to depreciation and classified as land and buildings	31.12.2014		31.12.2013	
	+10 years scenario	-10 years scenario	+10 years scenario	-10 years scenario
Depreciation costs	(47)	237	(28)	192

(IN PLN THOUSAND)

2.20 Changes in accounting policies

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

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

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

(IN PLN THOUSAND)

Standard/interpretation	Introduction/ publication date	Application date	Description of changes
IFRS 12 'Disclosure of Interest In Other Entities'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	The new standard applies to entities that have an interest in a subsidiary, a joint venture, an associate or an unconsolidated structured entity. The standard replaces the disclosure requirements found in IAS 27 'Consolidated and separate financial statements', IAS 28 'Investments in associates' and IAS 31 'Interests in Joint Ventures'. IFRS 12 requires entities to disclose information that helps financial statements users to evaluate the nature, risks and financial effects associated with the investments subsidiaries, associates, joint ventures and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information on subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group presented a wide range of disclosures about the Group entities so far. Additional disclosures are presented in the note 25 'Investments in associates and joint ventures'.
Revised IAS 27 'Separate Financial Statements'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	IAS 27 was changed in connection with the publication of IFRS 10 'Consolidated Financial Statements'. The objective of the revised IAS 27 is to prescribe the recognition and presentation requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10. The amendment did not have an impact on the financial statements of the Group.
Revised IAS 28 'Investments in Associates and Joint Ventures'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	The amendments to IAS 28 resulted from the IASB's project on joint ventures. The Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. According to the Group's accounting policies, joint ventures and associates are accounted for using the equity method. In the case of the Group, taking into account the joint ventures are consolidated using the equity method, the above changes do not have an impact on the consolidated financial statements.
Decree of the EU Commission No. 1256/2012 of 13.12.2012			
'Offsetting Financial Assets and Financial Liabilities' - amendments to IAS 32	12.2011	Financial year starting on or after 1.01.2014	The amendments introduce additional application guidance to IAS 32 to clarify inconsistencies identified in applying some of the offsetting criteria. This includes i.a. clarifying the meaning of 'has a legally enforceable right to set-off' and that some gross settlement systems may be considered equivalent to net settlement if certain conditions are met. Appropriate disclosures are in the note 50 'Offsetting financial assets and liabilities'.

(IN PLN THOUSAND)

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

(IN PLN THOUSAND)

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

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

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

(IN PLN THOUSAND)

Standard/interpretation	Introduction/ publication date	Application date	Description of potential changes
Decree of the EU Commission 2015/28 of 17 December 2014			
Improvements to IFRSs 2010-2012	12.2013	Financial year starting on or after 1.07.2014 In the European Union mandatory application from the beginning of the first financial year on or after 1.02.2015	‘Improvements to IFRSs 2010-2012’ concerning 7 standards and include changes in presentation, recognition and measurement, as well as terminology and editorial changes. • IFRS 2 ‘Share-based payments’ - clarified the definitions of terms: ‘market condition’, ‘performance condition’, ‘service condition’ and ‘vesting condition’; • IFRS 3 ‘Business combinations’ – amended provisions concerning the recognition of change in fair value of other contingent considerations, currently the standard allow to recognise them only in the income statement; • IFRS 8 ‘Operating Segments’ – obligation to disclose a judgement made by management board 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 amendments will possibly apply for the first time for the financial statements of the Group for the year 2015 and they will have a presentation character, requiring a possible extension of disclosures.
Decree of the EU Commission No. 2015/29 of 17 December 2014			
IAS 19 ‘Employee Benefits’	11.2013	Financial year starting on or after 1.07.2014 In the European Union mandatory application from the beginning of the first financial year or after 1.07.2014	The amendments concern contributions paid by employees or third parties to defined benefits plans. The objective of amendments is to simplify the recognition of contributions, which are not dependent on employment period, for example employee contributions defined as fixed percentage of salary. The Group expects that the above-mentioned amendments will not have an impact on the financial statements of the Group.

(IN PLN THOUSAND)

3) Not yet adopted by the European Union

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

(IN PLN THOUSAND)

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
IFRS 9, 'Financial instruments'	07.2014	Financial year starting on or after 1.01.2018	In 2014 IASB finished the works on IFRS 9. The issues of impairment allowances on financial assets were added to the parts concerning classification and measurement (2009) and hedge accounting (2013) published in previous years, and thus the standard replaces existing IAS 39 completely. The new standard introduces: • An impairment model 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 cover debt instruments used within business model for collecting contractual cash flows as well as a sale of financial assets. Impairment allowance will cover expected losses 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 amendments will have an impact on the financial statements of the Group.
Amendments to IAS 27 'Separate Financial Statements'	08.2014	Financial year starting on or after 1.01.2016	The amendments allow the application of the equity method for accounting for its investments in subsidiaries, associates and joint ventures in separate financial statements. The amendments precise also that if a parent company is no longer an investment entity , it should account for its investments in subsidiaries at cost or using the equity method or in accordance with IRFS 9. Improvements have retrospective application and are mandatory for annual reporting period. The change will have an impact on the standalone financial statements.
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Associates and joint ventures' concerning the sale or contribution of assets by an investor to its joint venture or associate	09.2014	Financial year starting on or after 1.01.2016	In the case of a transaction involving an associate or joint venture, the extent of the gains or losses recognised is dependent upon whether the assets sold or contributed constitute a business. If an entity: • sells or contributes assets constituting a business to an associate or joint venture or • loses control over a subsidiary that contains a business but retains joint control or significant influence; gains or losses relating to the transaction are recognised in the full amount. These amendments will have an impact on the extension of the disclosures.

(IN PLN THOUSAND)

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

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

3. The acquisition as at 1 April 2014 of Nordea Polska entities and the Swedish portfolio by PKO Bank Polski SA

3.1. Description of transaction

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

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

- acquired shares of Nordea Bank Polska SA

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

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

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

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

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

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

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

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

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

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

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

- acquired shares of Nordea Finance Polska SA

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

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

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

- acquired the so-called 'Swedish portfolio' assets

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

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

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

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

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

3.2. Settlement of the purchase transaction

The settlement of the purchase transaction was conducted in accordance with International Financial Reporting Standard 3 'Business Combinations' (IFRS 3) which requires the acquirer to be identified, the acquisition date to be determined, and identifiable assets acquired, liabilities measured at fair value as at the acquisition date and non-controlling interests in the acquiree to be recognised and measured, and goodwill or gain on bargain acquisition to be recognised and measured.

Given that the assumption of control over the Nordea Polska entities occurred on 1 April 2014, the settlement of the Transaction was made based on data of acquired entities as at that day, taking into account the adjustments required by IFRS 3.

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

Total consideration paid	Number of shares	in PLN thousand
- Shares of Nordea Bank Polska SA	-	2 598 388
- purchased from Nordea Bank AB on 1 April 2014	55 061 403	2 620 402
- purchased from non-controlling shareholders on 1 April 2014	319 889	15 351
- remaining part of shares acquired under the compulsory buy-out of non-controlling shareholders on 12 May 2014*	117 408	5 635
- discount	-	(43 000)
- Shares of PKO Życie Towarzystwo Ubezpieczeń SA (formerly Nordea Polska Towarzystwo Ubezpieczeń na Życie SA)	1 725 329	184 636
- Shares of PKO Leasing Pro SA (formerly Nordea Finance Polska SA)	4 100 000	8 000
- Swedish portfolio	-	1 763 815
Total	61 324 029	4 554 839

*The compulsory buy-out was a part of the purchase transaction of Nordea Bank's shares.

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

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

Due to the fact that the conditions of the IFRS 10 'Consolidated financial statements' paragraph B97 have been met, the purchase of shares in individual entities of Nordea Polska and the purchase of the Swedish portfolio should be considered a single Transaction

Shares were paid up in cash.

(IN PLN THOUSAND)

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

The data presented below concerning fair value measurement of identifiable assets acquired and liabilities assumed is based on an identification conducted from the perspective of the entire PKO Bank Polski SA Group as well as on adopted assumptions concerning the materiality threshold.

ASSETS	Nordea Polska entities and Swedish portfolio	Adjustments and eliminations	Identifiable acquired assets measured at fair value
Cash and balances with the central bank	775 945	-	775 945
Amounts due from banks	613 637	(193 231)	420 406
Derivative financial instruments	28 384	-	28 384
Other financial instruments measured at fair value through profit and loss	5 599 561	-	5 599 561
Loans and advances to customers	29 324 857	(1 035 107)	28 289 750
Securities held to maturity	37 281	3 672	40 953
Inventories	1 070	-	1 070
Intangible assets	26 683	208 107	234 790
Tangible fixed assets	98 104	10 517	108 621
Current income tax receivables	5 567	-	5 567
Deferred income tax asset	80 379	138 061	218 440
Other assets	224 850	(147 119)	77 731
TOTAL ASSETS	36 816 318	(1 015 100)	35 801 218

LIABILITIES	Nordea Polska entities and Swedish portfolio	Adjustments and eliminations	Identifiable assumed liabilities measured at fair value
Amounts due to other banks	15 090 954	(242 210)	14 848 744
Derivative financial instruments	11 086	-	11 086
Amounts due to customers	13 683 577	(193 231)	13 490 346
Liabilities due to insurance operations	2 517 427	16 899	2 534 326
Subordinated liabilities	1 000 115	-	1 000 115
Other liabilities	241 394	52 511	293 905
Current income tax liabilities	-	3 038	3 038
Deferred income tax liability	2 471	3 584	6 055
Provisions	36 485	7 500	43 985
TOTAL LIABILITIES	32 583 509	(351 909)	32 231 600

	Nordea Polska entities and Swedish portfolio	Adjustments and eliminations	Identifiable acquired assets and assumed liabilities measured at fair value
Fair value of identifiable acquired assets, and assumed liabilities	4 232 809	(663 191)	3 569 618

	Identifiable acquired assets and assumed liabilities measured at fair value
Deferred income tax asset	218 440
Deferred income tax liability	6 055
Total	212 385

The portfolio of loans and advances granted to customers acquired as part of the Transaction involving the acquisition of Nordea Polska entities and the Swedish portfolio, measured at fair value as at the acquisition date, has been presented in the financial statements showing separately the gross values (which include fair value adjustments) and write-downs. Such presentation is more useful to financial statements users and reflects the market practice followed by the banks.

(IN PLN THOUSAND)

	Identifiable acquired assets and assumed liabilities measured at fair value
Amounts due from banks, gross	420 407
Impairment allowances on receivables	(1)
Amounts due from banks, net	420 406

	Identifiable acquired assets and assumed liabilities measured at fair value
Loans and advances to customers, gross	28 868 667
Allowances - total	(578 917)
Loans and advances to customers, net	28 289 750

Loans and advances to customers by method of calculating impairment allowances	Identifiable acquired assets and assumed liabilities measured at fair value
Assessed on an individual basis	2 240 886
Impaired	480 071
finance lease receivables	169 788
Not impaired	1 760 815
Assessed on a portfolio basis	286 729
Impaired	286 729
Assessed on a group basis (IBNR), of which:	26 341 052
finance lease receivables	384 971
Loans and advances to customers, gross	**28 868 667**
Impairment allowances on exposures assessed on an individual basis	(293 305)
Impaired	(155 692)
Impairment allowances on exposures assessed on a portfolio basis	(141 416)
Impairment allowances on exposures assessed on a group basis (IBNR)	(144 196)
impairment allowances on lease receivables	(472)
Impairment allowances - total	**(578 917)**
Loans and advances to customers, net	28 289 750

Loans and advances to customers by sectors	Identifiable acquired assets and assumed liabilities measured at fair value
Loans and advances to customers, gross, of which:	28 868 667
financial sector	1 014 733
corporate, of which:	1 014 733
non-financial sector	24 133 433
housing	18 150 082
corporate	4 430 178
consumer	270 521
debt securities (corporate)	1 282 652
public sector	3 720 501
corporate	1 139 005
debt securities (municipal)	2 579 817
housing	1 679
Impairment allowances on loans and advances	(578 917)
Loans and advances to customers, net	28 289 750

(IN PLN THOUSAND)

Loans and advances to customers by client segment	Identifiable acquired assets and assumed liabilities measured at fair value
Loans and advances granted, gross, of which:	28 868 667
mortgage banking	15 791 097
corporate	12 182 012
small and medium enterprises	616 507
retail and private banking	274 583
other receivables	4 468
Impairment allowances on loans and advances	(578 917)
Loans and advances granted, net	28 289 750

- Loans and advances to customers

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

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

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

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

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

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

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

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

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

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

- a risk-free interest rate curve:

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

- capital requirement charges which depend on the minimum capital adequacy ratio (12%), the cost of capital determined for the Bank (10.8%), risk weights for assets (75% for loans denominated in PLN, 100% for loans denominated in foreign currencies), risk-free interest rate and margin for the liquidity;

- the market margin for the liquidity used by the Bank which, depending on the currency and tenor.

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

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

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

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

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

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

The total amount of adjustments resulting from the fair value remeasurement of the loans and advances granted to customers amounted to minus PLN 656 million. The largest adjustment, in absolute terms, is the adjustment relating to the portfolio of mortgage loans for private individuals of PLN 651.1 million.

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

- An increase in the IBNR impairment allowance for corporate loans acquired. Due to the differences in customer evaluation systems and the corresponding PD and LGD parameters between the PKO BP Group and the Nordea Group as at the acquisition date, the Bank mapped the Nordea Bank Polska SA ratings between the two systems. The additional IBNR impairment allowance amounts to PLN 37.9 million for both the public and corporate customer portfolios, and represents the differences between the above-mentioned systems.
- An increase in charges in respect of the mortgage loans acquired, which includes both the charges for identified and unidentified (IBNR) impairment losses and results from harmonisation of the risk parameters, including PD parameters (through re-scaling PD parameters to the LIP period used in the Bank), and the LGD curve (through the shortening of the recoveries from the 6 year period to the 5 year period applied by PKO Bank Polski SA). In addition, all impaired mortgage loan exposures with a gross value not exceeding PLN 3 million in respect of which provisions were assessed on individual basis, were subject to a collective assessment. The total amount of additional charges was PLN 50.6 million.
- An increase in the impairment allowances of the impaired corporate portfolio assessed on individual basis due to verification of the expected cash flows from selected credit exposures amounted to PLN 40.4 million.

The total impact of the above-mentioned adjustments on the decrease of carrying value of acquired loan portfolio amounted to PLN 129.0 million.

Additionally, as at the acquisition date an IBNR impairment allowance of PLN 4.7 million was recognised in respect of so-called Swedish portfolio assets and PLN 3 million for mortgage loans portfolio due to the adjustment of the effective interest rate method.

- Intangible assets

When accounting for the purchase transaction, the following acquired intangible assets were identified:

- customers relations in the area of deposits at the level of PLN 86.5 million. Customers relations in the area of deposits were separately analysed for each cash generating unit (CGU) split into two core products: current accounts and term deposits. The Multiperiod Excess Earnings Method has been used in order to measure customer relations.

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

(IN PLN THOUSAND)

- Value in force – future profits on concluded insurance contracts in the amount of PLN 141 million. The present value of future profits on concluded insurance contracts was estimated based on cash flows for three groups of products: regular premium life insurance with a significant investment component, one-off premium life insurance with a significant investment component and protective life insurance. The present value of future profits does not take into consideration changes in deferred acquisition costs, because they were entirely written-off at the moment of acquisition.

In accordance with the Purchase Agreement, the 'Nordea' trademark and any other trademarks held by Nordea Polska entities will be transferred respectively into Nordea Bank AB (publ) before the closure of the Transaction and will be excluded from the group of assets acquired by the Bank. The Bank is entitled to use the 'Nordea' trademark during the transition period without incurring any costs. Using the 'Nordea' trademark during the transition period is merely a technical matter, connected with aspects on integration of Nordea Polska entities within the Acquirer's structure and does not serve for any business purposes aimed at acquiring new customers. These conditions were considered within the price paid by the Acquirer. In the event of the Bank's willingness to use the 'Nordea' trademark longer, it would be obliged to incur licence fees due to the use of the 'Nordea' trademark on terms determined within the Agreement. Having in regard the above conditions there is no possibility to recognise the 'Nordea' trademark as an intangible asset.

- Tangible fixed assets

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

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

- Other assets

The adjustment to other assets relates mainly to the write-off of any DAC (deferred acquisition costs) in PKO Życie Towarzystwo Ubezpieczeń SA which have no fair value as at the settlement date. These costs are included in the calculation of the portfolio's present value (Value in Force) and their write-off is covered with this intangible asset.

- Other adjustments

Other adjustments to fair value and the so-called net assets adjustments resulting from harmonising inconsistent accounting policies related i.a. to a fair value adjustment of assets held to maturity, where for the purposes of the acquisition settlement, instruments measured at amortised costs held by PKO Życie Towarzystwo Ubezpieczeń SA were measured at fair value as at the acquisition date; fair value adjustment of liabilities in respect of the provisions identified in the entities acquired, including Nordea Bank Polska SA and PKO Życie Towarzystwo Ubezpieczeń SA, and other liabilities including IT services or resulting from onerous contracts.

Determining the fair value of the acquired assets and liabilities, and the identification and recognition of intangible assets arising from the acquisition were carried out on the basis of available information, and the best estimates at the date of the financial statements.
The Group completed the process of calculating goodwill recognised as at 1 April 2014 for the acquisition of the Nordea Polska Group entities. Compared to the preliminary calculations presented in the interim financial statements as at 30 June 2014, goodwill increased by PLN 103 962 thousand and amounted to PLN 985 221 thousand as at 1 April 2014. Correction of calculation relates to obtaining of new information on the fair value of assets and liabilities of 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA and Nordea Finance Polska SA as at 1 April 2014.

Goodwill arising on the Transaction:

	Identifiable acquired assets and assumed liabilities measured at fair value
Total consideration paid	4 554 839
fair value of identifiable acquired assets, and assumed liabilities	3 569 619
Goodwill	985 221
of which assigned to the following segments:	
retail segment	746 708
corporate and investment segment	238 513

(IN PLN THOUSAND)

Tax effects on adjustments relating to identification and fair value measurement and changes in models and estimating policies	Identifiable acquired assets and assumed liabilities measured at fair value
Loans and advances to customers	143 311
Intangible assets – Value in force (future profits on insurance policies)	(26 705)
Intangible assets – customer relations	(16 435)
Other assets – acquisition costs written off	29 241
Other	5 065
Total deferred income tax asset and liability	134 477

The goodwill will not be a subject to tax deduction.

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

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

In accordance with IFRS 3, as part of the settlement of the merger, the Bank, as the acquirer, has the possibility of recognising indemnification assets. These assets may result from specific agreements with the seller, who undertakes himself to compensate the acquirer for any losses

incurred due to the unknown outcome of a contingent event or uncertainty connected with the entire or part of a particular asset or liability. The acquirer recognises the indemnification assets at the same time as the indemnified item is recognised (as at the acquisition date) and measures that asset using the same method as the underlying asset, typically at fair value.

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

Due to the fact that the merger took place during the reporting period, the income statement of the acquirees in total for the period from the acquisition date to 31 December 2014 and the income statement of the Group for the twelve months ended 31 December 2014 are presented below as if the acquisition date for all mergers had fallen on 1 January 2014.

The following table presents the amounts of income and profits or losses of the Nordea Polska entities since the date of the acquisition, i.e. since 1 April 2014 (the result of Nordea Bank Polska and PKO Leasing Pro SA until the merger).

01.04 – 31.12.2014	Total entities of Nordea Polska
Continuing operations	
Interest and similar income	585 215
Interest expense and similar charges	(180 542)
Net interest income	404 673
Fee and commission income	132 094
Fee and commission expense	(34 071)
Net fee and commission income	98 023
Dividend income	146
Net income from financial instruments measured at fair value	7 639
Net foreign exchange gains (losses)	41 673
Other operating income	14 094
Other operating expense	(615)
Net other operating income and expense	13 479
Net impairment allowance and write-downs	(45 223)
Administrative expenses	(356 846)
Operating profit	163 564
Profit before income tax	163 564
Income tax expense	(39 778)
Net profit (including non-controlling shareholders)	123 786
Net profit attributable to equity holders of the parent company	123 786

(IN PLN THOUSAND)

The table below presents income and profits or losses of the PKO Bank Polski SA Group including the Nordea Polska entities for the current reporting period, calculated as if the date of the acquisitions carried out during the year had fallen at the beginning of the annual reporting period, i.e. on 1 January 2014.

01.01 – 31.12.2014	The total Group including Nordea Polska entities
Continuing operations	
Interest and similar income	10 972 318
Interest expense and similar charges	(3 301 612)
Net interest income	7 670 706
Fee and commission income	4 038 984
Fee and commission expense	(1 104 281)
Net fee and commission income	2 934 703
Dividend income	6 511
Net income from financial instruments measured at fair value	76 359
Gains less losses from investment securities	150 050
Net foreign exchange gains (losses)	251 926
Other operating income	584 129
Other operating expense	(349 664)
Net other operating income and expense	234 465
Net impairment allowance and write-downs	(1 952 196)
Administrative expenses	(5 385 117)
Operating profit	3 987 407
Share in profit (loss) of associates and joint ventures	31 810
Profit before income tax	4 019 217
Income tax expense	(791 741)
Net profit (including non-controlling shareholders)	3 227 476
Profit (loss) attributable to non-controlling shareholders	(11 306)
Net profit attributable to equity holders of the parent company	3 238 782

Until 31 December 2014, amortisation of intangible assets recognised as the result of the acquisition and adjustments resulting from the measurement at fair value amounted to PLN 33 199 thousand.

4. Information on the segments of activities and information about geographical areas

4.1. Information on the segments of activities

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

In 2014, changes were made to the functioning of the existing segments: the corporate segment and the investment segment, which were combined into one corporate and investment segment. These changes were aimed at further improving the quality of service for corporate customers and financial institutions, including extending the range of services and products offered and, consequently, ensuring the provision of comprehensive services. At present, the PKO Bank Polski SA Group comprises three basic segments: retail, corporate and investment, and transfer centre:

1. The retail segment offers a full range of services for individuals as part of retail and private banking as well as mortgage banking. Moreover, it comprises transactions conducted with legal persons, i.e. small and medium enterprises. The products and services offered to customers in this segment include, amongst others: current accounts, savings accounts, term deposits, private banking services, investment and insurance products, credit and debit cards, electronic banking services, consumer and mortgage loans, as well as corporate loans to small and medium enterprises, developers, cooperatives, and property managers.

2. The corporate and investment segment includes transactions with large corporate clients and financial institutions. This segment comprises, among others, the following products and services: current accounts, deposits, depositary services, currency and derivative products, sell-buy-back and buy-sell-back transactions, corporate loans, leases and factoring. Within the segment, PKO Bank Polski SA also enters, individually or in a consortium with other banks, into loan agreements financing large investment projects and issuance of non-Treasury securities. Moreover the segment includes the Bank's portfolio activity on its own account i.e. investing and brokerage activities, interbank transactions, derivative instruments and debt securities transactions. Results of the corporate and investment segment include results from activities of PKO Bank Polski SA's subsidiaries.

(IN PLN THOUSAND)

3. The transfer centre comprises the result on internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting. Internal funds transfer is based on transfer pricing dependant on interest rates. The transactions between operating business segments are conducted on arm's length. Long-term external financing includes the issuance of securities, subordinated liabilities and amounts due to financial institutions.

The PKO Bank Polski SA Group typically settles inter-segment transactions as if they were concluded between unrelated parties - using internal settlement rates. The transactions between business segments are conducted on arm's length.

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

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

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

The tables below present data relating to revenue and results of individual business segments of the PKO Bank Polski SA Group for the 12-month period ended 31 December 2014 and 31 December 2013 and assets and liabilities as at 31 December 2014 and as at 31 December 2013.

For the year ended 31 December 2014	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	6 254 818	1 122 952	145 161	7 522 931
Net fee and commission income	2 215 021	720 564	(2 079)	2 933 506
Other net income	230 527	502 850	(43 250)	690 127
Net result from financial operations	8 438	233 733	(16 933)	225 238
Net foreign exchange gains (losses)	161 740	100 374	(26 317)	235 797
Dividend income	-	6 511	-	6 511
Net other operating income and expense	34 285	188 296	-	222 581
Income/expenses relating to internal customers	26 064	(26 064)	-	-
Net impairment allowance and write-downs	(1 185 795)	(712 875)	-	(1 898 670)
Administrative expenses, of which:	(4 220 696)	(1 024 445)	-	(5 245 141)
amortisation and depreciation	(612 221)	(134 943)	-	(747 164)
Share in profit (loss) of associates and joint ventures	-	-	-	31 810
Segment gross profit	3 293 875	609 046	99 832	4 034 563
Income tax expense (tax burden)	-	-	-	(791 747)
Profit (loss) attributable to non-controlling shareholders	-	-	-	(11 306)
Net profit attributable to equity holders of the parent company	3 293 875	609 046	99 832	3 254 122

As at 31 December 2014	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Assets	134 683 185	101 519 006	11 515 913	247 718 104
Unallocated assets	-	-	-	982 485
Total assets	134 683 185	101 519 006	11 515 913	248 700 589
Liabilities	141 576 058	57 145 886	22 316 594	221 038 538
Unallocated liabilities	-	-	-	46 500
Total liabilities	141 576 058	57 145 886	22 316 594	221 085 038

(IN PLN THOUSAND)

For the year ended 31 December 2013	Continuing operations*			
	Retail segment	Corporate and investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	5 446 477	885 339	390 146	6 721 962
Net fee and commission income	2 227 274	778 333	145	3 005 752
Other net income	180 762	817 761	(19 371)	979 152
Net result from financial operations	8 359	94 569	18 865	121 793
Net foreign exchange gains (losses)	141 195	138 889	(38 236)	241 848
Dividend income	-	5 766	-	5 766
Net other operating income and expense	5 170	604 575	-	609 745
Income/expenses relating to internal customers	26 038	(26 038)	-	-
Net impairment allowance and write-downs	(1 180 140)	(857 741)	-	(2 037 881)
Administrative expenses*, of which:	(3 694 647)	(927 896)	-	(4 622 543)
amortisation and depreciation	(487 404)	(91 836)	-	(579 240)
Share in profit (loss) of associates and joint ventures	-	-	-	(1 978)
Segment gross profit	2 979 726	695 796	370 920	4 044 464
Income tax expense (tax burden)	-	-	-	(816 271)
Profit (loss) attributable to non-controlling shareholders	-	-	-	(1 600)
Net profit attributable to equity holders of the parent company	2 979 726	695 796	370 920	3 229 793

* Data for 2013 have been brought to comparability. Changes relate to the organisational structure of combining the corporate and investment segments performance.

As at 31 December 2013	Continuing operations*			
	Retail segment	Corporate and investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Assets	111 712 993	80 339 618	6 409 677	198 462 288
Unallocated assets	-	-	-	768 822
Total assets	111 712 993	80 339 618	6 409 677	199 231 110
Liabilities	127 700 088	39 124 242	7 197 754	174 022 084
Unallocated liabilities	-	-	-	54 701
Total liabilities	127 700 088	39 124 242	7 197 754	174 076 785

* Data for 2013 have been brought to comparability. Changes relate to the organisational structure of combining the corporate and investment segments performance.

4.2. Information about geographical areas

As a complementary, the PKO Bank Polski SA Group applies geographical areas distribution. The PKO Bank Polski SA Group operations conducted in the Republic of Poland and in Ukraine through the KREDOBANK SA Group, 'Inter-Risk Ukraina' Additional Liability Company and Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., as well as in Sweden through subsidiaries: PKO Finance AB and PKO Leasing Sverige AB. For presentation purposes, the results of companies operating in Sweden are included in the segment of Poland.

(IN PLN THOUSAND)

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

As at 31 December 2014	Poland	Ukraine	Total
Assets, of which:	247 272 350	1 428 239	248 700 589
non-financial non-current assets	5 948 657	84 399	6 033 056
deferred income tax assets and current income tax receivable	959 109	23 378	982 487
Liabilities	219 733 534	1 351 504	221 085 038

For the year ended 31 December 2013	Poland	Ukraine	Total
Net interest income	6 666 210	55 752	6 721 962
Net fee and commission income	2 941 936	63 816	3 005 752
Other net income	978 426	726	979 152
Administrative expenses	(4 494 360)	(128 183)	(4 622 543)
Net impairment allowance and write-downs	(1 879 991)	(157 890)	(2 037 881)
Share in profit (loss) of associates and joint ventures	-	-	(1 978)
Profit (loss) before income tax	4 212 221	(165 779)	4 044 464
Income tax expense (tax burden)	-	-	(816 271)
Profit (loss) attributable to non-controlling shareholders	-	-	(1 600)
Net profit (loss) attributable to equity holders of the parent company	4 212 221	(165 779)	3 229 793

As at 31 December 2013	Poland	Ukraine	Total
Assets, of which:	197 625 058	1 606 052	199 231 110
non-financial non-current assets	4 695 955	145 500	4 841 455
deferred income tax assets and current income tax receivable	751 802	17 020	768 822
Liabilities	172 517 523	1 559 262	174 076 785

(IN PLN THOUSAND)

NOTES TO THE CONSOLIDATED INCOME STATEMENT

5. Interest income and expense

Interest and similar income

	2014	2013
Interest income calculated using the effective interest rate method, with respect to financial assets, which are not measured at fair value through profit and loss, of which:	9 944 868	9 774 336
Income from loans and advances to customers, of which:	9 146 594	9 062 589
from impaired loans	467 098	499 865
Income from loans to banks	7 229	2 941
Income from investment securities	641 242	539 640
Income from placements with banks	140 097	165 156
Other	9 706	4 010
Other income, of which:	792 563	989 158
Income from financial assets designated upon initial recognition at fair value through profit and loss	388 234	470 979
Income from derivative hedging instruments (Note 20)	343 316	454 278
Income from trading assets	61 013	63 901
Total	10 737 431	10 763 494

Interest expense and similar charges

	2014	2013
Interest expense calculated using the effective interest rate method, with respect to financial liabilities, which are not measured at fair value through profit and loss, of which:	(3 192 259)	(4 018 230)
Interest expense on amounts due to customers	(2 541 207)	(3 457 801)
Interest expense on loans from banks	(86 052)	(31 984)
Interest expense on debt securities in issue and subordinated liabilities	(512 676)	(472 588)
Premium expense on debt securities available for sale	(40 927)	(38 737)
Interest expense on deposits from banks	(11 397)	(17 120)
Other expense	(22 241)	(23 302)
Interest expense on financial assets designated upon initial recognition at fair value through profit and loss	(10 234)	(14 375)
Interest expense on trading assets	(12 007)	(8 927)
Total	(3 214 500)	(4 041 532)

(IN PLN THOUSAND)

6. Fee and commission income and expense

Fee and commission income

	2014	2013
Income from financial assets, which are not measured at fair value through profit and loss, of which:	603 852	585 484
income from loans and advances granted	603 852	585 484
Other commissions from:	3 393 917	3 336 775
payment cards	1 271 459	1 314 322
maintenance of bank accounts	922 206	894 520
loans insurance	238 297	266 199
maintenance of investment and open pension funds (including management fees)	444 980	400 413
cash transactions	114 053	126 765
securities transactions	95 549	79 334
servicing foreign mass transactions	68 652	52 290
providing services of an agent for the issue of Treasury bonds	23 037	29 022
sale and distribution of court fee stamps	9 613	20 927
investment and insurance products	60 471	-
other*	145 600	152 983
From fiduciary activities	4 386	4 343
Total	4 002 155	3 926 602

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

Income from insurance operations

	2014	2013
Income from insurance intermediary	2 313	-
Income from policies administration	5 328	-
Income from fund management	45 130	-
Other	7 700	-
Total	60 471	-

Fee and commission expense

	2014	2013
payment cards	(669 758)	(575 584)
loans insurance	(100 219)	(95 005)
acquisition services	(112 432)	(101 673)
settlement services	(27 845)	(24 383)
assets management expenses	(18 827)	(12 634)
fee and commissions for operating services provided by banks	(15 927)	(11 488)
other*	(123 641)	(100 083)
Total	(1 068 649)	(920 850)

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

7. Dividend income

	2014	2013
Investment securities available for sale	5 677	4 849
Trading assets	834	623
Entity classified as held for sale	-	294
Total	6 511	5 766

(IN PLN THOUSAND)

8. Net income from financial instruments measured at fair value

	2014	2013
Change in fair value of financial instruments measured at fair value through profit and loss determined using the valuation techniques	(7 924)	46 261
Derivative instruments, of which:	692	65 103
an ineffective portion related to cash flow hedges	(6 078)	24 333
Structured bank securities measured at fair value through profit and loss	(8 616)	(18 842)
Debt securities	80 540	8 841
Equity instruments	1 162	(793)
Other	1 410	-
Total	75 188	54 309

2014	Gains	Losses	Net result
Trading assets	12 502 056	(12 486 449)	15 607
Financial assets designated upon initial recognition at fair value through profit and loss	134 376	(74 795)	59 581
Total	12 636 432	(12 561 244)	75 188

2013	Gains	Losses	Net result
Trading assets	12 844 531	(12 773 738)	70 793
Financial assets designated upon initial recognition at fair value through profit and loss	74 478	(90 962)	(16 484)
Total	12 919 009	(12 864 700)	54 309

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

	2014	2013
Gain/loss due to change in value of assets available for sale recognised directly in other comprehensive income during the period	(39 613)	(147 023)
Gain/loss derecognised from other comprehensive income recognised in the income statement in the position 'Gains less losses from investment securities' on:	150 050	67 484
gain from sale derecognised from other comprehensive income	169 143	111 256
loss on sale derecognised from other comprehensive income	(19 093)	(43 772)
Impact on other comprehensive income, gross, position 'Unrealised net gains on financial assets available for sale, gross'	110 437	(79 539)

(IN PLN THOUSAND)

10. Other operating income and expense

	2014	2013
Net income from sale of products and services	249 015	339 285
Income from sale of majority stake in a subsidiary	3 421	314 802
Valuation to fair value of the remaining share as a result of sale of an organised part of a subsidiary	-	162 171
Sale and disposal of tangible fixed assets, intangible assets and assets held for sale	126 086	109 696
Damages, penalties and fines received	35 541	59 810
Sundry income	18 591	19 537
Recovery of expired and written-off receivables	18 135	8 296
Net income from insurance operations	5 170	-
Other	114 820	67 348
Total	570 779	1 080 945

	2014	2013
Costs of sale of products and services	(146 945)	(273 560)
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(110 136)	(92 693)
Donations	(14 969)	(11 158)
Sundry expenses	(4 332)	(5 209)
Other	(71 816)	(88 580)
Total	(348 198)	(471 200)

(IN PLN THOUSAND)

11. Net impairment allowance, write-downs and provisions

For the year ended 31 December 2014	Note	Value at the beginning of the period	Increases			Decreases				Value at the end of the period	Net – impact on the income statement
			Increases of allowances due to acquisition of Nordea Bank Polska's entities and so-called 'Swedish portfolio'	Recognised during the period	Other	Derecognition of assets and settlement	Reversed during the period	Currency translation differences	Other		
Investment securities available for sale	23	33 455	-	126 675	-	-	-	40	30 721	129 369	(126 675)
Debt securities available for sale		3 296	-	123	-	-	-	-	3 419	-	(123)
Equity securities		30 159	-	126 552	-	-	-	40	27 302	129 369	(126 552)
Amounts due from banks	17	28 583	1	18	2 265	5 956	24 800	-	-	111	24 782
Loans and advances to customers measured at amortised cost	22	6 650 780	578 917	5 851 762	264 345	1 153 655	4 118 083	45 541	6 048	8 022 477	(1 733 679)
Non-financial sector		6 501 046	546 877	5 755 884	255 601	1 144 624	4 050 682	45 503	5 875	7 812 724	(1 705 202)
corporate loans		3 329 352	273 898	2 882 323	173 041	689 631	1 845 868	33 916	39	4 089 160	(1 036 455)
consumer loans		1 413 349	4 036	1 272 347	13 914	337 492	1 033 206	7 033	3 008	1 322 907	(239 141)
housing loans		1 731 258	267 944	1 536 294	65 278	117 501	1 170 871	4 554	136	2 307 712	(365 423)
debt securities		27 087	999	64 920	3 368	-	737	-	2 692	92 945	(64 183)
Financial sector		5 524	867	12 472	8 401	21	17 722	38	-	9 483	5 250
corporate loans		5 524	867	12 472	8 401	21	17 722	38	-	9 483	5 250
Public sector		11 527	3 036	2 776	343	54	1 993	-	173	15 462	(783)
corporate loans		10 549	1 616	2 624	-	54	1 923	-	173	12 639	(701)
debt securities		978	1 420	152	343	-	70	-	-	2 823	(82)
Finance lease receivables		132 683	28 137	80 630	-	8 956	47 686	-	-	184 808	(32 944)
Non-current assets held for sale	26	365 340	-	23 179	92 566	31 604	22 719	144 071	189 261	93 430	(460)
Tangible fixed assets	29	12 084	-	3 193	-	20	-	5 177	-	10 080	(3 193)
Intangible assets	28	153 011	-	41 067	-	-	3 851	-	50 501	139 726	(37 216)
Investments in associates and joint ventures	25	116 532	-	214	-	6 234	1 797	-	-	108 715	1 583
Inventories	27	53 805	-	17 550	-	9 573	218	-	32 400	29 164	(17 332)
Other receivables		158 752	1 755	50 122	-	17 746	33 076	1 480	3 430	154 897	(17 046)
Provision for legal claims, loan commitments and guarantees granted	38	151 603	20 271	394 981	3 223	625	410 408	180	7 541	151 324	15 427
Provision for future liabilities		6 945	3 329	7 029	-	614	2 168	-	3 329	11 192	(4 861)
Total		7 730 890	604 273	6 515 790	362 399	1 226 027	4 617 120	196 489	323 231	8 850 485	(1 898 670)

(IN PLN THOUSAND)

For the year ended 31 December 2013	Note	Value at the beginning of the period	Increases		Decreases				Value at the end of the period	Net – impact on the income statement
			Recognised during the period	Other	Derecognition of assets and settlement	Reversed during the period	Currency translation differences	Other		
Investment securities available for sale	23	23 243	16 183	-	5 536	-	3	432	33 455	(16 183)
Debt securities available for sale		5 536	3 728	-	5 536	-	-	432	3 296	(3 728)
Equity securities		17 707	12 455	-	-	-	3	-	30 159	(12 455)
Amounts due from banks	17	29 382	-	-	-	5	-	794	28 583	5
Loans and advances to customers measured at amortised cost	22	6 776 265	6 434 839	2 074	1 775 811	4 406 501	15 770	364 316	6 650 780	(2 028 338)
Non-financial sector		6 606 755	6 378 377	1 806	1 770 829	4 363 011	14 818	337 234	6 501 046	(2 015 366)
corporate loans		3 458 562	3 491 446	1 806	1 149 355	2 183 195	11 621	278 291	3 329 352	(1 308 251)
consumer loans		1 431 689	1 561 370	-	425 117	1 148 890	624	5 079	1 413 349	(412 480)
housing loans		1 714 698	1 300 280	-	196 357	1 030 926	2 573	53 864	1 731 258	(269 354)
debt securities		1 806	25 281	-	-	-	-	-	27 087	(25 281)
Financial sector		25 376	9 051	80	-	949	952	27 082	5 524	(8 102)
corporate loans		25 376	9 051	80	-	949	952	27 082	5 524	(8 102)
Public sector		21 990	-	188	-	10 651	-	-	11 527	10 651
corporate loans		19 640	-	188	-	9 279	-	-	10 549	9 279
debt securities		2 350	-	-	-	1 372	-	-	978	1 372
Finance lease receivables		122 144	47 411	-	4 982	31 890	-	-	132 683	(15 521)
Non-current assets held for sale	26	2 906	1 634	363 443	963	-	-	1 680	365 340	(1 634)
Tangible fixed assets	29	13 943	790	299	1 932	330	383	303	12 084	(460)
Intangible assets	28	142 313	11 021	-	-	-	9	314	153 011	(11 021)
Investments in associates and joint ventures	25	113 226	7 617	-	-	4 311	-	-	116 532	(3 306)
Inventories	27	31 504	23 460	-	1 136	23	-	-	53 805	(23 437)
Other receivables		145 043	80 742	1 838	23 883	39 069	127	5 792	158 752	(41 673)
Provision for legal claims, loan commitments and guarantees granted	38	233 682	265 311	1 957	318	349 010	19	-	151 603	83 699
Provision for future liabilities		11 961	5 262	-	549	9 729	-	-	6 945	4 467
Total		7 523 468	6 846 859	369 611	1 810 128	4 808 978	16 311	373 631	7 730 890	(2 037 881)

(IN PLN THOUSAND)

12. Administrative expenses

	2014	2013
Employee benefits	(2 672 435)	(2 514 763)
Overheads	(1 485 414)	(1 289 796)
Amortisation and depreciation, of which:	(747 164)	(579 240)
tangible fixed assets	(317 886)	(312 627)
intangible assets	(427 614)	(266 603)
investment properties	(1 664)	(10)
Taxes and other charges	(106 322)	(71 041)
Contribution and payments to the Bank Guarantee Fund	(233 806)	(167 703)
Total	(5 245 141)	(4 622 543)

Employee benefits

	2014	2013
Wages and salaries*, of which:	(2 249 319)	(2 071 231)
expenses on employee pension programme	(38 549)	(25 701)
Social Insurance, of which:	(352 581)	(375 011)
contributions for retirement pay and pensions	(303 955)	(300 687)
Other employee benefits	(70 535)	(68 521)
Total	(2 672 435)	(2 514 763)

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

Operating lease agreements

Operating lease – lessee

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

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

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

Total value of future lease payments under irrevocable operating lease for the period:	31.12.2014	31.12.2013
up to 1 year	218 584	153 102
from 1 year to 5 years	394 358	261 039
over 5 years	81 402	49 476
Total	694 344	463 617

Lease and sub-lease payments recognised as an expense of a given period from 1 January 2014 to 31 December 2014 amounted to PLN 237 708 thousand (in the period from 1 January 2013 to 31 December 2013 PLN 162 845 thousand).

13. Income tax expense

	2014	2013
Current income tax expense	(962 625)	(699 136)
Deferred income tax related to creating and reversal of temporary differences	170 878	(117 135)
Tax expense in the consolidated income statement	(791 747)	(816 271)
Deferred income tax expense in other comprehensive income related to creating and reversal of temporary differences	(52 038)	58 079
Total	(843 785)	(758 192)

(IN PLN THOUSAND)

	2014	2013
Profit before income tax	4 034 563	4 044 464
Corporate income tax calculated using the enacted tax rate 19% in force in Poland	(766 567)	(768 448)
Effect of other tax rates of foreign entities	(2 112)	(48)
Permanent differences between profit before income tax and taxable income, of which:	(19 531)	1 852
Revaluation of shares in CEUP eService Sp. z o.o.	-	30 812
Recognition/reversal of provisions and revaluation not constituting taxable expense/income	(34 136)	(35 196)
Other non-tax-deductible expenses	(2 325)	(14 264)
Other permanent differences	16 930	20 500
Other differences between profit before income tax and taxable income, including donations	(4 721)	(50 655)
Tax loss settlement	1 184	1 028
Income tax in the consolidated income statement	(791 747)	(816 271)
Effective tax rate	19.62%	20.18%
Temporary difference due to the deferred income tax presented in the income statement	170 878	(117 135)
Current income tax expense in the income statement, of which:	(962 625)	(699 136)
Corporate income tax calculated using the enacted tax rate 19% in force in Poland	(962 751)	(699 101)
Effect of other tax rates of foreign entities	126	(35)

Current income tax liabilities/receivables

	31.12.2014	31.12.2013
Current income tax receivables	118 810	206 401
Current income tax liabilities	17 453	22 595

The Group entities are subject to corporate income tax. The amount of current tax liability of the Entities is transferred to the appropriate tax authorities. The final settlement of the corporate income tax liabilities of the Group entities for the year 2014 is made within the statutory deadline. According to regulations on considering tax liabilities as past due, tax authorities can verify the correctness of income tax settlements within 5 years from the end of the accounting year in which the tax declaration was submitted.

Deferred income tax asset/liability

DEFERRED INCOME TAX LIABILITY	Consolidated statement of financial position		Consolidated income statement		The effect of control take-over of subsidiaries
	31.12.2014	31.12.2013	2014	2013	
Interest accrued on receivables (loans)	238 026	206 564	3 260	(13 256)	34 722
Capitalised interest on performing housing loans	142 227	155 285	13 058	14 545	-
Interest on securities	37 627	22 438	(14 406)	(7 871)	783
Valuation of derivative financial instruments, of which:	3 062	-	-	-	1 397
recognised in the income statement	1 841	-	(444)	6 276	1 397
recognised in other comprehensive income	1 221	-	-	-	-
Valuation of securities	7 891	-	-	-	900
recognised in the income statement	-	-	900	3 889	900
recognised in other comprehensive income	7 891	-	-	-	-
Difference between carrying amount and tax value of tangible fixed assets and intangible assets	348 433	336 603	(10 200)	(3 049)	1 630
Temporary positive differences concerning Group entities, of which:	29 047	34 639	-	-	6 056
recognised in the income statement	28 350	34 265	11 971	6 484	6 056
recognised in other comprehensive income	697	374	-	-	-
Gross deferred income tax liability, of which:	806 313	755 529	-	-	45 488
recognised in the income statement	751 016	755 155	4 139	7 018	45 488
recognised in other comprehensive income	9 809	374	-	-	-
The effect of control take-over of subsidiaries (with no impact on income statement)	45 488	-	-	-	-

(IN PLN THOUSAND)

DEFERRED INCOME TAX ASSET	Consolidated statement of financial position		Consolidated income statement		The effect of control take-over of subsidiaries
	31.12.2014	31.12.2013	2014	2013	
Interest accrued on liabilities	214 153	159 134	49 755	(76 110)	5 264
Interest accrued on securities	-	1 212	(1 212)	1 212	-
Valuation of derivative financial instruments, of which:	8 062	9 225	-	-	1 306
recognised in the income statement	8 062	(20 235)	26 991	(30 896)	1 306
recognised in other comprehensive income	-	29 460	-	-	-
Valuation of securities, of which:	16 673	13 909	-	-	-
recognised in the income statement	16 673	1 477	15 196	1 477	-
recognised in other comprehensive income	-	12 432	-	-	-
Provision for employee benefits, of which:	74 560	83 165	-	-	576
recognised in the income statement	72 524	69 177	2 771	(50 406)	576
recognised in other comprehensive income	2 036	13 988	-	-	-
Impairment allowances on credit exposures	575 238	506 795	15 166	11 862	53 277
Influence of measurement at amortised cost	449 916	246 967	28 298	(3 824)	174 651
Other temporary negative differences	97 881	87 676	3 077	42 697	7 128
Temporary negative differences concerning Group entities, of which:	204 460	175 226	-	-	3 483
recognised in the income statement	204 460	174 280	26 697	(20 165)	3 483
recognised in other comprehensive income		946	-	-	-
Gross deferred income tax asset, of which:	1 640 943	1 283 309	-	-	245 685
recognised in the income statement	1 393 222	1 226 483	166 739	(124 153)	245 685
recognised in other comprehensive income	2 036	56 826	-	-	-
The effect of control take-over of subsidiaries (with no impact on income statement)	245 685	-	-	-	-

	Consolidated statement of financial position		Consolidated income statement		The effect of control take-over of subsidiaries
	31.12.2014	31.12.2013	2014	2013	
Net deferred tax, of which:	834 630	527 780	-	-	200 197
recognised in the income statement	642 206	471 328	170 878	(117 135)	200 197
recognised in other comprehensive income	(7 773)	56 452	-	-	-
The effect of control take-over of subsidiaries (with no impact on income statement)	200 197	-	-	-	-
Deferred income tax asset (presented in statement of financial position)	863 677	562 421	-	-	-
Deferred income tax liability (presented in statement of financial position)	29 047	32 106	-	-	-
Deferred income tax liability	29 047	34 641	-	-	-
Liability of Finansowa Kompania 'Prywatne Inwestycje' due to deferred income tax liability	-	(2 535)	-	-	-
Net deferred tax impact on the income statement	-	-	170 878	(117 135)	

In 2014, KREDOBANK SA conducted proceeding related to legal claim described below with the tax authority in Ukraine.

The legal claim concerns the results of tax audit, which covered the period from 1 April 2011 to 30 September 2012. Legal claims mainly concern recognition of the costs related to the transaction of selling loans in the period covered by the inspection as tax deductible expenses, the adequacy of recognition of impairment allowances on loans, the correctness of the settlement of VAT on property sales and withholding tax for the payment of fees for services. The value of disputed claims amounted to UAH 877 thousand (PLN 197 thousand) and the amount of reducing tax loss from previous years - UAH 626 282 thousand (PLN 140 663 thousand). In February 2013, KREDOBANK SA paid a part of the legal claims in the total amount of UAH 439 thousand (PLN 99 thousand). This value is still included in subsequent appeal claims. KREDOBANK SA appealed against the above-mentioned tax decision consecutive to the Regional State Tax Service and The Ministry of Revenue and Duties of Ukraine, and these appeals were rejected. On 2 August 2013, KREDOBANK SA filed a claim against the results of the inspection and applying for annulling the above-mentioned tax decision. On 5 November 2013 the court of first instance issued a favourable verdict for KREDOBANK SA, which accepted a position of the Company, except the correctness of calculation of tax depreciation on tangible fixed assets in the total amount of UAH 336 thousand (PLN 75 thousand). On 26 November 2013, the tax authority appealed to the court of second instance. On 2 April 2014 the court of appeal upheld the decision of the court of first instance favourable for KREDOBANK SA. On 15 April 2014 the tax authority filed a motion for cassation of this judgement to the Higher Administrative Court. On 10 February 2015 Higher Administrative Court issued a favourable verdict for KREDOBANK SA, maintaining above-mentioned decisions of the court of the first and second instance. Tax liability arising from the above-mentioned judgement in the amount of UAH 74 thousand (PLN 17 thousand) will be considered by the Company in the tax return for the year 2014. The judgement is legally valid. There is possible to appeal to the tax authority to Supreme Court of Ukraine.

14. Earnings per share

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

	2014	2013
Profit per ordinary shareholder (in PLN thousand)	3 254 122	3 229 793
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000
Earnings per share (in PLN per share)	2.60	2.58

In the years ended 31 December 2014 and 31 December 2013 respectively, there were no discontinued operations.

Diluted earnings per share

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

There were no dilutive instruments both in the year 2014 and 2013.

Diluted earnings per share from discontinued operations

In the years ended 31 December 2014 and 31 December 2013, there were no discontinued operations in the Group.

15. Dividends paid divided by shares

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

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

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

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

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

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

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

(IN PLN THOUSAND)

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

16. Cash and balances with the central bank

	31.12.2014	31.12.2013
Current account in the central bank	7 772 859	4 018 340
Cash	3 965 456	3 227 330
Other funds	56	450
Total	11 738 371	7 246 120

Obligatory reserve

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

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

Restricted cash:

Cash pledged in the amount of PLN 11 440 thousand (PLN 17 449 thousand as at 31 December 2013) as collateral for securities' transactions conducted by the Brokerage House of PKO BP 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 settlements-making participant is obliged to make payments to the settlement fund which guarantees a proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of transactions made by each participant and is updated by KDPW_CCP on a daily basis.

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

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

Cash and cash equivalents

Amounts 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.

17. Amounts due from banks

	31.12.2014	31.12.2013
Deposits with banks	1 630 832	1 402 724
Current accounts	835 582	469 812
Loans and advances granted	16 146	34 338
Receivables due from repurchase agreements	-	14 033
Cash in transit	4 237	1 117
Total	2 486 797	1 922 024
Impairment allowances on receivables, of which:	(111)	(28 583)
impairment allowances on receivable from a foreign bank	-	(28 543)
Net total	2 486 686	1 893 441

Details on risk related to amounts due from banks were presented in the note 53 'Credit risk management'.

Liabilities from negative valuation of derivative instruments

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

Cash and cash equivalents

Current amounts due from banks as well as other cash equivalents with maturities up to 3 months from the date of acquisition in the amount of PLN 2 805 814 thousand are entirely treated as cash and cash equivalents for the purposes of the statement of cash flows (PLN 1 638 619 thousand as at 31 December 2013).

(IN PLN THOUSAND)

18. Trading assets

By carrying amount	31.12.2014	31.12.2013
Debt securities	1 915 120	467 931
issued by the State Treasury, of which:	1 825 454	395 202
Treasury bonds PLN	1 825 454	390 660
Treasury bonds EUR	-	4 542
issued by local government bodies, municipal bonds PLN	50 563	41 907
issued by non-financial institutions, of which:	22 146	23 892
corporate bonds PLN	22 137	23 892
corporate bonds EUR	9	-
issued by other financial institutions, of which:	2 326	6 762
bonds issued by WSE PLN	2 248	6 628
corporate bonds PLN	78	134
issued by banks	14 631	168
Shares in other entities - listed on stock exchanges	5 137	10 799
Investment certificates	3 891	1 151
Rights to shares	278	-
Total	1 924 426	479 881

Debt securities by nominal value	31.12.2014	31.12.2013
Treasury bonds PLN	1 741 972	389 455
municipal bonds PLN	48 067	39 158
corporate bonds PLN	38 323	30 618
corporate bonds EUR	9	-
Treasury bonds EUR	-	4 174
The average yield on debt securities issued by the State Treasury	2.00%	3.79%

Change in trading assets	2014	2013
Balance at the beginning of the period	479 881	277 566
Currency translation differences	58	(71)
Increases	204 794 395	378 331 420
Decreases	(203 348 345)	(378 129 976)
Changes in fair value	(1 563)	942
Balance at the end of the period	1 924 426	479 881

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

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

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

Carrying amount	31.12.2014	31.12.2013
Trading assets	926 977	1 682 616
Sell-buy-back liabilities	927 553	1 684 506

(IN PLN THOUSAND)

Initial 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 pledged as collateral for settlement of transactions with the Clearing House.

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

Trading assets by carrying amount - by maturities

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

As at 31 December 2013	up to 1 month	1 - 3 months	3 months – 1 year	1 - 5 years	over 5 years	Total
Debt securities						
issued by the State Treasury	50 070	1 082	141 700	175 947	26 403	395 202
issued by local government bodies	-	20	47	7 901	33 939	41 907
issued by non-financial institutions	-	-	29	21 096	2 767	23 892
issued by other financial institutions	-	72	-	6 658	32	6 762
issued by banks	-	-	114	54	-	168
Total	50 070	1 174	141 890	211 656	63 141	467 931

19. Derivative financial instruments

Derivative instruments used by the Group

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

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

	31.12.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	599 841	494 961	361 639	414 804
Other derivative instruments	4 894 981	5 050 180	2 639 221	2 913 407
Total	5 494 822	5 545 141	3 000 860	3 328 211

(IN PLN THOUSAND)

Type of contract	31.12.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
IRS	4 591 519	4 439 830	2 590 721	2 490 821
CIRS	340 972	616 841	252 941	545 073
FX Swap	227 857	237 542	39 908	156 393
Options	185 366	133 912	75 443	61 930
FRA	59 078	63 505	13 652	11 454
Forward	89 113	52 838	24 552	60 143
Other	917	673	3 643	2 397
Total	5 494 822	5 545 141	3 000 860	3 328 211

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

31 December 2014

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

(IN PLN THOUSAND)

31 December 2013

Nominal values of underlying instruments	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Currency transactions						
FX swap	9 114 776	621 348	2 413 223	-	-	12 149 347
Purchase of currency	4 539 899	299 874	1 170 424	-	-	6 010 197
Sale of currency	4 574 877	321 474	1 242 799	-	-	6 139 150
FX forward	2 020 788	2 202 576	3 397 762	479 550	-	8 100 676
Purchase of currency	1 008 082	1 099 414	1 682 174	233 773	-	4 023 443
Sale of currency	1 012 706	1 103 162	1 715 588	245 777	-	4 077 233
Options	1 454 808	1 201 679	4 126 364	1 024 474	-	7 807 325
Purchase	730 276	589 870	2 023 539	508 731	-	3 852 416
Sale	724 532	611 809	2 102 825	515 743	-	3 954 909
Cross Currency (CIRS)	1 490 674	1 354 330	2 462 933	25 246 228	9 914 523	40 468 688
Purchase	745 837	678 010	1 236 520	12 567 095	4 924 105	20 151 567
Sale	744 837	676 320	1 226 413	12 679 133	4 990 418	20 317 121
Interest rate transactions						
Interest Rate Swap (IRS)	19 499 684	28 960 018	74 498 472	213 739 652	23 776 104	360 473 930
Purchase	9 749 842	14 480 009	37 249 236	106 869 826	11 888 052	180 236 965
Sale	9 749 842	14 480 009	37 249 236	106 869 826	11 888 052	180 236 965
Forward Rate Agreement (FRA)	-	-	49 114 000	3 100 000	-	52 214 000
Purchase	-	-	26 063 000	1 100 000	-	27 163 000
Sale	-	-	23 051 000	2 000 000	-	25 051 000
Other transactions						
Other (of which stock market index derivatives)	5 456 692	111 580	489 039	1 424 298	-	7 481 609
Purchase	2 497 383	87 915	259 177	769 506	-	3 613 981
Sale	2 959 309	23 665	229 862	654 792	-	3 867 628
Total derivative instruments	39 037 422	34 451 531	136 501 793	245 014 202	33 690 627	488 695 575

20. Derivative hedging instruments

The Group applies the following hedging strategies:

20.1. 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 result - January 2015 - October 2026.

20.2. 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 result - January 2015 - February 2019.

20.3. 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 result - January 2015 - June 2016.

20.4. 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 result - January 2015 - July 2016.

20.5. 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 2015 - September 2022.

As at 31 December 2014 and 2013 the Group did not use the fair value hedge.

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

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

In 2014 the Group did not establish new hedging strategies.

In the second quarter of 2014, due to the lack of fulfilment of the retrospective effectiveness test, the Group ceased to apply hedge accounting for one of hedging relationships of the strategy ‘Hedges against fluctuations in cash flows from floating interest rate loans in PLN, resulting from the risk of fluctuations in interest rates, using IRS transactions’.

(IN PLN THOUSAND)

Cash flow hedges

The fair value of derivative instruments constituting cash flow hedges related to the interest rate and / or foreign exchange rate as at 31 December 2014 and as at 31 December 2013:

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

The nominal value of hedging instruments by maturity.

Type of instrument:	Nominal value as at 31 December 2014					
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
IRS PLN fixed - float	-	2 540 000	3 264 000	6 114 000	-	11 918 000
IRS EUR fixed – float:						
translated into PLN	-	-	1 538 690	473 115	-	2 011 805
EUR (original currency)	-	-	361 000	111 000	-	472 000
IRS CHF fixed – float:						
translated into PLN	-	-	-	886 175	-	886 175
CHF (original currency)	-	-	-	250 000		250 000
CIRS float CHF/float PLN						
float PLN	525 690	-	3 598 193	4 079 294	2 664 515	10 867 692
float CHF	150 000	-	1 075 000	1 195 000	775 000	3 195 000
CIRS fixed USD/float CHF						
fixed USD	-	-	-	-	875 000	875 000
float CHF	-	-	-	-	814 481	814 481

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

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

(IN PLN THOUSAND)

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

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

By carrying amount	31.12.2014	31.12.2013
Debt securities	13 804 860	15 204 756
issued by central banks, NBP money market bills	10 998 812	13 997 228
issued by the State Treasury, of which:	2 478 708	956 893
Treasury bonds PLN	2 452 213	931 325
Treasury bonds UAH	26 495	25 568
issued by local government bodies, of which:	253 817	250 635
municipal bonds EUR	139 882	136 700
municipal bonds PLN	113 935	113 935
issued by non-financial institutions – corporate bonds PLN	511	-
issued by banks – structured bonds PLN	73 012	-
Participation units in ICF (insurance capital funds)*	1 918 288	-
Total	15 723 148	15 204 756

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

Debt securities by nominal value	31.12.2014	31.12.2013
NBP money market bills PLN	11 000 000	14 000 000
Treasury bonds PLN	2 371 934	899 531
Treasury bonds UAH	15 497	25 571
municipal bonds EUR	106 558	103 680
municipal bonds PLN	100 000	100 000
corporate bonds PLN	500	-
structured bonds PLN	74 141	-
The average yield on debt securities issued by the State Treasury	1.96%	3.09%

Change in financial instruments designated upon initial recognition at fair value through profit and loss	2014	2013
Balance at the beginning of the period	15 204 756	12 629 711
Take of control over subsidiary	5 599 561	-
Currency translation differences	(5 792)	5 044
Increases	637 674 906	682 869 926
Decreases	(642 818 356)	(680 292 581)
Changes in fair value	68 073	(7 344)
Balance at the end of the period	15 723 148	15 204 756

As at 31 December 2014 and as at 31 December 2013 the Group did not have transferred financial assets, which are derecognised from the financial statements in their entirety, but the Group is continuing involvement in those assets.

(IN PLN THOUSAND)

Transferred financial instruments designated upon initial recognition at fair value through profit and loss

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

Carrying value	31.12.2014	31.12.2013
Financial instruments designated upon initial recognition at fair value through profit and loss	-	2 068
Sell-buy-back liabilities	-	2 071

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

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

As at 31 December 2013	up to 1 month	1 - 3 months	3 months – 1 year	1 - 5 years	over 5 years	Total
Debt securities						
issued by central banks	13 997 228	-	-	-	-	13 997 228
issued by the State Treasury	1 084	-	188 349	767 460	-	956 893
issued by local government bodies	-	-	-	113 935	136 700	250 635
Total	13 998 312	-	188 349	881 395	136 700	15 204 756

Financial instruments designated upon initial recognition at fair value through profit and loss are recognised in accordance with IAS 39.9, which was described in detail in the note 2.6.4.1. 'Financial assets and liabilities designated at fair value through profit and loss'.

22. Loans and advances to customers

	31.12.2014	31.12.2013
Loans and advances to customers, gross, of which:	187 519 861	156 274 042
financial sector	1 630 191	2 986 731
corporate, of which:	1 319 339	948 308
deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee Fund and initial deposit	11 440	19 339
receivables due from repurchase agreements	310 852	2 038 423
non-financial sector	175 789 529	146 067 840
housing	98 105 676	76 631 478
corporate	53 930 247	47 970 294
consumer	21 644 625	20 627 222
debt securities (corporate)	2 108 981	838 846
public sector	10 100 141	7 219 471
corporate	7 277 642	6 135 647
debt securities (municipal)	2 822 499	978 159
receivables due from repurchase agreements*	-	105 665
Impairment allowances on loans and advances	(8 022 477)	(6 650 780)
Loans and advances to customers, net	179 497 384	149 623 262

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

(IN PLN THOUSAND)

By client segment	31.12.2014	31.12.2013
Loans and advances granted, gross, of which:	187 519 861	156 274 042
mortgage banking	90 768 711	68 943 625
corporate	50 661 094	40 393 713
retail and private banking	21 644 625	20 627 222
small and medium enterprises*	24 123 139	24 146 055
receivables due from repurchase agreements	310 852	2 144 088
other receivables	11 440	19 339
Impairment allowances on loans and advances	(8 022 477)	(6 650 780)
Loans and advances granted, net	179 497 384	149 623 262

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

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

- corporate loans of financial institutions (i.e. e.g. leasing companies, insurance companies, investment companies) include corporate banking,
- housing loans include loans of mortgage banking and housing market clients, corporate client segment and small and medium enterprises as regards to products intended for housing purposes,
- corporate loans of non-financial 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 State budget 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

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

Securities reclassification

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

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

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

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

(IN PLN THOUSAND)

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

As at 31.12.2014	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

As at 31.12.2013	nominal value	fair value	carrying amount
Municipal bonds	961 611	963 118	965 180
Corporate bonds	787 040	791 503	768 385
Total	1 748 651	1 754 621	1 733 565

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

Loans and advances to customers by method of calculating impairment allowances	31.12.2014	31.12.2013
Assessed on an individual basis	7 377 955	7 336 985
Impaired, of which:	5 615 878	5 532 429
finance lease receivables	344 975	134 027
Not impaired, of which:	1 762 077	1 804 556
finance lease receivables	300 021	193 560
Assessed on a portfolio basis	7 361 432	7 328 923
Impaired, of which:	7 361 432	7 328 923
finance lease receivables	106 401	115 883
Assessed on a group basis (IBNR), of which:	172 780 474	141 608 134
finance lease receivables	4 477 927	3 793 700
Loans and advances to customers, gross	187 519 861	156 274 042
Impairment allowances on exposures assessed on an individual basis	(2 963 733)	(2 292 218)
Impaired, of which:	(2 948 025)	(2 276 093)
impairment allowances on lease receivables	(95 057)	(46 430)
Impairment allowances on exposures assessed on a portfolio basis, of which:	(4 426 869)	(3 772 723)
impairment allowances on lease receivables	(75 273)	(75 355)
Impairment allowances on exposures assessed on a group basis (IBNR), of which:	(631 875)	(585 839)
impairment allowances on lease receivables	(14 478)	(10 898)
Impairment allowances - total	(8 022 477)	(6 650 780)
Loans and advances to customers, net	179 497 384	149 623 262

A detailed description of changes in allowances has been presented in the note 11 'Net impairment allowance, write-downs and provisions'.

As at 31 December 2014, the share of impaired loans amounted to 6.9% (as at 31 December 2013: 8.2%), whereas the coverage ratio for impaired loans as at 31 December 2014 (calculated as total impairment allowances on loans and advances to customers divided by gross carrying amount of impaired loans) amounted to 61.8% (as at 31 December 2013: 51.7%).

As at 31 December 2014, the share of loans overdue by more than 90 days in the gross amount of loans and advances was 5.2% (as at 31 December 2013: 5.9%).

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

Finance lease agreements

Finance lease – lessor

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

The value of gross investments in leases and the minimal lease payments resulting from finance lease agreements amounted to:

(IN PLN THOUSAND)

as at 31 December 2014

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

as at 31 December 2013

Gross lease investment value and minimal lease payments	Gross lease investment	Present value of the minimal lease payments	Unrealised income
Gross lease receivables:			
up to 1 year	1 702 323	1 505 045	197 278
from 1 year to 5 years	2 526 276	2 241 693	284 583
over 5 years	572 804	490 432	82 372
Gross total	4 801 403	4 237 170	564 233
Impairment allowances	(132 683)	(132 683)	-
Net total	4 668 720	4 104 487	564 233

As at 31 December 2014 and 31 December 2013, there are no unguaranteed residual values attributable to the lessor.

23. Investment securities available for sale

	31.12.2014	31.12.2013
Debt securities available for sale, gross	21 961 102	13 870 733
issued by the State Treasury	12 781 051	8 818 500
Treasury bonds PLN	12 601 236	8 616 517
Treasury bonds USD	149 582	181 823
Treasury bonds UAH	30 233	20 160
issued by local government bodies, municipal bonds PLN	4 480 325	3 440 753
issued by non-financial institutions	3 475 594	1 000 549
corporate bonds PLN	2 960 217	1 000 549
corporate bonds EUR	315 965	-
corporate bonds USD	199 412	-
issued by banks, corporate bonds	1 224 132	610 931
corporate bonds PLN	1 112 705	558 814
corporate bonds EUR	90 867	-
corporate bonds UAH	20 560	52 117
Impairment allowances of debt securities available for sale	-	(3 296)
corporate bonds PLN	-	(3 296)
Total net debt securities available for sale	21 961 102	13 867 437
Equity securities available for sale, gross	447 492	235 800
Equity securities not admitted to public trading	395 412	161 514
Equity securities admitted to public trading	52 080	74 286
Impairment allowances of equity securities available for sale	(129 369)	(30 159)
Total net equity securities available for sale	318 123	205 641
Total net investment securities available for sale	22 279 225	14 073 078

(IN PLN THOUSAND)

Debt securities by nominal value	31.12.2014	31.12.2013
Treasury bonds PLN	12 348 504	8 499 608
municipal bonds PLN	4 388 019	3 361 853
corporate bonds PLN	4 058 660	1 579 343
Treasury bonds UAH	35 666	21 147
Treasury bonds USD	146 088	182 768
corporate bonds UAH	19 091	50 329
corporate bonds EUR	404 919	-
corporate bonds USD	200 998	-
The average yield on debt securities in issue:		
in Poland	2.12%	3.35%
in Ukraine:		
in USD	10.95%	-
in UAH	22.68%	9.00%

Change in investment securities available for sale	2014	2013
Balance at the beginning of the period	14 073 078	12 205 130
Take of control over subsidiaries	1 680 696	-
Currency translation differences	23 111	(7 575)
Increases	50 734 768	45 177 267
Decreases	(44 342 865)	(43 222 205)
of which change in impairment allowance	126 675	10 212
Changes in fair value recognised in other comprehensive income	110 437	(79 539)
Balance at the end of the period	22 279 225	14 073 078

Details on risk related to investment securities available for sale has been described in the note 53 'Credit risk management'.

Investment debt securities available for sale by carrying amount - maturities

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

As at 31 December 2013	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Debt securities						
issued by the State Treasury	3 563	17 658	345 879	6 939 901	1 511 499	8 818 500
issued by local government bodies	-	4 523	127 574	999 750	2 308 906	3 440 753
issued by non-financial institutions	68 085	16 566	62 536	685 456	164 610	997 253
issued by banks	19 543	989	31 585	509 284	49 530	610 931
Total	91 191	39 736	567 574	9 134 391	4 034 545	13 867 437

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

Bank Deposit Guarantee Fund

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

(IN PLN THOUSAND)

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

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

24. Investments securities held to maturity

	31.12.2014	31.12.2013
Debt securities		
issued by the State Treasury:	233 358	26 886
issued by the State Treasury PLN	37 709	-
issued by the State Treasury EUR	2 629	-
issued by the State Treasury USD	193 020	-
issued by the State Treasury UAH	-	26 886
issued by banks	-	11 119
Total	233 358	38 005

Debt securities by nominal value	31.12.2014	31.12.2013
Treasury bonds PLN	36 717	-
Treasury bonds EUR (PLN equivalent)	2 557	-
Treasury bonds USD (PLN equivalent)	189 951	-
Treasury bonds UAH (PLN equivalent)	-	26 364
issued by banks	-	11 119
The average yield on debt securities issued by the State Treasury:		
in Poland	5.17%	-
in Ukraine	9.68%	9.00%

Change in investment securities held to maturity	2014	2013
Balance at the beginning of the period	38 005	46 971
Take of control over a subsidiary	40 953	-
Increases	1 386 037	138 650
Decreases (redemption)	(1 263 970)	(146 519)
Currency translation differences	32 333	(1 097)
Balance at the end of the period	233 358	38 005

Debt securities in the portfolio held to maturity by carrying amount - maturities

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

As at 31 December 2013	up to 1 month	3 months - 1 year	1 - 5 years	Total
Debt securities				
issued by the State Treasury	-	7 195	19 691	26 886
issued by banks	11 119	-	-	11 119
Total	11 119	7 195	19 691	38 005

(IN PLN THOUSAND)

25. Investments in associates and joint ventures

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

Entity name	31.12.2014	31.12.2013
The 'CENTRUM HAFFNERA' Sp. z o.o. Group*	-	-
Purchase price	-	44 371
Change in share of net assets	-	(38 136)
Impairment allowance	-	(6 235)
'Centrum Obsługi Biznesu' Sp. z o.o.	3 460	5 380
Purchase price	17 498	17 498
Change in share of net assets	(14 038)	(12 118)
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	201 380	197 592
Fair value of the remaining part of shares as at the date of obtaining joint control	197 320	197 592
Change in share of net assets	4 060	-
Total	204 840	202 972

* The Company has been a subsidiary of PKO Bank Polski SA since 20 January 2014.

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

Entity name	31.12.2014	31.12.2013
The Bank Pocztowy SA Group	117 646	106 720
Purchase price	146 500	146 500
Change in share of net assets	74 142	65 013
Impairment allowance	(102 996)	(104 793)
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-
Purchase price	1 500	1 500
Change in share of net assets	4 219	4 004
Impairment allowance	(5 719)	(5 504)
Total	117 646	106 720

In the consolidated financial statements for the year ended 31 December 2014, all joint ventures and associates are accounted for using the equity method.

	2014	2013
Investments in joint ventures at the beginning of the period	202 972	12 048
Share in profit (loss)	23 527	(10 979)
Net impairment allowance	-	4 311
Dividends	(21 387)	-
Fair value of the remaining shares of Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	-	197 592
Other	(272)	-
Investments in joint ventures at the end of the period	204 840	202 972

	2014	2013
Investments in associates at the beginning of the period	106 720	107 163
Net impairment allowance	1 583	(7 617)
Share in profit (loss)	8 283	9 001
Share in other comprehensive income of an associate	1 060	(1 384)
Sale of Agencja Inwestycyjna CORP-SA SA's shares	-	(443)
Investments in associates at the end of the period	117 646	106 720

In 2014, the Group decreased impairment allowances against shares of Bank Pocztowy SA by PLN 1 797 thousand and increased impairment allowances against shares of 'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o. by PLN 214 thousand.

(IN PLN THOUSAND)

The value of shares of Bank Pocztowy SA, including impairment allowances, were determined on the basis of performed test, under which the recoverable amount of the Company's shares, was estimated, i.e. value in use calculated based on the discounted cash flows model and fair value estimated based on market indicators of the comparable group of banks.

As at 31 December 2014 and 31 December 2013, the parent company had no share in contingent liabilities of associates acquired jointly with other investor.

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

a) joint ventures

Entity name	Principal activity	Place of registration and place of business	% of shares and voting rights held by the Group	
			31.12.2014	31.12.2013
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	Activities supporting financial services, including servicing of transactions made by payment instruments	Warsaw/Poland	34.00%	34.00%
'Centrum Obsługi Biznesu' Sp. z o.o.	Hotel management	Poznań/Poznań	41.44%	41.44%

b) associates

Entity name	Principal activity	Place of registration and place of business	% of shares and voting rights held by the Group	
			31.12.2014	31.12.2013
Bank Pocztowy SA	Banking activities	Bydgoszcz/Poland	25.00%	25.00%
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	Guarantees of bank loans taken by entrepreneurs	Poznań/Wielkopolska	33.33%	33.33%

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

The table below shows a summary of the financial data separately for each joint venture and each associate of the PKO Bank Polski SA Group.

Financial data concerning Bank Pocztowy SA and Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o., presented in the table above are derived from financial statements prepared in accordance with the IFRS and the data of other companies are derived from financial statements prepared in accordance with the Polish Accounting Standards. According to the Bank's estimates, differences between the above-mentioned statements and the financial statements prepared in accordance with IFRS are not significant from the perspective of the financial statements of the Group. Data for the year 2013 are derived from audited financial statements.

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

Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	31.12.2014	31.12.2013
Current assets	132 100	87 124
Non-current assets	59 069	58 429
Short-term liabilities	72 219	34 827
Long-term liabilities	3 780	6 564
	2014	2013
Revenues	401 429	303 289
Profit (loss) from continuing operations	73 912	46 506
Profit (loss) for the year	73 912	46 506
Total comprehensive income	73 912	46 506
Dividends received from an entity classified as joint venture	21 387	-

(IN PLN THOUSAND)

'Centrum Obsługi Biznesu' Sp. z o.o.	31.12.2014	31.12.2013
Current assets	13 002	16 941
Non-current assets	90 889	92 126
Short-term liabilities	10 236	9 716
Long-term liabilities	84 103	86 169
	2014	2013
Revenues	19 942	21 753
Profit (loss) for the year	(3 631)	(4 044)

Bank Pocztowy SA	31.12.2014	31.12.2013
Total assets	7 725 893	7 392 734
Total liabilities	7 277 159	6 996 829
	2014	2013
Revenues	534 523	514 359
Profit (loss) from continuing operations	48 586	36 871
Profit (loss) for the year	48 586	36 871
Other comprehensive income	4 243	(5 721)
Total comprehensive income	52 829	31 150

'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	31.12.2014	31.12.2013
Current assets	22 353	20 386
Non-current assets	46	79
Short-term liabilities	4 084	3 648
Long-term liabilities	1 298	401
	2014	2013
Revenues	2 772	2 395
Profit (loss) for the year	6	1

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

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

26. Non-current assets held for sale

	31.12.2014	31.12.2013
Assets of a subsidiary classified as held for sale	373 174	75 094
Land and buildings	251 599	97 041
Other	219	84
Total	624 992	172 219

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

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

(IN PLN THOUSAND)

27. Inventories

Carrying amount of inventories by kind	31.12.2014	31.12.2013
Construction investments for sale	-	313 470
Supplies, of which:	242 503	212 970
- assets taken over for debts	99 167	105 785
Work-in-progress – construction investments	-	168 152
Materials	24 544	8 854
Impairment allowances on inventories	(29 164)	(53 805)
Total	237 883	649 641

28. Intangible assets

For the year ended 31 December 2014	Software	Goodwill acquired as a result of business combinations (including subsidiaries' goodwill)	Future income from insurance contracts concluded	Relations with customers	Other, including capital expenditure	Total
Gross carrying amount at the beginning of the period	3 355 468	347 312	-	-	372 625	4 075 405
Increases, of which:	64 954	1 021 074	140 555	86 499	368 145	1 681 227
take of control over subsidiaries	40 646	1 021 074	140 555	86 499	9 324	1 298 098
purchase	11 927	-	-	-	357 722	369 649
other	12 381	-	-	-	1 099	13 480
Decreases, of which:	(26 239)	(56 426)	-	-	(5 623)	(88 288)
sale, disposal	(1 248)	-	-	-	(237)	(1 485)
classification to non-current assets held for sale	(1 126)	(56 426)	-	-	(710)	(58 262)
currency translation differences	(16 348)	-	-	-	(249)	(16 597)
other	(7 517)	-	-	-	(4 427)	(11 944)
Transfers from capital expenditure on software	305 779	-	-	-	(305 779)	-
Gross carrying amount at the end of the period	3 394 183	1 311 960	140 555	86 499	735 147	5 668 344
Accumulated amortisation at the beginning of the period	(1 576 520)	-	-	-	(115 652)	(1 692 172)
Increases, of which:	(406 624)	-	(18 253)	(19 247)	(24 314)	(468 438)
take of control over subsidiaries	(32 782)	-	-	-	(7 582)	(40 364)
amortisation for the period	(373 395)	-	(18 253)	(19 247)	(16 719)	(427 614)
other	(447)	-	-	-	(13)	(460)
Decreases, of which:	10 457	-	-	-	1 036	11 493
sale and disposal	203	-	-	-	228	431
classification to non-current assets held for sale	843	-	-	-	507	1 350
currency translation differences	6 958	-	-	-	23	6 981
other	2 453	-	-	-	278	2 731
Accumulated amortisation at the end of the period	(1 972 687)	-	(18 253)	(19 247)	(138 930)	(2 149 117)
Impairment allowances at the beginning of the period	(15 373)	(128 462)	-	-	(9 176)	(153 011)
Increases, of which:	-	(40 271)	-	-	(796)	(41 067)
recognised during the period	-	(40 271)	-	-	(796)	(41 067)
Decreases, of which:	-	50 501	-	-	3 851	54 352
released during the period	-	-	-	-	3 851	3 851
classification to non-current assets held for sale	-	50 501	-	-	-	50 501
Impairment allowances at the end of the period	(15 373)	(118 232)	-	-	(6 121)	(139 726)
Net carrying amount at the beginning of the period	1 763 575	218 850	-	-	247 797	2 230 222
Net carrying amount at the end of the period	1 711 902	1 193 728	122 302	67 252	284 317	3 379 501

To the Group, a significant item of intangible assets relates to expenditures on the Integrated Information System (ZSI). The cumulative capital expenditures incurred for the ZSI system during the years 2004–2014 amounted to PLN 1 248 875 thousand (during the years 2003–2013, it amounted to PLN 1 265 973 thousand). Net carrying amount of the ZSI amounted to PLN 735 623 thousand as at 31 December 2014 (as at 31 December 2013 it amounted to PLN 731 882 thousand). The expected useful life of the ZSI system is 17 years. As at 31 December 2014, the remaining useful life is 9 years.

The right to manage the fund by the acquisition of OFE POLSAT in 2014 in the net amount of PLN 50 630 thousand is recognised in the position 'Other, including capital expenditure' as at 31 December 2014 (in 2013: in the net amount of PLN 61 505 thousand).

(IN PLN THOUSAND)

For the year ended 31 December 2013	Software	Goodwill acquired as a result of business combinations (including subsidiaries' goodwill)	Other, including capital expenditure	Total
Gross carrying amount at the beginning of the period	2 805 760	347 273	372 986	3 526 019
Increases, of which:	33 013	2 337	552 385	587 735
purchase	11 185	2 337	548 445	561 967
other	21 828	-	3 940	25 768
Decreases, of which:	(34 937)	-	(727)	(35 664)
disposal and sale	(645)	-	(98)	(743)
currency translation differences	(1 508)	-	(8)	(1 516)
loss of control over a subsidiary	(27 659)	-	-	(27 659)
other	(5 125)	-	(621)	(5 746)
Transfers from capital expenditure on software	551 635		(551 635)	-
Classification to non-current assets held for sale	(3)	(2 298)	(384)	(2 685)
Gross carrying amount at the end of the period	3 355 468	347 312	372 625	4 075 405
Accumulated amortisation at the beginning of the period	(1 344 031)	-	(105 675)	(1 449 706)
Increases, of which:	(258 836)	-	(9 074)	(267 910)
amortisation	(257 897)	-	(8 706)	(266 603)
other	(939)	-	(368)	(1 307)
Decreases, of which:	26 347	-	(903)	25 444
disposal and sale	645	-	(846)	(201)
currency translation differences	-	-	543	543
loss of control over a subsidiary	19 862	-	-	19 862
other	5 840	-	(600)	5 240
Accumulated amortisation at the end of the period	(1 576 520)	-	(115 652)	(1 692 172)
Impairment allowances at the beginning of the period	(15 373)	(124 835)	(2 105)	(142 313)
Increases, of which:	-	(3 627)	(7 394)	(11 021)
recognised during the period	-	(3 627)	(7 394)	(11 021)
Decreases, of which:	-	-	323	323
currency translation differences	-	-	9	9
other	-	-	314	314
Impairment allowances at the end of the period	(15 373)	(128 462)	(9 176)	(153 011)
Net carrying amount at the beginning of the period	1 446 356	222 438	265 206	1 934 000
Net carrying amount at the end of the period	1 763 575	218 850	247 797	2 230 222

In 2014 the Group generated internally patents and licences in the amount of PLN 1 404 thousand (PLN 830 thousand in the year 2013). In the period from 1 January 2014 to 31 December 2014, the Group incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 716 620 thousand (in the period from 1 January 2013 to 31 December 2013 in the amount of PLN 1 067 323 thousand).

In the years ended 31 December 2014 and 31 December 2013 respectively, there were no restrictions on the Group's rights to use its intangible assets as a result of pledges.

The table below presents data concerning net goodwill included in the Group's statement of financial position as at 31 December 2014 and 31 December 2013.

Net goodwill	31.12.2014	31.12.2013
Nordea Polska's entities	985 221	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	149 564	149 564
PKO BP BANKOWY PTE SA	51 158	51 158
Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp.k.*	-	10 343
Goodwill related to assets acquired from Centrum Finansowe Puławska Sp. z o.o.	7 785	7 785
Total	1 193 728	218 850

* As at 31 December 2014 the Entity is recognised as non-current assets held for sale.

As at 31 December 2014, the Group conducted mandatory goodwill impairment tests in accordance with the models developed on the basis of the guidelines included in IAS 36 taking into consideration the specific nature of particular assets and operations of particular entities. The tests indicated no need for recognition of impairment allowances.

The Group conducted mandatory impairment test on goodwill resulting from the acquisition of Nordea Bank Polska SA in accordance with the model developed on the basis of the guidelines included in IAS 36. Impairment test is carried out by comparing the carrying amount of cash generating units ('CGU') and their recoverable amount. CGUs – retail and corporate, to which goodwill resulting from the acquisition of Nordea Bank Polska SA had been assigned were distinguished. The recoverable amount is estimated based on the value in use of CGU. The projection period was extended for the purpose of reflecting a target level of scale of particular CGUs' operations.

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

The remaining part of goodwill arose from the acquisition of 'Nordea Polska Tawarzystwo Ubezpieczeń na Życie SA' (currently PKO Życie Towarzystwo Ubezpieczeń SA) and the acquisition of Nordea Finance Polska SA. This value was assigned to corporate and investment segment – there are the following cash-generating units: a whole company PKO Życie Towarzystwo Ubezpieczeń SA and a whole company PKO Leasing SA – as a directly superior entity, which acquired assets of Nordea Finance Polska SA within the merger.

The impairment test of PKO Życie Towarzystwo Ubezpieczeń SA was performed based on the present value of expected future cash flows for PKO Bank Polski SA, including the residual value. Future cash flows were estimated on the basis of a 10-year financial forecast prepared by the Company.

The impairment test of PKO Leasing SA was performed based on the present value of expected future cash flows for the period of 5 years, taking into account winding-up of operations after this period, prepared on the basis of financial projections of the Company.

The impairment test of goodwill resulting from the acquisition of PKO Towarzystwo Funduszy Inwestycyjnych SA was performed using the present value of expected future cash flows for a shareholder, prepared by the Company management on the basis of 3-year financial forecast. The test takes into account the 2 variants of cash flows: dividend alone as well as dividend and distribution fee for sale of participation units in funds of PKO Towarzystwo Funduszy Inwestycyjnych SA in PKO Bank Polski SA's network, in both cases, the residual value is taken into account.

The goodwill impairment test of PKO BP BANKOWY PTE SA was performed using the embedded value method, on the basis of which the value in use of the company's shares was determined. The key parameters determining the goodwill as at 31 December 2014 were assumptions related to adopted in 2013, and introduced from 1 February 2014 the pension scheme reform, in particular: the transfer on 3 February 2014 of 51.5% of OPFs' assets to the Social Insurance Institution, the voluntary continuation of transferring a part of pension contribution to OPFs, a retirement slider mechanism and reduced contribution fees. The model has a time horizon of 2065.

The impairment test related to the assets acquired from Centrum Finansowe Puławska Sp. z o.o. was performed based on the fair value measurement in respect of acquired property as a cash-generating unit, to which the goodwill was assigned.

(IN PLN THOUSAND)

29. Tangible fixed assets

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

Off-balance sheet value of machinery and equipment used under operating lease agreements and operating leases with purchase options contracts amounted to PLN 66 705 thousand as at 31 December 2014 (as at 31 December 2013: PLN 59 032 thousand). In the years ended 31 December 2014 and 31 December 2013, respectively, there were no restrictions on the Group's right to use its tangible fixed assets as a result of pledges as security for liabilities.

As at 31 December 2014, the fair value of assets presented as 'Investment properties' amounted to PLN 129 693 thousand and was estimated using the comparative method (as at 31 December 2013 amounted to PLN 114 589 thousand).

(IN PLN THOUSAND)

For the year ended 31 December 2013	Land and buildings	Machinery and equipment	Means of transport	Assets under construction	Investment properties	Other	Total
Gross value of tangible fixed assets at the beginning of the period	2 591 395	2 204 711	85 590	269 339	793	480 999	5 632 827
Increases, of which:	7 911	26 872	41 855	342 158	114 402	3 678	536 876
purchase and other changes	7 911	26 733	41 706	341 856	114 402	3 616	536 224
other	-	139	149	302	-	62	652
Decreases, of which:	(222 916)	(405 370)	(25 330)	(19 583)	(590)	(24 167)	(697 956)
disposal and sale	(33 980)	(283 798)	(1 421)	-	(39)	(19 326)	(338 564)
currency translation differences	(3 061)	(2 463)	(207)	(394)	-	(1 019)	(7 144)
classification to non-current assets held for sale	(101 022)	(208)	(215)	(1)	(2)	(81)	(101 529)
other	(84 853)	(118 901)	(23 487)	(19 188)	(549)	(3 741)	(250 719)
Transfers from capital expenditures to tangible fixed assets	145 488	230 694	-	(446 479)	-	70 297	-
Gross value of tangible fixed assets at the end of the period	2 521 878	2 056 907	102 115	145 435	114 605	530 807	5 471 747
Accumulated depreciation at the beginning of the period	(878 618)	(1 710 128)	(24 485)	-	(555)	(354 501)	(2 968 287)
Increases, of which:	(64 111)	(196 008)	(13 046)	-	(10)	(43 108)	(316 283)
depreciation for the period	(62 435)	(194 638)	(13 027)	-	(10)	(42 527)	(312 637)
other	(1 676)	(1 370)	(19)	-	-	(581)	(3 646)
Decreases, of which:	55 607	346 459	11 419	-	549	22 106	436 140
disposal and sale	18 727	277 261	1 271	-	-	18 559	315 818
classification to non-current assets held for sale	-	137	56	-	-	-	193
currency translation differences	591	1 586	110	-	-	652	2 939
other	36 289	67 475	9 982	-	549	2 895	117 190
Accumulated depreciation at the end of the period	(887 122)	(1 559 677)	(26 112)	-	(16)	(375 503)	(2 848 430)
Impairment allowances at the beginning of the period	(7 685)	(301)	(1 283)	(4 674)	-	-	(13 943)
Increases, of which:	(331)	(687)	-	(71)	-	-	(1 089)
classification from non-current assets held for sale	(299)	-	-	-	-	-	(299)
recognised during the period	(32)	(687)	-	(71)	-	-	(790)
Decreases, of which:	569	879	1 283	217	-	-	2 948
released during the period	299	25	6	-	-	-	330
decrease due to write-down of assets	32	623	1 277	-	-	-	1 932
currency translation differences	238	-	-	145	-	-	383
other	-	231	-	72	-	-	303
Impairment allowances at the end of the period	(7 447)	(109)	-	(4 528)	-	-	(12 084)
Net carrying amount at the beginning of the period	1 705 092	494 282	59 822	264 665	238	126 498	2 650 597
Net carrying amount at the end of the period	1 627 309	497 121	76 003	140 907	114 589	155 304	2 611 233

In 2014 and 2013, the Group received compensation from third parties for impairment or loss of tangible fixed assets in the amount of PLN 14 986 thousand and PLN 12 896 thousand respectively recognised in the income statement.

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

(IN PLN THOUSAND)

Operating lease – lessor

As at the balance sheet date the total value of future lease receivables within minimal lease payment under operating lease agreements are as follows:

Total value of future lease payments under irrevocable operating lease	31.12.2014	31.12.2013
For the period:		
up to 1 year	30 021	5 624
from 1 year to 5 years	17 166	13 847
over 5 years	8 875	8 404
Total	56 062	27 875

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

for the year ended 31 December 2014	Means of transport under operating lease	Properties under operating lease	Machinery and equipment under operating lease	Total
Gross value	39 112	4 970	867	44 949
Accumulated depreciation	(6 026)	(363)	(235)	(6 624)
Impairment allowances	-	(628)	-	(628)
Net book value	33 086	3 979	632	37 697

for the year ended 31 December 2013	Means of transport under operating lease	Properties under operating lease	Machinery and equipment under operating lease	Total
Gross value	37 485	6 510	867	44 862
Accumulated depreciation	(5 436)	(525)	(18)	(5 979)
Impairment allowances	-	(1 036)	-	(1 036)
Net book value	32 049	4 949	849	37 847

30. Other assets

	31.12.2014	31.12.2013
Settlements of payment cards transactions	267 879	225 353
Accruals and prepayments	230 388	220 365
Trade receivables	122 922	164 157
Settlement of financial instruments	191 950	149 379
Receivables from other transactions with financial and non-financial institutions	100 030	55 484
Assets for sale	67 786	7 594
Receivables from the State budget due to court fee stamps' distribution carried out by the Bank	10 588	6 632
Receivables and settlements of securities turnover	9 995	2 950
Receivables from unsettled transactions related to derivatives	6 985	7 358
Other*	113 742	90 606
Total	1 122 265	929 878
of which financial assets **	710 349	611 313

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

31. Amounts due to the central bank

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

(IN PLN THOUSAND)

32. Amounts due to banks

	31.12.2014	31.12.2013
Loans and advances received, of which:	17 643 643	2 606 482
Nordea Bank AB (publ)*	14 927 552	-
Bank deposits	823 815	959 712
Current accounts	609 836	116 145
Amounts due from repurchase agreements	299 530	38 628
Other money market deposits	17 658	26 370
Total	19 394 482	3 747 337

*Information is described in the note 3 'The acquisition as at 1 April 2014 of Nordea Polska entities and the Swedish portfolio by PKO Bank Polski SA'.

33. Amounts due to customers

	31.12.2014	31.12.2013
Amounts due to retail clients	128 675 561	116 464 089
Term deposits	69 228 283	63 467 675
Current accounts and overnight deposits	59 219 213	52 776 151
Other liabilities	228 065	220 263
Amounts due to corporate entities	40 932 868	31 966 616
Term deposits	16 068 233	13 426 892
Current accounts and overnight deposits	19 416 337	13 076 978
Loans and advances received	3 421 704	2 863 651
Amounts due from repurchase agreements	856 124	1 647 950
Other liabilities	1 170 470	951 145
Amounts due to public entities	4 778 337	3 473 476
Current accounts and overnight deposits	4 018 030	3 018 628
Term deposits	740 995	430 639
Other liabilities	19 312	24 209
Total	174 386 766	151 904 181

By client segment	31.12.2014	31.12.2013
Amounts due to customers, of which:		
retail and private banking	122 331 368	111 290 272
corporate	30 295 632	21 062 058
small and medium enterprises*	17 475 288	15 040 250
loans and advances received	3 421 704	2 863 651
amounts due from repurchase agreements	856 124	1 647 950
other liabilities	6 650	-
Total	174 386 766	151 904 181

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

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

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

(IN PLN THOUSAND)

34. Liabilities due to insurance operations

	31.12.2014	31.12.2013
Technical provisions	176 441	-
Liabilities due to insurer's investment contracts divided into:	2 503 281	-
Structured products	252 184	-
Products combining policy and deposit	3 732	-
Unit-Linked investment products	2 247 365	-
Total	2 679 722	-

Vast majority of insurance products refer to investment products, in which risk is borne by a policyholder. Detailed information on insurance risk is included in the note 68 'Insurance risk management'.

	31.12.2014	31.12.2013
Liabilities due to insurance operations, gross, of which:		
Provisions for life insurance	188 099	-
Provisions for unpaid claims and benefits	67 316	-
Technical provisions for life insurance if a policyholder bears the deposit (investment) risk	2 284 839	-
Provisions for premiums and provisions for unexpired risk	138 909	-
Provisions for the bonuses and rebates for the insured	691	-
Other technical provisions defined in the memorandum	1	-
Total liabilities due to insurance operations, gross	2 679 855	-
Reinsurer's share	(133)	-
Liabilities due to insurance operations, net	2 679 722	-

35. Debt securities in issue

	31.12.2014	31.12.2013
Debt securities in issue		
Financial instruments measured at amortised cost	13 182 348	10 255 937
bonds issued by PKO Finance AB	12 032 368	9 129 100
bonds issued by PKO Bank Polski SA	747 825	692 614
bonds issued by PKO Leasing SA	402 155	434 223
Financial instruments measured at fair value through profit and loss - bank securities issued by PKO Bank Polski SA	118 262	290 509
Total	13 300 610	10 546 446

	31.12.2014	31.12.2013
Debt securities in issue by maturity:		
up to 1 month	557 314	59 874
from 1 month to 3 months	635 363	492 291
from 3 months to 1 year	5 313 454	831 798
from 1 year to 5 years	3 085 517	5 954 784
over 5 years	3 708 962	3 207 699
Total	13 300 610	10 546 446

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

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

In 2014 PKO Leasing SA issued bonds at a nominal value of PLN 2 220 000 thousand and redeemed bonds at nominal value of PLN 2 105 000 thousand. As at 31 December 2014, the Company's debt in respect of the bonds issued amounted to PLN 590 000 thousand (at nominal value) of which the debt due to the Bank amounted to PLN 185 950 thousand (at nominal value).

(IN PLN THOUSAND)

Bonds issued by PKO Finance AB:

Issuance date	Nominal value	Currency	Maturity date	Carrying amount as at 31.12.2014	Carrying amount as at 31.12.2013
21.10.2010*	800 000	EUR	21.10.2015	3 427 536	3 337 380
07.07.2011	250 000	CHF	07.07.2016	901 443	853 657
25.07.2012	50 000	EUR	25.07.2022	213 768	206 677
21.09.2012	500 000	CHF	21.12.2015	1 772 805	1 690 110
26.09.2012	1 000 000	USD	26.09.2022	3 540 943	3 041 276
23.01.2014	500 000	EUR	23.01.2019	2 175 873	-
Total				12 032 368	9 129 100

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

36. Subordinated liabilities

As at 31 December 2014	Nominal value in currency	Nominal value	Currency	Interest rate (%)	Maturity date	Balance
Subordinated bonds	1 600 700	1 600 700	PLN	4.13%	14.09.2022	1 619 833
Subordinated loan	224 000	780 013	CHF	3.16%	24.04.2022	794 152
Total	x	2 380 713	x	x	x	2 413 985

As at 31 December 2013	Nominal value	Currency	Interest rate (%)	Maturity date	Balance
Subordinated bonds	1 600 700	PLN	4.37%	14.09.2022	1 620 857

As at 31 December 2014 the Bank held subordinated liabilities relating to:

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

Change in subordinated liabilities	2014	2013
As at the beginning of the period	1 620 857	1 631 256
Increases (of which):	1 109 642	83 305
take of control over a subsidiary	1 000 115	-
accrued interest	81 391	83 131
currency translation differences	28 013	-
other	123	174
Decreases (of which):	(316 514)	(93 704)
repayment of loan	(232 098)	-
repayment of interest	(83 935)	(93 704)
other	(481)	-
Subordinated liabilities as at the end of the period	2 413 985	1 620 857

(IN PLN THOUSAND)

37. Other liabilities

	31.12.2014	31.12.2013
Accounts payable	542 514	481 836
Deferred income	400 345	358 464
Other liabilities (of which):	2 011 744	1 706 937
liabilities arising from funds transferred by BGF for the payments for depositors of SKOK in Wołomin	356 461	-
interbank settlements	313 318	280 070
liabilities relating to investment activities and internal operations	235 231	376 362
liabilities due to suppliers	228 955	202 492
liabilities and settlements of securities turnover	228 550	379 391
financial instruments settlements	139 971	73 868
liabilities due to social and legal settlements	114 077	93 053
liabilities arising from foreign currency activities	88 609	106 138
settlement of acquisition of machines, equipment, materials, works and services regarding construction of tangible assets and investing activity	75 990	10 236
liabilities relating to payment cards	33 344	10 541
liabilities due to transactions with financial and non-financial entities	25 627	28 983
liabilities due to insurance companies	24 529	24 072
liabilities from interest temporarily redeemed from the State budget	18 603	18 987
liabilities due to distribution of court fee stamps	10 059	11 483
other*	118 420	91 261
Total	2 954 603	2 547 237
of which financial liabilities **	2 321 761	2 004 459

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

As at 31 December 2014 and as at 31 December 2013 the Group had no overdue contractual liabilities.

38. Provisions

Provisions for retirement benefits and anniversary bonuses

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

At the same time, the Employee Pension Programme ('EPP') was launched. Entry into the EPP register 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 the Employer and deducted from the salary of an Employee. EPP is managed by PKO TFI SA.

A detailed description has been presented in the note 2.14 'Employee benefits'.

Provisions for loan commitments and guarantees granted

Details on the provisions for off-balance sheet loan commitments granted are described in the note 53.8 'Off-balance sheet provisions' and in the note 2.16 'Off-balance sheet liabilities granted'.

Other provisions

Other provisions mainly include restructuring provision, the creation of which is presented in detail in the note 2.13 'Restructuring provision' and provisions for potential claims on impaired loans portfolios sold more on which has been presented in the note 71 'Information on loan bundle sale'.

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

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

For the year ended 31 December 2013	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2013, of which:	22 678	431 210	211 004	72 314	737 206
Short term provision	22 678	36 233	145 066	72 314	276 291
Long term provision	-	394 977	65 938	-	460 915
Increase/reassessment of provisions	13 799	3 669	251 512	48 458	317 438
Release of provisions	(1 672)	(180 618)	(347 338)	(195)	(529 823)
Use of provisions	(318)	(193 142)	-	(12 432)	(205 892)
Currency translation differences	(19)	-	-	-	(19)
Other changes and reclassifications	1 821	(25 380)	136	25 383	1 960
As at 31 December 2013, of which:	36 289	35 739	115 314	133 528	320 870
Short term provision	36 289	2 458	88 464	133 528	260 739
Long term provision	-	33 281	26 850	-	60 131

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

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

39. Equity and shareholding structure of the Bank

	31.12.2014	31.12.2013
Share capital	1 250 000	1 250 000
Other capital, of which:		
Reserve capital	18 802 387	16 760 686
General banking risk fund	1 070 000	1 070 000
Other reserves	3 474 127	3 469 107
Total reserves	23 346 514	21 299 793
Share in other comprehensive income of an associate	1 006	(54)
Financial assets available for sale	31 046	(57 797)
Cash flow hedges	5 204	(125 593)
Actuarial gains and losses	(8 976)	(7 676)
Other comprehensive income	28 280	(191 120)
Currency translation differences from foreign operations	(192 692)	(129 420)
Undistributed profits	(60 658)	(306 230)
Net profit for the period	3 254 122	3 229 793
Non-controlling interests	(10 015)	1 509
Profit before income tax for the period	4 034 563	4 044 464
Total other capital	27 615 551	25 154 325

(IN PLN THOUSAND)

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

The Bank's shareholding structure

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

Name of entity	Number of shares	Number of votes %	Nominal value of 1 share	Share in equity %
As at 31 December 2014				
The State Treasury	392 406 277	31.39	PLN 1	31.39
Aviva Otwarty Fundusz Emerytalny[1]	83 952 447	6.72	PLN 1	6.72
ING Otwarty Fundusz Emerytalny	64 594 448	5.17	PLN 1	5.17
Other shareholders	709 046 828	56.72	PLN 1	56.72
Total	1 250 000 000	100.00	---	100.00
As at 31 December 2013				
The State Treasury	392 406 277	31.39	PLN 1	31.39
Aviva Otwarty Fundusz Emerytalny	83 952 447	6.72	PLN 1	6.72
ING Otwarty Fundusz Emerytalny[2]	64 594 448	5.17	PLN 1	5.17
Other shareholders	709 046 828	56.72	PLN 1	56.72
Total	1 250 000 000	100.00	---	100.00

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

2) Number of shares held as at 24 July 2012, reported by ING OFE after exceeding 5% of shares in PKO Bank Polski SA's shareholding structure after settlement of the transaction of sale of 95 million of PKO Bank Polski SA's shares by the State Treasury.

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

- 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 tiret two above based on an agreement concerning the joint execution of voting rights from shares. Moreover, limitation of the voting rights shall expire when the share of the State Treasury in the Bank's share capital drops below 5%.

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

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

The structure of PKO Bank Polski SA share capital:

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

In 2014 and 2013, there were no changes in the amount of the share capital of PKO Bank Polski SA. Issued shares of PKO Bank Polski SA are not preferred shares and are fully paid.

(IN PLN THOUSAND)

OTHER NOTES

40. Contingent liabilities and off-balance sheet liabilities received

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

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period
As at 31 December 2014			
Company A	corporate bonds	1 055 000	31.07.2020
Company B	corporate bonds	1 049 000	15.06.2022
Company C	corporate bonds	91 700	31.12.2022
Company D	corporate bonds	50 000	19.12.2022
Total		2 245 700	
As at 31 December 2013			
Company B	corporate bonds	1 633 000	15.06.2022
Company A	corporate bonds	800 000	31.07.2015
Company D	corporate bonds	50 000	19.12.2022
Company C	corporate bonds	34 000	31.12.2022
Company E	corporate bonds	24 238	29.06.2018
Company F	corporate bonds	13 410	31.10.2017
Total		2 554 648	

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

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

40.2. Contractual commitments

As at 31 December 2014 the value of contractual commitments concerning intangible assets amounted to PLN 200 662 thousand (as at 31 December 2013 amounted to PLN 347 636 thousand).

As at 31 December 2014 the value of contractual commitments concerning tangible fixed assets amounted to PLN 96 772 thousand (as at 31 December 2013 amounted to PLN 48 629 thousand).

40.3. Loan commitments granted

by nominal value	31.12.2014	31.12.2013
Credit lines and limits		
to financial entities	533 975	737 531
to non-financial entities	34 540 558	30 203 660
to public entities	3 258 574	3 269 584
Total	38 333 107	34 210 775
of which: irrevocable loan commitments	7 943 931	7 708 424

(IN PLN THOUSAND)

40.4. Guarantee liabilities granted

	31.12.2014	31.12.2013
Guarantees in domestic and foreign trading	9 248 321	6 227 396
to financial entities	160 298	64 444
to non-financial entities*	9 066 109	6 151 081
to public entities	21 914	11 871
Guarantees and pledges granted – domestic corporate bonds	4 516 150	3 466 648
to non-financial entities	4 514 050	3 466 648
to financial entities	2 100	-
Letters of credit granted	702 768	491 768
to non-financial entities	702 768	491 669
to public entities	-	99
Guarantees and pledges granted – payment guarantee to financial entities	17 278	117 420
Guarantees and pledges granted – domestic municipal bonds to public entities	55 008	83 773
Total	14 539 525	10 387 005
of which: good performance guarantees granted	1 942 582	1 652 473

* Change in 'Guarantees in domestic and foreign trading to non-financial entities' results primarily from guarantees liabilities granted to mining and power industry entities.

In the years ended 31 December 2014 and 31 December 2013 respectively, the Bank and its subsidiaries did not issue any guarantees in respect of loans or advances and did not issue any guarantees to a single entity or a subsidiary thereof with a total value accounting for 10% of the Group's equity.

Information on provisions for off-balance sheet guarantees and financial liabilities is included in the note 38 'Provisions'.

Liabilities granted by maturity

31 December 2014

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

31 December 2013

	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
Loan commitments granted	20 719 932	823 022	3 690 204	3 220 801	5 756 816	34 210 775
Guarantee liabilities granted	194 722	348 890	2 354 950	6 450 394	1 038 049	10 387 005
Total	20 914 654	1 171 912	6 045 154	9 671 195	6 794 865	44 597 780

40.5. Off-balance sheet liabilities received

By nominal value	31.12.2014	31.12.2013
Financial	2 004 673	369 303
Guarantees*	4 725 751	2 570 701
Total	6 730 424	2 940 004

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

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

As a part of works related to the settlement of the transaction, the Group has made a valuation of the Special Indemnity Agreement on the basis of conducted analysis of probability of cash flows arising from the Agreement. The estimated expected value is 0.

Right to sell or pledge collateral established for the Group

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

41. Legal claims

As at 31 December 2014, the total value of court proceedings in which the PKO Bank Polski SA Group entities (including the Bank) are a defendant was PLN 427 555 thousand, of which PLN 6 549 thousand refers to court proceedings in Ukraine (as at 31 December 2013 the total value of the above-mentioned court proceedings was PLN 342 658 thousand), while as at 31 December 2014 the total value of court proceedings in which the entities of the PKO Bank Polski SA Group (including the Bank) are the plaintiff was PLN 767 505 thousand, of which PLN 110 825 thousand referred to court proceedings in Ukraine, mainly related to collection of dues from loans granted by KREDOBANK SA (as at 31 December 2013 the total value of the above-mentioned court proceedings was PLN 525 949 thousand, including court proceedings in Ukraine in the amount of PLN 218 254 thousand). The information above does not include the legal claims of KREDOBANK SA concerning taxes described in the note 13 'Income tax expense'.

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

a) Unfair competition proceedings

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

The Bank appealed against the decision of the President of UOKiK to SOKiK. On 20 December 2011 a hearing was held during which no factual resolution of the appeals was reached. The Court obligated MasterCard to submit explanations concerning the issue and set the date for another sitting of the Court for 9 February 2012, which upon the application of the plaintiffs' attorney was postponed for 24 April 2012 and afterwards SOKiK postponed announcing the resolution on the request for suspension of the case until 8 May 2012. On 8 May 2012, SOKiK suspended proceedings until the final conclusion of proceedings before the European Union Court in the case MasterCard against the European Commission. On 24 May 2012, the European Union Court upheld the decision of the European Commission banning multilaterally agreed 'interchange' fees applied by MasterCard. On 28 May 2012 the participant to the proceedings, Visa Europe Ltd, and on 29 May 2012 the plaintiffs' attorney, including PKO Bank Polski SA, filed a complaint against the decision of SOKiK dated 8 May 2012. In August 2012, the appeal of MasterCard against the verdict of the EU Court dated 24 May 2012 rejecting the appeal of MasterCard, was received by the European Court of Justice. On 25 October 2012, the Court of Appeal in Warsaw changed the decision of 8 May 2012 and dismissed the motion of MasterCard for suspending the proceedings. The court's decision in this case the Bank's attorney received in January 2013 and in February 2013, court files were transferred to the court of first instance. Currently, the case is subject to re-proceeding by SOKiK.

The hearing was on 29 October 2013 and on 21 November 2013 the judgement was announced, by which SOKiK reduced the penalty imposed on the Bank to the amount of PLN 10 085 thousand. The judgement is invalid. On 7 February 2014 the judgement was appealed on behalf of the Bank and eight plaintiffs represented by the Bank's attorney. The judgement was also appealed by other participants of the proceeding, i.e. by the President of the Competition and Consumer Protection Office (UOKiK) and of the Polish Trade and Distribution Organisation (POHiD) (appeals aimed to impose on the participants of the agreements stricter financial penalties), and: Visa Europe Limited, Bank Pocztowy S.A., Bank Gospodarki Żywnościowej S.A., mBank S.A. (formerly: BRE Bank S.A.), Deutsche Bank PBC S.A., HSBC Bank Polska S.A. (appeals aimed primarily to change the decision on the recognition of agreements as violating competition law and impose penalties on their participants). Copies of these appeals have been delivered to the Bank's attorney, who responded to them. The court files have been transferred from SOKiK to the Court of Appeal in Warsaw. As at 31 December 2014 the Bank had a provision in the amount of PLN 10 359 thousand (the position 'Provisions' in the statement of financial position).

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

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

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

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

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

   By decision of 31 December 2013, the Bank's activities were considered as practices violating collective interests of consumers and a fine in the amount of PLN 17 236 thousand and PLN 11 828 thousand (PLN 29 064 thousand in total) was imposed on the Bank. The Bank appealed against this decision. The proceeding is in progress. As at 31 December 2014 the Bank has a provision in the amount of PLN 10 000 thousand (the position 'Provisions' in the statement of financial position).

before SOKiK initiated by an individual

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

before SOKiK in which the President of UOKiK is the plaintiff

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

before the Court of Appeal

in which the Bank is the plaintiff - as a result of the completion of the appeal proceeding before SOKiK initiated by the Bank against the decision of the President of UOKiK due to the possibility of the use of unfair contractual provisions in forms of individual pension accounts ('IKE') agreements.

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

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

Appeal proceeding is pursued on behalf of the Bank by reputable law office. The Bank appealed against the decision of the President of UOKiK on 2 January 2013.

SOKiK reduced the penalty imposed on the Bank to the amount of PLN 4 000 thousand by the court judgement of 25 November 2014, as regards to:

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

The proceeding is in progress. As at 31 December 2014 the Bank had a provision for the above-mentioned amounts in the amount of PLN 4 000 thousand (the position 'Provisions' in the statement of financial position).

before the President of UOKiK:

1) a preliminary proceeding initiated on 7 January 2012 in order to determine whether the manner of offering mortgage loans by the Bank under the 'Autumn promotion of mortgage loans' ('Jesienna promocja kredytów hipotecznych') may constitute a practice which violates the collective interests of consumers,
2) a preliminary proceeding initiated on 23 December 2013 concerning the fees charged by the Bank for providing information which constitutes a bank secrecy,
3) a proceeding initiated on 28 February 2014 in order to determine whether the documents sent by the Bank to UOKiK regarding selected cases contained business secrecy,
4) a preliminary proceeding initiated on 23 January 2014 regarding the provisions in the forms of bank accounts agreement regulating the manner of power of attorney – there is a risk of imposing financial penalty; proceeding is pending and concerns the Bank's practice (defective in the Office's opinion) which consists of refusing to accept power of attorney for bank accounts in which account numbers are not specified. The Bank took on the obligation to change this practice and implemented such solutions,
5) a proceeding initiated on 5 March 2014 in order to determine whether the Bank implemented the UOKiK's decision of 12 December 2008 concerning the advertising message of 'Max Lokata – with no concealed contractual provisions' ('Max Lokata – bez gwiazdek'). The Bank replied that it had fulfilled the obligation by placing an announcement in GPW Parkiet twice,
6) a preliminary proceeding initiated on 29 August 2014 in order to determine whether the Bank, in the Aurum loan agreements, misled its customers by presenting insurance costs in these agreements and the information forms,
7) a preliminary proceeding initiated on 9 October 2014 concerning the possibility of customers using the 'chargeback' complaint procedure. The Bank replied to the UOKiK's call. There is no such complaint procedure in the Bank's relationships with its customers (it is typical of the Bank – card organisation relationship),
8) a proceeding initiated on 15 October 2014 to determine whether the Bank, in its advertising leaflet 'Mini Ratka loan in the blink of an eye based on a bank statement' ('Mini Ratka w mgnieniu oka na wyciąg z konta') misled its customers by presenting the loan amount. On 13 November 2014, the UOKiK initiated the proper administrative proceedings in this matter. The Bank disagrees with the UOKiK's charges and, in response, is considering taking on the obligation to present it in line with the UOKIK's assumptions (to make the communication more precise).

As at 31 December 2014, PKO Życie Towarzystwo Ubezpieczeń SA – a subsidiary of the Bank – is a party to:

1) seven proceedings before SOKiK initiated by individuals to determine some of provisions in the forms of life insurance agreements to be illegal; in all cases the Company responded to the lawsuit and applied for its dismiss due to bringing legal action after 6 months since the day of giving up their application, in this case there is no risk of imposing financial penalty on the Company,
2) a proceeding before the President of UOKiK concerning liquidation charges and policy redemption value due to insurance agreement cancellation in some forms of life insurance agreements, as well as imprecise information on the total redemption value due to insurance agreement cancellation applied in these forms, the proceeding is in progress, the value of provision recognised as at 31 December 2014 amounts to PLN 8 172 thousand,
3) a proceeding before the Supreme Court as a result of the cassation complaint brought by the Company against the judgement of the Court of Appeal in relation to the fine imposed on the Company in 2010 by the President of UOKiK for the violation of the collective interests of consumers by the Company (fine was paid in 2013); the proceeding is in the phase before the Supreme Court's decision on acceptation or rejection of the cassation complaint for consideration,

(IN PLN THOUSAND)

4) a preliminary proceeding before the President of UOKiK in connection with the advertisement applied in 2014 by the insurers in the sale of life insurance with capital insurance fund agreements; this proceeding is on a preliminary stage.

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

As at the date of these financial statements, six administrative and court-administrative proceedings are pending, of which one is suspended, to invalidate administrative decisions issued by public administration authorities with respect to properties held by the PKO Bank Polski SA Group entities (including the Bank). These proceedings, in the event of an unfavourable outcome for the Bank may result in re-privatisation claims being raised and one administrative proceeding for the establishment of perpetual usufruct right to a property owned by the Bank, for which the date of cassation hearing before the Supreme Administrative Court was scheduled for 3 February 2015. Given the current status of these proceedings as regards stating the invalidity of decisions and verdicts of public administration bodies, it is not possible to assess their potential negative financial effects for the Group. Moreover, with respect to two properties of the Bank, claims pertaining to release or return the property and regulation of the legal status of the property, were submitted by their former owners (court proceedings for release of the property, payment of fee for non-contractual use of property by the Bank, for an acquisitive prescription of property by the State Treasure are pending). The proceedings for the statement of an acquisitive prescription of a part of two properties held by the Bank's subsidiaries are also pending.

The proceeding concerning a complaint brought by Centrum Finansowe Puławska Sp. z o.o. (CFP) concerning the use of a property located at Puławska and Chocimska street in Warsaw on which the Bank's office is currently located, is 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 judgement together with the explanation was served to the Bank on 20 June 2013. A cassation complaint was filed on 17 July 2013. The date of hearing was not scheduled.

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

42. Supplementary information to the consolidated statement of cash flows

Cash and cash equivalents

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

	31.12.2014	31.12.2013
Cash and balances with the central bank	11 738 371	7 246 120
Current amounts due from banks	2 516 484	1 638 619
Total	14 254 855	8 884 739

As at 1 April 2014 the value of acquired cash and cash equivalents related to the acquisition of Nordea Polska entities amounted to PLN 993 052 thousand

Cash flows from interests and dividends, both received and paid

Interest income - received	2014	2013
Interest income from loans and advances granted - received	6 593 718	7 197 617
Interest income from investment securities - received	577 828	479 126
Interest income from securities designated upon initial recognition at fair value through profit and loss - received	341 615	479 110
Interest income from placements - received	167 377	199 317
Interest income from securities from held for trading portfolio - received	60 282	64 590
Interest income from hedging instruments	276 638	506 859
Other interest (mainly interest income on current accounts, purchased debt, realised guarantees)- received	1 186 604	1 285 790
Total	9 204 062	10 212 409

(IN PLN THOUSAND)

Interest expense – paid	2014	2013
Interest expense on deposits - paid	(1 654 030)	(3 201 847)
Interest expense on debt securities in issue - paid	(444 150)	(469 287)
Interest expense on loans and advances - paid	(124 620)	(69 672)
Other interest (mainly interest expense on current accounts, premium from debt securities, interest expense on cash collateral liabilities) - paid	(599 011)	(721 591)
Total	(2 821 811)	(4 462 397)

Dividend income - received	2014	2013
Dividend income from joint ventures and associates - received*	21 387	294
Dividend income from other entities - received	6 366	5 766
Total	27 753	6 060

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

Dividend expense – paid	2014	2013
Dividend paid to equity holders of the parent company	(937 500)	(2 250 000)
Total	(937 500)	(2 250 000)

Cash flows from operating activity – other adjustments

Other adjustments	2014	2013
Changes resulting from taking of control over subsidiaries	105 713	-
Valuation of debt securities in issue	88 843	(64 895)
Interest accrued, discount, premium on debt securities	(943 465)	(870 674)
Fair value of the remaining share of an organised part of a subsidiary sold	-	(197 592)
Hedge accounting	130 797	(177 492)
Actuarial gains and losses	(1 537)	(9 477)
Valuation and impairment allowances for investments in associates, joint ventures and other changes	(12 794)	4 166
Currency translation differences from foreign operations	(63 490)	(8 829)
Disposal and impairment allowances for tangible fixed assets and intangible assets	(50 045)	200 751
Total	(745 978)	(1 124 042)

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

(Gains) losses on sale and disposal of tangible fixed assets and intangible assets under investing activities	2014	2013
Gain on sale of an organised part of a subsidiary	-	(383 561)
Income from sale and disposal of tangible fixed assets and intangible assets	55 822	(39 982)
Gain on sale of non-current assets held for sale	(73 451)	(25 450)
Costs of sale and disposal of tangible fixed assets and intangible assets	-	16 188
Total	(17 629)	(432 805)

(IN PLN THOUSAND)

Interests and dividends	2014	2013
Interest received from investment securities, presented under investing activities	(632 863)	(558 685)
Dividends received, presented under investing activities	(27 899)	(1 888)
Interest paid from loans granted, presented under financing activities	590 690	33 923
Total	(70 072)	(526 650)

Change in amounts due from banks	2014	2013
Change in the balance of the statement of financial position	(593 245)	1 499 045
Exclusion of net assets of entities under control	420 406	-
Exclusion of cash acquired of entities under control	(217 107)	-
Change in impairment allowances on amounts due from banks	28 472	799
Exclusion of a change in the balance of cash and cash equivalents	877 865	(567 562)
Total	516 391	932 282

Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss	2014	2013
Change in the balance of the statement of financial position	(1 962 937)	(2 777 360)
Exclusion of net assets of entities under control	5 599 561	-
Total	3 636 624	(2 777 360)

Change in derivative financial instruments (asset)	2014	2013
Change in the balance of the statement of financial position	(2 493 962)	859 701
Exclusion of net assets of entities under control	28 384	-
Total	(2 465 578)	859 701

Change in loans and advances to customers	2014	2013
Change in the balance of the statement of financial position	(29 874 122)	(6 140 196)
Exclusion of net assets of entities under control	24 877 227	-
Change in impairment allowances on amounts due from customers	(1 371 697)	125 485
Total	(6 368 592)	(6 014 711)

Change in other assets, inventories and non-current assets held for sale	2014	2013
Change in the balance of the statement of financial position	(233 402)	(123 665)
Exclusion of net assets of entities under control	78 801	-
Classification to non-current assets held for sale	173 044	-
Change in impairment allowances on other receivables	3 855	-
Total	22 298	(123 665)

(IN PLN THOUSAND)

Change in amounts due to customers	2014	2013
Change in the balance of the statement of financial position	22 482 585	5 710 611
Exclusion of net assets of entities under control	(13 490 345)	-
Recognition of long-term loans and advances received from financial institutions other than banks/repayment of these loans and advances in financing activities	84 898	(1 006 223)
Total	9 077 138	4 704 388

Change in debt securities in issue	2014	2013
Change in the balance of the statement of financial position	2 754 164	275 663
Recognition of long-term debt securities in issue received/repayment of these debt securities in issue to financing activities	(1 956 702)	266 869
Total	797 462	542 532

Change in provisions and impairment allowances	2014	2013
Change in the balance of the statement of financial position	2 968	(416 336)
Exclusion of net assets of entities under control	(43 985)	-
Change in the balance of deferred income tax liability related to valuation of an available-for-sale portfolio included in deferred income tax	-	(56 278)
Change in impairment allowances on amounts due from banks	(28 472)	(799)
Change in impairment allowances on amounts due from customers	1 371 697	(125 485)
Change in impairment allowances on other receivables	(3 855)	-
Total	1 298 353	(598 898)

Change in other liabilities, liabilities due to insurance operations and subordinated liabilities	2014	2013
Change in the balance of the statement of financial position	3 880 216	553 439
Exclusion of net assets of entities under control	(3 806 803)	-
Recognition of interest paid on own issuance to financing activities	-	123 748
Recognition of interest repayments on advances received from financial institutions other than banks to financing activities	-	42 764
Recognition of inflows/repayment of subordinated liabilities in financing activities	242 464	-
Total	315 877	719 951

43. Transactions with the State Treasury and related parties

The State Treasury has control over the parent company of the Group as it holds a 31.39% interest in the Bank's share capital. The Bank's shareholding structure is described in detail in the note 39 'Equity and shareholding structure of the Bank' to these financial statements. Receivables, securities and liabilities arising from transactions conducted with the State Treasury and other state budgetary agencies are disclosed in the Group's statement of financial position. In accordance with the 30 November 1995 Act in relation to State support in the repayment of certain housing loans, reimbursement of guarantee premium paid and amendments of several acts (Journal of Laws, 2013, item 763 with subsequent amendments) PKO Bank Polski SA receives payments from the State budget in respect of interest receivable on housing loans.

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

(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 Treasury on housing loans.

	2014	2013
Fee and commission income	3 226	4 103

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

	2014	2013
Fee and commission income	9 613	20 927

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

	2014	2013
Fee and commission income	23 037	29 022

(IN PLN THOUSAND)

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

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

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

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

*The entities do not figure in 2014.

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

(IN PLN THOUSAND)

44. Related party transactions

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

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

31 December 2014

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

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

31 December 2013

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

(IN PLN THOUSAND)

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

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

45. Personal related party transactions

As at 31 December 2014, one entity was related to the Bank through the key management personnel of PKO Bank Polski SA or the close family members of the key management personnel (as at 31 December 2013 - two entities).

In 2014 and 2013 no intercompany transactions were concluded with these entities.

46. Remuneration – PKO Bank Polski SA key management personnel

a) short-term employee benefits

Remuneration received from PKO Bank Polski SA

Short-term employee benefits	2014	2013
The Supervisory Board of the Bank	1 157	1 222
The Management Board of the Bank	12 636	11 579
Total	13 793	12 801

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

Short-term employee benefits	2014	2013
The Management Board of the Bank*	39	40
Total	39	40

* The amount includes remuneration from associates.

Short-term employee benefits are employee benefits, which fall due fully within 12 months after the end of the reporting period in which the employees render the related service. As described in the note 43 'The principles for determining the variable salary components policy for persons holding managerial position in the Group' as from 2012 the variable salary component for Bank's key management, including the Management Board, is granted in:

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

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

(IN PLN THOUSAND)

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

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

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

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

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

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

Salary (in cash) received and potentially payable from PKO Bank Polski SA for the Management Board of the Bank	2014	2013
received*	368	-
potentially payable	2 022	1 053
Total	2 390	1 053

*with charges

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

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

In 2014 and 2013 the value of liability due to such benefits amounted to PLN 4 289 thousand.

In 2014, the value of salary components (deferred and non-deferred) granted in the form of phantom shares for 2013 amounted to PLN 3 237 thousand. In 2013, the value of salary components (deferred and non-deferred) granted in the form of phantom shares for 2012 amounted to PLN 2 605 thousand without charges (PLN 3 112 thousand with estimated, full charges) - the payment will occur in 3 years.

Share-based payments settled in cash for the Management Board of the Bank	2014	2013
payable and received	3 947	1 639
potentially payable	2 022	1 053
Total	5 969	2 692

Above-mentioned remuneration include deferred salary component granted 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) in accordance with the rules described in the note 47.
Payment of phantom shares (due part) was made in January 2015.

d) post-employment benefits

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

e) benefits due to termination of employment

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

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

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

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

(IN PLN THOUSAND)

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

Short-term employee benefits	2014	2013
The Supervisory Board	389	177
The Management Board	21 465	15 347
Total	21 854	15 524

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

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

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

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

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

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

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

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

As at 31 December 2014 a provision for variable salary components for the years 2012 - 2014 amounted to PLN 37.4 million, of which PLN 23 million for persons holding managerial positions except for the Bank's Management Board and PLN 11 million for the Bank's Management Board, and PLN 3.4 million for the entities of the Group. As at 31 December 2013 the provision for variable salary components for the years 2012 - 2013 amounted to PLN 28.5 million, of which for persons holding managerial positions except for the Bank's Management Board in the amount of PLN 16 million, for Management Board amounted to PLN 9 million and for the entities of the Group it amounted to PLN 3.5 million.

Under current regulations, in 2014, non-deferred component was paid out - cash for persons holding managerial positions except for the Bank's Management Board non-deferred component relating to bonuses for the year 2013 and deferred component relating to bonuses for the year 2012 - cash in the amount of PLN 4.6 million, and for the Bank's Management Board –in the amount of PLN 2.3 million without charges, and PLN 2.0 million for the entities of the Group.

Under current regulations, in 2013, non-deferred component relating to bonuses for the year 2012 was paid out - cash for persons holding managerial positions except for the Bank's Management Board in the amount of PLN 3 million, for the Bank's Management Board in the amount of PLN 1.6 million, and PLN 1 million for the entities of the Group.

Payment of phantom shares for the year 2012 and 2013, calculated in accordance with law provisions, based on the share price in the third quarter of 2014 in the amount of PLN 38.52, was made in November 2014 for persons holding managerial positions except for the Bank's Management Board in the amount of PLN 4.6 million without charges, and PLN 0.8 million for the entities of the Group. In January 2014 for the Bank's Management Board – PLN 1.8 million (with charges) was paid.

48. Changes to the entities of the Group

In 2014, besides the events concerning the acquisition of Nordea Group entities which are described in the note 3, the following events affecting the structure of the PKO Bank Polski SA Group took place:

1. concerning Polski Standard Płatności Sp. z o.o.

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

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

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

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

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

2. concerning entities of the 'CENTRUM HAFFNERA' Sp. z o.o. Group

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

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

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

3. concerning entities of the KREDOBANK SA Group

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

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

4. concerning entities of the PKO Leasing SA Group

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

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

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

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

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

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

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

6. concerning Bankowe Towarzystwo Kapitałowe SA

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

7. concerning PKO Bank Hipoteczny SA

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

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

On December 2014 the Company filed the request with the Polish Financial Supervision Authority to issue a permit for starting its operations.

The Company will offer long-term mortgage loans to retail clients and issue long-term mortgage bonds.

8. concerning Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.

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

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

9. concerning 'Inter-Risk Ukraina' Additional Liability Company.

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

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

10. concerning the merger of Inteligo Financial Services SA with PKO BP Finat Sp. z o.o.

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

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

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

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

11. concerning equity investments of Merkury – fiz an

In 2014 Merkury – fiz an has taken up:

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

The above-mentioned increases were registered with the National Court Register in 2014.

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

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

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

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

(IN PLN THOUSAND)

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

On 3 November 2014, a new company, Qualia 2 Sp. z o.o., was established within the Qualia Development Sp. z o.o. Group. The Company's share capital amounts to PLN 5 thousand and consists of 100 shares with a value of PLN 50 each. As at the date of the Company's incorporation, Qualia Development Sp. z o.o. took up 99 shares. Qualia Sp. z o.o. took up 1 share.

In January 2015, the Company was registered with the National Court Register and took over the duties of general partner in Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.

At the same time, due to the aforementioned changes on 2 February 2015 a change in Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.'s name was registered with the National Court Register - its current name is as follows: Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.

49. Fair value of financial assets and liabilities

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

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

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

The table below presents a classification of financial assets and liabilities presented in the financial statements at fair value divided into 3 levels as at 31 December 2014:

Assets and liabilities measured at fair value as at 31.12.2014	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	18	1 924 426	1 924 426	-	-
Debt securities		1 915 120	1 915 120	-	-
Shares in other entities		5 137	5 137	-	-
Investment certificates		3 891	3 891	-	-
Rights issues		278	278	-	-
Derivative financial instruments	19	5 494 822	1 397	5 493 425	-
Hedging instruments		599 841	-	599 841	-
Trade instruments		4 894 981	1 397	4 893 584	-
Financial instruments designated upon initial recognition at fair value through profit and loss	21	15 723 148	4 371 012	11 352 136	-
Debt securities		13 804 860	2 452 724	11 352 136	-
Participation units		1 918 288	1 918 288	-	-
Investment securities available for sale	23	22 267 433	12 709 259	9 354 898	203 276
Debt securities		21 961 102	12 601 236	9 354 898	4 968
Equity securities		306 331	108 023	-	198 308
Financial assets measured at fair value - total		45 409 829	19 006 094	26 200 459	203 276
Derivative financial instruments	19	5 545 141	523	5 544 618	-
Hedging instruments		494 961	-	494 961	-
Trade instruments		5 050 180	523	5 049 657	-
Debt securities in issue	35	118 262	-	118 262	-
Financial instruments designated at fair value through profit and loss		118 262	-	118 262	-
Financial liabilities measured at fair value - total		5 663 403	523	5 662 880	-

(IN PLN THOUSAND)

Trading assets as at 31.12.2014 (Note 18)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	1 915 120	1 915 120	-	-
Treasury bonds PLN	1 825 454	1 825 454	-	-
municipal bonds PLN	50 563	50 563	-	-
corporate bonds PLN	22 215	22 215	-	-
corporate bonds EUR	9	9	-	-
bonds issued by WSE	2 248	2 248	-	-
bonds issued by banks, including BGK bonds	14 631	14 631	-	-
Shares in other entities	5 137	5 137	-	-
Investment certificates	3 891	3 891	-	-
Rights issues	278	278	-	-
TOTAL	1 924 426	1 924 426	-	-

Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2014 (Note 21)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	13 804 860	2 452 724	11 352 136	-
NBP money market bills	10 998 812	-	10 998 812	-
Treasury bonds PLN	2 452 213	2 452 213	-	-
Treasury bonds UAH	26 495	-	26 495	-
municipal bonds EUR	139 882	-	139 882	-
municipal bonds PLN	113 935	-	113 935	-
structured bonds PLN	73 012	-	73 012	-
corporate bonds PLN	511	511	-	-
participation units	1 918 288	1 918 288	-	-
TOTAL	15 723 148	4 371 012	11 352 136	-

Investment securities available for sale as at 31.12.2014 (Note 23)	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	21 961 102	12 601 236	9 354 898	4 968
Treasury bonds PLN	12 601 236	12 601 236	-	-
Treasury bonds USD	149 582	-	149 582	-
Treasury bonds UAH	30 233	-	30 233	-
municipal bonds PLN	4 480 325	-	4 480 325	-
corporate bonds PLN	4 072 922	-	4 072 922	-
corporate bonds EUR	406 832	-	406 832	-
corporate bonds USD	199 412	-	199 412	-
corporate bonds UAH	20 560	-	15 592	4 968
Equity securities	306 331	108 023	-	198 308
TOTAL	22 267 433	12 709 259	9 354 898	203 276

(IN PLN THOUSAND)

The table below presents a classification of financial assets and liabilities presented in the financial statements at fair value divided into 3 levels as at 31 December 2013:

Assets and liabilities measured at fair value as at 31.12.2013	Note	Carrying amount	Level 1 Prices quoted on the active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Trading assets	18	479 881	475 339	4 542	-
Debt securities		467 931	463 389	4 542	-
Shares in other entities		10 799	10 799	-	-
Investment certificates		1 151	1 151	-	-
Derivative financial instruments	19	3 000 860	1 015	2 999 845	-
Hedging instruments		361 639	-	361 639	-
Trade instruments		2 639 221	1 015	2 638 206	-
Financial instruments designated upon initial recognition at fair value through profit and loss	21	15 204 756	931 325	14 273 431	-
Debt securities		15 204 756	931 325	14 273 431	-
Investment securities available for sale	23	14 067 356	8 679 109	5 250 921	137 326
Debt securities		13 867 437	8 616 516	5 250 921	-
Equity securities		199 919	62 593	-	137 326
Financial assets measured at fair value - total		32 752 853	10 086 788	22 528 739	137 326
Derivative financial instruments	19	3 328 211	912	3 327 299	-
Hedging instruments		414 804	-	414 804	-
Trade instruments		2 913 407	912	2 912 495	-
Debt securities in issue	35	290 509	-	290 509	-
Financial instruments designated at fair value through profit and loss		290 509	-	290 509	-
Financial liabilities measured at fair value - total		3 618 720	912	3 617 808	-

Trading assets as at 31.12.2013 (Note 18)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	467 931	463 389	4 542	-
Treasury bonds PLN	390 660	390 660	-	-
Treasury bonds EUR	4 542	-	4 542	-
municipal bonds	41 907	41 907	-	-
corporate bonds	24 026	24 026	-	-
bonds issued by WSE	6 628	6 628	-	-
bonds issued by banks	168	168	-	-
Shares in other entities	10 799	10 799	-	-
Investment certificates	1 151	1 151	-	-
TOTAL	479 881	475 339	4 542	-

Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2013 (Note 21)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	15 204 756	931 325	14 273 431	-
NBP money market bills	13 997 228	-	13 997 228	-
Treasury bonds PLN	931 325	931 325	-	-
municipal bonds EUR	136 700	-	136 700	-
municipal bonds PLN	113 935	-	113 935	-
Treasury bonds UAH	25 568	-	25 568	-
TOTAL	15 204 756	931 325	14 273 431	-

(IN PLN THOUSAND)

Investment securities available for sale as at 31.12.2013 (Note 23)	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	13 867 437	8 616 517	5 250 920	-
Treasury bonds PLN	8 616 517	8 616 517	-	-
Treasury bonds USD	181 823	-	181 823	-
Treasury bonds UAH	20 160	-	20 160	-
municipal bonds	3 440 753	-	3 440 753	-
corporate bonds PLN	1 556 067	-	1 556 067	-
corporate bonds UAH	52 117	-	52 117	-
Equity securities	199 919	62 593	-	137 326
TOTAL	14 067 356	8 679 110	5 250 920	137 326

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

Level 1: Prices quoted on the active markets

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

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

Level 2: Valuation techniques based on observable market data

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

Financial assets and liabilities measured at fair value	Valuation method (technique)	Observable inputs
Trading assets - Treasury bonds EUR	Market price of Polish Treasury securities in foreign currency is obtained from information services, in which quotations of such securities are included (Bloomberg or brokerage websites in the Reuters system). This is not a regulated market.	The market price of securities obtained from information services.
Derivative financial instruments - hedging instruments	Valuation of derivatives CIRS, IRS is made in accordance with the discounted future cash flows model. Discounting is based on the yield curves.	Yield curves are built based on market rates, market data of the money market, market transactions of FRA, IRS, basis swap.
Derivative financial instruments - trade instruments	Valuation of derivatives CIRS, IRS and FRA is made in accordance with the discounted future cash flows model. Discounting is based on the yield curves. Valuation of currency options is made in accordance with specified valuation models for a given type of a currency option. The prices of exotic options embedded in structured products are obtained from the market (they are market prices).	Yield curves are built based on market rates, market data of the money market, market transactions of FRA, IRS, basis swap. Inputs to currency options valuation models are yield curves built based on money market rates, market rate of swap points, volatility levels for specific currency pairs, NBP fixing exchange rates. For the purpose of valuation of exotic options embedded in structured products, market prices of these options are obtained.

Financial assets and liabilities measured at fair value	Valuation method (technique)	Observable inputs
Financial assets designated upon initial recognition at fair value through profit and loss		
- NBP money market bills	Yield curve valuation method	Yield curves for money market bills are built based on market prices, money market data and OIS (overnight index swap) transactions market.
- municipal bonds EUR	Valuation in accordance with an accepted valuation model	Inputs to a valuation model are market rates, market data: money market, IRS transactions market, CDS (credit-default swap) transactions market, volatility of interest rate options market.
- municipal bonds PLN	Valuation in accordance with a yield curve and a risk margin	Yield curves are built based on market rates, money market data, IRS transactions market.
- Treasury bonds UAH	Market approach	Prices quoted on a less active market.
- structured bonds PLN	Valuation acquired from an outside party under the agreement concluded	Yield curves are built based on market rates and the market price volatility of the underlying instruments, based on which the option is constructed.
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.
- 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.
- Ukrainian Treasury bonds UAH, USD	Market approach	Prices quoted on a less active market.
- corporate bonds UAH	Market approach	Prices quoted on a less active market.
Debt securities in issue - financial instruments designated at fair value through profit and loss	Valuation in accordance with a yield curve and the prices of exotic options embedded in these securities	Yield curves are built based on market rates, money market data, IRS transactions market. For the purpose of valuation of exotic options embedded in structured products market prices of these options are obtained.

Level 3: Other valuation techniques

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

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

(IN PLN THOUSAND)

c) Corporate bonds UAH - a fair value of these securities is determined based on the present value of discounted future cash flows. If the Group has applied the unobservable parameter values that are extremes of the range of possible values, the fair value of equity financial instruments could be higher by PLN 693 thousand or lower by PLN 2 229 thousand as at 31 December 2014.

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

Financial instrument	Valuation technique	Unobservable factor	Fair value by	
			positive scenario	negative scenario
Investment securities available for sale				
Equity securities - Fund	Net Asset Value (NAV) method	price for a participation unit	195 432	176 820
Equity securities – Listed company	price set out in a contingent sale agreement	price set out in a contingent sale agreement	14 000	10 000
Debt securities – corporate bonds UAH	current value technique	probability of default	5 661	2 739

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

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

In the period from 1 January to 31 December 2014, the corporate bonds in UAH were transferred from Level 2 to Level 3. The reason for the reclassification was that these securities as at 31 December 2014 were not quoted on the stock exchange in the last 3 months.

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

Investment securities available for sale	2014	2013
Opening balance at the beginning of the period	137 326	88 243
Total gains or losses	29 965	4 455
recognised in other comprehensive income	29 965	4 455
Take up of new shares in the Fund and translation differences of currency entities	19 017	44 628
The conclusion of a conditional sale agreement of the Company listed on the stock exchange	12 000	-
Transfers from or to level 3	4 968	-
Closing balance at the end of the period	203 276	137 326

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

The Group holds financial instruments which are not presented at fair value in the statement of financial position.

Where there is no market values of financial assets and liabilities 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 following groups of financial instruments:

- loans and advances granted by the Group to its customers: a portion of the housing loans portfolio ('old' housing loans portfolio), loans with no specified repayment schedule, loans due at the moment of valuation,
- amounts of the Group due to customers: liabilities with no specified payment schedule, other specific products for which no active market exists,
- deposits and interbank placements with maturity date up to 7 days or with a variable interest rate,

(IN PLN THOUSAND)

- loans or advances granted and taken on interbank market at a floating interest rate (change of interest rate maximum on a 3 month basis),
- cash and balances with the central bank and amounts due to the central bank,
- other financial assets and liabilities.

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

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

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

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

The fair value of debt securities issued by PKO Finance AB has been estimated using Bloomberg data.

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

Receivables on financial lease have been estimated based on expected cash flows discounted using internal rate of return for lease transactions of the same kind, concluded by the Group in the period directly preceding the balance sheet date.

The table below shows a summary of the carrying amounts and fair values for the particular groups of financial instruments which have not been presented at fair value in the Group's 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	n/a	value at cost to pay	11 738 371	11 738 371
Amounts due from banks	2	discounted cash flows	2 486 686	2 486 692
Loans and advances to customers			179 497 384	170 510 276
housing loans	3	discounted cash flows	95 797 964	86 756 438
corporate loans	3	discounted cash flows	58 231 138	58 274 526
consumer loans	3	discounted cash flows	20 321 718	20 440 558
receivables due from repurchase agreements	3	discounted cash flows	310 852	310 852
debt securities	3	discounted cash flows	4 835 712	4 727 902
Investment securities held to maturity	3	discounted cash flows	233 358	241 902
Other financial assets	3	value at cost to pay including impairment allowance	710 349	710 349
Amounts due to the central bank	2	value at cost to pay	4 427	4 427
Amounts due to other banks	2	discounted cash flows	19 394 482	19 394 544
Amounts due to customers			174 386 766	174 352 166
due to corporate entities	3	discounted cash flows	40 932 868	40 932 943
due to public entities	3	discounted cash flows	4 778 337	4 778 337
due to retail clients	3	discounted cash flows	128 675 561	128 640 886
Debt securities in issue	1, 2	market quotations / discounted cash flows	13 182 348	13 620 129
Subordinated debt	2	discounted cash flows	2 413 985	2 398 946
Other financial liabilities	3	value at cost to pay	2 321 761	2 321 761

(IN PLN THOUSAND)

The table below shows a summary of the carrying amounts and fair values for the particular groups of financial instruments which have not been presented at fair value in the Group's statement of financial position as at 31 December 2013:

	level of fair value hierarchy	valuation method	31.12.2013	
			carrying amount	fair value
Cash and balances with the central bank	n/a	value at cost to pay	7 246 120	7 246 120
Amounts due from banks	2	discounted cash flows	1 893 441	1 889 160
Loans and advances to customers			149 623 262	152 274 472
housing loans	3	discounted cash flows	74 900 220	75 060 086
corporate loans	3	discounted cash flows	51 576 141	53 836 616
consumer loans	3	discounted cash flows	19 213 873	19 444 847
receivables due from repurchase agreements	3	discounted cash flows	2 144 088	2 144 088
debt securities	3	discounted cash flows	1 788 940	1 788 835
Investment securities held to maturity	3	discounted cash flows	38 005	37 699
Other financial assets	3	value at cost to pay including impairment allowance	611 313	611 313
Amounts due to the central bank	2	value at cost to pay	4 065	4 065
Amounts due to other banks	2	discounted cash flows	3 747 337	3 747 311
Amounts due to customers			151 904 181	151 901 068
due to corporate entities	3	discounted cash flows	31 966 616	31 966 755
due to public entities	3	discounted cash flows	3 473 476	3 473 476
due to retail clients	3	discounted cash flows	116 464 089	116 460 837
Debt securities in issue	1, 2	market quotations / discounted cash flows	10 255 937	10 485 677
Subordinated debt	2	discounted cash flows	1 620 857	1 605 265
Other financial liabilities	3	value at cost to pay	2 004 459	2 004 459

50. Offsetting financial assets and liabilities

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

The Group enters into offsetting arrangements, i.e. International Swaps and Derivatives Association Master Agreements (ISDA) and Global Master Repurchase Agreements (GMRA), which make it possible to offset financial assets and liabilities (the so-called close out netting) in the event of an infringement with respect to one of the parties to the agreement. These agreements are of particular importance to mitigating the risk posed by derivative instruments, because they enable both matured liabilities (mitigating the settlement risk) and non-matured liabilities of the parties (mitigating the pre-settlement risk). However, these agreements do not meet the requirements set out in IAS 32 because the right to offset the amounts is conditioned on the occurrence of a specific future event (instances of infringement).

In addition, offsetting a financial asset and a financial liability applies to financial instruments acquired as part of issuance stabilising actions taken by the Brokerage House of PKO Bank Polski SA for the selling shareholder, which is described in more detail in the note 22 'Loans and advances to customers'.

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

31.12.2014	Total financial assets	Derivative instruments	Receivables due from repurchase agreements
The amount of recognised financial assets (gross)	5 814 597	5 503 745	310 852
The amount of financial liabilities that are offset in accordance with the criteria set out in § 42 of IAS 32 (gross)	(8 923)	(8 923)	-
The value of financial assets recognised in the statement of financial position (net)	5 805 674	5 494 822	310 852
The value of financial instruments not subject to offsetting in the financial statements	4 875 714	4 875 714	-
The value of financial liabilities subject to enforceable framework agreement or similar agreement relating to offsetting (excluding financial guarantees)	4 094 094	4 094 094	-
Guarantee in cash and in form of securities received	781 620	781 620	-
The net amount	929 960	619 108	310 852

(IN PLN THOUSAND)

31.12.2014	Total financial liabilities	Derivative instruments	Receivables due from repurchase agreements
The amount of recognised financial liabilities (gross)	6 709 718	5 554 064	1 155 654
The amount of financial assets that are offset in accordance with the criteria set out in § 42 of IAS 32 (gross)	(8 923)	(8 923)	-
The value of financial liabilities recognised in the statement of financial position (net)	6 700 795	5 545 141	1 155 654
The value of financial instruments not subject to offsetting in the financial statements	5 262 583	5 257 067	5 516
The value of financial assets subject to enforceable framework agreement or similar agreement relating to offsetting (excluding financial guarantees)	4 094 094	4 094 094	-
Guarantee in cash and in form of securities granted	1 168 489	1 162 973	5 516
The net amount	1 438 212	288 074	1 150 138

31.12.2013	Total financial assets	Derivative instruments	Receivables due from repurchase agreements
The amount of recognised financial assets (gross)	5 176 092	3 017 971	2 158 121
The amount of financial liabilities that are offset in accordance with the criteria set out in § 42 of IAS 32 (gross)	(17 111)	(17 111)	-
The value of financial assets recognised in the statement of financial position (net)	5 158 981	3 000 860	2 158 121
The value of financial instruments not subject to offsetting in the financial statements	2 659 206	2 639 577	19 629
The value of financial liabilities subject to enforceable framework agreement or similar agreement relating to offsetting (excluding financial guarantees)	2 251 264	2 251 264	-
Guarantee in cash received	407 942	388 313	19 629
The net amount	2 499 775	361 283	2 138 492

31.12.2013	Total financial liabilities	Derivative instruments	Receivables due from repurchase agreements
The amount of recognised financial liabilities (gross)	5 031 900	3 345 322	1 686 578
The amount of financial assets that are offset in accordance with the criteria set out in § 42 of IAS 32 (gross)	(17 111)	(17 111)	-
The value of financial liabilities recognised in the statement of financial position (net)	5 014 789	3 328 211	1 686 578
The value of financial instruments not subject to offsetting in the financial statements	2 982 841	2 982 841	-
The value of financial assets subject to enforceable framework agreement or similar agreement relating to offsetting (excluding financial guarantees)	2 251 264	2 251 264	-
Guarantee in cash granted	731 577	731 577	-
The net amount	2 763 525	345 370	1 686 578

51. Fiduciary activities

The Parent Company 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 Banks Association (PBA), PKO Bank Polski SA takes part in developing regulations and market standards.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

52. Risk management in the Group

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

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

52.1. Elements of banking risk management process

The process of banking risk management in the Group consists of the following stages:

- risk identification:

  the identification of actual and potential sources of risk and estimation of the significance of the potential influence of a given type of risk on the financial situation of the Group. Within the risk identification process, types of risk perceived as material in the Bank's activity, the entities of the Group and the whole Group's activity are identified,

- risk measurement and assessment:

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

- risk forecasting and monitoring:

  preparing risk level forecasts and monitoring deviations from forecasts or adopted reference points (e.g. limits, thresholds, plans, measurements from the previous period, issued recommendations and suggestions). Risk monitoring is performed with the frequency adequate to the materiality and volatility of a specific risk type,

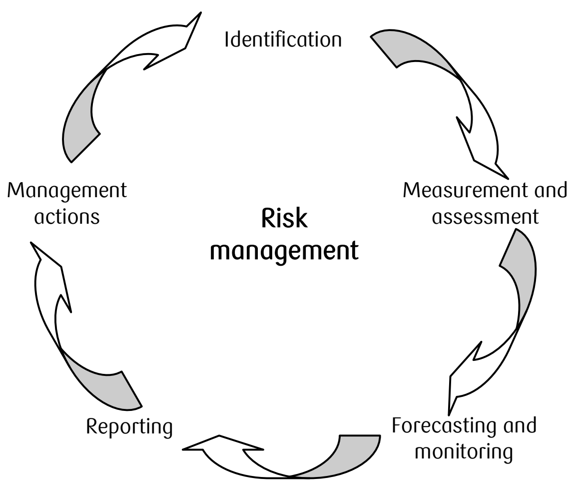
- risk reporting:

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

- management actions:

  including, particularly, issuing internal regulations, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management. 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:



52.2. Main principles of risk management

Risk management in the Group is based especially on the following principles:

- the Group manages all of the identified types of banking risk,
- the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
- the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk and verified and validated on a periodical basis,
- the area of risk and debt recovery remains organisationally independent from business activities,

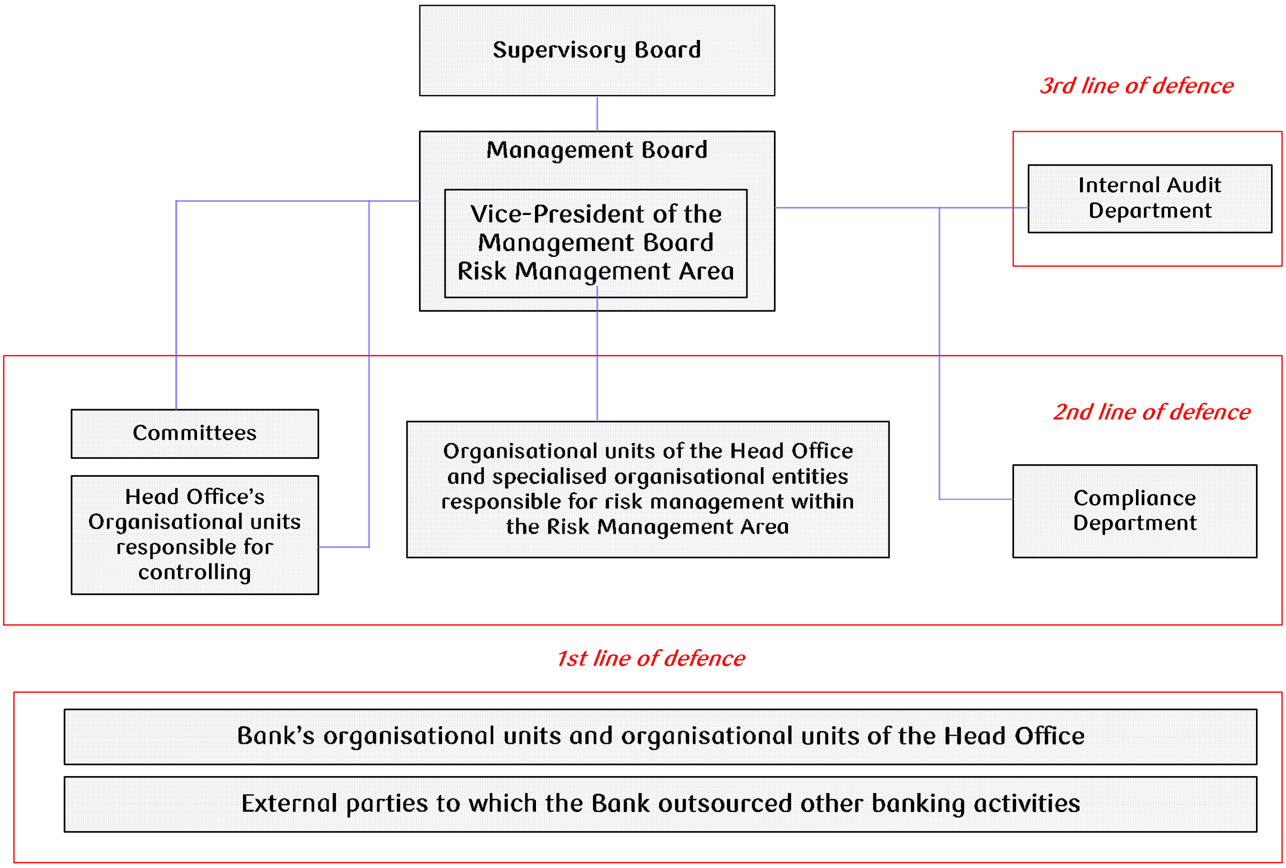
- risk management is integrated with the planning and controlling systems,
- the risk level is monitored on a current basis,
- the risk management process supports the implementation of the Group's strategy in keeping with the risk management strategy, in particular with regard to the level of tolerance of the risk.

52.3. The organisation of risk management in the Bank

Risk management in the Bank takes place in all of the organisational units of the Bank.

The organisation of risk management is presented in the chart below:

The organisation of risk management chart



The risk management process is supervised by the Supervisory Board of the Bank, which is informed on a regular basis about the risk profile of the Bank as well as of the PKO Bank Polski SA Group and the most important activities taken in the area of risk management.

The Bank's Management Board is responsible for the risk management, including supervising and monitoring of activities taken by the Bank in the area of risk management. The Bank's Management Board takes the most important decisions affecting the risk profile of the Bank and adopts internal regulations defining the risk management system.

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

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

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

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

The first line of defence is being performed in particular in the organisational units of the Bank, the organisational units of the Head Office and entities of the Group and concerns the activities of those units, cells and entities which may generate risk. The units, cells and entities of the Group are responsible for identifying risks, designing and implementing appropriate control mechanisms, unless control mechanisms have been implemented as part of the measures taken in the second line of defence. At the same time the Group entities are obliged to have comparable and cohesive systems of risk evaluation and control in the Bank and in the Group entities, taking into account the specific business characteristic of each entity and the market on which it operates.

The second line of defence is being performed, in particular, in the Risk Management Area, the organisational unit of the Head Office managing the compliance risk, reputation risk, respective committees as well as the organisational units of the Head Office responsible for controlling.

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

The organisational units of the Head Office of the Bank that constitute the Banking Risk Division, the Department of Risk Integration, the Department of Restructuring and Debt Collection of the Corporate Client, and the Analysis and Credit Risk Assessment Centre, as well as Restructuring and Debt Collection Centre, manage risk within the limits of competence assigned to them.

The Banking Risk Division is responsible in particular for:

- identifying risk factors and sources,
- measuring, assessing, monitoring and reporting risk levels (material risks) on a regular basis,
- measuring and assessing capital adequacy,
- preparing recommendations for the Management Board or committees regarding the acceptable level of risk,
- creating internal regulations on managing risk and capital adequacy,
- developing IT systems designated to support risk and capital adequacy management.

The Department of Risk Integration is responsible in particular for:

- validation of risk models,
- implementation of effective system of the model risk management in the Group,
- coordinating the implementation of integrated risk management system in the Group,
- supervision over risk management in the Group.

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

- recovering receivables from difficult corporate clients effectively, with the amount not less than the value specified in separate internal regulations of the Bank, through their restructuring and debt collection,
- protection of the Bank's interests as a creditor in the course of compulsory pursuing claims,
- selling receivables effectively and acquisition of assets as a result of pursuing claims,
- review and classification of receivables being managed within the Department and off-balance sheet liabilities granted as well as determination of their impairment allowances associated with the risk of Bank's activities.

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

- recovering receivables from difficult clients effectively through their restructuring and debt collection and increasing the effectiveness of such actions,
- effective monitoring of delays in the collection of receivables from retail market clients,
- effective outsourcing of the tasks carried out, as well as effective management of assets taken over as a result of recovering the Bank's receivables,
- selling difficult receivables effectively.

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

Risk management is supported by the following committees:

The Risk Committee ('the RC'):

- monitors the integrity, adequacy and efficiency of the bank risk management system, as well as capital adequacy and implementation of the risk management policies binding in the Bank consistent with the Bank's Strategy,
- analyses and evaluates the application of strategic risk limits specified in the PKO Bank Polski SA's Bank Risk Management Strategy,
- supports the Supervisory Board in the banking risk management process by formulating recommendations and making decisions concerning capital adequacy and the efficiency of the banking risk monitoring system.

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

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

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

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

The Central Credit Committee ('the CCC') and credit committees which operate in the corporate macro-regions.

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

The Operating Risk Committee ('the ORC'):

- takes decisions, issues recommendations and opinions regarding i.a. strategic tolerance limits and loss limits for operational risk, key risk indicators (KRI), assumptions of stress-tests, results of validation of operational risk measurement models, changes in AMA approach and taking actions to reduce the level of operational risk in all areas of the Group's activities,
- prepares operating risk management recommendations for the PKO Bank Polski SA Group entities, which are submitted to the PKO Bank Polski SA Group entities as a part of the Bank's corporate governance over those entities.

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

52.4. Activities in the area of risk management in the Group

The Bank supervises activities of the individual subsidiaries of the PKO Bank Polski SA Group. As part of this supervision, the Bank sets out and approves their development strategies, including the level of the risk. The Bank also supervises the entities' risk management systems and provides support in the development of these systems. Additionally, it reflects business risk level of the particular entities in the risk reporting and monitoring system of the entire Group.

The internal regulations concerning management of certain types of risk in the entities of the Group are defined by internal regulations implemented by those entities, after consulting the Bank's opinion and having taken into account the recommendations issued to the entities by the Bank. The internal regulations of the entities concerning risk management allow for consistent and comparable assessment of particular types of risk within the Bank and entities of the Group, as well as reflect the extent and nature of the relationship of entities included in the Group, the nature and scale of the entity's activity and the market on which it operates.

The risk management in the Group entities is carried out in particular by:

- involving the units in the Bank's Risk Management Area or the Bank's relevant committees in evaluating large transactions of the Group entities;
- giving opinions and reviewing internal regulations concerning risk management in the individual Group entities, carried out by the units in the Bank's Risk Management Area;
- reporting on the Group entities' risks to the Bank's relevant committees or the Management Board;
- monitoring of strategic risk tolerance limits for the Group.

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

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

- in January 2014, acquired financing due to issuance of bonds under the EMTN programme in the amount of EUR 500 million,
- in February 2014, acquired financing due to Cross Currency Repo transactions in the amount of CHF 50 million,
- in April 2014, acquired long-term financing from Nordea AB in the amount of PLN 14 billion (described in the note 25 'Investments in associates and joint ventures'),
- in May and November 2014, rolled forward short-term bonds with a current maturity of three months in the amount of PLN 700 million and issued additional PLN 50 million of these securities,
- transferred a part of the Bank's profit for 2013 and a part of the Bank's net profit for 2014, after deducting the expected charge and dividends, based on the decision of the Polish Financial Supervision Authority, to own funds.

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

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

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

52.5. Identification of significant types of risk

The significance of the individual types of risk is established at the Bank's and the Group entities level. When determining criteria of classifying a given type of risk as significant, an influence of a given type of risk on the Bank's, the Group entities and the whole Group's activities is taken into account, whereas three types of risk are recognised:

- considered as significant a priori – being managed actively,
- potentially significant – for which significance monitoring is being made,
- other non-defined or non-occurring in the Bank or in the Group types of risk (insignificant and non-monitored).

Based on quantitative and qualitative information, an assessment of significance of potentially significant types of risk is performed in the Bank periodically. As a result of assessment, a given type of risk is being classified as significant/insignificant. Similar assessment is concluded periodically in the Group entities. Monitoring is conducted if significant change in activities took place or the profile of the Bank or the Group entities have changed.

53. Credit risk management

Credit risk is defined as a risk of occurrence of losses due to counterparty's default of payments to the Bank or as a risk of decrease in economic value of amounts due to the Bank as a result of deterioration of counterparty's ability to repay amounts due to the Bank.

The objective of credit risk management is to minimise losses on the credit portfolio as well as to minimise the risk of occurrence of loans threatened with impairment exposure, while keeping expected level of profitability and value of credit portfolio at the same time.

The Bank and subsidiaries of the Group apply in particular the following principles of credit risk management:

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

The above-mentioned principles are executed by the Bank through the use of advanced credit risk management methods, both on the level of individual credit exposures and on the level of the whole credit portfolio of the Bank. These methods are verified and developed to ensure compliance with the internal ratings based requirements (IRB) i.e. advanced credit risk measurement method, which can be used while calculating requirements as regards own funds for credit risk after being approved by the Polish Financial Supervision Authority.

The Group entities, which have significant credit risk levels (the KREDOBANK SA Group, the PKO Leasing SA Group, the BTK SA Group and a subsidiary: Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.) manage their credit risk individually, but the methods used by them for credit risk assessment and measurement are adjusted to the methods used by PKO Bank Polski SA, taking into account the specific nature of the activities of these companies.

Any changes to the solutions used by the Group's subsidiaries are agreed every time with the Bank's units responsible for risk management.

The PKO Leasing SA Group, the BTK SA Group, the KREDOBANK SA Group and subsidiary: Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. measure credit risk regularly and the results of such measurements are submitted to the Bank.

The KREDOBANK SA Group, the PKO Leasing SA Group and the BTK SA Group have organisational units responsible for risk in their organisational structures, which are in particular responsible for:

- developing methods of credit risk assessment, recognising provisions and allowances,
- controlling and monitoring credit risk during the lending process,
- the quality and efficiency of restructuring and enforcement of the amounts due from clients.

In these companies, the credit decision limits depend primarily on: the amount of the exposure to a given client, the amount of an individual credit transaction and the period of credit transaction.

The process of credit decision-making in the KREDOBANK SA Group, the PKO Leasing SA Group and the BTK SA Group is supported by credit committees, which are involved in the case of credit transactions which generate increased credit risk level.

Appropriate organisational units of the Risk Management Area participate in managing the credit risk in the Group entities by giving their opinions on projects and periodically reviewing internal regulations of these companies relating to the assessment of credit risk and preparation of recommendations relating to amendments in the drafts of regulations. The Bank supports implementation of the recommended changes in principles for assessing credit risk in the Group entities.

53.1. Measurement and assessment of credit risk

Credit risk measurement and assessment methods

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

- Probability of Default (PD),
- Expected Loss (EL),
- Credit Value at Risk (CVaR),
- effectiveness measures used in scoring methodologies (Accuracy Ratio),
- share and structure of impaired loans (according to IAS),
- coverage ratio of impaired loans with impairment (according to IAS) allowances (coverage ratio),
- cost of risk.

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

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

(IN PLN THOUSAND)

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

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

Rating models for corporate clients

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

Rating models for corporate clients were prepared using internal data of the Bank which ensures that they are tailored to the risk profile of the Bank's clients. Models are based on a statistical dependence analysis between the default and a customer's risk scoring. Scoring includes an assessment of the financial indicators, qualitative factors and evaluation of behavioural factors. The client's risk assessment depends on the size of the enterprise for which analysis is made. In addition, the Bank has implemented a model for assessment of credited entrepreneurs in the formula of specialist financing, which allows adequate credit risk assessment of large projects involving real estate financing (e.g. office space, retail areas, industrial areas) and infrastructure projects (e.g. telecommunications, industrial, public utility infrastructure).

Rating models are implemented in an IT tool that supports the Bank's credit risk assessment related to corporate clients financing.

In order to examine the correctness of functioning of method applied in the Bank, the methodologies of credit risk assessment connected with individual credit exposures are subject to periodical reviews.

The evaluation of retail clients credit risk

The Bank assesses the credit risk of retail clients in two dimensions: the client's borrowing capacity and his creditworthiness. The assessment of borrowing capacity involves an examination of the client's financial situation, whereas the creditworthiness assessment involves scoring and evaluating the client's credit history obtained from internal records of the Bank and external databases.

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

Assessment of credit risk relating to the financing of corporate clients

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

The information about ratings and scoring is widely used in the Bank for the purposes of credit risk management, the system of credit decision-making powers, determining the conditions in which credit assessment services are activated and in the credit risk assessment and reporting system.

In the case of corporate clients in the corporate client segment, the Bank made improvements in functioning of the lending process. These changes relate to changes in portfolio segmentation, organisational changes which meet client needs in a much better way and, on the other hand, allow comprehensive credit risk assessments to be made independently of the offered corporate and transaction banking products.

Forecasting and monitoring of credit risk

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

Amounts due from banks	Exposure	
	31.12.2014	31.12.2013
Amounts due from banks impaired, of which:	362	28 891
assessed on an individual basis	-	28 543
Amounts due from banks not impaired, of which:	2 486 435	1 893 133
not past due	2 486 435	1 893 133
Gross total	2 486 797	1 922 024
Impairment allowances	(111)	(28 583)
Net total by carrying amount	2 486 686	1 893 441

(IN PLN THOUSAND)

Loans and advances to customers	Exposure	
	31.12.2014	31.12.2013
Loans and advances impaired, of which:	12 977 310	12 861 352
assessed on an individual basis	5 615 878	5 532 429
Loans and advances not impaired, of which:	174 542 551	143 412 690
not past due	169 950 801	139 700 612
past due	4 591 750	3 712 078
past due up to 4 days	1 645 065	1 081 196
past due over 4 days	2 946 685	2 630 882
Gross total	187 519 861	156 274 042
Impairment allowances	(8 022 477)	(6 650 780)
Net total by carrying amount	179 497 384	149 623 262

Investment securities available for sale – debt securities	Exposure	
	31.12.2014	31.12.2013
Debt securities impaired, of which:	-	6 160
assessed on an individual basis	-	6 160
Debt securities not impaired, of which:	21 961 102	13 864 573
not past due	21 961 102	13 864 573
with external rating	14 054 512	9 429 681
with internal rating	7 906 590	4 434 892
Gross total	21 961 102	13 870 733
Impairment allowances	-	(3 296)
Net total by carrying amount	21 961 102	13 867 437

Investment securities held to maturity – debt securities	Exposure	
	31.12.2014	31.12.2013
Debt securities not impaired, of which:	233 358	38 005
not past due	233 358	38 005
with external rating	233 358	38 005
Gross total	233 358	38 005
Impairment allowances	-	-
Net total by carrying amount	233 358	38 005

Other assets – other financial assets	Exposure	
	31.12.2014	31.12.2013
Other assets impaired	62 081	65 209
Other assets not impaired, of which:	707 741	609 904
not past due	698 688	601 289
past due	9 053	8 615
Gross total	769 822	675 113
Impairment allowances	(59 473)	(63 800)
Net total by carrying amount	710 349	611 313

(IN PLN THOUSAND)

Maximum exposure to credit risk

Items of the statement of financial position	31.12.2014	31.12.2013
Current account in the central bank	7 772 859	4 018 340
Amounts due from banks	2 486 686	1 893 441
Trading assets – debt securities	1 915 120	467 931
issued by the State Treasury	1 825 454	395 202
issued by local government bodies	50 563	41 907
issued by non-financial institutions	22 146	23 892
issued by financial institutions	2 326	6 762
issued by banks	14 631	168
Derivative financial instruments	5 494 822	3 000 860
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	13 804 860	15 204 756
issued by central banks	10 998 812	13 997 228
issued by the State Treasury	2 478 708	956 893
issued by local government bodies	253 817	250 635
issued by banks	73 012	-
issued by non-financial institutions	511	-
Loans and advances to customers	179 497 384	149 623 262
financial sector (excluding banks)	1 620 708	2 981 207
corporate loans	1 309 856	942 784
receivables due from repurchase agreements	310 852	2 038 423
non-financial sector	167 791 997	139 434 111
housing loans	95 797 964	74 900 220
corporate loans	49 656 279	44 508 259
consumer loans	20 321 718	19 213 873
debt securities	2 016 036	811 759
public sector	10 084 679	7 207 944
corporate loans	7 265 003	6 125 098
debt securities	2 819 676	977 181
receivables due from repurchase agreements	-	105 665
Investment securities - debt securities	21 961 102	13 867 437
issued by the State Treasury	12 781 051	8 818 500
issued by local government bodies	4 480 325	3 440 753
issued by non-financial institutions	3 475 594	997 253
issued by banks	1 224 132	610 931
Investment securities held to maturity	233 358	38 005
issued by the State Treasury	233 358	26 886
issued by banks	-	11 119
Other assets - other financial assets	710 349	611 313
Total	233 876 540	188 725 345

Off-balance sheet items	31.12.2014	31.12.2013
Irrevocable liabilities granted	7 943 931	7 708 424
Guarantees granted	9 265 599	6 344 816
Guarantees of issuance	4 571 158	3 550 421
Letters of credit granted	702 768	491 768
Total	22 483 456	18 095 429

(IN PLN THOUSAND)

Credit quality of financial assets - neither past due nor impaired

Internal rating classes

Taking the type of the Group's business activity and the amount of credit and leasing debts into consideration, the most important portfolios are managed by the Bank and PKO Leasing SA. Information about credit quality of loans and receivables granted by the Bank and the PKO Leasing SA Group is presented below.

Financial assets neither past due nor impaired	31.12.2014	31.12.2013
Amounts due from banks	2 486 435	1 893 133
of which:		
with external rating	2 204 355	1 518 290
without rating	282 080	374 843
Loans and advances to customers	169 950 801	139 700 612
with rating	147 203 666	125 199 355
without rating	22 747 135	14 501 257
PKO Bank Polski SA	165 049 744	135 300 966
with internal rating – customers of financial, non-financial and public sector (corporate loans)	41 359 649	38 313 981
A (first rate)	1 059 550	1 414 115
B (very good)	1 455 548	1 247 527
C (good)	2 721 287	4 164 801
D (satisfactory)	5 663 335	5 803 780
E (average)	12 096 148	9 869 180
F (acceptable)	14 628 386	7 012 781
G (poor)	3 735 395	8 801 797
with internal rating – customers of non-financial sector (consumer and housing loans)	103 891 292	84 848 494
A (first rate)	74 155 239	59 604 586
B (very good)	10 614 538	13 546 734
C (good)	11 313 955	5 261 693
D (average)	5 802 187	4 648 762
E (acceptable)	2 005 373	1 786 719
without internal rating – customers of financial, non-financial and public sector (consumer, housing and other loans)	19 798 803	12 138 491
The PKO Leasing SA Group	4 383 999	3 534 099
with internal rating	1 952 725	2 036 880
A2 (first rate)	11 842	9 317
A3 (very good)	99 765	111 924
A4 (good)	254 096	262 562
A5 (satisfactory)	465 501	552 834
A6 (average)	727 634	868 695
B1 (acceptable)	336 196	187 170
B2 (poor)	41 360	38 060
C (bad)	16 331	6 318
without internal rating	2 431 274	1 497 219
without rating – customers of non-financial and financial sector of the other PKO Bank Polski SA Group entities	517 058	865 547
Trading assets – debt securities – with internal rating	-	10
C (good)	-	10
Debt securities available for sale – with internal rating	7 906 590	4 434 892
A (first rate)	-	53 776
B (very good)	37 815	336 547
C (good)	1 381 794	1 026 669
D (satisfactory)	2 000 235	912 529
E (average)	1 769 303	1 277 585
F (acceptable)	2 239 109	755 984
G (poor)	478 334	71 802
Other assets – other financial assets	698 688	601 289
Total	173 135 924	142 195 034

(IN PLN THOUSAND)

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 loan portfolios are covered by the rating system:

- corporate clients,
- housing market corporate clients,

small and medium enterprises (excluding certain product groups which are assessed in a simplified manner).

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

External rating classes

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

31 December 2014

Portfolio/Rating	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	CCC- to CCC+	CC	Caa2*	Caa3*	without rating	31.12.2014
Amounts due from banks	512 042	1 467 044	175 958	10 438	175	36 927	1 771		-	282 080	2 486 435
Trading assets – debt securities	-	1 826 259	12 007	14 590	-	-	-	-	-	62 264	1 915 120
of which:											
issued by the State Treasury	-	1 825 454	-	-	-	-	-	-	-	-	1 825 454
issued by local government bodies	-	805	-	-	-	-	-	-	-	49 758	50 563
issued by banks	-	-	-	14 590	-	-	-	-	-	41	14 631
issued by other financial institutions	-	-	-	-	-	-	-	-	-	2 326	2 326
issued by non-financial institutions	-	-	12 007	-	-	-	-	-	-	10 139	22 146
Financial instruments measured at fair value through profit and loss - debt securities	73 012	13 564 960	140 393	-	-	-	-	-	26 495	-	13 804 860
of which:											
issued by the central bank	-	10 998 812	-	-	-	-	-	-	-	-	10 998 812
issued by the State Treasury	-	2 452 213	-	-	-	-	-	-	26 495	-	2 478 708
issued by local government bodies	-	113 935	139 882	-	-	-	-	-	-	-	253 817
issued by banks	73 012	-	-	-	-	-	-	-	-	-	73 012
issued by non-financial institutions	-	-	511	-	-	-	-	-	-	-	511
Debt securities available for sale	-	13 795 752	-	49 773	-	-	-	8 921	179 815	20 251	14 054 512
of which:											
issued by the State Treasury	-	12 601 236	-	-	-	-	-	-	179 815		12 781 051
issued by local government bodies	-	40 717	-	-	-	-			-	-	40 717
issued by banks	-	1 153 799	-	49 773	-	-	-	8 921	-	11 639	1 224 132
issued by non-financial institutions	-	-	-	-	-	-	-	-	-	8 612	8 612
Debt securities held to maturity	-	40 337	-	-	-	-	-	-	193 021	-	233 358
of which:											
issued by the State Treasury	-	40 337	-	-	-	-	-		193 021	-	233 358
Total	585 054	30 694 352	328 358	74 801	175	36 927	1 771	8 921	399 331	364 595	32 494 285

*Relates to securities of the KREDOBANK SA Group – according to Moody's rating

(IN PLN THOUSAND)

31 December 2013

Portfolio/Rating	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	CCC- to CCC+	B3*	Caa2*	without rating	31.12.2013
Amounts due from banks	140 193	1 210 067	118 302	1 230	42 963	5 535	-	-	374 843	1 893 133
Trading assets - debt securities	-	395 587	21 031	-	-	-	-	-	51 303	467 921
of which:										
issued by the State Treasury	-	395 202	-	-	-	-	-	-	-	395 202
issued by local government bodies	-	227	-	-	-	-	-	-	41 680	41 907
issued by banks	-	158	-	-	-	-	-	-	-	158
issued by other financial institutions	-	-	-	-	-	-	-	-	6 762	6 762
issued by non-financial institutions	-	-	21 031	-	-	-	-	-	2 861	23 892
Financial instruments measured at fair value through profit and loss - debt securities	-	15 042 488	136 700	-	-	-	25 568	-	-	15 204 756
of which:										
issued by the central bank	-	13 997 228	-	-	-	-	-	-	-	13 997 228
issued by the State Treasury	-	931 325	-	-	-	-	25 568	-	-	956 893
issued by local government bodies	-	113 935	136 700	-	-	-	-	-	-	250 635
Debt securities available for sale	-	9 125 800	49 530	-	-	-	216 575	11 131	26 645	9 429 681
of which:										
issued by the State Treasury	-	8 616 516	-	-	-	-	201 984	-	-	8 818 500
issued by local government bodies	-	-	-	-	-	-	-	-	250	250
issued by banks	-	509 284	49 530	-	-	-	14 591	11 131	26 395	610 931
Debt securities held to maturity	-	-	-	-	-	-	38 005	-	-	38 005
of which:										
issued by the State Treasury	-	-	-	-	-	-	26 886	-	-	26 886
issued by banks	-	-	-	-	-	-	11 119	-	-	11 119
Total	140 193	25 773 942	325 563	1 230	42 963	5 535	280 148	11 131	452 791	27 033 496

*Relates to securities of the KREDOBANK SA Group – according to Moody's rating

53.2. Concentration of credit risk within the Group

The Group defines credit concentration risk as one of arising from a considerable exposure to single entities or to group of entities whose repayment capacity depends on a common risk factor. The Group analyses the concentration risk in respect of:

- the largest business entities,
- the largest capital groups,
- industries,
- geographical regions,
- currencies,
- exposures with established mortgage collateral.

Concentration by the largest business entities

The Banking Law specifies maximum concentration limits for the Bank, which has an influence upon the Group. According to Article 71, item 1 of the Banking Law, the total value of the Bank's exposures, off-balance sheet liabilities granted by the Bank or shares held by the Bank directly or indirectly in another entity, additional payments into a limited liability company as well as contributions or limited partnership sums – whichever is higher - in a limited partnership or limited joint-stock partnership with a risk of one entity or a group of entities related by capital or management, cannot exceed concentration limit, which is 25% of the recognised consolidated equity.

As at 31 December 2014 and as at 31 December 2013, those concentration limits had not been exceeded. As at 31 December 2014, the level of concentration risk in Group with respect to individual exposures was low – the largest exposure to a single entity was equal to 12.9% of the recognised consolidated equity. Among 20 largest borrowers of the Group there are exclusively clients of PKO Bank Polski SA.

(IN PLN THOUSAND)

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

31.12.2014			31.12.2013		
No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees and 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 and interest receivable and off-balance sheet and capital exposures*	Share in credit portfolio, which includes off-balance sheet and capital exposures
1.	3 193 998	1.27%	1.	2 080 000	1.01%
2.	2 474 087	0.99%	2.	2 074 380	1.01%
3.	2 266 960	0.90%	3.	2 035 172	0.99%
4.	2 172 936	0.87%	4.	1 435 697	0.70%
5.	2 080 000	0.83%	5.	1 084 585	0.53%
6.	1 643 091	0.66%	6.	1 078 879	0.53%
7.	1 266 301	0.51%	7.	794 068	0.39%
8.	1 177 916	0.47%	8.	777 215	0.38%
9.	1 130 843	0.45%	9.	690 184	0.34%
10.	1 007 768	0.40%	10.	673 507	0.33%
11.	957 362	0.38%	11.	631 454	0.31%
12.	911 026	0.36%	12.	600 000	0.29%
13.	904 016	0.36%	13.	658 194	0.32%
14.	890 858	0.36%	14.	542 805	0.26%
15.	834 655	0.33%	15.	539 467	0.26%
16.	794 693	0.32%	16.	524 686	0.26%
17.	793 137	0.32%	17.	513 197	0.25%
18.	746 933	0.30%	18.	505 820	0.25%
19.	714 037	0.29%	19.	500 232	0.24%
20.	712 771	0.28%	20.	500 000	0.24%
Total	26 673 388	10.65%	Total	18 239 542	8.89%

*off-balance sheet exposure includes liability resulting from derivative transactions in the amount of their equivalent in the statement of financial position (according to the provisions of paragraph 2.1 point 2 of the Resolution No. 208/2011 of the PFSA dated on 22 August 2011)

Concentration by the largest capital groups

The greatest exposure of the PKO Bank Polski SA Group towards a capital group of borrowers amounted to 1.39% of the Group's loan portfolio. The 5 largest capital groups include only clients of PKO Bank Polski SA.

As at 31 December 2014 and 31 December 2013, the concentration risk level by the capital groups was low - the greatest exposure concentration of the Group amounted to 14.1% and 12.9% of the Group's recognised equity.

Total exposure of the Group towards the 5 largest capital groups:

31.12.2014			31.12.2013		
No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees and 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 and interest receivable and off-balance sheet and capital exposures*	Share in credit portfolio, which includes off-balance sheet and capital exposures
1	3 498 120	1.39%	1	3 536 942	1.72%
2	3 194 479	1.27%	2	2 790 997	1.36%
3	2 972 486	1.19%	3	2 056 058	1.00%
4	2 315 214	0.92%	4	1 960 687	0.95%
5	2 189 608	0.87%	5	1 446 402	0.70%
Total	14 169 907	5.64%	Total	11 791 086	5.73%

*off-balance sheet exposure includes liability resulting from derivative transactions in the amount of their equivalent in the statement of financial position (according to the provisions of paragraph 2.1 point 2 of the Resolution No. 208/2011 of the PFSA dated on 22 August 2011)

Concentration by industries

As compared with 31 December 2013 the exposure of the Group in industry sectors has increased by approx. PLN 7.9 billion. The total exposure in the four largest industry sectors: 'Industrial processing', 'Maintenance of real estate', 'Wholesale and retail trade (...)' and 'Public administration and national defence (...)' amounted to approx. 57% of the total loan portfolio covered by an analysis of the sector.

(IN PLN THOUSAND)

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

Section	Section name	31.12.2014		31.12.2013	
		Exposure	Number of entities	Exposure	Number of entities
C	Industrial processing	16.63%	10.37%	18.45%	10.68%
L	Maintenance of real estate	16.57%	15.95%	15.89%	15.69%
G	Wholesale and retail trade; repair of motor vehicles	14.88%	21.50%	15.43%	22.52%
F	Construction	8.91%	10.10%	10.53%	10.92%
O	Public administration and national defence, obligatory social security	9.09%	0.46%	9.08%	0.38%
D	Electricity, gas, water vapour, hot water and air conditioning production and supply	1.78%	0.18%	2.06%	0.17%
Other exposure		32.14%	41.44%	28.56%	39.64%
Total		100.00%	100.00%	100.00%	100.00%

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

Concentration by geographical regions

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

The structure of the loan portfolio by geographical regions is identified in the Group due to the Bank's client area – a separate area for the retail market (ORD) a separate area for the corporate and investing banking (OKI).

11 geographical regions are distinguished within ORD. As at 31 December 2014, the largest concentration of the ORD loan portfolio occurs in region of Warsaw and Poznań (ca. 22% of the ORD portfolio).

Within OKI, the Bank distinguishes 7 macro-regions and the headquarter. As at 31 December 2014, the largest concentration of the OKI loan portfolio occurs in the Bank's headquarter and in the central macro-region (26% and 16% of the Corporate Client Area (ORK) loan portfolio, respectively).

Concentration of credit risk by currency

As at 31 December 2014, the share of exposure in convertible currencies, other than PLN, in the total portfolio of the Group amounted to 26.2%. An increase compared to 31 December 2013 resulted from the Legal Merger of PKO Bank Polski SA and Nordea Bank Polska SA, as a result of which the Nordea Bank Polska SA portfolio was included in the Bank's loan portfolio.

The greatest part of the Group's currency exposures are those in CHF and they relate mainly to the loan portfolio of the Bank. As a result of the above-mentioned merger, the share of loans in CHF increased by 4.0 pp. compared to 2013. In case of the Group entities, the situation is different, i.e. in the foreign currency portfolio of the PKO Leasing SA Group and BTK SA, the greatest currency exposures are those in EUR (94% and 93% of the foreign currency portfolio of these Groups, respectively). Whereas, for the KREDOBANK SA Group and in the company Finansowa Kompania 'Prywatne Inwestycje' (i.e. entities operating in Ukraine) - USD denominated loans constitute the largest part (63% and 81% of the foreign currency loan portfolio of these entities, respectively).

Concentration of credit risk by currency	31.12.2014	31.12.2013
PLN	73.79%	79.59%
Foreign currencies, of which:	26.21%	20.41%
CHF	16.60%	12.64%
EUR	7.89%	5.65%
USD	1.36%	1.46%
UAH	0.35%	0.65%
GBP	0.01%	0.01%
Total	100.00%	100.00%

Other types of concentration

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

As at 31 December 2014, these limits have not been exceeded.

53.3. Forbearance practices

The Bank takes as forbearance actions aimed at making changes in the contract terms agreed with a debtor or an issuer, forced by his difficult financial situation (restructuring activities). The aim of the forbearance is to restore a debtor or an issuer the ability to correct execution of the agreement and to maximise the efficiency of non-performing loans management, i.e. obtaining the highest recoveries while minimising the incurred costs, related to these recoveries, which are very high in case of executive proceedings.

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

- spreading of debt repayable into instalments,
- change in a repayment schedule,
- spreading of payments into instalments (introducing of payment schedule),

(IN PLN THOUSAND)

- suspending of payment,
- change in payments formulas (annuity instalments, diminishing instalments),
- change in interest rates,
- loans reduction,
- change in withdrawal period.

As a result of signing and a timely service of forbearance agreement, the loan being restructured is reset from overdue to current. Evaluation of the ability of a debtor to fulfil the forbearance agreement conditions (debt repayment according to the agreed schedule) constitutes an element of the forbearance process. Concluded forbearance agreements are monitored on an on-going basis. Signing of the forbearance agreement, amending the contractual terms due to the financial difficulties of a debtor or an issuer, is one of indications of individual impairment and results in the necessity of analysing the situation in terms of recording impairment charges or provisions revaluating the exposure value resulting from this fact.

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

- 3 consecutive payments under the forbearance agreement schedule were settled,
- at least 60 days from the date of the first instalment determined in accordance with the forbearance agreement schedule have elapsed,
- other contractual arrangements are realised on a regular basis and not raising concerns,
- a loan is not covered by the outsourcing of debt collection activities.

	Carrying amount	
	31.12.2014	31.12.2013
Loans and advances to customers, gross	187 519 861	156 274 042
of which forbearance:	4 202 198	4 318 155
financial sector	9	183
corporate loans	9	183
non-financial sector	4 201 826	4 317 682
corporate loans	3 423 519	2 439 686
housing loans	463 241	1 437 655
consumer loans	315 066	440 341
public sector	363	290
corporate loans	363	290
Impairment allowances on loans and advances to forbearance customers	(820 134)	(991 371)
Loans and advances to customers, net forbearance	3 382 064	3 326 784

Loans and advances to customers subjected to forbearance by geographical region (gross)	31.12.2014	31.12.2013
Poland	4 087 258	4 318 155
mazowiecki	2 290 823	1 772 532
wielkopolski	227 406	434 487
śląsko-opolski	242 818	401 978
małopolsko-świętokrzyski	291 598	337 180
pomorski	102 259	242 532
podlaski	88 688	233 365
łódzki	190 859	206 303
dolnośląski	166 150	205 842
kujawsko-pomorski	133 577	160 294
zachodnio-pomorski	170 065	157 392
lubelsko-podkarpacki	126 644	101 949
warmińsko-mazurski	56 371	64 301
Ukraine	114 940	-
Total	4 202 198	4 318 155

Loans and advances to customers subjected to forbearance	Exposure by gross carrying amount		Collateral value	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Loans and advances impaired	2 393 496	3 107 480	236 232	173 583
Loans and advances not impaired, of which:	1 808 702	1 210 675	182 183	83 947
not past due	1 220 190	880 476	65 245	18 220
past due	588 512	330 199	116 938	65 727
Total gross	4 202 198	4 318 155	418 415	257 530

(IN PLN THOUSAND)

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

For the year ended 31 December 2014	Total
Carrying amount at the beginning of the period, net	3 326 784
Impairment allowance	227 116
Loans and advances derecognised in the period, gross	(2 325 524)
Loans and advances recognised in the period, gross	2 336 404
Other changes/repayment	(143 337)
Currency translation differences	(39 379)
Carrying amount at the end of the period, net	3 382 064

For the year ended 31 December 2013	Total
Carrying amount at the beginning of the period, net	3 068 604
Impairment allowance	(72 215)
Loans and advances derecognised in the period, gross	(2 124 716)
Loans and advances recognised in the period, gross	2 630 100
Other changes/repayment	(174 989)
Carrying amount at the end of the period, net	3 326 784

Loans and advances to customers gross by applied changes in terms of repayment for forbearance	Gross carrying amount	
	31.12.2014	31.12.2013
Spreading of debt repayable into instalments	2 261 777	2 482 200
Change in a repayment schedule	1 392 606	1 540 718
Spreading of payments into instalments (introducing of payment schedule)	812 775	808 174
Suspending of payment	530 642	-
Change in payments formulas (annuity instalments, diminishing instalments)	521 071	702 804
Change in interest rate	428 549	586 314
Loans reduction	196 579	307 501
Change in withdrawal period	10 469	-

For a given loan exposure subject to forbearance more than one change in terms of repayment may be applied.

The amount of recognised interest income related to loans and advances to customers, which are subject to forbearance amounted to PLN 404 782 thousand as at 31 December 2014 (as at 31 December 2013 it amounted to PLN 391 983 thousand respectively).

53.4. Past due of financial assets

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

Financial Assets	31.12.2014			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	3 504 077	837 553	250 120	4 591 750
financial sector	-	-	2	2
non-financial sector	3 403 093	822 429	217 787	4 443 309
public sector	100 984	15 124	32 331	148 439
Other assets – other financial assets	4 369	726	3 958	9 053
Total	3 508 446	838 279	254 078	4 600 803

Financial Assets	31.12.2013			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	2 529 235	885 979	296 864	**3 712 078**
financial sector	14	273	-	**287**
non-financial sector	2 466 927	875 420	296 864	**3 639 211**
public sector	62 294	10 286	-	**72 580**
Other assets – other financial assets	934	361	7 320	**8 615**
Total	2 530 169	886 340	304 184	3 720 693

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.

(IN PLN THOUSAND)

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

	31.12.2014	31.12.2013
Amounts due from banks	-	28 543
Loans and advances to customers	5 615 878	5 532 429
Financial sector	5 609	3 927
corporate loans	5 609	3 927
Non-financial sector	5 593 388	5 522 293
corporate loans	4 134 858	3 944 961
housing loans	1 248 389	1 371 261
consumer loans	99 297	101 334
debt securities	110 844	104 737
Public sector	16 881	6 209
corporate loans	16 881	6 209
Financial assets available for sale	60	6 260
issued by financial entities	5	8
issued by non-financial entities	55	6 252
Total	5 615 938	5 567 232

Assets for which individual impairment was assessed on an individual basis were secured by the following collaterals established for the Group:

- for loans and advances to customers: ceiling mortgages and ordinary mortgages, registered pledges, promissory notes of the debtor and transfers of receivables and property right for cash. The financial effect of the collateral held in respect of the amount that best represents the maximum exposure to credit risk as at 31 December 2014 amounted to PLN 3 593 245 thousand (as at 31 December 2013 the amount was PLN 4 022 319 thousand respectively).
- for investment securities available for sale: blank promissory notes, guarantee, registered pledges on the bank account and on debtor's shares.

In determining impairment allowances for the above assets, the Group considered the following factors:

- delay in payment of the amounts due by the debtor,
- the debt being declared as due and payable,
- enforcement proceedings against the debtor,
- declaration of the debtor's bankruptcy or filling a petition to declare bankruptcy,
- the amount of the debt being challenged by the debtor,
- commencement of corporate recovery proceedings against the debtor,
- establishing imposed administration over the debtor or suspending the debtor's activities,
- a decline in debtor's rating to a level indicating a significant threat to the repayment of debt,
- restructuring actions taken and payment reliefs applied,
- additional impairment indicators identified for exposures to housing cooperatives arising from housing loans of the so-called 'old portfolio', covered by State Treasury guarantees,
- expected future cash flows from the exposure and the related collateral,
- expected future economic and financial position of the client,
- the extent of execution of forecasts by the client.

53.6. Allowances for credit losses

The PKO Bank Polski SA Group performs a monthly review of loan exposures in order to identify loan exposures threatened with impairment, measure the impairment of loan exposures and recognition impairment charges or provisions.
The process of determining the impairment charges and provisions consists of the following stages:

- identifying the indications of impairment and events significant from the point of view of identifying those indications,
- registering in the Group's IT systems the events that are material from the point of view of identifying indications of impairment of credit exposures,
- determining the method of measuring impairment,
- measuring impairment and determining an impairment charge or provision,
- verifying and aggregating the results of the impairment measurement,
- recording the results of impairment measurement.

The method of determining the amount of impairment charges is dependent on the type of indications of impairment identified and the individual significance of a credit exposure. The events considered as indications of individual impairment are, in particular, as follows:

- delay in payment of the principal or interest longer than 90 days,
- a significant deterioration in a customer's internal rating,
- entering into restructuring agreement or granting a discount concerning debt repayment (the indication of impairment is recognised, if the convenience granted to the consumer are forced by economic or legal considerations arising from its financial situation).

When determining the overdue period of a loan, the amounts of interest not paid according to the schedule or instalment payments exceeding accepted thresholds are taken into account.

(IN PLN THOUSAND)

53.7. Impairment estimating methods

The PKO Bank Polski SA Group applies three methods of estimating impairment:

- an individual basis applied in respect of individually significant loans, for which the objective evidence of impairment was identified or requiring individual assessment due to the transactions specifics and resulting from events determining the repayment of exposure,
- a portfolio basis applied in respect of individually insignificant loans, for which the objective evidence of individual impairment was identified,
- a group basis (IBNR) applied in respect of the loans for which no objective evidence of individual impairment was identified, but there is a possibility of losses incurred but not recognised occurring.

Impairment allowances in respect of a loan exposure correspond to the difference between the carrying amount of the exposure and the present value of the expected future cash flows from a given exposure:

- while assessing impairment allowances on an individual basis, the expected future cash flows are estimated for each loan exposure individually, taking into account the possible scenarios relating to contract execution, weighted by the probability of their realisation,
- an impairment charge in respect of loan exposures assessed on a portfolio basis or a group basis corresponds to the difference between the carrying amount of the exposures and the present value of the expected future cash flows estimated using statistical methods, based on historic observations of exposures from homogenous portfolios.

53.8. Off-balance sheet provisions

With regard to off-balance sheet credit exposures, the provision is determined as the difference between the expected amount of exposure in the statement of financial position, which will arise as a result of an off-balance sheet liabilities granted (from the date at which the assessment is performed till the date of overdue amounts due arising considered as constituting an indication of individual impairment) and the present value of the expected future cash flows obtained from the exposure in the statement of financial position arising out of the off-balance sheet liability granted.

When assessing a provision on an individual basis, the expected future cash flows are estimated for each loan exposure separately.

When assessing a provision on a portfolio basis or a group basis, the portfolio parameters are used, estimated using statistical methods, based on the historic observations of exposures with the same features.

The structure of the loan portfolio and impairment allowances of the PKO Bank Polski SA Group's loan exposures are presented in the table in the note 22 'Loans and advances to customers'.

53.9. Credit risk of financial institutions

As at 31 December 2014, the largest exposures of the PKO Bank Polski SA Group were as follows:

Interbank exposure*				
Counterparty	Type of instrument			Total
	Deposits	Derivatives	Securities	
Counterparty 1	-	9 031	585 246	594 277
Counterparty 2	384 162	-	-	384 162
Counterparty 3	-	169 566	-	169 566
Counterparty 4	51 175	75 202	-	126 377
Counterparty 5	-	93 074	-	93 074
Counterparty 6	-	31 165	50 000	81 165
Counterparty 7	-	73 060	-	73 060
Counterparty 8	-	62 516	-	62 516
Counterparty 9	-	59 435	-	59 435
Counterparty 10	-	37 743	-	37 743
Counterparty 11	-	29 418	-	29 418
Counterparty 12	-	24 333	-	24 333
Counterparty 13	-	23 420	-	23 420
Counterparty 14	-	22 583	-	22 583
Counterparty 15	-	16 465	-	16 465
Counterparty 16	-	15 887	-	15 887
Counterparty 17	-	12 912	-	12 912
Counterparty 18	10 000	3 789	-	13 789
Counterparty 19	10 000	(7 178)	-	10 000
Counterparty 20	-	9 195	-	9 195

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

(IN PLN THOUSAND)

For comparison, the largest exposures of the PKO Bank Polski SA Group on the interbank market as at 31 December 2013 presents the table below:

Interbank exposure*			
Counterparty	Type of instrument		Total
	Deposits	Derivatives	
Counterparty 18	325 000	(48 464)	325 000
Counterparty 24	200 000	4 706	204 706
Counterparty 17	-	74 384	74 384
Counterparty 25	-	58 479	58 479
Counterparty 26	-	56 339	56 339
Counterparty 27	50 000	(4 830)	50 000
Counterparty 7	-	46 844	46 844
Counterparty 3	-	39 817	39 817
Counterparty 4	22 349	15 318	37 667
Counterparty 28	-	33 641	33 641
Counterparty 1	5 000	18 131	23 131
Counterparty 29	20 000	1 601	21 601
Counterparty 13	-	18 806	18 806
Counterparty 31	12 600	-	12 600
Counterparty 32	12 528	-	12 528
Counterparty 30	12 204	-	12 204
Counterparty 33	11 118	-	11 118
Counterparty 34	10 377	-	10 377
Counterparty 19	-	9 617	9 617
Counterparty 12	-	9 583	9 583

* 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 (column 'Total') is the sum of exposures arising from deposits and securities, increased by the exposure arising from derivative instruments, if it is positive (otherwise the exposure arising from derivatives is not included in total exposure). Exposure arising from all instruments is calculated from the moment of entering into transaction.

As at 31 December 2014 the Bank had signed master agreements (in accordance with ISDA/PBA standards) with 24 local banks and 57 foreign banks and credit institutions, collateral agreements CSA/PBA standards with 21 local banks and 45 foreign banks and credit institutions. Additionally the Bank was a party of 12 agreements on repo transactions (in accordance with ISMA/GMRA).

Geographical location of counterparties

The counterparties generating the 20 largest exposures as at 31 December 2014 come from the following countries (classified by location of registered office):

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

Counterparty structure by rating

Exposure structure by rating is presented in the table below. The ratings were determined based on external ratings granted by Moody's, Standard&Poor's and Fitch agencies (when a rating was granted by two agencies, the lower rating was applied, whereas when a rating was granted by three agencies, the middle rating was applied). Rating for counterparties from 1 to 20 was accepted as at 31 December 2014.

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

53.10. Credit risk of financial institutions on a retail market

In addition to the interbank market exposure discussed above, as at 31 December 2014 the Group had an exposure to financial institutions on the retail market (exposure generated by Entities other than Treasury Department, including e.g. loans granted, bonds purchased outside the interbank market).

The structure of exposures over PLN 10 million is presented in the table below (in PLN thousand):

2014	Nominal value of exposure		Country of the counterparty
	Statement of financial position item	Off-balance sheet item	
Counterparty 1	500 000	-	Poland
Counterparty 21	53 978	6 021	Poland
Counterparty 22	101 808	-	Poland
Counterparty 23	50 000	-	Poland

2013	Nominal value of exposure		Country of the counterparty
	Statement of financial position item	Off-balance sheet item	
Counterparty 1	500 000	-	Poland
Counterparty 23	50 000	-	Poland

53.11. Management of foreclosed collateral

Foreclosed collaterals as a result of restructuring or debt collection activities are either used by the Group for internal purposes or designated for sale. Details of the foreclosed assets are analysed in order to determine whether they can be sold or used by the Group for internal purposes. All of the assets taken over as a result of restructuring and debt collection activities in the years ended 31 December 2014 and 31 December 2013, respectively, were designated for sale.

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

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

The carrying amounts of non-financial assets held by the Group, taken over in exchange for debts as at 31 December 2014 amounted to PLN 170 194 thousand and as at 31 December 2013 amounted to PLN 125 725 thousand. The above-mentioned amounts are presented in the note 30 'Other assets', in line item 'Other' (PLN 3 241 thousand and PLN 12 346 thousand respectively) and in line item 'Assets for sale' (PLN 67 786 thousand and PLN 7 594 thousand respectively), and also in the note 27 'Inventories', in line item 'Supplies' (PLN 99 167 thousand and PLN 105 785 thousand respectively).

53.12. Credit risk reporting

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

53.13. 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 amount, maximum loan amount, required collateral),
- the principles of defining credit availability, including cut-offs – the minimum number of points awarded in the process of creditworthiness assessment with the use of a scoring system (for a retail client) or the client's rating class or cumulative rating class (for a corporate client), which a client must obtain to receive a loan,
- concentration limits – the limits defined in the Article 71, item 1 of the Banking Law,
- industry-related limits – limits which reduce the risk level related to financing corporate clients that conduct business activities in industries characterised by high level of credit risk,
- limits on credit exposures related to the Bank's customers – the limits defining the appetite for credit risk as result of i.a. the Recommendations S and T,
- credit limits defining the Bank's maximum exposure to a given counterparty or country in respect of wholesale operations and settlement limits and limits for the period of exposure,
- competence limits – they define the maximum level of credit decision-making powers with regard to the Bank's clients, the limits depend primarily on the amount of the Bank's credit exposure to a given client (or a group of related clients) and the loan transaction period; the competence limit depends on the credit decision-making level (in the Bank's organisational structure),
- minimum credit margins – credit risk margins relating to a given credit transaction concluded by the Bank with a given corporate client but the interest rate offered to a client cannot be lower than the reference rate plus credit risk margin.

Collateral management policy plays a significant role in establishing minimum transaction terms as regards credit risk. The Bank's and the Group entities collateral management policy is aimed to secure properly the credit risk to which the Group is exposed, including first of all the establishing collateral that will ensure the highest possible level of recovery in the event of realisation of collateral.

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

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

The policy regarding legal collateral is defined by internal regulations of the Group's subsidiaries.

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

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

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

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

54. Interest rate risk management

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

The objective of interest rate risk management is to mitigate the risk of incurring losses arising from market interest rate changes to an acceptable level by appropriate shaping the structure of statement of financial position and off-balance sheet items.

54.1. Measurement of interest rate risk

In the process of interest rate risk management, the Group uses, in particular, the Value at Risk (VaR) model, interest income sensitivity measure, stress-tests and a repricing gap.

The Value at Risk (VaR) is defined as a potential loss arising from the maintained structure of statement of financial position and off-balance sheet items and the volatility of interest rates, with the assumed probability level and taking into account the correlation between the risk factors.

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

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

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

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

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
PLN (PLN thousand)								31.12.2014
The Group - Periodic gap	50 185 503	36 717 323	(11 111 259)	(24 529 132)	(16 252 478)	(17 300 614)	619	17 709 962
The Group - Cumulative gap	50 185 503	86 902 826	75 791 567	51 262 435	35 009 957	17 709 343	17 709 962	-
PLN (PLN thousand)								31.12.2013
The Group - Periodic gap	33 399 912	65 145 339	(21 487 204)	(58 287 987)	(3 477 566)	4 653 403	385 740	20 331 637
The Group - Cumulative gap	33 399 912	98 545 251	77 058 047	18 770 060	15 292 494	19 945 897	20 331 637	-
USD (USD thousand)								31.12.2014
The Group - Periodic gap	(90 058)	49 219	(223 141)	97 697	199 222	17 406	(111 872)	(61 527)
The Group - Cumulative gap	(90 058)	(40 839)	(263 980)	(166 283)	32 939	50 345	(61 527)	-
USD (USD thousand)								31.12.2013
The Group - Periodic gap	(65 294)	422 848	(2 714)	(439 140)	42 353	33 150	(187 419)	(196 216)
The Group - Cumulative gap	(65 294)	357 554	354 840	(84 300)	(41 947)	(8 797)	(196 216)	-

EUR (EUR thousand)								31.12.2014
The Group - Periodic gap	(613 307)	1 224 543	164 471	(290 902)	57 181	(610 838)	57 900	(10 952)
The Group - Cumulative gap	(613 307)	611 236	775 707	484 805	541 986	(68 852)	(10 952)	-
EUR (EUR thousand)								31.12.2013
The Group - Periodic gap	93 870	758 029	(95 955)	(680 969)	(468 390)	130 175	(8 733)	(271 973)
The Group - Cumulative gap	93 870	851 899	755 944	74 975	(393 415)	(263 240)	(271 973)	-
CHF (CHF thousand)								31.12.2014
The Group - Periodic gap	(2 265 607)	2 942 060	264 700	(504 100)	(11 100)	(4 300)	(7 000)	414 653
The Group - Cumulative gap	(2 265 607)	676 453	941 153	437 053	425 953	421 653	414 653	-
CHF (CHF thousand)								31.12.2013
The Group - Periodic gap	(745 852)	1 194 522	(1 700)	(40 300)	(500 000)	(7 700)	17 700	(83 330)
The Group - Cumulative gap	(745 852)	448 670	446 970	406 670	(93 330)	(101 030)	(83 330)	-

At the end of 2014 and 2013 the Group had a positive cumulative gap in PLN in all time horizons.

54.2. Forecasting and monitoring of interest rate risk

As at 31 December 2014 and 31 December 2013, the exposure of the PKO Bank Polski SA Group to the interest rate risk comprised mainly of the exposure of the Bank. Interest rate risk generated by the Group entities with regard to PLN, EUR and CHF did not have a significant effect on the interest rate risk of the entire Group and therefore did not significantly affect its risk profile. Interest rate risk with regard to USD was significantly altered by exposure of the Group entities, in which the biggest part has the exposure of KREDOBANK SA.

VaR of the Bank and stress-tests analysis of the Group's exposure to the interest rate risk are presented in the following table:

Name of sensitivity measure	31.12.2014	31.12.2013
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)*	282 268	54 930
Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress-test)**	2 380 354	495 858

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as a the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to approx. PLN 9 480 thousand as at 31 December 2014 and PLN 10 686 thousand as at 31 December 2013.

** The table presents the value of the most adverse stress-test of the scenarios: movement of interest rate curves in particular currencies by 200 b.p. up and by 200 b.p. down.

As at 31 December 2014 the interest rate VaR for a 10-day time horizon (10-day VaR) amounted to PLN 282 268 thousand, which accounted for approximately 1.15% of the Bank's own funds. As at 31 December 2013 VaR for the Bank amounted to PLN 54 930 thousand, which accounted for approximately 0.27% of the Bank's own funds. The amount of the funds is calculated in accordance with the provisions concerning calculation of the capital adequacy ratio.

54.3. Reporting of the interest rate risk

The Bank prepares daily, weekly, monthly and quarterly reports addressing interest rate risk. The quarterly reports are also applicable to the Group. Reports present the information on interest rate risk exposure and usages of available limits regarding the risk.

54.4. Management decisions as regards interest rate risk

The main tools used in interest rate risk management in the Group include:

- procedures for interest rate risk management,
- limits and thresholds for interest rate risk,
- defining allowable transactions types based on interest rates.

The Group established limits and thresholds for interest rate risk comprising i.a. the following: price sensitivity, interest income sensitivity, limits and threshold for losses and limits on instruments sensitive to interest rate fluctuations.

Methods of interest rate risk management in the Group subsidiaries are defined by internal regulations implemented by those entities which are characterised by significant values of interest rate risk measure outcomes. These regulations are developed after consultation with the Bank and include recommendations issued by the Bank for the Group entities.

55. Currency risk management

Currency risk is the risk of incurring losses due to unfavourable exchange rate changes. The risk is generated by maintaining open currency positions in a given foreign currency.

The objective of currency risk management is to mitigate the risk of incurring losses arising from exchange rate fluctuations to an acceptable level by appropriate shaping the structure of statement of financial position and off-balance sheet positions.

55.1. Measurement of the currency risk

The Bank measures currency risk using the Value at Risk (VaR) model and stress-tests.

The Value at Risk (VaR) is defined as a potential loss arising from currency position and foreign exchange rate volatility under the assumed confidence level and taking into account the correlation between the risk factors.

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

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

55.2. Forecasting and monitoring of currency risk

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

Name of sensitivity measure	31.12.2014	31.12.2013
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)*	6 230	2 443
Change in CUR/PLN by 20% (in PLN thousand) (stress-test)**	28 609	21 428

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk as well as the specific nature of the market on which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day VaR, which amounted to approx. PLN 3 663 thousand as at 31 December 2014 and approx. PLN 906 thousand as at 31 December 2013.
** The table presents the value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%.

The Group's currency positions are presented in the table below:

Currency position	31.12.2014	31.12.2013
EUR	(216 994)	13 010
USD	(113 960)	79 507
CHF	(36 566)	6 526
GBP	5 009	3 673
Other (Global Net)	214 752	6 020

The volume of currency positions is a key factor determining the level of currency risk on which the Group is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded by the Group, both in the statement of financial position and off-balance sheet transactions. The Bank's exposure to currency risk is low (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at 31 December 2014 amounted to ca. 0.03%).

(IN PLN THOUSAND)

55.3. Currency structure

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

	Currency translated into PLN – 31.12.2014				
	PLN	EUR	CHF	Other	Total
Cash and balances with the central bank	10 724 759	492 047	70 260	451 305	11 738 371
Amounts due from banks	294 737	1 255 349	62 229	874 482	2 486 797
Loans and advances to customers	140 063 419	13 660 027	30 954 027	2 842 388	187 519 861
Securities	38 635 005	933 402	-	721 119	40 289 526
Non-current assets	11 712 203	-	-	-	11 712 203
Other assets and derivatives	7 727 158	397 235	64 329	551 218	8 739 940
Total assets (gross)	209 157 281	16 738 060	31 150 845	5 440 512	262 486 698
Depreciation/amortisation/impairment	(12 228 945)	(223 357)	(836 056)	(497 751)	(13 786 109)
Total assets (net)	196 928 336	16 514 703	30 314 789	4 942 761	248 700 589
Amounts due to the central bank	4 427	-	-	-	4 427
Amounts due to banks	2 241 032	2 774 653	14 348 416	30 381	19 394 482
Amounts due to customers	158 613 283	8 318 970	2 258 841	5 195 672	174 386 766
Liabilities due to insurance operations	2 675 833	3 785	-	104	2 679 722
Debt securities in issue	1 268 242	5 818 661	2 671 536	3 542 171	13 300 610
Subordinated liabilities	1 619 833	-	794 152	-	2 413 985
Provisions	308 453	9 371	818	5 196	323 838
Other liabilities and derivatives and deferred income tax liability	7 404 604	486 278	532 569	157 757	8 581 208
Equity	27 615 551	-	-	-	27 615 551
Total liabilities and equity	201 751 258	17 411 718	20 606 332	8 931 281	248 700 589
Off-balance sheet liabilities granted	44 498 418	4 434 096	119 891	3 820 227	52 872 632

	Currency translated into PLN – 31.12.2013				
	PLN	EUR	CHF	Other	Total
Cash and balances with the central bank	6 359 564	581 510	39 657	265 389	7 246 120
Amounts due from banks	805 314	574 672	13 862	528 176	1 922 024
Loans and advances to customers	125 394 275	8 444 323	19 931 944	2 503 500	156 274 042
Securities	29 365 544	145 846	-	317 785	29 829 175
Non-current assets	9 973 096	-	-	-	9 973 096
Other assets and derivatives	5 333 488	255 297	27 576	482 956	6 099 317
Total assets (gross)	177 231 281	10 001 648	20 013 039	4 097 806	211 343 774
Depreciation/amortisation/impairment	(10 570 899)	(173 928)	(614 275)	(753 562)	(12 112 664)
Total assets (net)	166 660 382	9 827 720	19 398 764	3 344 244	199 231 110
Amounts due to the central bank	4 065	-	-	-	4 065
Amounts due to banks	1 256 472	811 344	1 389 847	289 674	3 747 337
Amounts due to customers	139 590 140	6 495 989	1 430 741	4 387 311	151 904 181
Debt securities in issue	1 422 185	3 538 895	2 545 438	3 039 928	10 546 446
Subordinated liabilities	1 620 857	-	-	-	1 620 857
Provisions	306 107	9 107	467	5 189	320 870
Other liabilities and derivatives and deferred income tax liability	5 558 145	259 237	1 471	114 176	5 933 029
Equity	25 154 325	-	-	-	25 154 325
Total liabilities and equity	174 912 296	11 114 572	5 367 964	7 836 278	199 231 110
Off-balance sheet liabilities granted	39 453 333	3 101 545	88 784	1 954 118	44 597 780

55.4. Reporting of the currency risk

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

55.5. Management decisions concerning currency risk

Main tools used in currency risk management in the Group include:

- procedures for currency risk management,
- limits and thresholds for currency risk,
- defining allowable types of transactions in foreign currencies and the exchange rates used in such transactions.

The Group has set limits and threshold values for currency risk for i.a.: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss from transactions on currency market.

Methods of currency risk management in the Group's subsidiaries are defined by internal regulations implemented by these entities, which are characterised by high level of currency risk measure outcomes. The regulations are defined after consultation with the Bank and take into account recommendations issued by the Bank to the entities.

56. Liquidity risk management

The liquidity risk is defined as the lack of possibility to pay the debts on time due to the lack of liquid assets. Lack of liquidity may arise from inappropriate structure of statement of financial position, misfit of cash flows, not received payments from contractors, sudden withdrawal of cash by clients or other market events.

The objective of liquidity risk management is to ensure the necessary level of funds to pay present and future debts (also potential) on time, taking into account the nature of performed activities and requirements which may occur due to changes in market environment, by shaping the structure of statement of financial position and off-balance sheet liabilities.

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

56.1. Measurement of the liquidity risk

The Group makes use of the following liquidity risk measures:

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

56.2. Forecasting and monitoring of liquidity risk

Liquidity gaps presented below include the sum of Bank's adjusted liquidity gap (adjusted in terms of the following: permanent balances on deposits of non-financial sector and their maturity, permanent balances on loans in current accounts for non-financial entities and their maturity and liquid securities and their maturity) and contractual liquidity gap of the other Group entities.

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
31.12.2014								
The Group - adjusted gap in real terms	12 733 729	13 357 476	536 836	1 309 410	1 088 394	11 977 076	13 281 695	(54 284 616)
The Group - cumulative adjusted gap in real terms	12 733 729	26 091 205	26 628 041	27 937 451	29 025 845	41 002 921	54 284 616	-
31.12.2013								
The Group - adjusted gap in real terms	6 980 540	13 323 611	(10 261 085)	(843 470)	1 710 668	5 611 828	18 606 239	(35 128 331)
The Group - cumulative adjusted gap in real terms	6 980 540	20 304 151	10 043 066	9 199 596	10 910 264	16 522 092	35 128 331	-

In all time horizons, the Group's cumulative adjusted liquidity gap in real terms , which has been determined as a sum of adjusted liquidity gap in real terms of the Bank and contractual liquidity gaps of the remaining Group entities, as at 31 December 2014 and as at 31 December 2013 was positive. This means a surplus of assets receivable over liabilities payable.

The table below presents liquidity reserve of the Bank as at 31 December 2014 and as at 31 December 2013:

Name of sensitivity measure	31.12.2014	31.12.2013
Liquidity reserve up to 1 month* (in PLN million)	21 075	17 816

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

As at 31 December 2014 the level of permanent balances on deposits constituted approx. 94.7% of all deposits in the Bank (excluding interbank market), which means a decrease by approx. 1.62 pp. as compared to the end of 2013.

(IN PLN THOUSAND)

The table below presents the structure of the Bank's sources of financing as at 31 December 2014 and as at 31 December 2013.

	31.12.2014	31.12.2013
Total deposits (excluding interbank market)	75.04%	79.56%
Interbank market deposits	0.20%	0.25%
Equity	10.57%	12.82%
Financing from the market	14.19%	7.37%
Total	100%	100%

56.3. The contractual cash flows of the Group's liabilities excluding derivative financial instruments as at 31 December 2014 and as at 31 December 2013 respectively, by maturity

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of statement of financial position and off-balance sheet liabilities, excluding derivative financial instruments as at 31 December 2014 and as at 31 December 2013 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2014 and as at 31 December 2013. The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable), in accordance with the contract, for the entire period to the date of the liability's maturity. In situations where the party to whom the Group has a liability is able to select the settlement deadline, it has been assumed that the earliest date on which the Group is obliged to settle the liability shall be taken into account. In situations where the Group is obliged to settle the liabilities in instalments, each instalment is allocated to the earliest period in which the Group might be obligated to settle. In the case of liabilities where the instalment is not fixed, the terms binding as at the reporting date have been adopted.

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

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	4 427	-	-	-	-	4 427	**4 427**
Amounts due to banks	2 044 255	178 596	1 847 485	1 208 177	15 113 128	20 391 641	**19 394 482**
Amounts due to customers	109 773 316	12 560 306	35 033 627	16 953 648	2 099 152	176 420 049	**174 386 766**
Debt securities in issue	50 613	832 749	5 523 147	3 993 876	4 233 507	14 633 892	**13 300 610**
Subordinated liabilities	-	39 123	48 666	327 788	2 648 527	3 064 104	**2 413 985**
Other liabilities	2 228 619	86 910	475 902	98 546	64 626	2 954 603	**2 954 603**
Off-balance sheet financial liabilities – granted	23 514 918	968 602	4 820 338	3 946 353	5 129 776	38 379 987	-
Off-balance sheet guarantee liabilities – granted	225 396	1 336 294	2 557 886	9 124 116	2 074 309	15 318 001	-

Contractual cash flows of the Group's liabilities as at 31 December 2013 by maturity

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	4 065	-	-	-	-	4 065	**4 065**
Amounts due to banks	1 236 481	81 002	361 143	2 232 178	-	3 910 804	**3 747 337**
Amount due to customers	94 883 152	16 098 647	26 106 968	14 389 798	2 550 664	154 029 229	**151 904 181**
Debt securities in issue	-	140 689	1 063 632	6 786 712	3 810 765	11 801 798	**10 546 446**
Subordinated liabilities	-	34 688	35 292	348 471	2 013 270	2 431 721	**1 620 857**
Other liabilities	1 993 874	76 367	514 047	37 010	35 514	2 656 812	**2 547 237**
Off-balance sheet financial liabilities – granted	2 941 472	600 751	1 704 497	3 246 161	26 644 294	35 137 175	-
Off-balance sheet guarantee liabilities – granted	55 886	22 331	356 419	179 882	276 513	891 031	-

56.4. The contractual cash flows related to derivative financial instruments as at 31 December 2014 and as at 31 December 2013 respectively, by maturity

Derivative financial instruments settled in net amounts

Derivative financial instruments settled by the Group on a net basis include:

- interest rate swaps (IRS),
- Forward Rate Agreements (FRA),
- Non Deliverable Forwards (NDF),
- options.

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments in respect of which the balance sheet date valuation was negative (a liability) as at 31 December 2014 and as at 31 December 2013 respectively.

(IN PLN THOUSAND)

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2014 and as at 31 December 2013. In case of IRS transactions, non-discounted future net cash flows in respect of interest have been presented and in case of the remaining derivative instruments settled on a net basis, the amount of the valuation as at 31 December 2014 and as at 31 December 2013 respectively was adopted as the value of cash flows.

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

31 December 2014	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
Derivative financial instruments - liabilities:						
- Interest Rate Swap (IRS) transactions, of which:	(4 881)	5 559	732 845	(2 446 745)	(547 072)	(2 260 294)
- derivative hedging instruments	-	-	-	-	-	-
- other derivative hedging instruments: options, FRA, NDF	(179 655)	(464 273)	(425 585)	(291 679)	-	(1 361 192)

31 December 2013	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
Derivative financial instruments - liabilities:						
- Interest Rate Swap (IRS) transactions, of which:	90 370	(57 992)	111 747	111 310	(10 916)	244 519
- derivative hedging instruments	49 757	14 229	48 532	150 395	-	262 913
- other derivative hedging instruments: options, FRA, NDF	(41 165)	(8 319)	(48 048)	(41 165)	-	(138 697)

Derivative financial instruments settled in gross amounts

Derivative financial instruments settled by the Group on a gross basis include:

- foreign currency swaps,
- foreign currency forwards,
- Cross Currency IRS (CIRS).

The tables below show the contractual maturity analysis, presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments (inflows and outflows) in respect of which the balance sheet date valuation was negative (a liability) as at 31 December 2014 and as at 31 December 2013 respectively. The amounts denominated in foreign currencies have been translated using the average NBP rate as at 31 December 2014 and as at 31 December 2013. The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable).

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

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

31 December 2013	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
Derivative financial instruments:						
- outflows, of which:	(1 849 706)	(450 043)	(1 495 046)	(3 028 734)	(1 071 151)	(7 894 680)
- derivative hedging instruments	(9 510)	(104 562)	(76 941)	(762 546)	(799 481)	(1 753 040)
- inflows, of which:	2 667 156	660 715	1 277 266	4 458 373	1 601 828	10 665 338
- derivative hedging instruments	16 525	376 723	249 269	2 611 406	1 320 615	4 574 538

(IN PLN THOUSAND)

56.5. Current and non-current assets and liabilities

31 December 2014

	Short-term	Long-term	Impairment allowances	Total carrying amount
Cash and balances with the central bank	11 738 371	-	-	11 738 371
Amounts due from banks	2 280 467	206 330	(111)	2 486 686
Trading assets	1 924 426	-	-	1 924 426
Derivative financial instruments	1 139 752	4 355 070	-	5 494 822
Financial instruments designated upon initial recognition at fair value through profit and loss	13 540 447	2 182 701	-	15 723 148
Loans and advances to customers	40 440 580	147 079 281	(8 022 477)	179 497 384
Investment securities available for sale	2 124 032	20 284 562	(129 369)	22 279 225
Securities held to maturity	141 157	92 201	-	233 358
Inventories	267 047	-	(29 164)	237 883
Other assets	3 469 729	6 122 405	(506 848)	9 085 286
Total assets	77 066 008	180 322 550	(8 687 969)	248 700 589
Amounts due to the central bank	4 427	-	-	4 427
Amounts due to banks	4 831 387	14 563 095	-	19 394 482
Derivative financial instruments	1 307 642	4 237 499	-	5 545 141
Amounts due to customers	161 167 443	13 219 323	-	174 386 766
Liabilities due to insurance operations	175 936	2 503 786	-	2 679 722
Debt securities in issue	6 506 131	6 794 479	-	13 300 610
Subordinated liabilities	-	2 413 985	-	2 413 985
Other liabilities	3 162 267	197 638	-	3 359 905
Total liabilities	177 155 233	43 929 805	-	221 085 038
Equity	-	27 615 551	-	27 615 551
Total liabilities and equity	177 155 233	71 545 356	-	248 700 589

31 December 2013

	Short-term	Long-term	Impairment allowances	Total carrying amount
Cash and balances with the central bank	7 246 120	-	-	7 246 120
Amounts due from banks	1 827 492	94 532	(28 583)	1 893 441
Trading assets	479 881	-	-	479 881
Derivative financial instruments	822 349	2 178 511	-	3 000 860
Financial instruments designated upon initial recognition at fair value through profit and loss	14 186 661	1 018 095	-	15 204 756
Loans and advances to customers	41 294 317	114 979 725	(6 650 780)	149 623 262
Investment securities available for sale	698 501	13 408 032	(33 455)	14 073 078
Securities held to maturity	18 314	19 691	-	38 005
Inventories	425 298	278 148	(53 805)	649 641
Other assets	2 199 584	5 628 201	(805 719)	7 022 066
Total assets	69 198 517	137 604 935	(7 572 342)	199 231 110
Amounts due to the central bank	4 065	-	-	4 065
Amounts due to banks	2 279 311	1 468 026	-	3 747 337
Derivative financial instruments	1 065 920	2 262 291	-	3 328 211
Amounts due to customers	135 360 982	16 543 199	-	151 904 181
Debt securities in issue	1 383 963	9 162 483	-	10 546 446
Subordinated liabilities	-	1 620 857	-	1 620 857
Other liabilities	2 749 043	176 645	-	2 925 688
Total liabilities	142 843 284	31 233 501	-	174 076 785
Equity	-	25 154 325	-	25 154 325
Total liabilities and equity	142 843 284	56 387 826	-	199 231 110

56.6. Reporting of the liquidity risk

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

56.7. Management decisions concerning liquidity risk

The main tools for liquidity risk management in the PKO Bank Polski SA Group are as follows:

- procedures for liquidity risk management, in particular emergency plans,
- limits and thresholds mitigating liquidity risk,
- deposit, investment and derivative transactions, including structural currency transactions and transactions for sale or purchase of securities,
- transactions ensuring long-term financing of Bank's lending activities.

To ensure an adequate liquidity level, the Bank and subsidiaries of the PKO Bank Polski SA Group have accepted limits and thresholds for liquidity risk. The limits and thresholds were set for current liquidity measures , medium and long-term liquidity measures.

Methods of liquidity risk management in subsidiaries of the Group are defined by internal regulations implemented by the Group entities which are characterised by high levels of liquidity risk measure outcomes.

These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank to the entities.

57. Commodity price risk management

Commodity price risk is the risk of incurring a loss due to changes in commodity prices, generated by maintaining open positions on particular types of goods.

The objective of commodity price risk management is to reduce potential losses resulting from changes in commodity prices to the acceptable level by appropriate influencing the structure of statement of financial position and off-balance sheet commodity positions.

Commodity price risk is managed by imposing limits on instruments generating the commodity price risk, monitoring their use and reporting the risk level.

The effect of commodity price risk on the Group's financial position is immaterial.

58. Price risk of equity securities management

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

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

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

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

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

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

59. Other price risks

Taking into consideration other price risks, at the end of the year 2014, the Bank was exposed to price risk of investment fund participation units in collective investment funds.

Influence of this risk to the Bank's financial situation is immaterial. The requirement as regards own funds, pursuant to the Regulation No. 575/2013 of the European Parliament and of the Council, to cover the above-mentioned risk amounted to approx. PLN 1.5 million as at 31 December 2014. The increase in relation to the requirement as at 31 December 2013 results from the purchased collective investment funds participation units.

60. Derivative instruments risk management

The risk of derivative instruments is a risk resulting from the Bank's taking up a position in financial instruments, which meet all of the following conditions:

1) the value of an instrument changes with the change of the underlying instrument,
2) it does not require any initial net investment or requires only a small initial net investment compared with other types of contracts which similarly respond to changes in market terms,
3) it is to be settled at a future date.

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

60.1. Measurement of the derivative instruments risk

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

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

60.2. Forecasting and monitoring of the derivative instruments risk

Monitoring the risk of derivative instruments takes place as part of monitoring of other types of financial and credit risk. The Bank pays particular emphasis to monitor financial risk related to the maintenance of currency options portfolio and customer credit risk resulting from amounts due to the Bank in respect of derivative instruments.

60.3. Reporting of the derivative instruments risk

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

60.4. Management decisions concerning risk of derivative instruments

The main tools used in derivative risk management are as follows:

- written procedures for derivative risk management,
- limits and thresholds set for the risk related to derivative instruments,
- master agreements specifying, i.a. settlement mechanisms.

Risk management is carried out by imposing limits on the derivative instruments, monitoring limits and reporting risk level.

Master agreements concluded by the Bank with the major business partners based on the standards developed by the Polish Banks Association (domestic banks) and ISDA (foreign banks and credit institutions), which allow offsetting mutual liabilities, both due (mitigation of settlement risk) and not yet due (mitigation of pre-settlement risk), are particularly important for mitigating the risk associated with derivative instruments. Additional collateral for exposures, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreement (Credit Support Annex).

Methods of derivative risk management in the Group subsidiaries are defined by internal regulations implemented by these entities which take up a position in derivative instruments or plan to take positions in such instruments. These regulations are developed after consultation with the Bank and take into account the recommendations issued by the Bank for the Group entities.

Positions taken by the other Group entities in particular derivative instruments are determined using similar methods to those used for positions taken by the Bank in such derivative instruments, taking into account the specific nature of the business conducted by the Group entities.

61. Operational risk management

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events. Operational risk takes into consideration legal risk yet does not comprise reputation risk and business risk.

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

The Group entities manage operational risk according to principles of these risk management in PKO Bank Polski SA, considering the extent and nature of the relationship of entities included in the Group, their specific nature and scale of activities of particular entities.

61.1. Measurement of the operational risk

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

- calculation of Key Risk Indicators (KRI),
- calculation of own funds requirement in respect of operational risk in accordance with the AMA approach,
- stress-tests,
- calculation of internal capital.

The operational risk self-assessment comprises identification and assessment of operational risk for Bank's products, processes and applications as well as organisational changes and it is conducted cyclically and before the introduction of new or changed Bank's products, processes and applications with the use of:

- accumulation of data on operational events,
- result of inspections, proceedings and functional internal control,
- Key Risk Indicators (KRI).

61.2. Forecasting and monitoring of operational risk

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

The Bank regularly monitors in particular:

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

In 2014, the dominant impact on the operational risk profile of the Group was exercised by the following entities: PKO Bank Polski SA (including acquired subsidiary), the PKO Leasing SA Group the Qualia Development Sp. z o.o. Group and the KREDOBANK SA Group. Other Group entities, considering their significantly smaller scale and type of activity, generate only reduced operational risks.

61.3. Reporting of operational risk

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

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

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

- the results of measuring and monitoring of operational risk,
- the operational risk profile of the Bank resulting from the process of identifying and assessing the threats for products, processes and applications of the Bank,
- operational risk level and instruments used for operational risk management,
- actions taken to reduce operational risk and evaluate the effectiveness of actions taken to reduce the operational risk level,
- recommendation and decision of the ORC or the Management Board.

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

61.4. Management decisions concerning operational risk

The process of operational risk management is realised at the level of the entire Bank and at the levels of each system-based operational risk management areas. System-based operational risk management involves creation of solutions served for exercise of control by the Bank over the level of operational risk, enabling accomplishment of Bank's objectives. The ongoing operational risk management is conducted by every employee of the Bank and involves prevention against materialisation of operational events arising during the product servicing, realisation of processes and use of applications as well as response on occurring operational events.

In order to manage the operational risk, the Bank gathers data about operational events that occurred at the Bank and other banks together with their causes and results, data on the factors of the business environment, results of operational risk self-assessment, data on the key operational risk indicators (KRI) and data related to the quality of internal functional controls.

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

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

Management actions are taken under the following cases:

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

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

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

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

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

62. Compliance risk management

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

The objective of the compliance risk management is ensuring the Group proper application the provisions of the law, adopted standards of conduct and functioning the Bank as a reliable, fair and honest institution through elimination compliance risk, preventing the possibility of losing reputation or reliability of the Group and preventing the risk of occurring financial losses or legal sanction risk, which may result from breach of regulations and standards of conduct.

Appropriate organisational units or designated employees are responsible for finding systemic solutions in the area of ensuring the Group entities compliance with the binding regulations and operating standards. Compliance Department is responsible for finding such solutions and development of the methods for evaluation, monitoring and reporting the Bank's compliance risk. The Compliance Department is a unit which was granted independence and which, in the area of compliance risk management, reports directly to the President of the Bank's Management Board.

In all entities in the PKO Bank Polski SA Group consistent principles of compliance risk management exist.

Compliance risk management involves in particular the following:

- preventing involvement of the Group in illegal activities,
- ensuring data protection,
- development of ethical standards and monitoring of their application,
- conflict of interest management,
- preventing situations where the Group's employees could be perceived as pursuing their own interest in the professional context,
- professional, fair and transparent formulation of product offers, advertising and marketing messages,
- prompt, fair and professional consideration of complaints, requests and quality claims of clients.

To identify the compliance risks, information on cases of non-compliance and the reasons for their occurrence, including information as a result of an internal audit, a functional internal control and external controls is used.

Identification and assessment of compliance risk is based mainly on:

- estimation of the severity of possible cases of non-compliance,
- assessment of the presence of additional factors of risk of compliance with the law.

Making the assessment, a character and potential losses scale are determined, and the way in which the compliance risk can be reduced or eliminated is indicated. Assessment is carried out in the form of workshops.

62.1. Monitoring of compliance risk

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

- the analysis of cases of non-compliance in the Group and banking sector, their origins and effects caused,
- the assessment of the changes in the key provisions of the law affecting the Bank's and the Group's operations,
- the assessment of the activities taken by the Group in its compliance risk management.

The Group prepares reports concerning compliance risk of both the Bank and the Group entities on a quarterly basis. The reports include information provided by the Group entities, including these concerning the cases of non-compliance. The reports are addressed to the Management Board, the Supervisory Board and the Audit Committee of the Supervisory Board. The reports include information i.a. on:

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

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

63. Business risk management

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

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

63.1. Business risk identification and measurement

Business risk identification is to recognise and determine factors both current and potential, resulting from current and planned activities of the Group and which may significantly affect the financial position of the Group, generating or change in the Group's income and expense.
The identification is made:

1) through the analysis of the results of the annual survey, targeted to senior management staff of the Bank and selected entities of the Group,
2) through the analysis of selected items from the income statement related to the Bank's income and expense. Only income and expense arising from the Bank's business activity are selected for the analysis, excluding items included in the measurement of other risks.

Business risk identification is performed by identifying and analysing the factors that had an impact on the significant deviations of realisation of income and expense from their forecasted values. Measurement of business risk is aimed at defining the scale of threats related to the existence of business risk with the use of defined risk measures. The measurement of business risk comprises:

- calculation of internal capital,
- conducting stress-tests.

The internal capital for covering business risk of the Bank is determined on the basis of analysis of historical volatility of deviations of realised net business income from their forecasted values, in accordance with the earnings at risk concept (Earnings at Risk).

The internal capital for covering business risk of the Group entities is determined as the product of:

- ratio of internal capital calculation for covering business risk, and
- total internal capital, excluding internal capital for covering business risk of the Group's particular entities.

A ratio of internal capital calculation for covering business risk for the Group entities is determined as the relation of internal capital for covering business risk of the Bank to total internal capital of the Bank.

63.2. Forecasting and monitoring of business risk

Forecasting of business risk in the Group is conducted once a quarter on a yearly basis and includes forecast of the level of business risk and internal capital. Once a quarter, the verification of business risk forecast (*so-called backtesting*) is also performed. Backtesting is based on the comparison of the internal capital amount, estimated for the particular quarter (performance) with the forecast of this capital, estimated in the previous quarter (forecast).

Monitoring of business risk is aimed at diagnose areas for management actions and includes in particular:

- strategic levels of business risk tolerance – on a quarterly basis,
- stress-tests results – on an annual basis,
- internal capital level – on a quarterly basis,
- deviations from the implementation of business risk forecast – on a quarterly basis.
- results of a survey conducted among senior management staff of the Bank and selected entities of the Group - on an annual basis.

63.3. Reporting of business risk

Business risk reporting of the Group is conducted quarterly. Reports on business risk are prepared for the ALCO, the RC, the Management Board and Supervisory Board. The reports include in particular:

- results of business risk measurement, particularly internal capital, stress-tests results, results of the annual survey conducted among senior management staff of the Bank and selected entities of the Group,
- utilisation level of strategic tolerance limits for business risk,
- business risk forecast and forecast backtesting,
- level of business risk,
- information on business risk in the entities of the Group.

63.4. Management decisions concerning business risk

The main tools used in business risk management include:

- update of quarterly forecasts of internal capital for business risk, determining and monitoring of deviations of the internal capital for business risk realisation from their forecast,
- monitoring of the level of strategic tolerance limit,
- conducting the survey among senior management staff of the Bank and selected entities of the Group.

64. Loss of reputation risk management

The reputation risk is understood as the risk of deterioration of reputation among clients, counterparties, investors, supervisory and control authorities, and the general public as a result of the business decisions, operating events, instances of non-compliance or other events. The objective of managing the reputation risk is to protect the Bank's reputation by counteracting the occurrence of reputation losses and limiting the negative effect of image-related events on the Group's reputation.

Reputation risk management in the Group includes mainly:

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

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

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

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

65. Model risk management

Model risk is the risk of incurring negative financial or reputation effects as a result of making incorrect business decisions on the basis of the models operating within the Bank. Within the Group, model risk is managed both on the part of a given Group entity (an owner of a model) and at the level of the Bank as a parent company of the Group.

The objective of models management and model risk management is to mitigate the level of model risk in the Group. Companies in which model risk is considered to be material, after consulting the Bank, introduce appropriate internal regulations governing the model risk management policies and process. In the Group, the solutions functioning in the Bank are used, with the possibility of tailoring them individually to the specific nature of each Company.

In 2014, in line with the amended model risk management regulations, the range of models subject to the process of independent validation was expanded. The Bank's validation unit commenced the process of giving opinions on the models used by other Group entities, which were considered to be models material to the Group.

Within the Group, model risk is managed both on the part of a given Company (an owner of a model) and at the level of the Bank.

65.1. Identification and assessment of model risk

Identification of model risk mainly consists of:

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

Ratings are particularly aggregated at the level of the Bank, the Company or the Group.

Ratings may be aggregated mainly at the level of the Bank or the Company, particular risk types or classes of models, particular processes of model life-cycle. The model risk assessment is performed at least once a year and at the moment of appearing of new models, change the scale or business profile of the Bank or the Company.

65.2. Model risk monitoring and reporting

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

- information on the level of model risk (in the standalone and consolidated perspective),
- model risk map,
- information on the validation process and the status of implementation of the recommendations after validation,
- evaluation of effectiveness of the recommendations made to reduce the model risk level,
- potential proposed new management actions reducing the model risk.

65.3. 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,
- determining acceptable levels of risk,
- issuing recommendations,
- making decisions about the use of tools supporting model risk management.

66. 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.

66.1. 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.

66.2. Macroeconomic changes risk monitoring

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

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

66.3. Macroeconomic changes risk reporting

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

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

66.4. 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.

67. Capital risk management

Capital risk is defined as the risk of failing to ensure an appropriate level and structure of own funds, with respect to the scale of PKO Bank Polski SA's operations and risk exposure and, consequently, insufficient for the absorption of unexpected losses, taking into account development plans and extreme situations.

Therefore, the objective of managing the capital risk is to ensure an appropriate level and structure of own funds, with respect to the scale of the operations and risk exposure of the Bank and the Group, taking account of the assumptions behind the Bank's dividend policy as well as supervisory instructions and recommendations concerning capital adequacy.

The capital risk level for the Bank and the Group is determined based on the minimum, threshold and maximum values of capital adequacy measures, amongst others, the total capital ratio and basic capital (Tier 1) ratio.

In addition, threshold and maximum values are determined for capital adequacy measures, as an excess over the minimum values constituting strategic tolerance limits for the capital adequacy measures.

The Bank regularly monitors the level of capital adequacy measures in order to determine the degree of compliance with supervisory standards, internal strategic limits, and to identify instances which require taking capital contingency actions.

Should a high level of capital risk be identified, the Bank takes measures to bring capital adequacy measures to a lower level, taking account of the assumptions behind the dividend policy as well as the supervisory instructions and recommendations concerning capital adequacy.
The levels of capital adequacy measures as well as the levels and structure of the Bank's own funds are presented in the note 70 'Capital adequacy'.

68. Insurance risk management

Insurance risk is a risk of loss or of adverse change in value of insurance liabilities, due to inadequate pricing and provisioning assumptions (in particular for technical provisions).

The objective of insurance risk management is to maintain insurance risk on an acceptable level and to limit potential loss from adverse change in the value of insurance liabilities.

68.1. Identification and assessment of insurance risk

Exposure to insurance risk exists in PKO Życie Towarzystwo Ubezpieczeń S.A. (PKO Życie) and concerns the following sub-types of risk:

- mortality,
- morbidity,
- contracts withdrawal,
- cost increase,
- catastrophic,

Assessment of exposure to insurance risks in PKO Życie is as follows:

- mortality and morbidity risk (in a current solvency regime risk of claims) is assessed at a low level due to the small share of insurance policies relating to this risk in the whole Company's insurance portfolio and reinsurance applied,
- the catastrophic risk is limited by i.a. regional diversity,
- the contracts withdrawal risk relates primarily to insurance products with Insurance Capital Funds. Based on data from 2014 the level of contracts withdrawal is assessed as stable.

Insurance risk measurement in PKO Życie is carried out as a part of contracts withdrawal analysis, claims analysis, analysis of assets covering technical provisions (APR) and annual analysis of shock scenarios – stress-tests, on the basis of methodology required by the PFSA Office. In preparation for implementation of the new Solvency II system, PKO Życie performs analyses of exposure to insurance risks in the process of Quantitative Impact Studies (QIS) supervised by the PFSA Office.

68.2. Monitoring of the insurance risk

Assets covering technical provisions (APR) were at a sufficient level (above 100%), as well as had the appropriate structure (in line with regulatory requirements). The total provisions cover ratio amounted to 101% at the end of 2014. For insurance products with Insurance Capital Funds and for structured products, which comprise the greater part of the portfolio of PKO Życie, surplus of assets is not required, hence the total level of ratios remains at the level slightly above 100%.

68.3. Insurance risk reporting

Insurance risk reporting is performed in PKO Życie in the form of monthly report for the Management Board and the quarterly report for the Assets & Liabilities Management Committee and for Risk Committee.

68.4. Management actions covering insurance risk

As to mitigate the insurance risk exposure, PKO Życie uses among others:

- reinsurance of risks (mortality, morbidity),
- grace periods,
- exemptions,
- retention activities.

Passive reinsurance of PKO Życie is performed on the basis of:

- obligatory - facultative, quota share - surplus treaties, on the basis of risk - premium,
- facultative reinsurance agreements, on the basis of risk – premium,
- obligatory, proportional reinsurance agreements, on the basis of risk – premium.

Facultative reinsurance is applied for all insurance agreements and risks not covered by obligatory – facultative reinsurance agreements, in which the sum on the gross risk exceeds agreed amount.

In case of the new products and the risks, PKO Życie choses reinsurer, level of protection, conditions of the reinsurance, changes in concluded reinsurance contracts and concluding new reinsurance contracts in relation to the newly introduced to offer or modified insurance products and new risks.

69. Complex stress-tests

Complex stress-tests are an integral part of the PKO Bank Polski SA Group's risk management and are complementary for stress-test-specific to particular types of risks.

Complex stress-tests collectively include the following risks considered by the PKO Bank Polski SA Group to be relevant, including:
- credit risk,
- market risk,
- liquidity risk,
- operational risk,
- business risk.

Complex stress-tests include an analysis of the impact of changes in the environment and the functioning of the Bank on the financial position of the PKO Bank Polski SA Group, in particular on:
- income statement,
- statement of financial position,
- own funds,
- the capital adequacy, including requirements as regards own funds, internal capital, measures of capital adequacy,
- selected liquidity measures.

Complex stress-tests for the own use of the Group are carried out at least once a year in the three-year horizon, taking into account changes in the value and structure of the statement of financial position and income statement items (dynamic tests). Supervisory tests are carried out at the request of the supervisory authorities in accordance with the assumptions provided by supervisory authorities.

70. Capital adequacy

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

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

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

- identifying and monitoring of all of significant risks,
- assessing internal capital to cover the individual risk types and total internal capital,
- monitoring, reporting, forecasting and limiting of capital adequacy,
- performing internal capital allocations to business segments, client segments and entities of the Group in connection with profitability analyses,
- using tools affecting the capital adequacy level (including: tools affecting the level of equity, the scale of equity item reductions and the level of the loan portfolio).

The fundamental regulation applicable in the capital adequacy assessment process as at 31 December 2014 is the Regulation (EU) No. 575/2013 of the European Parliament and of the Council as of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending the Regulation (EU) No. 648/2012, hereinafter called ‘CRR Regulation’. The CRR Regulation constitutes a part of so-called CRD IV/CRR package, which apart from the Regulation comprises CRD IV Directive – Directive 2013/36/EU of the European Parliament and of the Council as of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (hereinafter called ‘CRD Directive’). In contrast to the CRR Regulation which is directly applicable, the CRD Directive must be implemented within the national law. As at 31 December 2014 the Banking Law has not been amended yet and the work on amending the Act implementing CRD IV regulation is currently ongoing. In case of conflict between provisions of the CRR Regulation and national regulations, precedence is given to the CRR Regulation.

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

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

As at 31 December 2014 capital adequacy measures were calculated in accordance with the provisions of the CRR Regulation, including i.a. as regards the scope of consolidation taking into account known to the Bank and planned to implement national options. As at 31 December 2014 the Bank meets requirements relating to capital adequacy measures defined within the CRR Regulation.

The level of capital adequacy of the Group in 2014 remained on a safe level, significantly above the supervisory limits.

As at 31 December 2013 all capital adequacy measures were calculated in accordance with the provisions of the Banking Law, Resolution of the Polish Financial Supervision Authority No. 76/2010 of 10 March 2010 on the scope and detailed procedures for determining capital requirements for particular risks and Resolution of the Polish Financial Supervision Authority No. 325/2011 of 20 December 2011 on decreasing own funds. The scope of consolidation which has been taken into account in capital adequacy as at 31 December 2013 included all subsidiaries of the PKO Bank Polski SA Group.

70.1. Own funds for capital adequacy purposes

Own funds of the Group for the purposes of capital adequacy were calculated as at 31 December 2014 in accordance with the provisions of the CRR Regulation.

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

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

1) principal funds comprising: share capital, other reserves (reserve capital, reserves),
2) other comprehensive income (excluding of gains and losses on cash flow hedges, and in respect of unrealised gains and losses on instruments classified to available for sale portfolio only losses of 80% of their carrying amount are recognised),
3) general banking risk fund,
4) retained earnings (undistributed profits from previous years),
5) net profit prior to approval and net profit for the current reporting period, calculated based on appropriate accounting standards, decreased by any expected charges and dividends, in amounts not exceeding amounts audited by certified auditor, whereas the term for inclusion of the above-mentioned net profit within Bank's own funds is its approval by the General Shareholders' Meeting, or prior to the approval by GSM, obtaining consent from the PFSA to its inclusion within own funds.

Tier 1 basic funds are reduced by the following items:

1) losses for the current financial year,
2) intangible assets stated at carrying amount less any associated deferred income tax liability (the deducted amount includes goodwill taken into account in measurement of the Bank's significant investments),
3) additional value adjustments of assets measured at fair value (AVA),
4) deferred income tax assets based on future profitability and not arising from temporary differences,
5) deferred income tax assets based on future profitability and arising from temporary differences which exceed 10% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets),
6) the Bank's significant direct and indirect equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies, expressed as shares or other Tier 1 basic funds instruments of these entities (apart from exposures constituting structural positions), which total amount exceeds 10% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets),
7) the amount by which the sum of:
   a) deferred income tax assets based on future profitability and arising from temporary differences, up to 10% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred tax assets) and
   b) the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies, expressed as Tier 1 basic funds instruments of these entities, up to 10% of Tier basic funds (without considering deductions due to equity exposures and deferred income tax assets)

   exceeds the equivalent of 15% of the Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets). The amount below the threshold in subject does not reduce own funds and is included within risk weighted assets.

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

Tier 2 supplementary funds are reduced by the Group's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies in the form of Tier 2 supplementary funds instruments of these entities.

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

As at 31 December 2014 in the Group's own funds calculated for the purposes of capital adequacy the Bank's net profit for the period from 1 January 2014 to 30 June 2014, in the amount of PLN 1 004 300 thousand after deducting any expected charges and dividends, on the basis of decision of the Polish Financial Supervision Authority, dated on 29 September 2014 has been included. Profit was included in Tier 1 basic funds of the Bank.

Information on the structure of the Group's own funds included in prudential consolidation, set out for purposes of capital adequacy as at 31 December 2014, according to the CRR Regulation, is presented in the table below:

(IN PLN THOUSAND)

GROUP'S OWN FUNDS	31.12.2014
Basic funds (Tier 1)	22 348 472
Share capital	1 250 000
Other reserves	22 126 506
Other comprehensive income	(290 466)
General banking risk fund	1 070 000
Retained earnings	1 175 718
Deferred income tax assets, dependent on future profitability, not derived from temporary differences	(11 576)
Goodwill	(1 102 497)
Other intangible assets	(1 833 506)
Additional valuation adjustments of assets measured at fair value	(35 707)
Supplementary funds (Tier 2)	2 394 713
Subordinated liabilities classified as supplementary funds	2 394 713
TOTAL OWN FUNDS	24 743 185

As at 31 December 2013 own funds for the purposes of capital adequacy are calculated in accordance with the provisions of the Banking Law and Resolution of the Polish Financial Supervision Authority No. 325/2011 of 20 December 2011 on deductions from own funds (Official Journal of PFSA of 30 December 2011 No. 13, item 49).

Information on the structure of the Group's own funds set out for purposes of capital adequacy as at 31 December 2013 is presented in the table below:

GROUP'S OWN FUNDS	31.12.2013
Basic funds (Tier 1)	19 611 274
Share capital	1 250 000
Reserve capital	16 760 686
Other reserves	3 469 107
General banking risk fund	1 070 000
Undistributed profits from previous years	(306 230)
Unrealised losses on debt and equity instruments and other receivables classified as available for sale	(141 815)
Assets valuation adjustments in trading portfolio	(5 656)
Intangible assets, of which:	(2 230 222)
Equity exposures	(121 930)
Negative currency translation differences from foreign operations	(134 175)
Non-controlling interest	1 509
Supplementary funds (Tier 2)	1 539 670
Subordinated liabilities classified as supplementary funds	1 600 700
Unrealised gains on debt and equity instruments classified as available for sale (up to 80% of their values before tax)	56 145
Positive currency translation differences from foreign operations	4 755
Equity exposures	(121 930)
Short-term equity (Tier 3)	154 112
TOTAL OWN FUNDS	21 305 056

70.2. Requirements as regards own funds (Pillar 1)

In accordance with the CRR Regulation on prudential requirements for credit institutions and investment firms being in force since 1 January 2014, the Group calculates requirements in respect of own funds for the following risk types:

- in respect of credit risk – using the standardised method,
- in respect of operational risk for the Bank – using the advanced measurement approach (AMA), and for the Group entities carrying financial entities - the basic index approach (BIA),
- in respect of market risk - using basic methods.

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

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

(IN PLN THOUSAND)

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

1) credit risk, including credit risk of the instruments from the banking book, counterparty credit risk,
2) market risk,
3) risk of credit valuation adjustment (CVA),
4) settlement and delivery risk,
5) operational risk,
6) other types of own funds requirements in respect of:
   a) currency risk,
   b) commodity price risk,
   c) exceeding the exposure concentration limit and large exposure limit.

The table below presents the Group's own funds requirements as regards particular types of risk. Data as at 31 December 2014 were calculated pursuant to the CRR Regulation, which is mentioned above. Whereas data as at 31 December 2013 were calculated in accordance with the Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 on scope and detailed principles of setting capital requirements in connection with the individual risk types.

Capital requirements	31.12.2014	31.12.2013
Credit risk	13 882 607	11 593 995
Market risk	585 337	327 321
Credit valuation adjustment risk	42 375	-
Settlement/delivery risk	68	-
Operational risk	759 212	630 884
Total capital requirements	15 269 599	12 552 200
Capital adequacy ratio	12.96%	13.58%

The increase in own funds capital requirement in respect of credit risk in 2014 compared to 2013 by approx. PLN 2.3 billion is mainly due to an inclusion of Nordea Bank Polska SA portfolio and a significant growth of loan portfolio.

The increase in own funds requirement in respect of market risk in 2014 compared to 2013 by approx. 79% to the level of PLN 585 million results mainly from an inclusion of corporate bonds portfolio and corporate bonds guarantees of Nordea Bank Polska SA.

The own funds requirement in respect of operational risk for the Bank was calculated in accordance with the advanced AMA approach and the own funds requirement in respect of operational risk for Group entities concluded financial operations was calculated in accordance with the basic index approach (BIA). There was an increase in the requirement from PLN 631 million (as at 31 December 2013) to PLN 759 million (as at 31 December 2014), particularly due to including the acquisition of Nordea Bank Polska SA.

70.3. Capital requirements for insurance companies

The PKO Bank Polski SA Group comprises an insurance company, PKO Życie TU S.A., which, as an entity covered with separate supervision of UKNF, including capital requirements compliance assessment, is excluded from the prudential consolidation.

In accordance with the Act as of 22 May 2003 on Insurance Activity (with subsequent amendments) an insurance company is obliged to possess own funds in the amount not lower than the required solvency margin and not lower than the guarantee fund. The guarantee fund is equal to the value higher of:

1) one third of the solvency margin,
2) the minimum amount of the guarantee fund.

The principles on calculation of the required solvency margin and the minimum amount of the guarantee fund is determined by the Regulation of the Minister of Finance as of 28 November 2003 on calculation of the required solvency margin and the minimum amount of the guarantee fund for insurance classes and groups (with subsequent amendments).

CAPITAL ADEQUACY OF PKO ŻYCIE TU	31.12.2014
Own funds	73 962
Solvency margin	51 479
Guarantee fund:	17 160
Minimum amount of the guarantee fund	15 403
One third of solvency margin	17 160
Surplus/deficit of own funds to cover the solvency margin	22 483
Surplus/deficit of own funds to cover the guarantee fund	56 802

70.4. Internal capital (Pillar 2)

The Group calculates internal capital in accordance with:

- the CRR Regulation,
- the CRD Directive,
- the resolution No 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles for functioning of risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital and the principles for determining the variable salary components policy for persons holding managerial positions in the Bank.

Internal capital is the amount of capital estimated by the Group that is necessary to cover all of the identified significant risks characteristic of the Group's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

The internal capital in the PKO Bank Polski SA Group is intended to cover each of the significant risk types:

- credit risk (including default and concentration risk),
- currency risk,
- interest rate risk,
- liquidity risk,
- operational risk,
- business risk (taking into consideration strategy risk).

Materialisation of macroeconomic changes risk, model risk, compliance risk and loss of reputation risk is reflected in the estimates of internal capital for covering the types of risk: credit, interest rate, currency, operational and business.

The Bank regularly monitors the significance of the individual risk types relating to the activities of the Bank and other Group entities.

The internal capital for covering the individual risk types is determined using the methods specified in the internal regulations. In the event of performing internal capital estimates based on statistical models, the annual forecast horizon is adopted and a 99.9% confidence level. The total internal capital of each entity of the Group is the sum of internal capital amount necessary to cover all of the significant risks for the entity. The total internal capital of the Group is the sum of internal capital amount of the Bank and all Group entities. The correlation coefficient for different types of risk and different Group entities used in the internal capital calculation is equal to 1.

In 2014, the relation of the Group's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Group's internal limits.

70.5. Disclosures (Pillar 3)

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

- the CRR Regulation,
- Implementing acts to the CRR Regulation in the national legislation acts transposing the provisions of the CRD Directive,
- the Recommendation M relating to operational risk management in banks, issued by the Polish Financial Supervision Authority,
- the resolution No. 385/2008 of the Polish Financial Supervision Authority dated 17 December 2008, on the detailed principles and methods for banks to disclose qualitative and quantitative information concerning capital adequacy and the scope of the information to be announced.

Details of the scope of information disclosed, the method of its verification and publication are presented in the PKO Bank Polski SA Capital Adequacy Information Policies and other information to be published, which are available on the Bank's website (www.pkobp.pl).

71. Information on loan bundle sale

The Bank did not enter any securitisation transactions, although in 2014 it performed a bundle sales (statement of financial position and off-balance sheet loans):

- In the first quarter, over 10 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities (including credit cards loans), with a total debt of PLN 191.6 million, EUR 495 thousand and CHF 10.7 million and nearly 890 corporate loans classified as 'loss' with a total debt of PLN 107.9 million, EUR 34 thousand and CHF 360 thousand;
- In the second quarter, 182 mortgage-secured retail loans classified as 'loss' in relation to individuals who do not conduct business activities with a total debt of PLN 26.7 million, EUR 154 thousand and CHF 4.5 million, nearly 830 corporate loans classified as 'loss' with a total debt of PLN 80.2 million, EUR 61 thousand, CHF 68.5 thousand and USD 0.6 thousand and 83 loans from institutional clients classified as 'loss', with a total debt of PLN 216 million, EUR 2.8 million and CHF 637 thousand;
- In the third quarter, over 7.2 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities with a total debt of PLN 159 million, EUR 37 thousand, CHF 4.8 million and USD 297 thousand;
- In the fourth quarter, 10.5 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities (including credit cards loans) with a total debt of PLN 146.8 million, EUR 123 thousand, CHF 3.8 million and USD 407 thousand and over 1.1 thousand corporate loans classified as 'loss' with a total debt of PLN 224 million, EUR 0.1 thousand, CHF 3.1 million and USD 0.2 thousand and 54 loans from institutional clients classified as 'loss', with a total debt of PLN 115.5 million and USD 2.2 million.

(IN PLN THOUSAND)

The total carrying amount of the provision for potential claims on impaired loan portfolios sold as at 31 December 2014 amounted to PLN 1 785 thousand (as at 31 December 2013 it was PLN 2 087 thousand). As a result of loan sale all risks and rewards were transferred, hence the Group 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

72. Information on the entity authorised to audit financial statements

Entity authorised to audit financial statements with which PKO Bank Polski SA concluded an agreement for the audit of these financial statements is PricewaterhouseCoopers Sp. z o.o. The agreement concerns auditing the financial statements of PKO Bank Polski SA as well as auditing the consolidated financial statements of the PKO Bank Polski SA Group. The above agreement was concluded on 18 June 2014.

Total net remuneration of PricewaterhouseCoopers Sp. z o.o. for the audit of the separate financial statements and consolidated financial statements of PKO Bank Polski SA in 2014 amounted to PLN 1 540 thousand (2013: PLN 1 140 thousand), total net remuneration for assurance services, including the review of the financial statements amounted in 2014 to PLN 2 568 thousand (2013: PLN 1 731 thousand).

Total net remuneration of PricewaterhouseCoopers Sp. z o.o. related to other services provided to PKO Bank Polski SA in 2014 amounted to PLN 2 597 thousand (2013: PLN 341 thousand).

73. Events after the reporting period

1. As a result of the cessation of defence of minimum EUR/CHF rate by Swiss central bank, in January 2015 a significant appreciation of the Swiss franc against foreign currencies, including Polish zloty took place. The Group constantly analyses the impact of these events on financial results, of which on the risk of deterioration in the quality of the portfolio of housing loans denominated in CHF. This risk is partially neutralised by a decline in reference interest rates for CHF LIBOR (three-month LIBOR in February 2015 was at the level of approximately -0.9%). The Group took a number of actions aiming at support of customers and simultaneously reducing an increase in the credit risk related to an increase in CHF – among others decreasing the CHF/PLN spread used to calculate CHF repayment amount and applying the negative LIBOR rate for all customers. In the assessment of the Group these actions allow to maintain the borrowers capacity to service the debt arising from housing loans in CHF at the level not lower than in December 2014.

   The table below presents a qualitative analysis of loans in CHF (the Bank's data)

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

   The PKO Bank Polski SA Group regularly monitors the volatility of CHF exchange rate, the value of housing loans portfolio denominated in CHF and the impact of changes in foreign exchange rate on the level of capital adequacy measures. The Group expects to maintain capital adequacy measures at a safe level in 2015, taking into account the volatility of CHF exchange rate.

   Observed by the PKO Bank Polski SA Group a scale of PLN depreciation has impact on the volume of the Group's portfolio of currency loans denominated in CHF, which contributes to an increase in the requirements as regards own funds in respect of credit risk and consequently causes a decrease of total capital adequacy ratio (TCR) and a ratio of Tier 1 basic funds - Common Equity Tier 1 (CET1).

   The Group estimates, that with the CHF/PLN exchange rate at the level of 4.20:

   - a consolidated total capital adequacy ratio would fall by 0.29 pp.,
   - a consolidated ratio of Tier 1 basic funds would fall by 0.33 pp.

   The above estimate was prepared on the basis of appropriate consolidated data as at 31 December 2014.

2. In February 2015, as a result of releasing of hryvnia exchange rate by the National Bank of Ukraine, a significant depreciation of Ukrainian hryvnia against foreign currencies, including Polish zloty took place. From the beginning of March 2015, after the decision on significant increasing in reference interest rates in Ukraine, decreasing of scale of hryvnia depreciation is observed. The Group regularly analyses the impact of these events on financial results, including the risk of deterioration of the Group assets' quality in Ukraine.

3. On 30 January 2015, the Extraordinary General Shareholders' Meeting of PKO Bankowy Leasing Sp. z o.o. adopted a resolution on increasing the Company's share capital of PLN 20 000 thousand. All shares in the increased capital were covered by the current sole shareholder - PKO Leasing SA.

(IN PLN THOUSAND)

4. On 10 February 2015, PKO Bank Polski SA established PKO Towarzystwo Ubezpieczeń SA with a share capital of PLN 20 000 thousand. The main business of the Company shall be the provision of non-life insurance.
5. On 6 March 2015 the Polish Financial Supervision Authority issued a decision, in which granted its permit to starting operations by PKO Bank Hipoteczny S.A.
6. On 10 March 2015 the Polish Financial Supervision Authority granted its permit to the establishment an insurance company operating within branch II (non-life insurance) by PKO Bank Polski SA.

Signatures of all Members of the Management Board of the Bank

10.03.2015	Zbigniew Jagiełło	President of the Management Board	.... (signature)
10.03.2015	Piotr Alicki	Vice-President of the Management Board	.... (signature)
10.03.2015	Bartosz Drabikowski	Vice-President of the Management Board	.... (signature)
10.03.2015	Piotr Mazur	Vice-President of the Management Board	.... (signature)
10.03.2015	Jarosław Myjak	Vice-President of the Management Board	.... (signature)
10.03.2015	Jacek Obłękowski	Vice-President of the Management Board	.... (signature)
10.03.2015	Jakub Papierski	Vice-President of the Management Board	.... (signature)

Signature of person responsible for
maintaining the books of account

10.03.2015

Danuta Szymańska
Director of the Accounting Division

....
(signature)