



Bank Polski

The PKO Bank Polski SA Group Directors' Report for the first half of 2015

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1. FINANCIAL RESULTS OF PKO BANK POLSKI SA GROUP IN THE FIRST HALF OF 2015

1.1. Selected financial data

Table 1. Selected financial data of PKO Bank Polski SA Group

	1H 2015	1H 2014	Change 1H 2015/1H 2014
Net profit	1 350.1 PLN million	1 658.1 PLN million	-18.6% (y/y)
Result on business activities*	5 175.1 PLN million	5 498.6 PLN million	-5.9% (y/y)
Net interest income	3 354.1 PLN million	3 678.9 PLN million	-8.8% (y/y)
Net fee and commission income	1 436.5 PLN million	1 489.0 PLN million	-3.5% (y/y)
Administrative expenses	(2 777.1) PLN million	(2 468.5) PLN million	12.5% (y/y)
Net impairment allowance and write-downs	(748.6) PLN million	(971.1) PLN million	-22.9% (y/y)
C/I	51.3 %	43.4 %	7.9 p.p.
ROE net	10.7 %	13.4 %	(2.7) p.p.
ROA net	1.2 %	1.6 %	(0.4) p.p.

* Result on business activities defined as operating profit before administrative expenses and net impairment allowance and write-downs.

The net profit of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group (PKO Bank Polski SA Group) generated in the first half of 2015 amounted to PLN 1 350.1 million, which represents a decrease of PLN 308.1 million compared with the corresponding period of the prior year. The achieved profit was determined by:

- deterioration in the result on business activities of the PKO Bank Polski SA Group, which amounted to PLN 5 175.1 million (PLN -323.4 million y/y), mainly due to an decrease in net interest income of PLN 324.8 million y/y generated during the conditions of record low interest rate,
- increase of administrative expenses in annual terms of 12.5%, due to extension of PKO Bank Polski SA Group and increased obligatory charges to BGF/PFSA,
- improvement in the net impairment allowance and write-downs (+ PLN 222.5 million y/y), mainly due to improvement of result on corporate loans,
- effective structure of the statement of financial position – an increase in amounts due to customers, amounts due to banks and amounts due to issue of securities and subordinated liabilities totalling PLN 10.0 billion y/y enabled a dynamic increase in business activities. The loan to deposit ratio as at the end of the first half of 2014 amounted to 103.5%, and the ratio of loans to stable sources of funding amounted to 87.0%.

1.2 The main events in the first half of 2015

The economic growth rate in 2015 remained stable, despite the weakening of the economic activity in the Eurozone and unfavourable geopolitical situation. Increase in domestic demand supported by an improving situation on labour market and deflation as well as increasing an actual purchasing power of households, had positive influence on Polish economy. The Monetary Policy Council ('MPC', RPP – Rada Polityki Pieniężnej) decreased in March the basic interest rates, announcing the completion of the cycle of monetary policy easing. The banks' financial results in 2015 were influenced by historically low interest rates, significant transformations in regulatory and law environment, as well as improving economic situation, which boosted consumer's moods.

PKO Bank Polski SA Group activities in first half of 2015 were focused on works related to core business activities, the growth of assets profitability and continued activities aimed at optimising of operating costs.

The PKO Bank Polski SA Group have successfully made an operational fusion of merged banks in the first half of 2015.

Operational merger with Nordea Bank Polska SA

Purchase of assets from the Nordea Group is one of the most important elements of the realisation of Powszechna Kasa Oszczędności Bank Polski SA's strategy for the years 2013-2015, it is also the result of a change in approach to the development of the activities of PKO Bank Polski SA. After the years of organic growth which strengthened the Bank's position as the leader of the domestic banking sector, mergers and acquisitions constitute a natural, next stage in the Bank's development. It is the Bank's response to the dynamic market situation, the need to protect its market position and the profitability of its operations, especially in the current strict legal regulations and environment of low interest rates. At the same time, the measures taken by the Bank are consistently aimed at meeting the growing needs of its customers who expect to receive top quality services, a product offer tailored to their needs, and modern, suitable technological solutions.

Within the transaction finalised in April 2014, the Group expanded by purchased assets: Nordea Bank Polska SA, 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA (currently PKO Życie Towarzystwo Ubezpieczeń SA) and a lease and factoring company, Nordea Finance Polska SA, which was merged with PKO Leasing SA.

Execution of the transaction of the assets acquisition significantly improved the Bank's position in the segment of affluent retail customers, enhanced its competencies in the corporate banking segment and broadened the offer in the area of bancassurance. The merger with Nordea Bank Polska SA was the fastest merger of two banks on the Polish market and one of the fastest in Europe. Migration works were carried out without any damage to the continuity, stability and security of the operation of the Information System of the Bank.

On 20 April 2015 the operational merger was completed successfully and resulted in the standardization of both banks' activities, including access to the transactional systems and agencies for every customer, regardless of affiliation to primary bank before the integration process.

Calendar of acquisition of entities from Grupy Nordea SA Group

June 2013	1. Conclusion of an agreement with Nordea Bank AB (publ), defining the terms of the realisation of the transaction of acquisition of Nordea Bank Polska SA and Nordea Polska Towarzystwo Ubezpieczeń na Życie SA and Nordea Finance Polska SA as well as receivables portfolio granted to corporate customers.
September 2013	2. The consent of the Ukrainian Antimonopoly Committee to take control over the companies that are the subject of the transaction.
October 2013	3. The consent of the President of the Competition and Consumer Protection Office for the concentration involving the taking control over the companies that are the subject of the transaction by PKO Bank Polski SA.
March 2014	4. The consent of the Polish Financial Supervision Authority for the acquisition of shares of Nordea Bank Polska SA by PKO Bank Polski SA.
April 2014	5. Formal acquisition of shares of the Nordea Group entities.
May 2014	6. Nordea Polska Towarzystwo Ubezpieczeń na Życie SA changed the name to PKO Życie Towarzystwo Ubezpieczeń SA
June 2014	7. Nordea Finance Polska SA changed the name to PKO Leasing Pro SA.
September 2014	8. The Polish Financial Supervision Authority issued a consent for the merger of PKO Bank Polski SA and Nordea Bank Polska SA. 9. PKO Leasing Pro SA merger with PKO Leasing SA
October 2014	10. The legal merger, which ended the formal integration stage of two banks.
April 2015	11. Operational merger of banks.

PKO Bank Hipoteczny SA commence operating activities

The significant parts of implemented strategy, strengthening the competitive advantage and providing a powerful basis for long-term development of PKO Bank Polski SA, as a banking sector leader in Poland and Central Europe is establishment of PKO Bank Hipoteczny SA. On 1 April 2015 PKO Bank Hipoteczny SA began making sales in the retail network of PKO Bank Polski SA as well as through agents and intermediaries, after gaining the PFSA's consent to commence operating activities. PKO Bank Hipoteczny SA commences operating activities and offers mortgage loans. The preparations of issue of mortgage bonds and own bonds are still ongoing.

Mobile payment system - BLIK

In February 2015 a globally unique mobile payments system – BLIK (designed on the basis of IKO application by PKO Bank Polski SA) was made available for the Bank's customers. This is a result of cooperation of six banks that was initiated by PKO Bank Polski SA and is available to the customers of the following banks: Alior Bank SA, Bank Millennium SA, Bank Zachodni WBK SA, ING, Bank Śląski SA, mBank SA (including Orange Finance), as well as PKO Bank Polski SA (including Inteligo). Through BLIK the customers have a possibility to use innovative non-cash payment system via mobile device.

Mobile applications of each particular bank have access to payment function with BLIK code, which authorizes transactions in stationary and online stores, as well as cash withdrawals from ATMs without a credit card. The possibility of bank transfers to the phone number (P2P) for customers of banks participating in the project (currently only IKO application have a function of transferring funds to a phone number) is planned to be implemented in the subsequent months.

Customers of PKO Bank Polski SA and Inteligo can make payments in the tens of thousands of payment terminals eService and First Data Polska and in the tens of thousands of online stores operated by key payment aggregators (DotPay, Przelewy24, CashBill, transferuj.pl).

They can also withdraw cash in approx. 11 000 ATMs, including in the own networks of PKO Bank Polski SA and the following banks: Millennium Bank SA, Bank Zachodni WBK SA, ING Bank Śląski SA and through ATMs and ATMs with cash deposit module of Euronet: Credit Agricole Bank Poland SA, mBank SA, Alior Bank SA, Getin Noble Bank SA, Idea Bank SA.

Expansion on international markets

Building the Bank's strategic position for the coming years resulted in taking measures which will lead to launching the operations of its first foreign branch in 2015 – a corporate branch of PKO Bank Polski SA in Germany. Selecting the direction of the first stage of the foreign expansion is integrally associated with the high activity of the Bank's institutional clients on the German market, the scale of the mutual trade, and the investment projects carried out. The registered office of the branch which will operate under the name of PKO Bank Polski Niederlassung Deutschland will be in Frankfurt am Main. The services offered at this branch will comprise: transaction banking products, Treasury products, trade finance, consulting services relating to foreign markets, and foreign loans. The operational activities will be started at the turn of 2015 and 2016. Moreover, the Bank will also undertake actions to determine further potential markets for international expansion.

PKO Bank Polski SA Group's activities in the first half of 2015 allowed to achieve high financial results and strengthen the position among the largest financial institutions in Poland, despite the historically lowest interest rates and significant changes in the regulatory environment.

1.3 Development trends of PKO Bank Polski SA Group

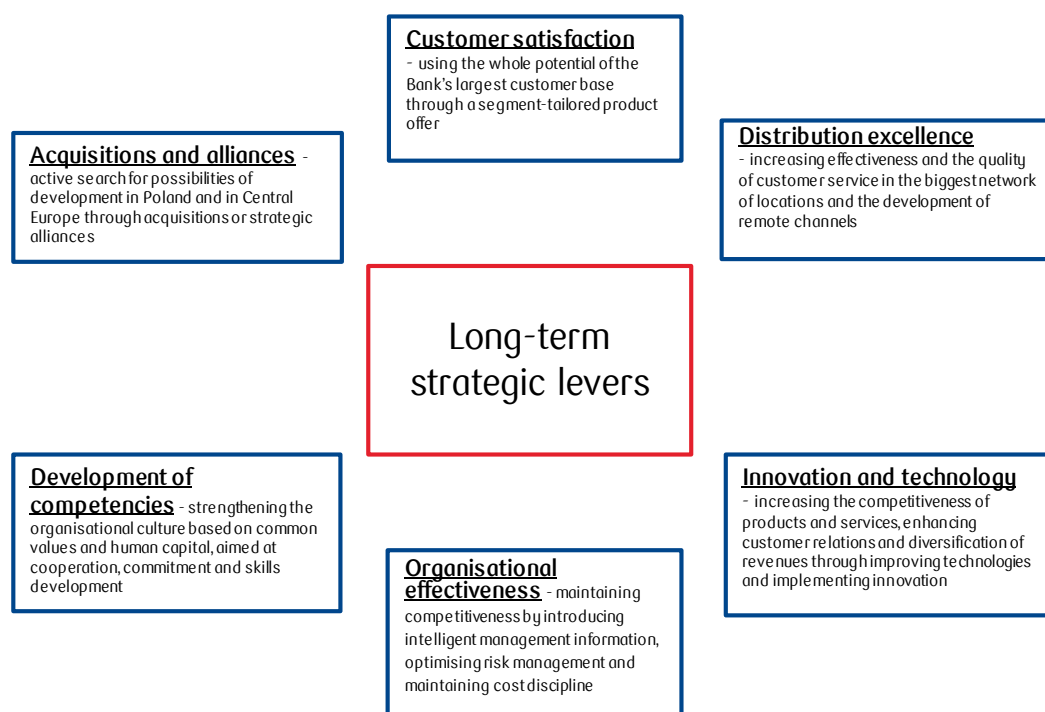
The development directions of PKO Bank Polski SA are set out in the new strategy for the years 2013-2015, 'PKO Bank Polski. Daily the best', approved by the Supervisory Board on 27 March 2013.

PKO Bank Polski SA's vision for development is based on the assumption that its market financial sector leader position in Poland and a leading universal bank in Central Europe should be maintained. At the same time, while ensuring:

- efficiency, building sustainable values and conducting a stable dividend policy for the shareholders,
- customer satisfaction resulting from credibility, a product offer tailored to the customers' needs and professional service,
- the image of a reliable partner involved in long-term relationships with business partners and local communities,
- the position of the best employer in the Polish banking sector, which supports development and common values.

The strategy assumes strengthening the position of PKO Bank Polski SA brand as the most valuable brand in the Polish banking sector. Its strength results from such aspects as: its Polish character, the safety and long-term trust of its customers, as well as professional service, modern product offer, innovation and new technologies.

The implementation of the Bank's development vision is supported by the long-term strategic levers which are a part of the strategy, such as:



Long-term strategic levers contribute to the leverage of the following areas of business:

- I. Strategic levers in Retail Banking:
 1. Customer-centric approach (using the information about the customer to provide a better service).
 2. Distribution excellence (improved distribution effectiveness, network modernisation and optimisation, development of direct channels, improvement in selling skills and sales effectiveness).
 3. Innovation and diversification of revenues (implementation of the innovation portfolio management model and development of non-interest income streams).
- II. Strategic levers in Corporate and Investment Banking:
 1. Relationship banking and segment-based service model (implementation of an improved segment strategy, distribution structure and price policy and development of skills, as well as loan portfolio quality discipline and efficient capital allocation).
 2. Transaction banking (development of mass payment solutions, extending the product offer, improving customer service quality and improving of processes).
 3. Integrated sales model - capital markets and structured financing (implementing the cross-selling model and developing investment products).
 4. Optimisation of assets and equity and liabilities management (safe and effective management of the Bank's liquidity, improving the interest rate risk management, developing long-term financing, developing the Group).
- III. Strategic levers of Supporting Areas:
 1. Risk management optimisation (decreasing credit risk costs, process enhancement, implementing price policies adjusted to the customer's risk profile, implementing IRB method and increasing the rate of return).
 2. Advanced, efficient and safe technologies and efficient operating processes (IT solutions supporting 'business' in the development of: new products, creating conditions for the further, safe development of the Bank's business activities, increasing the effectiveness of the operation units to improve the quality of service).

3. Development through increased involvement and common values (increasing organisational efficiency and human capital value, enhancing corporate culture which is open to changes, attracting the best employees and achieving the position of the best employer in the banking sector in Poland).
4. Efficient financial management (increasing financial management efficiency through perfecting organisational intelligence, introducing new methods of the Bank's statement of financial position management and continuous cost optimisation).

Additional strategic lever of development of PKO Bank Polski SA will involve acquisitions, comprising:

- domestic acquisitions, offering an opportunity to achieve synergies and strengthening the Bank's position on the domestic market in the period of slow-down of the market growth;
- international acquisitions, associated with seeking growth on faster-growing markets and the opportunities to use the Bank's international experience and competencies.

As part of the development strategy of PKO Bank Polski SA an integrated model of the Group is developed. The Bank's subsidiaries, acting as product centres, supplement the basic offer of the Bank's financial services in respect to leasing, factoring, investment and pension funds, and life insurance from April 2014.

After years of organic development, which strengthen the Bank's position, as a leader of domestic banking sector a decision about a purchase of part of Nordea Polska Group's business was made. That decision resulted in rapid growth in the scale of operations, which was the Bank response to the shifting market conditions, including low interest rates.

The key strategic initiatives for the Group's model development for years 2013-2015 comprise:

- optimisation of operational links within the Group by integration of selected companies with the Bank or the other Group entities – transfer of activities and centralisation of support functions,
- sale of assets which are not associated with the Bank's core activity,
- ensuring security and careful development of KREDOBANK SA focused on providing services to retail customers and small and medium enterprises operating mainly in western Ukraine and in Kiev,
- establishment of a mortgage bank,
- implementation of a new bancassurance model,
- strengthening the Group's market position in selected market segments, also through alliances in the area of payments and acquisitions of companies.

As part of the implementation of the above mentioned strategic initiatives in the first half of 2015 PKO Bank Hipoteczny SA commenced business activities, PKO Towarzystwo Ubezpieczeń SA was set up and will be engaged in non-line insurance business and PKO BP Faktoring SA was acquired by PKO Leasing SA Group. Simultaneously, on behalf of the newly established fund - NEPTUN - non-public assets closed-end investment fund managed by PKO Towarzystwo Funduszy Inwestycyjnych SA., PKO Bank Polski SA is gradually transferring or disposing the stocks and shares of entities, whose business is not complementary to the Bank's financial services offer.

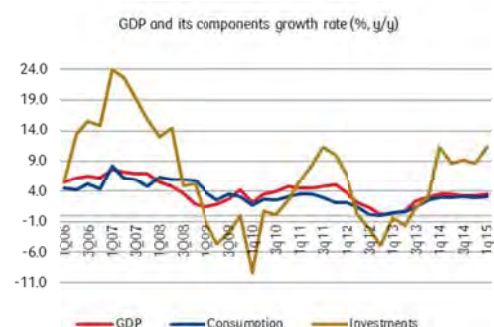
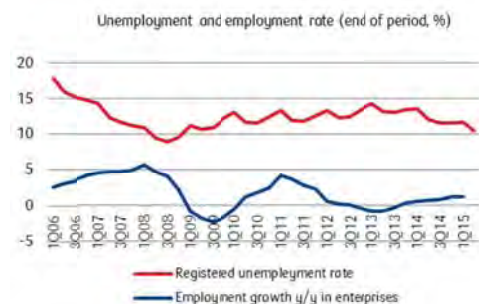
Every business activity conducted by the Bank is consistently directed at satisfying the growing customers' requirements, who expect the highest quality services, services adjusted to their needs and modern, convenient technological solutions.

2 EXTERNAL BUSINESS ENVIRONMENT

2.1 Macroeconomic environment

In the first half of 2015:

- **the revival of the national economy was continued** – on the basis of monthly economic indicators for April – June, the annual growth of GDP can be estimated to amount 3.5% (in comparison to 3.6% in the first quarter of 2015 with part of the production transferred from April to March – the effect of calendar and Easter). Strong domestic demand (of consumption and investments) sustained. The collapse of export to Russia and Ukraine was amply offset by increase in export to other European markets. The robust growth in export with a decrease of the value of imported oil resulted in comprehensible improvement of current account balances,
- **the situation on the labour market has improved** - the registered unemployment rate decreased to 10.4% at the end of June (preliminary data of the Ministry of Labour and Social Policy) compared to 11.7% at the end of the first quarter of 2015, which constitutes a deepening decline due to a seasonal improvement on the labour market (- 1.3 p.p. averagely in last 5 years). The annual growth rate in salaries and wages in the enterprise sector reached 3.4% in April-May 2015 compared to 3.9% in the first quarter of 2015, and the growth rate of employee pensions and disability benefits in April – May 2015 reached 2.5% y/y (compared to 3.1% in the first quarter of 2015). The lower deflation rate in the second quarter of 2015 means a slight reduction of real incomes growth rate,



- **the inflationary pressure was suppressed** – the CPI inflation amounted to 0.8% y/y in June 2015, compared to 1.5% y/y in March, assuming the stable core inflation (0.2% y/y in June 2015 in comparison to 0.2% y/y in March 2015), accompanied by increasing contribution of fuel prices from ~50 USD/bbl to ~65 USD/bbl, as well as fading effects of supply shock on the food market. The external environment strengthens pro-inflation due to positive levels of inflation index in the most of European countries in the second quarter of 2015.
- additional adjustments in monetary policy: due to deepening deflation and extension of its expected period, the Monetary Policy Council ('MPC', RPP – Rada Polityki Pieniężnej) decreased in March the basic interest rates by 50 bp. (the reference rate to 1.50%). At the same time however, it announced the completion of the cycle of monetary policy easing. The likelihood of the resumption of the cycle in 2015 is close to nothing due to high GDP growth, CPI inflation positive rebound and lack of PLN's appreciation.

2.2 The situation of the Polish banking sector

Financial results and performance indicators

In the first half of 2015 financial result of banking sector was still affected by historically low interest rates, significant changes in the regulatory and legal environment, as well as revival of national economic, including labour market, which contributed to superior consumers' moods. The essential factor in determining the situation of the banking sector was the depreciation of PLN against CHF, which is the consequence of the decision of the Swiss National Bank from January 2015 concerning the abolition of the minimal limit of exchange rate of CHF against EUR. The banking sector is also influenced by the extended negotiations between Greece and its creditors (impact on currency exchange market, as well as debt market).

The net profit of the banking sector amounted to PLN 6.4 in the January – May period and was 8.7% lower than in the analogical period of previous year. The change in the net profit was affected by:

- a decrease in interest income by 8.8% y/y (the impact of Monetary Policy Council's reduction in key interest rates in October 2014, including asymmetric decrease of lombard rate in March 2015, which resulted in the decline of market interest rates);
- a decrease in fee and commission income by 4.8% y/y (the impact of statutory reduction in interchange rates in July 2014 and January 2015, as well as the adjustment of banking activities to the requirements of 'U' recommendation concerning bancassurance);
- an increase in operating costs including depreciation by 3.0% y/y (the impact of upswing in material costs as a consequence of a significant rise in fees to the Bank's deposits guarantee system);

with:

- an increase in result on other business activities by 28.7% y/y (the impact of high profits from investment portfolios and one-off events in the first quarter of 2015, including sales of shares in insurance companies by two banks, shares in leasing company by one bank, as well as higher incomes from dividends);
- a significant decrease of net impairment allowance and write-downs.

As a result, a deterioration of the operating efficiency of the banking sector occurred; at the end of May 2015 C/I ratio increased to 55.7% in comparison to 52.4% in the corresponding period of 2014.

Credit risk

At the end of May 2015 an increase by 4.0% to PLN 75.2 billion in the total value of non-performing loans was noted and the non-performing loans ratio decreased to 8.1% compared to 8.4% in the corresponding period of 2014. The banking sector noted an increase in the value of non-performing household loans, as well as the value of loans to SMEs and large entities in correspondence with a significant decrease in the value of non-performing consumer loans.

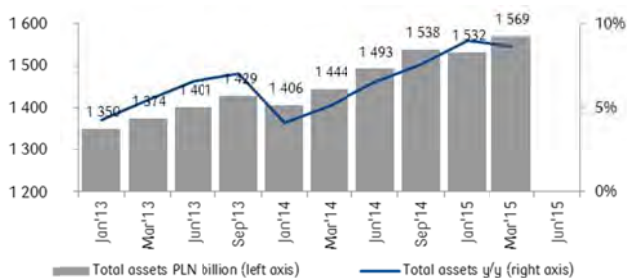
The quality of household loans portfolio in PLN and CHF remained at a similar level; at the end of May 2015 amounted respectively 3.4% and 3.5%, wherein the quality of PLN portfolio improved y/y in comparison to the deterioration in CHF loans portfolio). The above mentioned situation resulted from a significant reduction of interest rates in PLN causing lower installments of households' loans in PLN, as well as significant depreciation of PLN, which resulted in increased charges from loans denominated in CHF.

Total assets and business volumes

At the end of May 2015, the total assets of the banking sector amounted to PLN 1 570 billion and were higher by 6.1%, which resulted from development of main business activities, volume growth of securities and strong depreciation of PLN (especially against CHF).

The capital power of banking sector increased. At the end of May 2015 bank's capitals amounted PLN 167.1 billion and were higher by 5.1% y/y. The total capital ratio at the end of first quarter of 2015 amounted to 14.9% and the Tier1 index amounted to 13.6%.

Banking sector total assets



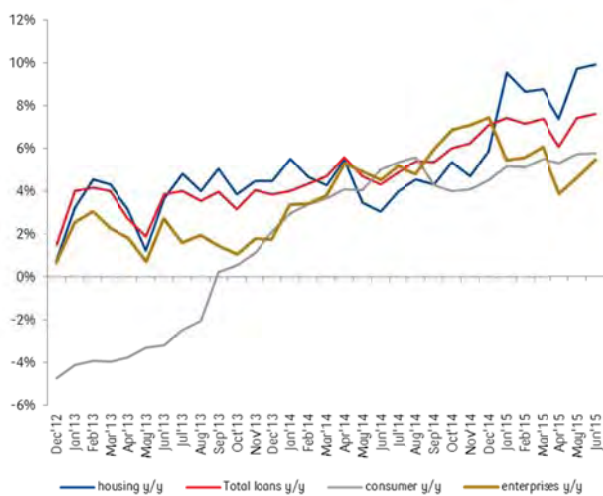
Own capital of the banking sector



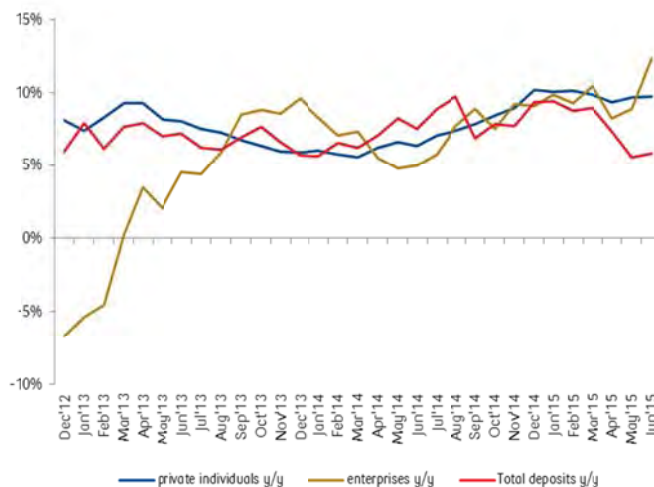
At the end of June 2015 the value of loans increased by 7.6% y/y to PLN 1 054 billion, which mainly resulted from growth of housing loans. The growth rate of loans adjusted by effect of exchange rate was lower. At the end of June 2015 a deceleration y/y was noted on the mortgage market in PLN to 12.2% in comparison to 13.5% at the end of December 2014, which could be related to the implementation of S recommendation resulting in increase of the minimum own contribution of borrowers. The consumer loans growth rate (+5.8% y/y compared to 4.5% y/y at the end of 2014) resulted from improvement on the labour market, greater customers' optimism and historically low interest rates, including lombard rate determining the maximum interest rate on consumer loans.

In the first half of 2015 corporate loans growth rate decreased slightly to 5.5% y/y at the end of June 2015 in comparison to 7.4% at the end of December 2014, despite of the favorable economic situation, high production capacity utilisation and wide availability of loans.

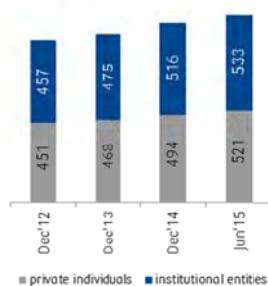
Annual growth rate of loans in the banking sector



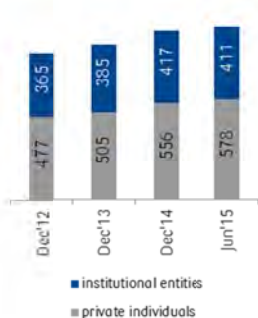
Annual growth rate of deposits in the banking sector



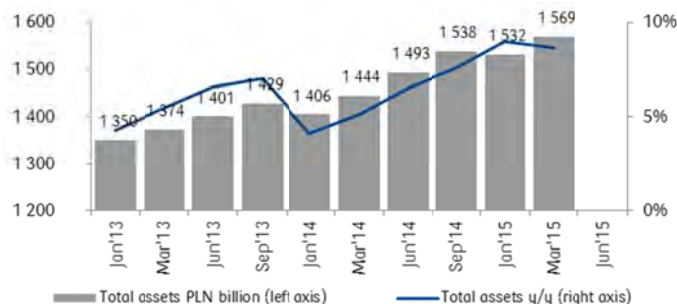
Loan structure of banking sector (in PLN billion)



Deposit structure of banking sector (in PLN billion)



The excess of loans over deposits and the difference between loans and deposits



In the first half of 2015 the situation on deposits market was determined by low interest rate, as well as increased tendency to invest savings in the investment funds market. At the end of 2015 an increase y/y of deposits was lower than loans (5.8% and 7.6% y/y respectively) and after adjustment by effect of exchange rate; the annual growth rate of loans and deposits was comparative. At the end of June 2015 the total deposits increased to PLN 989 billion with simultaneous slowing down of annual growth rate of deposits (9.3% y/y in December 2014).

The increase in the retail and corporate deposits had the greatest influence on the total deposit growth, despite of a considerable decline in the deposits of general government sector.

Retail deposits maintained a high growth rate y/y (9.8% in comparison to 10.2% in December 2014) despite of significant decrease in interest rates on term deposits at the end of June 2015. The increase in total retail deposits resulted from labour market situation improvement despite of low interest rates on bank deposits. In the same period the growth rate of corporate deposits increased to 12.3% y/y in comparison to 9.1% in December 2014.

The changes on the loans and deposits markets in the first half of 2015 affected the connection between loans and deposits – the excess of total loans over deposits increased by approx. PLN 20.4 billion y/y (influenced by depreciation of Polish currency and a decline in total central level government deposits), which transferred into increased loans/deposits ratio by 1.8 p.p. y/y to 106.6%.

2.3 The situation in Polish non-banking sector

Investment funds market In the first half of 2015, an acceleration in the domestic investment funds market has occurred. The situation of the investment funds market resulted from improvement of stock market at the WSE in Warsaw, as well as a downturn on the domestic debt market.

In the first half of 2015 the value of domestic investment funds' assets increased by approx. 10% up to PLN 230.0 billion, in comparison to the growth by 2.8% in the second half of 2014. The revision on the domestic investment funds market resulted primarily from improvement of investors' mood, which is reflected in high growth of new funds net inflow (PLN 18 billion compared with PLN 2.1 billion in second half of 2014). In terms of total funds net inflow and impairment, the net inflow of individuals' funds accounted for approx. 46%.

In the first half of 2015, the highest net inflow was recorded for non-public asset funds (+PLN 10.2 billion) as well as equity funds (+PLN 4.2 billion) in comparison to the decrease of assets of both segments in second half of 2014. Declared as safe debt funds noted a drop in total assets value.

The situation on the funds market affected the banks' deposit base level, the structure of households' savings, non-interest income of banks participating in the distribution of investment fund units as well as the financial situation of investment fund companies.

Open pension funds market In the first half of 2015, the assets of open pension funds (OPFs) increased by 3.1% to PLN 153.7 billion due to: improved situation on the WSE in Warsaw, improvement on the labour market (decrease in unemployment and increase of personal disposable income). The situation of OPFs market was influenced by statutory changes in the regulatory environment, including growth of investment possibilities in foreign shares, as well as limitation on investment in domestic shares. In the first half of 2015, the number of OPF participants decreased by 38 thousand to 16.6 million.

The lease market In the first half of 2015 a dynamic increase of the lease market was recorded. The value of assets financed by lease firms increased in the first half of 2015 by 13.2% y/y up to PLN 23.9 billion (compared with an increase of 32% in the first half of 2014 upon favorable regulatory environment). The growth of this market sector was supported by persistent economic upswing in Poland, including high investment activity. The enterprises condition was stable with a relatively high production capacity utilisation.

Leasing of vehicles had the greatest positive effect on the lease market development (an increase in value of financed assets of 40% y/y up to PLN 7.2 billion). Significant growth was also recorded in lease of machinery and equipment (17% y/y), especially lease of agricultural machinery (+ 27% y/y). The structure of the market was still dominated by lease of movable properties constituting with the maintained marginal share of real estates lease (3%), which is significantly lower than share in West Europe.

The factoring market In the first half of 2015, the factoring market was developing with high dynamic. The turnover of 22 factoring firms that belong to the Polish Factors Association increased by 18.9% y/y (to PLN 62.2 billion), which was the result of an increased demand for factoring services. In the first half of 2015 the number of customers of factoring companies increased by 16.4% to 6.5 thousand people. The concentration of the factoring market remained high – at the end of the first half of 2015, about 62% of the market belonged to the five largest firms.

2.4 The situation on the financial market

Interest rate market After reaching its historical minimum in January, the government bonds yield started to steadily grow, along with the low probability of further reductions of interest rates in Poland. The trend was supported by increasing inflation ratio since February, positive adjustments of domestic economic growth forecasts, as well as the expiring short-term positive effects of anticipation about further expansive monetary policy in the Eurozone. In March 2015 the MPC reduced interest rates by 50 percentage points, while indicating the end of expansive monetary policy cycle. Consequently there has been a distinct decline in deposit rates on the interbank market, which was not subsequently followed by the long end of the yield curve. At the end of April the sale of treasury debt securities accelerated sharply, which was presented at the longer end of the yield curve. Subsequently, the domestic market was following the transformations on main markets. The sale of bonds was encouraged by good macroeconomic data from the United States and Eurozone, as well as the accumulating fear of increase in interest rates in the USA. The increase in profitability in the second quarter of 2015 resulted from deflation regression, as well as a clear upturn of oil prices. The further uncertain situation of Greece was reflected in the treasury bonds market, however the amount of this impact was not clear (it caused e.g. increased risk premiums,

Foreign currency market

as well as trading prices of CDS contracts). Finally, throughout the first half of 2015 the yields of two-year bonds rose to 1.98% (growth by 21 bps), five-year to 2.74% (growth by 59 bps) and ten-year to 3.33% (increase by 79 bps).

The first half on foreign exchange market was characterised by a high volatility both on EUR/USD and EUR/PLN market. Although the EUR/USD exchange rate started the year in the area of 1.21 and ended the half year period at the 1.11, it achieved the area of 1.04 throughout that period. An analogous situation took place in respect of the EUR/PLN exchange rate, which started the year in the area of 4.28 and closed in June at 4.19, however it achieved the areas of both 4.34 and 3.96 throughout the period.

Speculations concerning the perspectives and impacts of expanded quantitative policy easing by the ECB, approaching date of increasing interest rates in the USA, as well as positive closeout of negotiations concerning financial aid package for Greece were the main determinant of the trend on the EUR/USD market in the first half. The beginning of the year on the Eurodollar market was dominated by expectations towards further easing of monetary policy in Eurozone and the probability of its tightening in the USA. As a combined result of both factors, the EUR/USD exchange rate depreciated sharply (to the area of 1.05 at the half of March). The change of FED's rhetoric to more dovish has shifted the market expectations about first increases from June to September and by that, the declining trend of EUR/USD rate was slowed down until the end of the first quarter. Subsequently the trend was reversed in the second quarter due to positive expectations towards the outcome of the agreement of Troika (IMF, EC, ECB) with Greece, supported by a series of optimistic statements of Euro group's officials. As a result, despite the absence of significant progress in the negotiations with Greece, the Eurodollar market did not utilize the scenario of Greece's exit from the Eurozone until the end of the second half of the year resulting in EUR/USD exchange rate in the area of 1.11 at the end of June. The main determinants of EUR/PLN market trend were geopolitical tensions in Ukraine and their effects in the form of bilateral economic sanctions on the line European Union - Russia, increasing deflationary process stimulating expectations of interest rate decreases in Poland, the SNB's decision about discontinuance of EUR/CHF exchange rate defense at 1.20, ECB's monetary policy easing, variable expectations about dates of first interest rates increases in the USA, uncertainty about the final outcome of negotiations of Greece's financial aid, as well as a downturn in the Chinese economy. The EUR/PLN exchange rate started 2015 at high level (4.28), which resulted from geopolitical tensions in Ukraine and strong depreciation of Ruble, which was strictly connected with it. The strong depreciation of Ruble has led to concerns regarding the stability of Russian financial system, which coincided with SNB's decision to release the EUR/CHF exchange rate at 15th January. As a result of the impact of these two factors made EUR/PLN exchange rate increase to the area of 4.34 in the second half of January. The situation on EUR/PLN reversed from ECB's decision to extend the assets purchase program with treasury bonds, allowing EUR/PLN exchange rate to quickly fall below 4.20. Further strengthening of PLN resulted in EUR/PLN exchange rate drop below 4.0 level mainly due to MPC's announcement about discontinued interest rates reduction process in April, as well as Mr. Marek Belka's statement about further appreciation of PLN. The situation on EUR/PLN began to change from May due to a further slowdown of Chinese economy, which started to gradually reduce the global demand for emerging market currencies, including PLN. The triggered effect of depreciation of PLN began to accelerate in June, as a result of extended negotiations of Eurogroup with Greece. Unlike the EUR/USD, the EUR/PLN exchange rate has measured the risk of possible Eurozone exit of Greece by a much greater extent and as a result it was ending the first half year period with a significant growth to the area of 4.19.

Stock market

In the first half of 2015, the WIG index increased by 3.7%, which is relatively low due to the good economic macroeconomic data from Polish economy and favorable perspectives for the second half of the year. The stock was strongly affected by the insecurity concerning the banking sector (almost 30% of WIG index). After the strengthened CHF exchange rate at the beginning of the year, a significant risk of costly CHF denominated loans currency conversion. Furthermore during the presidential and the parliamentary campaign the idea of a special tax considerably charging the banking sector appeared. The good economic situation of the developed markets, especially in the West Europe favorably affected the Polish stock exchange. The economic growth in Eurozone in combination with the quantitative easing made by the European Central Bank heavily supported increases on European indexes. Therefore, despite of dragging negotiations with Greece, European shares have generated over 10% profit. The USA stock exchange ended the first half of 2015 with practically null return rate. The market moods were cooled by the consequences of the upcoming FED's monetary policy normalization and stagnation of entities profits.

2.5 The Ukrainian market situation

The activities and results of PKO Bank Polski SA Group was affected by economic and political situation on Ukraine, where PKO Bank Polski SA subsidiaries operated during the first half of 2015.

The recession in Ukraine deepened in the in the first quarter of 2015 despite the signing of so called II Minsk Agreement on 11 February 2015, that resulted in gradual de-escalation of the conflict with Russia in the eastern part of the country. The GDP growth rate amounted to -17.6% y/y (it amounted to -14.8% in the fourth quarter of 2014). The most of the GDP reduction resulted from sanctioned control loss of Krym and the areas around Donieck and Ługańsk occupied by pro-Russian separatists. With the expenditures reduction by 18% y/y the Government managed to obtain a surplus by approx. 1% on primary balances in January - May 2015 period and the control of capital flow enabled the stabilization of UAH exchange rate. This reductions indicate a drastic deterioration of Ukrainians' living standards, resulted in a decline of the real value of allowances and pensions paid by over a half during a year.

The public debt still exceeds 80% of GDP, after a decline from 100% of GDP in February 2015 (due to debt structure, which is denominated in 60% in foreign currencies and highly affected by their exchange rates) and the Ukrainian authorities are during negotiations on its partial redemption.

The agreement on the possible redemption or restructuring of debt should possibly be signed on the turn of July and August. According to the calculation of IMF, the Ukraine requires a reduction of interest payments in 2015-2018 by at least USD 15.3 billion.

In accordance with the data of the NBU, the number of banks operating in Ukraine decreased in June 2015 to 143 (compared with 180 at the beginning of 2014 and 163 in December). In banking sector, the trend of outflow of foreign capital initiated in 2013 is continued – from the beginning of the year its share decreased from 32.5% to 27.5%.

In 2015, the value of total assets in the Ukrainian banking sector had been slightly decreasing and amounted to UAH 1 303 billion as at the beginning of June (a decrease of UAH 14 billion compared with the end of 2014). The value of loan portfolio in the Ukrainian banks increased by UAH 9 billion during the same period, decreasing by UAH 479 billion in comparison to February 2015, when the exchange rate of UAH was the highest. The interests of non-performing loans increased to 18% from 13.5% at the beginning of the year.

After the stabilization of UAH exchange rate an increase in the loans is only noticeable in the enterprises sector (increase by 2.7% since the beginning of the year), the value of households loans reduced by 1.7% from the beginning of January 2015. The entities deposits increased in the same time by 9.5% in comparison to the deposits of households decreased by 4.6%

The significant depreciation of the hryvnia contributed to the strong deterioration of the loans to deposits ratio, which in May 2015 shaped up at the level of 153% (compared with 148% as at the end of 2014 and 136% as at the end of 2013).

2.6 Regulatory environment

In the first half of 2015, legal and regulatory solutions had an impact for financial and organisational situation of the PKO Bank Polski SA Group, of which:

	Regulation	Influence on results of the Capital Group
Decrease of interest rates	resolution of the Monetary Policy Council: <ul style="list-style-type: none"> - No. 6/2014 (Official Journal of the NBP of 2014 item 11) introducing further unbalanced reduction of the basic interest rates from 9 October 2014 (including: a decrease of the reference rate by 0.5 pp. to 2% and the lombard loan rate by 1 pp. to 3%); - No. 1/2015 (Official Journal of the NBP of 2015 item 2) introducing reduction of the basic interest rates from 5 March 2015 (including: a decrease of the reference rate to 1.5% and lombard loan rate to 2.5%). 	conductive on the level of banks' interest income
Higher Bank's charges to BGF	resolutions of the Bank Guarantee Fund Council significantly increasing charges for banks towards the guarantee of bank deposits, w tym: <ul style="list-style-type: none"> - No. 28/104 increasing the indicator to calculate the yearly charge (from 0.100% to 0.189%); - No. 29/2014 increasing the indicator to calculate prudential fee (from 0.037% to 0.050%). 	strong impact on banks' operating costs
Decrease of income from cards service	amendment to the act on payment services (Journal of Laws from 2014 item 1916 introducing reduction of interchange fee: to 0.2% of transaction made by debit card and 0.3% for credit cards from 29 January 2015).	significant impact on non-interest banks' income
Increased access to consumer bankruptcy	amendment to the Bankruptcy and Reorganization Act (Journal of Laws from 2014 item 1306) liberalizing from 1 January 2015 consumer bankruptcy rules	impact on the credit risk
Restrictions in insurance distribution by Banks	resolution of the PFSA No. 183/2014 on Recommendation U concerning bancassurance (Official Journal of the PFSA of 2014 item 12) and resolution of the PFSA No. 184/2014 (Official Journal of the PFSA of 2014 item 13) concerning i.a. distribution of insurance products	increase of Banks' operational costs in accordance to change of business model, introduction of new risk management strategy, adopting IT systems
Solvency II	Solvency II package concerning the insurance and reinsurance activity, including the valuation of technical reserves, risk and disclosure obligation (Official Journal of the European Union L 335 from 17 December 2009)	Insurance companies' adopting costs
Reducing the effects of the growth of the CHF exchange rate for mortgage borrowers	recommendations of the Financial Stability Committee from 20 January 2015 (after the decision of the Swiss Central Bank on the release of the CHF exchange rate against the EUR and lowering interest rate to -0.75% from 15 January 2015).	impact on banks' interest result and quality of the loan portfolio
Restrictions on the activities of OPFs	the Act introducing changes in the policies for disbursement of pensions from funds accumulated in open pension funds (Journal of Laws of 2013 item 1717) including allowing of increased exposure of OPFs in companies listed abroad (from 10% to 20%) from 1 January 2015 roku, and introducing the exposure of OPFs in domestic companies stocks (from 75% to 55%).	impact on the operational activity of Open Pension Funds and situation on the Stock Exchange

The activity of the PKO Bank Polski SA influenced new legislation introduced in the Ukraine (where operates, among others, a subsidiary KREDOBANK SA), including:

- Law No. 71-VIII / 2014 increasing from 1 January 2015 income tax rate by 5 p.p. to 20%, and from dividends by 15 p.p. to 20%;
- Law No. 424-VIII / 2014 introducing from 15 May 2015 restrictions on early withdrawals from term deposits;
- Resolution No. 820/2015 of the Board of the NBU introducing from 31 December 2014 changes to create mandatory reserves by banks (6.5% for current deposits in UAH and foreign currencies and 3% for term deposits) and the rules for their coverage;
- Resolution No. 859/2014 of the Board of the NBU prolonging until 1 January 2019 not applying sanctions against banks not complying with regulatory requirements as a result of the devaluation of the UAH, annexation of the Crimea and the war in the district of Donetsk and Luhansk region and defining specific rules of conducting banking operational activity;
- Resolution No. 860/2014 tightening from 1 January 2015 requirements for banks benefiting from loans stabilization: stabilization loan interest rates set at a discount rate plus 1.5 p.p.;
- Resolution No. 867/2014 requiring banks to organize a system of risk management (in force since 31 December 2014);
- Resolution No. 22/2015 of the Board of the NBU allowing from 17 January 2015 early repayment of foreign currency loans by non-residents;
- Resolution No. 81/2015 and 154/2015 of the Board of the NBU increasing the NBU discount rate respectively from 6 February 2015 by 5.5 p.p. to 19.5% and from 4 March 2015 by the 10.5 p.p. to 30%;
- Resolution No. 124/2015, 129/2015 and 248/2015 of the Board of the NBU introducing changes in the implementation of foreign exchange transactions;
- Resolution No. 160/2015 and 354/2015 of the Board of the NBU introducing a number of changes with respect to transactions on the money market and foreign exchange market restrictions, including a prohibition of lending in UAH, when the collateral are property rights to resources in foreign currencies;
- Resolution No. 313/2015 of the Board of the NBU specifying time frames for compliance by banks with capital adequacy requirements, including not less than 5% to 1 February 2016 year.

3 FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP¹

3.1 Financial results of the PKO Bank Polski SA Group

3.1.1 Key financial indicators

The summary of results, achieved by the PKO Bank Polski SA Group in the first half year of 2015, is represented by the following key financial efficiency indicators, which are shown in the table below.

Table 2. Financial indicators of the PKO Bank Polski SA Group

	30.06.2015	30.06.2014	Change (p.p.)
ROA net (net profit/average total assets)*	1.2%	1.6%	-0.4
ROE net (net profit/average total equity)*	10.7%	13.4%	-2.7
C/I (cost to income ratio)*	51.3%	43.4%	7.9
Interest margin (net interest income/average interest-bearing assets)*	3.2%	3.6%	-0.4
The share of impaired loans**	6.9%	7.2%	-0.3
Cost of risk***	-0.82%	-1.21%	0.4
The coverage ratio of impaired loans****	62.9%	55.7%	7.2

*Income statement items used in calculating indicators capture the period of the last four quarters (annual recognition), while the statement of financial position items capture the average of the last five quarterly values of the respective assets and liabilities.

** Calculated by dividing the gross carrying amount of impaired loans and advances by the gross carrying amount of loans and advances to customers.

*** Calculated by dividing the result from impairment allowances on loans and advances to customers by the average balance of loans and advances to customers gross.

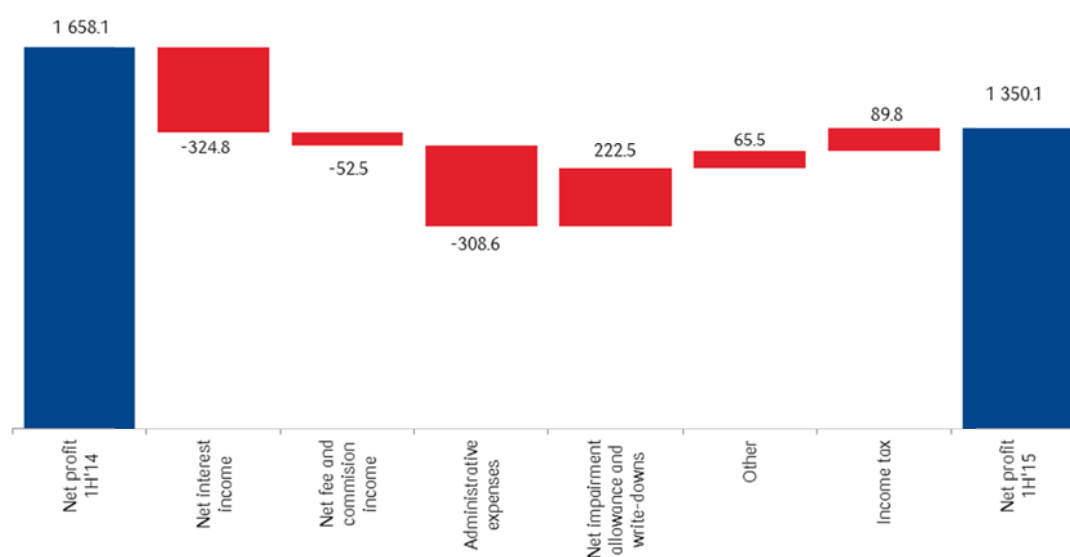
**** Calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying amount of impaired loans and advances.

3.1.2 Consolidated income statement

The consolidated net profit of the PKO Bank Polski SA Group generated in the first half 2015 amounted to PLN 1 350.1 million and was lower by PLN 308.0 million (-18.6%) than in first half of 2014.

¹ In this section, any differences in total balances, shares and growth rates result from rounding the amounts to PLN million and rounding percentages to one decimal place.

Chart 1. Changes in the income statement of the PKO Bank Polski SA Group (in PLN million)



In the PKO Bank Polski SA Group's income statement for the first six months of 2015, the sum of revenue positions amounted to PLN 5 175.1 million and was PLN 323.4 million, i.e. by 5.9% lower than in 2014. Main consolidated results were as follows:

Table 3. Changes in the income statement of the PKO Bank Polski SA Group (in PLN million)

	01.01-30.06.2015	01.01-30.06.2014	Change (in PLN million)	Change (in %)
Interest and similar income	4 788.1	5 244.6	(456.5)	-8.7%
Interest expense and similar charges	(1 434.0)	(1 565.8)	131.7	-8.4%
Net interest income	3 354.1	3 678.9	(324.8)	-8.8%
Fee and commission income	1 805.4	1 991.5	(186.1)	-9.3%
Fee and commission expense	(368.8)	(502.5)	133.6	-26.6%
Net fee and commission income	1 436.5	1 489.0	(52.5)	-3.5%
Dividend income	9.7	6.1	3.6	58.9%
Net income from financial instruments measured at fair value	8.9	53.0	(44.1)	-83.3%
Gains less losses from investment securities	69.4	38.5	30.8	79.9%
Net foreign exchange gains (losses)	166.7	135.4	31.3	23.1%
Net other operating income and expense	129.9	97.6	32.3	33.0%
Net impairment allowance and write-downs	(748.6)	(971.1)	222.5	-22.9%
Administrative expenses	(2 777.1)	(2 468.5)	(308.6)	12.5%
Operating profit	1 649.4	2 058.9	(409.5)	-19.9%
Share of profit (loss) of associates	15.8	7.3	8.5	2.2x
Profit (loss) before income tax	1 665.2	2 066.2	(401.0)	-19.4%
Income tax expense	(327.8)	(417.6)	89.8	-21.5%
Net profit (including non-controlling shareholders)	1 337.4	1 648.6	(311.2)	-18.9%
Profit (loss) attributable to non-controlling shareholders	(12.7)	(9.5)	(3.2)	33.2%
Net profit (loss)	1 350.1	1 658.1	(308.1)	-18.6%

Net interest income

The net interest income generated in first half 2015 was PLN 324.8 million lower than in the same period of previous year, mainly due to a decrease in interest income by PLN 456.5 million, determined by the decrease of market interest rates and drop of an interest expenses by PLN 131.7 million, mainly due to the adjustment of the deposit products pricing to the decrease of market interest rates.

Table 4. Interest income and expense of the PKO Bank Polski SA Group (in PLN million)

	01.01- 30.06.2015	01.01- 30.06.2014	Change 1H 2015/ 1H 2014
Interest and similar income, of which:	4 788.1	5 244.6	-8.7%
Loans and advances to customers	4 013.6	4 470.0	-10.2%
Securities	504.7	517.0	-2.4%
Derivative hedging instruments	212.2	171.1	24.0%
Placements with banks	50.6	72.8	-30.5%
Loans to banks	5.5	11.2	-51.2%
Other	1.5	2.6	-40.4%
Interest expense and similar charges, of which:	(1 434.0)	(1 565.8)	-8.4%
Amounts due to customers	(1 081.5)	(1 264.6)	-14.5%
Own debt securities in issue	(267.3)	(248.3)	7.7%
Amounts due to banks	(36.5)	(26.7)	36.5%
Premium on debt securities available for sale	(29.8)	(14.9)	2x
Deposits from banks	(2.8)	(5.6)	-50.6%
Other expense*	(16.2)	(5.7)	2.8x
Net interest income	3 354.1	3 678.9	-8.8%

* Including: costs of financial assets available for trading and financial assets upon initial recognition measured in fair value through profit or loss.

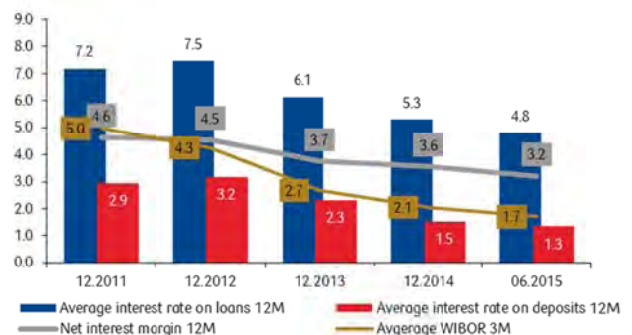
In the first six months of 2015, interest income amounted to PLN 4 788.1 million and in comparison with the same period of previous year was lower by 8.7%, mainly as a result of decrease:

- in income from loans and advances to customers by 10.2% y/y - it was an effect of decrease of PLN interest rates which WIBOR 1M and 3M rates in a year perspective were respectively 0.84 p.p. and 0.94 p.p. and the limitation of maximal interest rate of loans based on 4xLombard formula. Decrease was partially compensated with the increase of loan portfolio,
- with an increase of income from derivative hedging instruments by 24.0% y/y, as an effect of recalculation of transactions to the lower WIBOR and CHF LIBOR rates and increase of average volume of transactions involved in hedge accounting.

In the same time period the change of interest expenses was (-)8.4% y/y, mainly as an effect of:

- decrease of expenses due to customers (-14.5%), resulting from lower average interest rate of deposits as an effect of the drop of market interest rates and the adjustment of the deposit products pricing to them,
- with an increase of expenses due to issue of own debt securities (+7.7% y/y), connected with the increase of liabilities due to bonds issued on foreign financial market, partly neutralized by the drop of debt maintenance expenses on domestic market as an effect of the drop of market interest rates and also due to the increase of loan expenses from banks (+36.5% y/y) connected with the financing from Nordea Bank AB received from Nordea Group assets.

On the end of the first half year of 2015, interest margin decreased by approximately 0.4 p.p. y/y and amounted to 3.2%. Increase of interest-bearing assets by 15% y/y (mainly of loans and advances to customers portfolio), did not have an effect on the analogical increase of annualized interest income which is under the pressure of the exceptionally low interest rates.



Net fee and commission income

Net fee and commission income generated in the first half of 2015 was PLN 52.5 million lower than in the same period of previous year, as a result of PLN 186.1 million decrease in commission income and decrease of commission expenses by PLN 133.6 million.

Table 5. Fee and commission income and expense of the PKO Bank Polski SA Group (in PLN million)

	01.01- 30.06.2015	01.01- 30.06.2014	Change 1H 2015/ 1H 2014
Fee and commission income, of which:	1 805.4	1 991.5	-9.3%
Payment cards	460.8	714.9	-35.5%
Maintenance of bank accounts	464.1	465.2	-0.2%
Loan insurance*	26.4	85.5	-69.2%
Loans and advances granted	314.7	285.0	10.4%
Maintenance of investment funds and OPF (including management fees)	229.2	201.8	13.6%
Cash transactions	50.4	57.2	-11.9%
Securities transactions	54.4	44.3	22.6%
Servicing foreign mass transactions	33.6	31.6	6.5%
Providing the services of an agent for the issue of Treasury bonds	8.2	11.5	-28.9%
Sale and distribution of court fee stamps	5.5	2.5	2.2x
Insurance and investment products	52.4	21.8	2.4x
Other**	105.8	70.1	50.9%
Fee and commissions expense, of which:	(368.8)	(502.5)	-26.6%
Payment cards	(224.8)	(370.7)	-39.4%
Acquisition services	(30.7)	(56.7)	-45.8%
Settlement services	(15.6)	(13.9)	12.8%
Operating services provided by banks	(11.8)	(6.9)	72.5%
Other***	(85.9)	(54.4)	57.9%
Net fee and commission income	1 436.5	1 489.0	-3.5%

* In the second quarter of 2015 due to changes in insurance model the recognition of result in the net form has changed, as described in Note 3 to the Condensed Interim Consolidated Financial Statements of the PKO Bank Polski SA Group. Data for the previous periods have been restated for comparability. The change is presentational only and has no impact on the result.

** 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, fiduciary activities.

*** 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 ('NDS').

The level of net fee and commission income was mainly determined by:

- a decrease in the result on payment cards by 31.4%, as an effect of the introduction of statutory limitations due to interchange fee rates in which the decrease of income by 35.5% y/y and decrease of expenses by 39.4% y/y. Moreover in the second quarter of 2015 Bank received subventions from payment organisations concerning renegotiations of agreements with payment organisations.
- an increase in fee and commission income due to loans and advances (+10.4% y/y) as a result of increase of loans sales,
- a decrease in net fee and commission income in respect of loan insurance by 69.2% y/y, mainly due to a decrease in insurance saturation of loans
- an increase in commission income in respect of maintenance of investment funds and open pension funds (+13.6% y/y) as an effect of an increase of management fees and commissions for sale and ransom at the IF assets value increase by 22%/y.
- an increase of commission income due to securities transactions (+22.6% y/y).

Administrative expenses

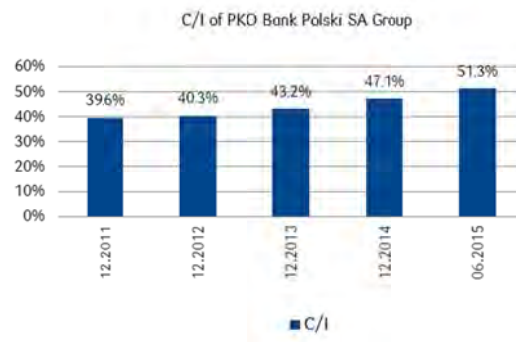
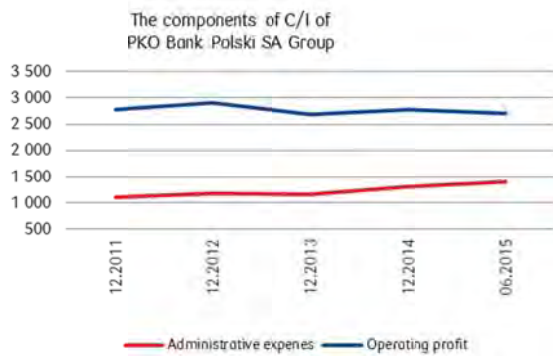
In the first half of 2015, administrative expense amounted to PLN 2 777.1 million and increased by 12.5 % compared with the same period of previous year.

Table 6. Administrative expenses of the PKO Bank Polski SA Group (in PLN million)

	01.01- 30.06.2015	01.01- 30.06.2013	Change 1H 2015/ 1H 2014
Employee benefits	(1 359.5)	(1 267.9)	7.2%
Overheads and other*	(1 011.9)	(841.7)	20.2%
Amortisation and depreciation	(405.6)	(359.0)	13.0%
Total	(2 777.1)	(2 468.5)	12.5%

* Other: taxes and other charges and contribution and payments to the Bank Guarantee Fund.

The level of administrative expenses was determined mainly by changes in the PKO Bank Polski SA Group structure in 2014, of which mainly the acquisition of the Nordea Group entities, and increase of charges and fees to Bank Guarantee Fund by PLN 109.6 million y/y, which caused the operating efficiency of the PKO Bank Polski SA Group, measured by the annualised C/I ratio, to shape up at the level of 51.3% (+7.9 p.p. y/y).



Net impairment allowance and write-downs

On 30 June 2015, the result of net impairment allowance and write-downs reflects a conservative approach of the PKO Bank Polski SA Group to recognition and measurement of credit risk. Improvement of net impairment allowance in comparison to the same period of previous year by 22.9% y/y is mainly caused by the improvement of the net impairment allowance on the corporate loans portfolio.

Table 7. Net impairment allowance and write-downs of the PKO Bank Polski SA Group (in PLN million)

	01.01-30.06.2015	01.01-30.06.2014	Change 1H 2015/1H 2014
Net impairment allowance and write-downs, of which:			
loans and advances to customers measured at amortised cost and receivables from banks	(731.9)	(928.3)	-21.2%
investments in associates and jointly controlled entities	28.8	(0.8)	x
other	(45.5)	(42.1)	8.1%
Total	(748.6)	(971.1)	-22.9%

The cost of risk² at the end of first half of 2015 amounted to 0.82% and improved by 0.4 p.p. in comparison to the same period of the previous year.



3.1.3 Consolidated statement of financial position

The statement of financial position of the PKO Bank Polski SA Group is mainly influenced by the statement of financial position of the parent entity. It determines both the size of total assets and the structure of assets and liabilities.

The total assets of the PKO Bank Polski SA Group amounted to PLN 255.5 billion and was higher by 2.7% than the result at the end of December 2014.

The biggest part of the assets of PKO Bank Polski SA Group were loans and advances granted to customers; and their amount was PLN 185.3 billion at the end of June 2015, with 72.5% share in total assets. Their volume was higher by PLN 5.8 billion than at the end of 2014, mainly due to the increase of the volume of housing loans.

Main source of assets financing are liabilities due to customers, which amounted to PLN 179.1 billion as at the end of June 2015 with 78.9% share in total assets. As at the beginning of 2015 the volume of liabilities due to customers increased by PLN 4.8 billion.

The main items of the statement of financial position of the PKO Bank Polski SA Group at the end of June 2015, are presented in the table below:

² Calculated by division of net impairment allowance and write-downs of loans and advances to customers for 12 month period, ended 30 June 2015 and 2014 by the average, gross balance of loans and advances to customers at the beginning and at the end of reporting period and quarterly periods in between.

Table 8. Main items of the statement of financial position of the PKO Bank Polski SA Group (in PLN million)

	30.06.2015	Structure 30.06.2015	31.12.2014	Structure 31.12.2014	Change (in %)
Cash and balances with the central bank	11 934.6	4.7%	11 738.4	4.7%	1.7%
Amounts due from banks	3 673.2	1.4%	2 486.7	1.0%	47.7%
Loans and advances to customers	185 336.1	72.5%	179 497.4	72.2%	3.3%
Securities	41 270.8	16.2%	40 160.2	16.1%	2.8%
Other assets	13 308.9	5.2%	14 818.0	6.0%	-10.2%
Total assets	255 523.6	100.0%	248 700.6	100.0%	2.7%
Amounts due to banks	20 105.7	7.9%	19 398.9	7.8%	3.6%
Amounts due to customers	179 137.8	70.1%	174 386.8	70.1%	2.7%
Liabilities of insurance activities	2 587.2	1.0%	2 679.7	1.1%	x
Debt securities in issue and subordinated liabilities	16 660.3	6.5%	15 714.6	6.3%	6.0%
Other liabilities	8 301.8	3.2%	8 905.0	3.6%	-6.8%
Total liabilities	226 792.8	88.8%	221 085.0	88.9%	2.6%
Total equity	28 730.9	11.2%	27 615.6	11.1%	4.0%
Total liabilities and equity	255 523.6	100.0%	248 700.6	100.0%	2.7%
Loans/Deposits (amounts due to customers)	103.5%	x	102.9%	x	0.5 p.p.
Loans/stable sources of funding*	87.0%	x	86.4%	x	0.6 p.p.
Interest bearing assets/Assets	90.1%	x	89.3%	x	0.8 p.p.
Interest paying liabilities/Liabilities	84.5%	x	84.2%	x	0.3 p.p.

* Stable sources of financing include amounts due to customers and external financing in the form of: issue of securities, subordinated liabilities and amounts due to financial institutions.

Loans and advances to customers

In the structure of the gross loan portfolio by type, the main items were housing loans and advances (PLN 102.6 billion), with the increase by PLN 4.5 billion in comparison to the end of 2014, determined the growth of the loans granted to customers portfolio. The growth of consumers loans and corporate payments by PLN 1.7 billion was noticed in the first half year 2015.

The share of housing loans and advances in gross credit portfolio structure increased in the first half of 2015 to 53.0%.

Securities

As at the end of first half of 2015, the securities portfolio of the PKO Bank Polski SA Group amounted to PLN 41.3 billion and recorded an increase by PLN 1.1 billion compared with the end of 2014 and it was 16.2% of total assets of PKO Bank Polski SA Group. In the structure of the portfolio by type, the main items were debt securities issued by the State Treasury which share in portfolio increased in first half year of 2015 and short debt securities issued by central banks (mostly NBP bills).

Amounts due to banks

At the end of first half of 2015, the value of amounts due to banks was PLN 20.1 billion and increased by PLN 0.7 billion in comparison to the end of 2014. The main reasons of the growth was an increase in funds from other banks kept in current accounts and in the form of interbank deposits.

Amounts due to customers

As at the end of the first half 2015 the value of amounts due to customers amounted to PLN 179.1 billion and increased by PLN 4.7 billion in comparison to the end of 2014. In the structure of amounts due to customers by types, the main items are amounts due to retail clients PLN 131.7 billion (+ PLN 3.0 billion comparing to the end of 2014) which share in the portfolio structure amounted to 73.5%. Another significant category of liabilities constituted liabilities due to economic entities in the amount of PLN 40.5 billion (PLN -0.4 billion in comparison to the end of 2014) which share in the structure of liabilities amounted to 22.6%.

External financing

The PKO Bank Polski SA Group is an active participant in the market of debt security issues, both local and international. These actions are intended to diversify the sources of financing of operations and to adapt them to regulatory requirements. As at the end of first half of 2015, securities issue and subordinated liabilities were 7.3% of total liabilities and increase was mainly due to depreciation of Polish Zloty compared to the end of 2014. Detailed information about issues carried out by PKO Bank Polski SA Group are described in note 31 in Condensed interim consolidated financial statements of PKO Bank Polski SA Group for the six months period ended 30 June 2015.

Equity and capital adequacy ratio

Equity of the PKO Bank Polski SA Group increased by 1.04% in comparison to the end of 2014 and at the end of first half year of 2015 accounted for 11.24% of total equity and liabilities of PKO Bank Polski SA Group (increase of share by 0.1 p.p. in comparison to the end of 2014).

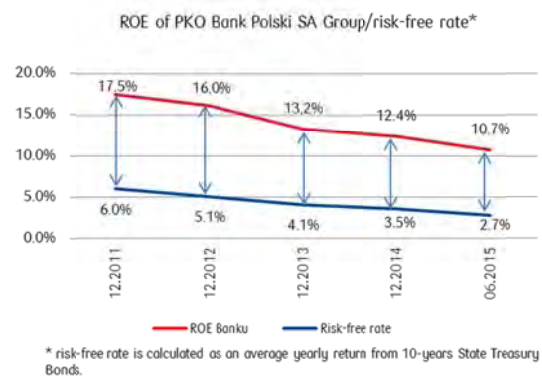
As at 30 June 2015, the total capital adequacy ratio of PKO Bank Polski SA Group amounted to 13.88%, which means an increase of 0.92 p.p. compared to the end of 2014, which was caused by the increase of own funds as a result of including profit from 2014 and not paying of dividend. Capital adequacy measured with the capital adequacy ratio was maintained at a safe level, significantly higher than required limits.

Table 9 Equity and capital adequacy ratio of PKO Bank Polski SA Group (in PLN million)

	30.06.2015	Structure 30.06.2015	30.06.2014	Structure 30.06.2014	Change (in %)
Equity, of which:	28 730.9	100.0%	26 013.6	100.0%	10.4%
Share capital	1 250.0	4.4%	1 250.0	4.8%	0.0%
Reserve capital	20 711.2	72.1%	18 802.4	72.3%	10.2%
General banking risk fund	1 070.0	3.7%	1 070.0	4.1%	0.0%
Other reserves	3 536.4	12.3%	3 474.1	13.4%	1.8%
Cash flow hedges	(91.1)	-0.3%	(2.5)	0.0%	36.1x
Financial assets available for sale	(77.4)	-0.3%	32.1	0.1%	x
Currency translation differences from foreign operations	(209.0)	-0.7%	(194.2)	-0.7%	7.6%
Undistributed profits	1 222.4	4.3%	(60.7)	-0.2%	x
Net profit for the period	1 350.1	4.7%	1 658.1	6.4%	-18.6%
Actuarial gains and losses	(9.0)	0.0%	(7.8)		
Non-controlling interest	(22.7)	-0.1%	(8.2)	0.0%	2.8x
Share in other comprehensive income of an associate	-	0.0%	0.2	0.0%	x
Own funds	27 276.1	x	23 859.0	x	14.3%
Capital adequacy ratio (%)	13.88%	x	12.32%	x	1.56 p.p.

In the first half of 2015 return on equity (ROE) decreased by 2.7 p.p. on an annual basis, as a result of lower level of annualized net profit (-12% y/y), with an increase in average equity of 10.4% y / y. A lower rate of return on equity reflects the trend in the market, lower results were recorded by the entire banking sector.

Return on assets (ROA) decreased by 0.4 p.p. in comparison with the first half of 2014.



3.2 Financial results of PKO Bank Polski SA

3.2.1 Key financial indicators

The summary of results, achieved by the PKO Bank Polski SA in the first half of 2015, is represented by the following key financial efficiency indicators, which are shown in the table below.

Table 10 Financial indicators of the PKO Bank Polski SA

	30.06.2015	30.06.2014	Change (p.p.)
ROA net (net profit/average total assets)*	1.2%	1.7%	-0.5
ROE net (net profit/average total equity)*	10.1%	13.5%	-3.4
C/I (cost to income ratio)*	48.3%	40.8%	7.5
Interest margin (net interest income/average interest-bearing assets)*	3.2%	3.7%	-0.5
The share of impaired loans**	6.6%	7.8%	-1.2
Cost of risk***	-0.87%	-1.15%	0.3
The coverage ratio of impaired loans****	62.6%	53.5%	9.1

*Income statement items used in calculating indicators capture the period of the last four quarters (annual recognition), while the statement of financial position items capture the average of the last five quarterly values of the respective assets and liabilities.

** Calculated by dividing the gross carrying amount of impaired loans and advances by the gross carrying amount of loans and advances to customers.

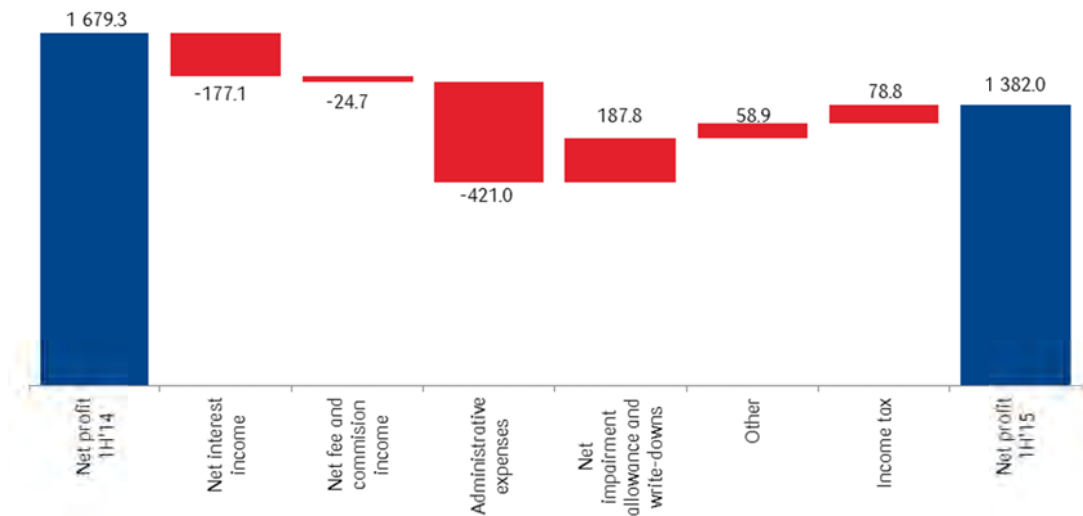
*** Calculated by dividing the result from impairment allowances on loans and advances to customers by the average balance of loans and advances to customers gross.

**** Calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying amount of impaired loans and advances.

3.2.2 Income statement of PKO Bank Polski SA

The net profit of the PKO Bank Polski SA generated in the first half of 2015 amounted to PLN 1 382.0 million and was lower by PLN 297.3 million (17.7%) than in the corresponding period of 2014.

Chart 2. Changes in the income statement of PKO Bank Polski SA



In the PKO Bank Polski SA income statement for the first half of 2015, the sum of revenue positions amounted to PLN 4 993.4 million and it was PLN 142.9 million, i.e. by 2.8% lower than in the comparable period of 2014. Main results were as follows:

Table 11 Changes in the income statement of the PKO Bank Polski SA (in PLN million)

	01.01- 30.06.2015	01.01- 30.06.2014	Change (in PLN million)	Change (in %)
Interest and similar income	4 654.4	4 872.4	(218.0)	-4.5%
Interest expense and similar charges	(1 399.4)	(1 440.3)	40.9	-2.8%
Net interest income	3 255.0	3 432.1	(177.1)	-5.2%
Fee and commission income	1 670.1	1 822.0	(151.9)	-8.3%
Fee and commission expense	(359.8)	(487.0)	127.2	-26.1%
Net fee and commission income	1 310.2	1 335.0	(24.7)	-1.9%
Dividend income	110.0	79.8	30.2	37.8%
Net income from financial instruments measured at fair value	1.2	42.3	(41.1)	-97.1%
Gains less losses from investment securities	76.9	37.8	39.1	2x
Net foreign exchange gains (losses)	206.4	182.0	24.5	13.4%
Net other operating income and expense	33.6	27.4	6.2	22.6%
Net impairment allowance and write-downs	(749.2)	(936.9)	187.8	-20.0%
Administrative expenses	(2 549.2)	(2 128.2)	(421.0)	19.8%
Operating profit	1 695.0	2 071.1	(376.1)	-18.2%
Profit (loss) before income tax	1 695.0	2 071.1	(376.1)	-18.2%
Income tax expense	(313.0)	(391.8)	78.8	-20.1%
Net profit (loss)	1 382.0	1 679.3	(297.3)	-17.7%

Net interest income

The net interest income generated in first half of 2015 was PLN 177.1 million lower than in the same period of previous year, mainly due to a decrease in interest income by PLN 218.0 million, with a drop of an interest expenses by PLN 40.9 million.

Table 12 Interest income and expense of the PKO Bank Polski SA (in PLN million)

	01.01- 30.06.2015	01.01- 30.06.2014	Change 1H 2015/ 1H 2014
Interest and similar income, of which:	4 654.4	4 872.4	-4.5%
Loans and advances to customers	3 902.0	4 135.4	-5.6%
Securities	485.0	479.4	1.2%
Derivative hedging instruments	212.2	171.1	24.0%
Placements with banks	50.6	73.1	-30.8%
Loans to banks	3.3	11.2	-70.6%
Other	1.3	2.2	-42.5%
Interest expense and similar charges, of which:	(1 399.4)	(1 440.3)	-2.8%
Amounts due to customers	(1 280.3)	(1 343.3)	-4.7%
Own debt securities in issue	(37.9)	(44.4)	-14.6%
Amounts due to banks	(32.4)	(26.7)	21.3%
Premium on debt securities available for sale	(29.8)	(14.9)	2x
Deposits from banks	(2.8)	(5.3)	-47.6%
Other expense*	(16.2)	(5.7)	2.8x
Net interest income	3 255.0	3 432.1	-5.2%

* Including: costs of financial assets available for trading and financial assets upon initial recognition measured in fair value through profit or loss.

Net fee and commission income

Net fee and commission income generated in the first half of 2015 was PLN 24.7 million lower than in the same period of previous year, as a result of PLN 151.9 million decrease in commission income and decrease of commission expenses by PLN 127.2 million.

Table 13 Fee and commission income and expense of the PKO Bank Polski SA (in PLN million)

	01.01- 30.06.2015	01.01- 30.06.2014	Change 1H 2015/ 1H 2014
Fee and commission income, of which:	1 670.1	1 822.0	-8.3%
Payment cards	457.0	705.6	-35.2%
Maintenance of bank accounts	457.3	453.5	0.8%
Loan insurance*	50.9	80.5	-36.8%
Loans and advances granted	310.7	275.9	12.6%
Cash transactions	46.3	51.6	-10.3%
Maintenance of investment funds and OPF (including management fees)	144.9	114.0	27.1%
Securities transactions	54.4	41.5	31.0%
Servicing foreign mass transactions	33.6	28.0	20.0%
Providing the services of an agent for the issue of Treasury bonds	8.2	11.5	-28.9%
Sale and distribution of court fee stamps	5.5	2.5	2.2x
Insurance and investment products	9.5	-	x
Other**	91.9	57.4	60.0%
Fee and commissions expense, of which:	(359.8)	(487.0)	-26.1%
Payment cards	(223.3)	(366.8)	-39.1%
Acquisition services	(35.0)	(42.5)	-17.8%
Settlement services	(15.6)	(13.6)	14.8%
Operating services provided by banks	(11.5)	(6.1)	88.8%
Other***	(74.4)	(58.1)	28.2%
Net fee and commission income	1 310.2	1 335.0	-1.9%

* In the second quarter of 2015 due to changes in insurance model the recognition of result in the net form has changed, as described in Note 3 to the Condensed Interim Consolidated Financial Statements of the PKO Bank Polski SA Group. Data for the previous periods have been restated for comparability. The change is presentational only and has no impact on the result.

** 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, fiduciary activities.

*** 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 (NDS).

Administrative expenses

Administrative expenses amounted in the first half of 2015 to PLN (-) 2 549.2 million and increased by PLN 421.0 million compared to the corresponding period of the previous year. The level of administrative expenses of PKO Bank Polski SA was mainly determined by a merger with Nordea Bank Polska SA in October 2014 and by the increase in charges and fees to the Bank Guarantee Fund PLN 117.5 million y/y, mainly due to an increase in interest rates of BGF charges, which with growth of business by PLN 319.4 million y/y resulted in the formation of the effectiveness of PKO Bank Polski SA measured at C/1 ratio on an annual basis at 48.3% (+7.5 p.p. y/y).

Table 14 Administrative expenses of the PKO Bank Polski SA (in PLN million)

	01.01- 30.06.2015	01.01- 30.06.2014	Change 1H 2015/ 1H 2014
Employee benefits	(1 257.5)	(1 119.6)	12.3%
Overheads and other*	(919.5)	(700.6)	31.3%
Amortisation and depreciation	(372.2)	(308.0)	20.8%
Total	(2 549.2)	(2 128.2)	19.8%

* Other: taxes and other charges and contribution and payments to the Bank Guarantee Fund.

Net impairment allowance and write-downs

The result of net impairment allowance and write-downs reflects a safe approach of the PKO Bank Polski SA to recognition and measurement of credit risk. The improvement of the result of net impairment allowance and write-downs provisions in the first half of 2015 by 20.0% y/y resulted from favorable result of write-downs on receivables from customers and allowances for the depreciation of securities and assets. The cost of risk³ in the first half of 2015 years amounted to 0.87% and improved by 0.3 p.p. compared to the end of the first half of 2014.

3.2.3 Statement of financial position of PKO Bank Polski SA

The total assets of the PKO Bank Polski SA amounted to PLN 251.1 billion and was higher by 3.0% than the result at the end of December 2014.

A significant increase in total assets of PKO Bank Polski SA is the result of business development, which translates into a significant increase in business volumes. The main items of the statement of financial position of the PKO Bank Polski SA at the end of June 2015, are presented in the table below:

Table 15 Main items of the statement of financial position of the PKO Bank Polski SA Group (in PLN million)

	30.06.2015	Structure 30.06.2015	31.12.2014	Structure 31.12.2014	Change (in %)
Cash and balances with the central bank	11 895.0	4.7%	11 698.2	4.8%	1.7%
Amounts due from banks	3 828.3	1.5%	2 608.5	1.1%	46.8%
Loans and advances to customers	183 915.5	73.2%	177 557.6	72.8%	3.6%
Securities	38 254.4	15.2%	37 438.5	15.4%	2.2%
Other assets	13 238.7	5.3%	14 457.7	5.9%	-8.4%
Total assets	251 131.9	100.0%	243 760.5	100.0%	3.0%
Amounts due to banks	19 662.9	7.8%	18 444.0	7.6%	6.6%
Amounts due to customers	191 118.7	76.1%	185 920.6	76.3%	2.8%
Debt securities in issue and subordinated liabilities	3 636.8	1.4%	3 280.1	1.3%	10.9%
Other liabilities	7 940.1	3.2%	8 513.7	3.5%	-6.7%
Total liabilities	222 358.5	88.5%	216 158.4	88.7%	2.9%
Total equity	28 773.4	11.5%	27 602.2	11.3%	4.2%
Total liabilities and equity	251 131.9	100.0%	243 760.5	100.0%	3.0%
Loans/Deposits (amounts due to customers)	96.2%	x	95.5%	x	0.7 p.p.
Loans/stable sources of funding*	87.0%	x	86.4%	x	0.6 p.p.
Interest bearing assets/Assets	90.0%	x	89.3%	x	0.7 p.p.
Interest paying liabilities/Liabilities	85.4%	x	85.2%	x	0.2 p.p.

* Stable sources of financing include amounts due to customers and external financing in the form of: issue of securities, subordinated liabilities and amounts due to financial institutions. To maintain comparability with previous periods and to show the economic substance of funds obtained, from 2Q'14 mortgage loans of the Nordea BP in the amount of funding received from Nordea AB are included to determine the loans ratios.

The biggest part of the assets of PKO Bank Polski SA Group were loans and advances granted to customers and their amount was PLN 183.9 billion at the end of June 2015 (PLN +6.4 billion compared to the end of 2014), with 73.2% share in total assets. Still, the main source of assets financing are liabilities due to customers, which amounted to PLN 191.1 billion as at the end of June 2015 (PLN +5.2 billion compared to the end of 2014) with 86.0% share in total assets. A significant increase in amounts due to customers is associated with maintaining a secure balance sheet structure during the period of intensive development of the business of PKO Bank Polski SA.

³ Calculated by division of net impairment allowance and write-downs of loans and advances to customers for 12 month period, ended 30 June 2015 and 2014 by the average, gross balance of loans and advances to customers at the beginning and at the end of reporting period and quarterly periods in between.

4 ACTIVITIES OF THE PKO BANK POLSKI SA GROUP⁴

4.1 Activities of PKO Bank Polski SA – the parent company of the PKO Bank Polski SA Group

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 areas are divided ensures consistency with the sales management model and offers the customers a comprehensive offer comprising both traditional banking products and more complex investment products. Currently, the Group conducts its business activities as part of the retail segment and the corporate and investment segment.

Retail segment

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, i.a.: 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.

Corporate and investment segment

The corporate and investment segment comprises transactions conducted with large corporate customers and financial institutions. This segment comprises, i.a. the following products and services: maintaining current accounts and term deposits, holding securities, foreign exchange and derivative products, corporate loans, as well as leases and factoring. As part of this segment's activities, PKO Bank Polski SA also concludes, on its own or in consortiums with other banks, agreements for financing large projects in the form of loans and issues of non-Treasury securities. Moreover, this segment comprises own activities, i.e. investing activities, brokerage activities, interbank transactions, as well as transactions in derivative instruments and debt securities.

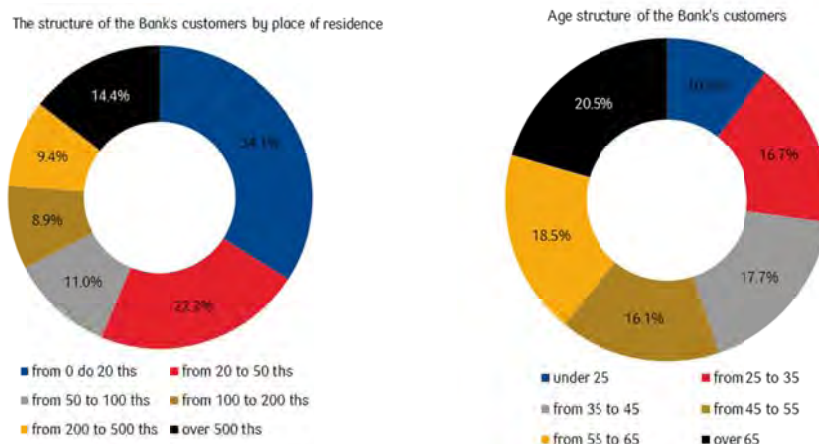
4.1.1 Retail segment

In the first half of 2015, activities undertaken by the Bank within the retail segment were focused on increasing appeal and competitiveness of products offered, with flexible reaction to changing market conditions. In the retail segment PKO Bank Polski SA continued sustained development, focused on recognising and satisfying needs of customers with whom it wants to build strong, long-term relationships. Actions aimed to improvement of the customer service quality i.a. through the development of employees' competencies (product trainings) and actions leading to increase innovation in the new financial solutions, not only concerning products, but distribution channels as well, particularly in electronic banking and mobile payments were taken.

The Bank consistently implemented strategy of promoting customer service through electronic channels by developing banking products service in electronic channels. At the end of June 2015, the number of customers served in retail segment amounted to 8 889 thousand of which 8 454 thousand constituted private individuals. Over the half of the customers of retail segments actively use electronic banking. The most active group using electronic banking (almost 86%) are the customers between 18 and 25 years old.

Due to extended sales network the majority of Bank's customers (approx. 67%) live in communes of less than 100 thousand inhabitants. The Bank's trustworthy brand, the ability to connect tradition with modernity and clear and taking into account changing consumer preferences products offer makes the Bank is recognised not only in large urban centers. Moreover in terms of demographic profile 45% of the retail portfolio constitute customers under 45 years old.

Branch network was the most significant distribution channel in terms of the retail customers acquired. New customers are acquired mainly through sale of current accounts (approx. 96%).



⁴ In this sub-chapter any differences in total balances, shares and growth rates result from roundings of balances to PLN million and percentage shares to one decimal place.

The loan offer in the retail segment

The PKO Bank Polski SA's offer includes a wide range of loan products. Retail, private and mortgage banking customers can take advantage of financing available under the consumer loans in the form of cash loan, Aurum and Platinum loan, mortgage loan, revolving loans and credit cards as well as financing available under housing loans. The loan offer in the form of investment and investor loans is available for small and medium enterprises.

As at the end of the first half of 2015, gross loans to the retail segment of PKO Bank Polski SA amounted to PLN 139.6 billion and have increased by PLN 6.0 billion (i.e. by 4.5%) since the beginning of the year. This was mainly due to an increase in the portfolio of mortgage banking loans (+5.4% since the beginning of the year) and increase in retail and private banking (+3.4%).

Table 16 Gross loans of the PKO Bank Polski SA - in the retail segment (in PLN million)

	30.06.2015	31.12.2014	30.06.2014	Change from:	
				31.12.2014	30.06.2014
Loans and advances granted, gross, of which:					
retail and private banking	22 180	21 455	20 516	3.4%	8.1%
small and medium enterprises	21 905	21 504	21 827	1.9%	0.4%
mortgage banking	95 505	90 623	72 095	5.4%	32.5%
Total	139 590	133 582	114 438	4.5%	22.0%

Retail and private banking loans

The PKO Bank Polski SA's offer includes a wide range of loan products. Retail customers can take advantage of both the standard Cash Loan, as well as the current financing available under the revolving loans and credit cards. A special offer of the Aurum and Platinum loans with available high amounts of loans and competitive pricing parameters, is available for the affluent clients.

In the first half of 2015, PKO Bank Polski SA continued the action of promoting sales of consumer loans. As part of the initiatives supporting the sales of such products, the Bank carried out promotional activities, mainly focused on the cash loan and the Aurum/Platinum loan.

In reference to Aurum/Platinum cash loan and credit the Bank has prepared special offers dedicated for PKO Bank Polski SA clients as well as for those individuals who have not been interested in these offers yet and for those who want to transfer their debt to PKO Bank Polski SA. Within the scope of these offers, the preference price conditions were made accessible, such as lower margin for individuals who work in chosen professions, are about to finish their Aurum/Platinum credit's repayment, apply about increasing credit's amount and actively use revolving credit or credit card.

PKO Bank Polski SA was taking up some actions which were orientated on expanding credit offer for retail and private banking clients. In this purpose the amount of remotely sold and unsecured cash loan was extended to PLN 50 thousand. Additionally criteria and formalities connected with getting a credit or loan were simplified through allowing to provide income information through PIT tax return. The new cash sale process "Pożyczka one-click" were made accessible fully online. Because of that solution the client is able to get a loan through electronic banking iPKO even in one minute.

Moreover, as a part of activities to simplify the access to product offer for the clients through internet and mobile devices since June this year PKO Bank Polski SA offers a possibility to open revolving credit or to increase an individual or mutual account existing limit without necessity to sign new paper agreement or annex. PKO Bank Polski SA clients, who are willing to use revolving credit can conclude agreement through internet iPKO service, while until now it required signing a paper document in one of the Bank branches.

Mortgage banking loans

During the period under analysis, the Bank maintained a dominant position on the housing loans market. According to the data presented by the Polish Bank Association ('PBA') as at 30 June 2015, PKO Bank Polski SA (in terms of PLN mortgage loans sales only) ranked first on the market with its 25.0% share in sale of housing loans for individuals. Since the beginning of the year Bank granted loans for total amount of approx. PLN 4.8 billion.

In the first half of 2015 the Bank implemented promotional campaign for mortgage loans named "Dni Otwarte Kredytów Hipotecznych". The campaign was supporting sale of mortgage loans and loans with preferable price conditions offered for:

- WŁASNY KĄT Housing Loan,
- WŁASNY KĄT Mortgage Packet and
- Mortgage Loan under regulations of "Mieszkanie dla młodych" program.

In the discussed period PKO Bank Polski SA continued to grant housing loans with the financial support of Bank Gospodarstwa Krajowego in the programme 'Mieszkanie dla Młodych'. The program consists of co-financing from State budget's funds to own contribution and awarding additional financial support in the form of repayment of a part of the loan. The program can be used by people who apply for funding by the end of the year in which they turn 35 years old (in case of marriage this requirement applies to the younger spouse) and plan to purchase the first flat or detached house on the primary market located on the territory of Poland. In the first half of 2015 PKO Bank Polski SA granted almost 1.5 thousand loans for a total amount of PLN 277 million within the program 'Mieszkanie dla Młodych'.

Going forward to meet customers expectation with Swiss Franc loans in terms of significant Swiss Franc to Polish Złoty rate increase, PKO Bank Polski SA decided to apply a 1 % spread for Swiss Franc mortgage loans services between 27 January and 31 December 2015. Simultaneously, in relation to all customers, the Bank took into consideration negative rate of LIBOR CHF included the cost of mortgage loan and made accessible extending the repayment date within the scope of maximum crediting period along with abandonment of taking charge for extending crediting period. All those actions taken by the Bank allow clients in a significant way to compensate their instalment increase which are the result of Swiss Franc appreciation.

Loans for small and medium enterprises

PKO Bank Polski SA consistently supports Polish entrepreneurship. It enables small and medium enterprises to finance both current and investment needs through an extensive and flexible lending offer. Due to the agreement signed between PKO Bank Polski SA and Bank Gospodarstwa Krajowego for a portfolio de minimis guarantee line 'Portfolio de Minimis Guarantee Facility', under the government program of support for small and medium enterprises, the entrepreneurs gain support in the form of BGK guarantee – de minimis, aimed at increasing the availability of lending facilities and launching additional funds for companies' on-going activities. As at 30 June 2015 over 21 thousand customers had already benefited from 'Portfolio de Minimis Guarantee Facility' program and the value of granted loans amounted to PLN 5.5 billion. PKO Bank Polski SA was the biggest lender among twenty one banks granting loans with de minimis guarantees and held 25.6% of the market share (according to data provided by the Warranties and Guarantees Centre of Bank Gospodarstwa Krajowego as at 30 June 2015).

Continuance of the cooperation with Bank Gospodarstwa Krajowego within 'Portfolio de Minimis Guarantee Facility' agreement and great interest in the product from customers resulted in signing by PKO Bank Polski SA in June 2015 annexes to the agreement with BGK associated with the increase in the guarantee limit granted effective till the end 2016 from PLN 3.1 billion to PLN 4.0 billion. As at 30 June 2015 the exposure measured by the amount of active signed agreements amounted to PLN 2.5 billion.

The deposit and investment offer

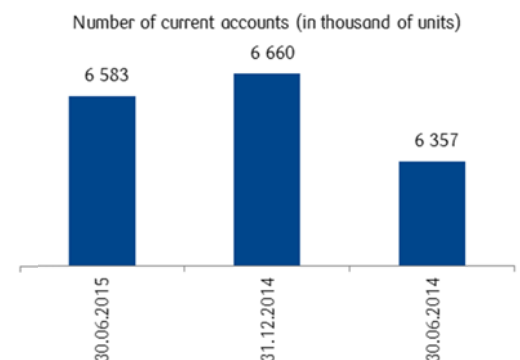
In the first half of 2015, PKO Bank Polski SA continued activities aimed at offering more attractive deposits for retail clients, taking into account current market conditions and competitive position. At the same time activities aimed at diversifying sources of financing were carried out. As at 30 June 2015, deposits of the retail segment of PKO Bank Polski SA amounted to PLN 142.9 billion and since the beginning of the year their volume increased by PLN 3.8 billion (i.e. by 2.7%). The increase in the retail and private banking deposit level (+2.8% since the beginning of the year) mainly contributed to this, due to the increase in both volume of term deposits and the volume of current deposits.

Table 17 Deposits of the PKO Bank Polski SA - in the retail segment (in PLN million)

	30.06.2015	31.12.2014	30.06.2014	Change from:	
				31.12.2014	30.06.2014
Client deposits, of which:					
retail and private banking	125 332	121 893	113 459	2.8%	10.5%
small and medium enterprises	17 585	17 213	14 516	2.2%	21.1%
Total	142 917	139 106	127 974	2.7%	11.7%

Current and savings accounts

PKO Bank Polski SA remains market leader in terms of the number of current accounts maintained, which amounted to 6.6 million as at the end of the first half of 2015. The high number of accounts resulted from the diversified offer in terms of customer preferences as part of which i.a. the following products can be distinguished: PKO Konto bez Granic, PKO Konto za Zero, PKO Konto dla Młodych, PKO Konto Pogodne, PKO Konto Pierwsze and PKO Junior. The decrease of the number of accounts since the beginning of the year mainly resulted from the unification of counting accounts method taken by the Bank after the operational merger.



Term deposits and regular saving products

The dominant share of the retail deposit market have deposits of retail and private banking. Customers in this segment invested their funds primarily in term deposits. In the first half of 2015 the Bank offered its individual customers i.a. deposits with progressive and standard interest rates (an even and odd deposit, a 3M deposit, a 6M deposit, a 3+9+12 deposit, a 24M deposit) and structured deposits. Retail and private banking customers were in particular interested in the following term deposits available in the Bank's offer: a 24M deposit with the negotiated interest rate, a 24M deposit for new funds, a 6M Internet deposit available in electronic banking system with the interest rate depending on the amount of funds deposited, a 3+3 deposit account for new funds and a 3+3 deposit with negotiated interest rate.

Structured instruments sold in the form of structured deposits or Bank Securities are an element of the Bank's standard offer dedicated to retail customers. In the period under discussion, the Bank conducted 6 subscriptions for 4 structured deposits: deposit based on a bucket of Asian companies' shares and on a bucket of seven gold companies, deposit based on a bucket of automotive companies' shares and deposit based on the USD/PLN exchange rate.

Having such products in its sales offer allows the Bank to offer attractive products to its customers and helps to improve PKO Bank Polski SA's image as an institution offering innovative investment instruments. The attractiveness of these products is demonstrated by the results: a 2.5 year structured deposit based on the WIG20 stock index, which maturity date reached in the first quarter of 2015, generated a 30% profit for the investors for the entire investment period, which is 12% a year.

Moreover in the first half of 2015 the Bank introduced special 3-month deposit offer dedicated for Private Banking customers who are going to open long term investing policies in a form of life insurance with insurance capital fund.

Within the analyzed period the Bank introduced another offer of "Biznes Lokata" deposit with a progressive rate of interest and offered for small and medium enterprises a possibility of participating in a term deposit of 3, 6 and 12 months. As well Inteligo enterprise customers were offered 3-month deposit with a progressive rate of interest, named "Lokata Wzrastająca". Furthermore small and medium enterprises customers have a possibility to acquire 12-month "Lokata Dynamiczna" deposit with a progressive rate of interest. Going forward to meet customer's expectations

the Bank simplified the sale process of automatic deposit, which is pleasing a great interest and eliminated necessity to conclude separate agreement.

Investment funds and investment and insurance products

Under cooperation with PKO TFI SA the Bank offers 35 investment funds to its customers. In the first half of 2015, PKO Bank Polski SA was systematically developing its investment fund offer. PKO Bank Polski SA performed new issues of B series Investment Certificates PKO Innovative Companies Global (closed-end investment fund). Furthermore, in January 2015 the Bank performed issues of A series Investment Certificates PKO Commercial Real Estates. Both issues expanded the range of offered to customers various investment strategies.

In the discussed period, in cooperation with PKO TFI PKO Shares of European Market Sub fund was included in the Bank's offer and further issues of closed-end investment Funds certificates were performed: B and C series of PKO Commercial Real Estates, PKO East-West Europe (B series) and PKO Multi Strategy (C series).

Moreover in cooperation with PKO TFI the Bank made accessible "Wyspecjalizowany Program Inwestycyjny PKO Akcjomat". This product is being opened in a source subfund – PKO Skarbiec, and in the next 12 months, each month the cash is transferred to chosen subfund or portfolio.

Available versions of the product:

- PKO Akcjomat with subfund for Basic Customer and Personal Banking segment (available subfunds: PKO Stabilnego Wzrostu, PKO Akcji Plus, PKO Technologii i Innowacji Globalny);
- PKO Akcjomat with portfolio for Personal Banking segment (available portfolios: Strategia Konserwatywna 15, Strategia Neutralna 55, Strategia Agresywna 85).

Moreover within discussed period PKO Bank Polski SA was systematically developing sale of introduced to the Bank offer in 2014 life insurances with Insurance Capital Fund dedicated not only for the wealthiest customers but also for basic segment customers.

In reference to best practices in June 2015 the Bank introduced a possibility to conclude MiFID framework agreement. Thanks to this service customers are able to use wide range of investment services, such as general advisory, investment advisory, investment products (investment funds, structured insurances, structured deposits) after signing only one agreement with PKO Bank Polski SA and activating chosen services and products.

Sales of State Treasury bonds

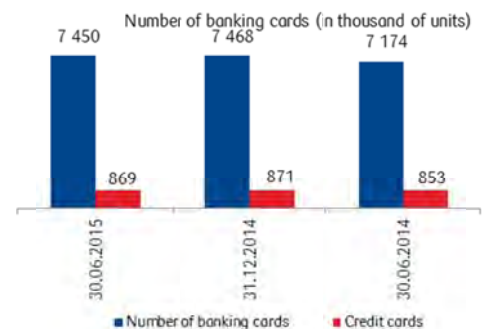
PKO Bank Polski SA is the only bank to sell and service retail bonds issued by the State Treasury, under an agreement concluded with the Minister of Finance. Treasury bonds are sold through the expansive sales network of PKO Bank Polski SA, which is a great convenience for all persons who wish to invest in bonds. In the first half of 2015, over 8.7 million bonds were sold.

Other products and services in the retail segment

Banking cards

As at 30 June 2015 a number of credit cards of PKO Bank Polski SA amounted to approx. 7.4 million units (including 0.9 million credit cards).

In the period under discussion, PKO Bank Polski SA introduced a number of innovative process solutions, which has facilitated managing and using cards by customers. A functionality that enables to apply for company's debit card by Contact Center consultants and iPKO service was introduced. New functionality that enables remote apply for cards eliminate the necessity of branch visit by entrepreneurs. Moreover PKO Bank Polski SA introduced the possibility for customers who conclude the agreement on issuance and use of Credit card with the Bank to apply for additional credit cards for indicated users without necessity of physical Bank branch visit and necessity of signing by future card user under the application.



During the discussed period, PKO Bank Polski SA in cooperation with the city authorities and Zarząd Transportu Miejskiego introduced to its offer new Warsaw Payment Card. This debit card, which enable coding of registered long-term ticket, may receive anyone who opens or already have a current account at PKO Bank Polski SA. The card is also available to a person who is at least 13 years old and will be indicated by the account holder.

From 20 April 2015 two new payment cards were made available to customers of small and medium enterprises: a convex debit card and charge card along with an insurance package. Both cards are issued with the VISA logo.

In June 2015, PKO Bank Polski SA introduced the possibility of credit card sales outside the Bank's office. The first event, during which the Bank offered credit cards outside the offices was Bieg Świętojański in Gdynia.

Mobile banking IKO

IKO is the most popular and most developed mobile payment system in Poland. It combines the functions of mobile banking with the ability to make mobile payments. The IKO application is now used by more than 307 thousand users, and the acceptance network covers over 70 thousand Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. payment terminals, over 6 thousand PKO Bank Polski SA and Euronet ATMs and 10 thousand online stores. The application is constantly updated with new functionality. On the basis of IKO payments Polish mobile payment standard BLIK was introduced. BLIK is a universal form of payments and cash withdrawals from ATMs without using cash or credit card, built together with partner banks and the National Clearing House.

In the first half of 2015 the catalog of orders possible to perform by users with current accounts in PKO Bank Polski SA and Inteligo accounts was expanded, introducing the possibility of setting up term deposits through the IKO application. Since February 2015, PKO Bank Polski SA offers these customers term deposits for 1, 3, 6 or 12 months. The change significantly transforms IKO from an application used for payments and mobile withdrawal to the application representing the bank in the phone.

In the discussed period activation of IKO application was made available to one account at PKO Bank Polski SA on three different devices.

Moreover, new features in IKO was made available to all customers, such as top-up prepaid phone, preview of the details of standing orders, cards (including credit card debt repayment) and loans (including mortgages) as well as the ability to send requests for transfer to another application user, which is a convenient option to remind another person of outstanding debt. Shared features are the next stage in the development of IKO in the pursuit of full banking services within the mobile application.

Insurance products for retail and private banking clients as well as small and medium enterprises

In increasing the appeal of its banking products by allowing the possibility to use additional services, tailored to the needs and expectations of its customers, the Bank offers insurance products for retail and private banking clients as well as the segment of small and medium enterprises, linked to banking products such as:

- current accounts (ROR) (i.a. life and accident insurance, property insurance, civil liability insurance, assistance insurance, travel insurance, Bill Protector),
- banking cards (i.a. security insurance package for credit, charge and debit cards, travel insurance),
- consumer, mortgage and corporate loans (life and loss of job insurance, low own contribution insurance, bridging insurance, property insurance, assistance insurance).

In the first half 2015 as a result of intensive work associated with preparation of the Bank to fulfill obligations under Recommendation U on good practices in the field of bancassurance, the existing business model of insurance sales was changed into agency model. As a result of these changes the Bank's offer includes individual insurance products replacing insurance in the group form, such as:

- Individual insurance package for Cash Loan (basic and extended option), to Inteligo Loan and Aurum / Platinum Loan (basic and extended option),
- Individual life insurance for clients who concluded a loan agreement secured by a mortgage,
- Individual insurance of mortgage/mortgage loans repayment for customers with mortgage or mortgage loan,
- Individual insurance Superochrona of houses and flats for people with mortgage or a mortgage loan.

In terms of life insurance, the Bank offers products mainly developed in cooperation with PKO Życie Towarzystwo Ubezpieczeń SA.

However, in the area of property insurance, the Bank established in the first quarter 2015 PKO Towarzystwo Ubezpieczeń SA. In the second quarter of 2015 measures were taken on preparing a new offer of insurance and starting of obtaining synergy effects from the cooperation with the two insurance companies from the Bank's Capital Group.

Private banking

At present, the Private Banking offices operate in the 8 largest Polish cities: Warsaw, Gdansk, Krakow, Katowice, Poznan, Wroclaw, Lodz and Szczecin. All offices are characterized by prestigious location which guarantees customers a discreet and comfortable service. The Private Banking Center also distinguished professional staff of advisers, concerned about the safety of the assets entrusted by clients.

PKO Bank Polski SA consistently pursues the Private Banking model, focusing on close cooperation within the Capital Group (Brokerage House and PKO TFI), allowing customers access to a wide range of products and financial instruments. In the second quarter sent three non-public issues of closed-end investment funds were addressed to Private Banking Customers: PKO Commercial Real Estate, PKO Multi Strategy and PKO East - West Europe.

The Bank is also focused on the ongoing development of Private Banking Advisors, continuing the process of certification under the EFA EFPA program. At present, more than half of the Advisors has such a certificate, which is a confirmation of the highest professional qualifications in the field of financial advisory services.

Distribution network

As at 30 June 2015, the retail network of PKO Bank Polski SA consisted of 1 253 branches and 8 retail banking offices. Compared with the end of 2014 the total number of retail branches decreased by 8. The decrease of branches resulted from liquidation of 15 branches operating on the same micro market after the acquisition of branches of taken over bank to PKO Bank Polski SA network.

Branch network and agencies

Improving customer service conditions in the network is one of the tasks supporting a strategic programme titled 'Enhancing the effectiveness of distribution of the network of branches and agencies'. In the first half of 2015, these measures focused on modernising branches, moving the branches to new, attractive locations, and creating new branches. They were aimed at increasing market competitiveness, improving customer service conditions, and optimising the space occupied by the branches. These measures support the effective acquisition of customers and guarantee that the customers are served in comfortable and identical conditions, regardless of the place of service.

A network of agencies constitutes an important supplement to the network of the branches and ATMs. As at 30 June 2015, the Bank cooperated with 926 agencies and in comparison with 31 December 2014 the number of agencies decreased by 75. The drop in the number of agencies is the continuance measures aimed at increasing the effectiveness of the network.

Table 18 Branch network and ATM's of PKO Bank Polski SA

	30.06.2015	31.12.2014	30.06.2014	Change from:	
				31.12.2014	30.06.2014
Number of branches in the retail segment	1 272	1 280	1 147	(8)	125
retail branches	11	11	11	-	-
regional retail branches	1 253	1 261	1 130	(8)	123
private banking branches	8	8	6	-	2
Number of ATMs	3 217	3 202	3 040	15	177
Number of agencies	926	1 001	1 054	(75)	(128)

In the first half of 2015, the number of the Bank's own ATMs increased by 15 compared with 31 December 2014 and reached 3 217 as at the end of June 2015. The increase in the number of devices resulted from the implementation of the development of the ATMs and ATMs with cash deposit module network project and in connection with the implementation of modernization, creating or changing the bank's branch offices projects.

As at 30 June 2015, there were 702 ATMs with a cash deposit module and throughout the first half of the year their number increased by 217 units. This increase resulted from the availability of making payments in 137 units previously belonging to the acquired bank, as well as in connection with bolt-new ATMs with cash deposit module within the ATMs with cash deposit module network development project.

At the same time, the number cash recyclers – self-service devices equipped with ATM functionalities and a cash deposit module, with a closed cash cycle – increased by 15 units and PKO Bank Polski SA had 21 devices of this type.

At the end of the first half of 2015 the Bank operated 328 night cash safe. This number includes 214 devices of new type, enabling booking of payments on-line on account of the account holder.

4.1.2 Corporate and investment segment

In the first half of 2015 PKO Bank Polski SA as in previous periods based the development of corporate business on building stable relationships with customers through high quality services, cooperation based on partnership and specialized competence of the sales network. Current business financing (through working capital loans), as well as openness to participation in the implementation of their future projects (through investment loans) and support in the implementation of local government projects, invariably constitute the main priorities of the Bank's corporate segment.

The Bank analysed market expectations systematically and, in order to meet customer expectations, tailored its current product and service offer so as to cope with increasing competitive pressure. As a result, a broad range of transaction products and products mitigating financial risks (liquidity, settlement, interest rate, currency and commodity price risks) were being developed consistently, and financing structure needs were addressed in a flexible manner.

As part of the legal merger, the Bank has standardized service processes and product offer for corporate and investment segment customers, making it even more attractive on the market. At the same time, the works have began on implementation of new solutions in the areas of optimization of sales units, on the implementation of new incentive schemes and work rhythm, as well as on management of the credit process.

At the end of June 2015 in the segment nearly 14.4 thousand customers were serviced, including 0.9 thousand strategic customers and more than 1.8 thousand units of local government and central government institutions together with nearly 2.3 thousand budget-related and affiliated entities. The Bank on the basis of newly acquired competences services also over 0.6 thousand affiliates and subordinated units with their registered office abroad.

Lending activity and structured financing

As at 30 June 2015 the total financing provided to corporate customers, including bonds issued amounted to PLN 59.2 billion maintaining at the stable level.

Table 19 Financing of corporate customer (in PLN million)

	30.06.2015	31.12.2014	30.06.2014	Change from:	
				31.12.2014	30.06.2014
Corporate loans, gross	46 506	46 257	40 053	0.5%	16.1%
Debt securities*	12 712	13 064	6 905	-2.7%	84.1%
municipal	7 181	7 303	4 372	-1.7%	64.3%
corporate	5 531	5 761	2 533	-4.0%	2.2x
Total financing	59 218	59 321	46 958	-0.2%	26.1%

*Data presented together with securities classified for loans and advances to customers.

The highest loan transactions concluded by the Bank in the first half of 2015 included financing in the form of investment and working capital loans granted to entities from the energy, financial sector and to public finance sector entities. The unit values of the highest transactions ranged from PLN 50 million to PLN 300 million.

The part of the standard offer of the Bank is financing of large investment projects in the form of loans and in the form of issuing securities mostly with a guarantee of purchase by the Bank. In the first half of 2015, the Bank took part in 7 banking consortiums and concluded loans agreement for over PLN 6.5 billion, share of the Bank amounted to almost PLN 1.9 billion. Moreover the Bank concluded the banking guarantee agreement for EUR 0.2 million to directly related entity with the Bank operating in banking sector. The Bank concluded 5 agreements of corporate bond issue without guarantee of closing amounted to PLN 1.8 billion, 2 agreements for the issue of bonds with a guarantee of closing for the amount of PLN 53.4 million and an agreement for bond issues with guarantee of closing with total funding of the consortium amounted to PLN 1.2 billion and the

Bank's share amounted to PLN 0.6 billion. The Bank cooperates closely with local government units and finances investment projects for the local community. In the first half of this year the Bank guaranteed to acquire municipal bond issue for 30 municipalities and cities in the total amount of PLN 178 million.

Deposit activities and transaction banking

The volume of deposits as at the end of June 2015 amounted to PLN 31.8 billion and since the beginning of the year increased by PLN 0.8 billion.

Table 20 Corporate deposits (in PLN million)

	30.06.2015	31.12.2014	30.06.2014	Change from:	
				31.12.2014	30.06.2014
Corporate deposits	31 754	30 907	26 545	2.7%	19.6%

PKO Bank Polski SA continues to improve the quality of the services provided in respect of transaction banking. In the first half of 2015, the services addressed to entities with a complex organisational structure (e.g. capital groups), enabling its customers to use various kinds of products and services which make it easier to settle transactions with foreign partners were developed.

Within providing electronic services, the electronic banking system - iPKO biznes - is the leading product. In the first half of 2015, the iPKO biznes application was expanded to include new functionalities which make it more convenient to use, including, i.a. simplifying and re-design of key operations made in the service, so that to make them even more user-friendly and intuitive. At present, the iPKO biznes application allows customers to monitor and manage accounts, payment cards and loans, and to place orders for all types of transfers.

Financial institutions

As part of the international settlement system, the Bank cooperates with financial institutions and is one of the leading Polish banks in terms of the number of foreign payments cleared and sent to Polish beneficiaries. In the first half of 2015 measures were taken to optimize the infrastructure responsible for service of foreign payments streams and initiated measures associated with the implementation of a new foreign exchange intermediation model. As part of its current operating activities, the Bank attracted new customers and concluded new agreements with domestic and foreign financial institutions other than banks. Based on these agreements the Bank offered attractive products supporting funds management as well as settlement, investment, Treasury, and risk hedging products.

Brokerage activities

The Brokerage House of PKO Bank Polski SA (BH) offers to its customers an extensive sales network and an attractive product offer. The strong position of the BH among institutional and retail clients resulted in an increase in the market share and the rise in the ranking of brokerage houses in terms of share in trading on the secondary stock market. In the first half of this year the volume of the BH's turnover amounted to nearly PLN 24 billion, which represents more than 10% of the market share and ranks on the first position.

The BH is also at the forefront of the NewConnect market makers. In the first half of 2015 the BH performed as market maker for 46 companies, which places the BH in the second position and with the turnover value exceeding PLN 151 million gives more than 8% market share.

An important area of the BH is service activity related to the organization of the stock issue on the Stock Exchange. In the first half of 2015 the BH was involved in the transaction of ABB Bank Millennium SA - the value of shares sold amounted to PLN 1.2 billion and Polenergia SA (PLN 189 million). Moreover, the BH performed as a co-offeror and co-bookrunner in IPO transaction of ATAL SA (PLN 143 million), performed as a co-bookrunner of Wirtualna Polska Holding SA (PLN 294 million) and performing as the Offeror, Global Coordinator and Bookrunner in the IPO of the Poznańska Korporacja Budowlana Pekabex SA (PLN 73 million). Moreover, the BH performed as an intermediary in the call for the sale of Rovese SA shares transaction - the value of the transaction amounted to over PLN 467 million and the of Echo Investment SA. The Brokerage House also took part, as a member of a consortium of sales, in the sales process of Ghelamco SA bonds. The value of sold bonds of PPB and PPC series amounted to about PLN 80 million. In the second quarter of 2015 the transaction of the purchase of 80% shares of AWT BV by PKP Cargo SA was finalised where the Brokerage House performed as financial advisor. The value of this transaction amounted to over EUR 103 million.

In the first half of 2015 the BH introduced to trading on Catalyst platform Enea SA bonds with a value of PLN 1 billion and bonds of city of Piła with the value of PLN 16 million.

As at the end of June 2015 the BH operated more than 181 thousand securities accounts and cash accounts and had approx. 162 thousand active registry accounts, which ranks the BH on the second position among 42 market participants.

Treasury products

Knowledge, experience and the Bank's activity in the financial markets allows to offer the Bank's institutional customers a wide range of treasury products tailored to the needs arising from the current operations as well as those related to the hedging of financial risk. Another advantage of the Bank in this area of activity is its extensive network of specialists and access to the high-tech Internet platform iPKO dealer.

The biggest share in sales of treasury products constitute SPOT foreign exchange transactions. Good results are obtained by the Bank for the sale of derivative instruments, such as forwards, options, IRS, CIRS or commodity.

In December 2014, the Bank finished working on the implementation of a new autodealing system linking its branch network to the Bank's Head Office. Currently measures are taken on the second phase of implementation and launching the following functionality: Limited orders, a series of FX transactions, access to iPKO dealer via mobile devices, access to the market news. It is expected that the completion of implementation of the modification ends in September 2015.

Fiduciary services

As at the end of June 2015, the value of customers' assets held on fiduciary accounts amounted to almost PLN 65 billion and was higher by approximately 3% than the amount obtained as at the end of 2014. The number of securities accounts serviced amounted to 1.8 thousand units.

Distribution network

The sales network of the corporate and investment segment includes seven Corporate Macro-Regions including 32 Regional Corporate Centres and 7 Regional Corporate Branches. The Bank successfully continued implementing a strategic programme of corporate sale development, based on modern mechanisms of planning the development of relationships with the customers, cooperation in building financial strategies and services. During the first half of 2015 there were no changes in the organisational structure of segment sales network.

According to the Bank's announcement of expansion into foreign markets, in the first half of 2015 measures were taken which will result in the launch of the first foreign corporate branch on the German market at the end of 2015. For this purpose, the location of future office was chosen and implementation of the adjustment of the Bank's internal operating procedures was started to ensure the smooth functioning of the new, foreign entity. Also the team was chosen that will represent PKO Bank Polski SA in Germany. In principle, the Bank will direct its offer to subsidiaries of Polish companies active on the German market. Thanks to a strong and vital relationship with the majority of leading Polish capital groups, the Bank sees the possibility to support their activities and investments abroad at particularly attractive terms and conditions relative to local competition market in Germany. Thus the Bank wants to participate in the development of the international expansion of their customers. The product offer of the German branch will include the full range of available financial solutions for corporate customers from financing to international trade finance and cash management.

Table 21 Branches of PKO Bank Polski SA

	30.06.2015	31.12.2014	30.06.2014	Change from:	
				31.12.2014	30.06.2014
Number of branches in the corporate and investment segment:	39	39	39	-	-
regional corporate branches	7	7	7	-	-
corporate centres	32	32	32	-	-

4.2 Market share of PKO Bank Polski SA

After the first half of 2015 the market share of PKO Bank Polski SA in terms of deposits increased by 0.2 percentage point in comparison to the end of 2014 to a level of 17.5% - mainly due to increase of share of institutional deposits.

In terms of lending market share decreased by 0.1 percentage point in comparison to the end of 2014 to the level of 17.8%, determined by a decrease in share of housing loans - mainly denominated in PLN.

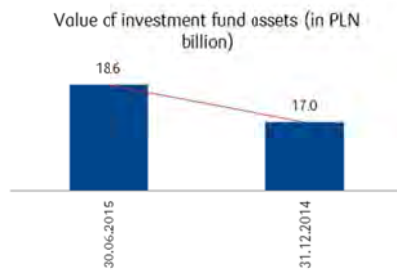
Table 22. Market share (in %)*

	30.06.2015	31.12.2014	30.06.2014	Change 30.06.2015/ 31.12.2014	Change 30.06.2015/ 30.06.2014
Loans for:	17.8	17.9	18.3	-0.1 p.p.	-0.5 p.p.
retail clients, of which:	22.9	22.9	22.9	0 p.p.	0 p.p.
housing	25.6	25.9	25.9	-0.3 p.p.	-0.3 p.p.
<i>in Polish zloty</i>	<i>29.1</i>	<i>29.6</i>	<i>29.9</i>	<i>-0.5 p.p.</i>	<i>-0.8 p.p.</i>
<i>foreign currencies</i>	<i>21.6</i>	<i>21.5</i>	<i>21.5</i>	<i>0.1 p.p.</i>	<i>0.1 p.p.</i>
consumer and other	15.7	15.6	15.5	0.1 p.p.	0.2 p.p.
corporate clients	12.9	13.1	13.9	-0.2 p.p.	-1 p.p.
Deposits for:	17.5	17.3	17.7	0.2 p.p.	-0.2 p.p.
retail clients	21.4	21.7	22.2	-0.3 p.p.	-0.8 p.p.
corporate clients	12.0	11.5	11.9	0.5 p.p.	0.1 p.p.

* Data source: NBP reporting system - WEBIS.

4.3 Activities of other entities of the PKO Bank Polski SA Group⁵

PKO Towarzystwo Funduszy inwestycyjnych SA



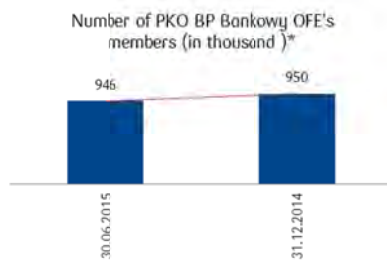
1. In the first half of 2015, PKO TFI SA recorded a net profit in the amount of PLN 26.4 million (in the corresponding period in 2014 the Company's net profit amounted to PLN 23.9 million).
2. The asset value of the funds managed by the Company amounted to PLN 18.6 billion as at the end of June 2015, which represents the increase in the assets by 9.4% comparing to the end of 2014. An increase of the assets value was associated mainly with positive balance on net sales and result due to asset management.
3. PKO TFI SA ranks 3th place in terms of the net asset value with 8.1% share in the investment funds market and first place with 14.0% share in nondedicated funds managed.*
4. As at 30 June 2015, the Company managed 48 investment funds and subfunds including 11 funds and subfunds introduced in the Company's offer in the first half of 2015.

* Source: Chamber of Fund and Asset Management

PKO BP BANKOWY PTE SA



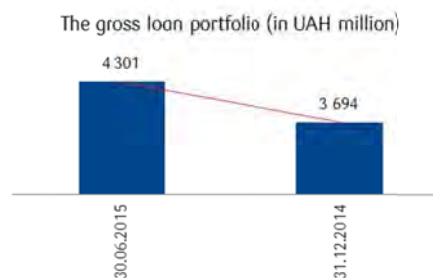
1. In the first half of 2015, PKO BP BANKOWY PTE SA recorded a net profit in the amount of PLN 3.8 million (in the first half of 2014, the Company's net profit amounted to PLN 7.3 million).
2. As at the end of June 2015, the net assets value of PKO BP Bankowy OFE managed by PKO BP BANKOWY PTE SA amounted to PLN 6.9 billion, which is an increase of 4.3% in comparison to the end of 2014. The increase in the value of assets was mainly related to the realisation in the first half of 2015 rate of return on managing mentioned above assets in amount of 5.3%.
3. As at the end of June 2015, PKO BP Bankowy OFE had 946 thousand members.
4. PKO BP Bankowy OFE holds the eighth place on the pension funds market regarding the OPF's net assets value and the ninth place regarding the number of members.



5. According to the ranking of the Polish Financial Supervision Authority, PKO BP Bankowy OFE for the period from 30 March 2012 to 31 March 2015 reached a rate of return at the level of 27.708% (the weighted average rate of return of 25.129%) holding thereby 3rd place in the ranking of OPFs for that

* Source: www.knf.gov.pl

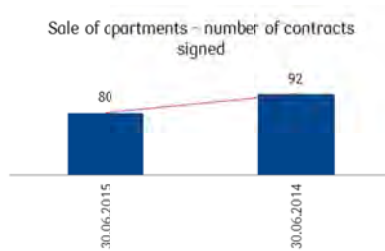
KREDOBANK SA Group (data according to IFRS applicable in the PKO Bank Polski SA Group)



1. As at the end of June 2015, the KREDOBANK SA Group (KREDOBANK SA and subsidiary Finansowa Kompania "Idea Kapita" Sp. z o.o.) generated a net profit in the amount of UAH 112.8 million (PLN 19.5 million). In the corresponding period in 2014, the KREDOBANK SA Group recognised a net loss amounted to UAH 73.5 million (PLN 20.9 million).
2. In the first half of 2015, the KREDOBANK SA Group's loan portfolio (gross) increased by UAH 607 million, i.e. by 16.4% and amounted to UAH 4 301 million as at 30 June 2015 (the gross loan portfolio as denominated in PLN decreased by PLN 84 million, i.e. by 7.7% and amounted to PLN 766 million as at the end of the first half of 2015).
3. In the first half of 2015, term deposits of the KREDOBANK SA Group clients increased by UAH 365 million, i.e. by 19.3% and amounted to UAH 2 254 million as at the end of June 2015 (term deposits as denominated in PLN decreased by PLN 23 million, i.e. by 5.5% and amounted to PLN 401 million as at 30 June 2015).
4. As at 30 June 2015 the network of KREDOBANK SA branches consisted of the Central Branch in Lviv and 109 subordinated branches in 22 out of 24 Ukrainian districts. In the first half of 2015, 1 subordinated branch was closed and the location of 6 subordinated branches was changed.

⁵ In terms of capital groups the financial result presented in the description is the result of parent company of this group.

Qualia Development Sp. z o.o. Group

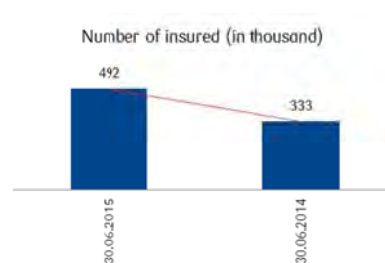


1. Qualia Development Sp. z o.o. (Qualia Development and its subordinated companies) incurred a net loss in the amount of PLN 9.7 million in the first half of 2015 (in the first half of 2014, the Group's net loss amounted to PLN 7.7 million).
2. In the first half of 2015, the Group's activities were focused on:
 - conducting conceptual work and administrative procedures to obtain again zoning for the project Żwirki i Wigury Street in Warsaw,
 - conducting conceptual work and administrative procedures to obtain zoning for properties owned by PKO Bank Polski SA located in Warsaw at Nowogrodzka Street and Sienkiewicza Street,
 - conducting the sale of apartments in the realised investments and during the realisation.

PKO Bank Hipoteczny SA

1. On 1 April 2015 PKO Bank Hipoteczny SA began operational activity - new PKO Bank Polski SA subordinated company.
2. The company specializes in providing mortgage loans to individual customers. Based on the strategic cooperation with PKO Bank Polski SA, these loans are offered to retail customers.
3. The key task of PKO Bank Hipoteczny SA is to issue mortgage bonds which are the primary source of long-term financing loans secured by real estate granted by the Company.

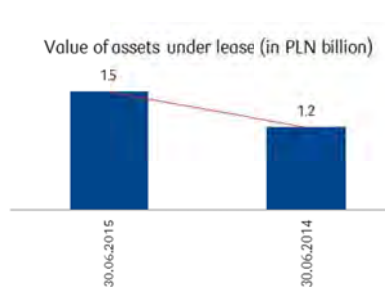
PKO Życie Towarzystwo Ubezpieczeń SA Group



1. In the first half of 2015 PKO Życie Towarzystwo Ubezpieczeń SA Group (PKO Życie Towarzystwo Ubezpieczeń SA and its subordinated company Ubezpieczeniowe Usługi Finansowe SP. z o.o.) incurred a net loss in the amount of PLN 6.5 million. Net incurred loss of PKO Życie TU SA Group for the the first half of 2014 amounted to PLN 3.0 million.
2. PKO Życie Towarzystwo Ubezpieczeń SA offers protection products and saving-investment products. As part of the investment products, the Company offers a wide range of Insurance Capital Funds in which customers can invest their savings. The investment offer includes 168 domestic and foreign Insurance Capital Funds, of which 6 model portfolios and 9 Insurance Capital Funds developed by experts from PKO TFI SA.
3. The value of gross written premiums under insurance agreements, concluded by the Company as at the end of June 2015, amounted to PLN 583 million.
4. As at the end of June 2015, the Company insured 492 thousand people.

On 10 June 2015, the Group PKO Leasing SA has been extended of the company PKO BP Faktoring SA. Presented result of the Group PKO Leasing SA for the first half of 2015 years include this transaction and the results of PKO BP Faktoring SA for the period from 10 to 30 June 2015 year. In addition, the results of PKO BP Faktoring SA are presented separately.

PKO Leasing SA Group



1. In the first half of 2015 the PKO Leasing SA Capital Group (i.e. PKO Leasing SA and subsidiaries: PKO Bankowy Leasing Sp. z o.o., PKO Leasing Sverige AB and PKO BP Faktoring SA) generated net profit in the amount of PLN 15 million. The result of the PKO Leasing SA Group for the first half of 2015 including all leasing companies in the Group as at today (including result for the first half of 2014 of merged in September 2014 PKO Leasing Pro SA) amounted to PLN 7.4 million.
2. In the first half of 2015, the entities of the PKO Leasing SA Group leased out assets with a total value of PLN 1.5 billion, i.e. an increase of 26.5% compared with the first half of 2015 (data for the first half of 2014 do not include PKO Leasing Pro SA, which was merged with PKO Leasing SA in September 2014).
3. The total carrying amount of the lease investments of the PKO Leasing SA Group entities amounted to PLN 4.9 billion as at the end of the first half of 2015.
4. At the end of June 2015, in terms of the value of assets leased, the PKO Leasing SA Group ranked 6 position on the leasing services market with 6.2% market share*.

* Source: Polish Leasing Association and Company's calculation

PKO BP Faktoring SA



1. In the first half of 2015 PKO BP Faktoring SA incurred a net loss in the amount of PLN 0.2 million (in corresponding period in 2014, the Company's net incurred loss amounted to PLN 0.7 million).
2. PKO BP Faktoring SA was providing domestic and export factoring services, both with and without the acceptance of risk, reverse factoring and a service of the factoring programme for suppliers.
3. In the first half of 2015, the value of factoring turnover amounted to PLN 2.3 billion and the number of customers increased to 201 as at the end of June 2015.
4. As at the end of June 2015 PKO BP Faktoring SA ranked eighth place among factoring companies associated in the Polish Factors' Association, with a market share of 3.6%.

4.4 Prizes and awards granted to entities of the PKO Bank Polski SA Group

In 2015, PKO Bank Polski SA Group have been granted numerous prizes and awards, which confirm the customers' and professionals' appreciation of the Group's brand:

Book of Lists	<p>According to 'Book of Lists 2014' ranking prepared by Warsaw Business Journal, PKO Bank Polski SA is the best domestic bank and won in the 'Banks in Poland' category. The Bank has been a leader in this category for several years.</p> <p>The 'Book of Lists' ranking is the largest and one of the oldest (over 20 years) publications present on the Polish publishing market, which via rankings presents more than 2.0 thousand companies and institutions from different business sectors in Poland. Each year, the best, the largest and the most dynamic companies are awarded.</p>
Golden Banker of 2014 (Złoty Bankier 2014)	<p>In the sixth edition of the competition the Bank was rewarded in 'Deposit' and 'Loan for entrepreneur' categories in a poll organised by Bankier.pl. Once again in the history of the poll Internet users appreciated the offer of PKO Bank Polski SA. It was granted a statuette 'Golden Banker' ('Złoty Bankier') for the Capital Building Programme implemented in the summer of 2014 and the SME Loan. Both products obtained the same number of votes equal to 26%.</p>
The Pillars of Budget (Filar Budżetu)	<p>PKO Bank Polski SA was honored with the 'Pillars of Budget' ('Filar Budżetu') award. 'Rzeczpospolita' is awarding financial institutions and entities paying the highest taxes. The award is part of the annual ranking of the largest companies in the Polish economy - 'List of 500' ('Lista 500'). In the past year the Bank paid nearly PLN 800 million of income tax and was the largest tax payer among financial institutions and came in third among all companies presented in the ranking. In the current year 'List of 500' ranking PKO Bank Polski SA moved up one position and came in the top ten. On the basis of sales revenues reaching nearly PLN 15 billion and net profit of PLN 3.25 billion, PKO Bank Polski SA came in the first place on the list of the largest entities in Polish banking sector.</p>
The 50 largest banks in Poland (50 największych banków w Polsce)	<p>Once again PKO Bank Polski SA won the ranking of '50 largest banks in Poland' of 'Miesięcznik Finansowy BANK'. The Bank came in the first place in terms of total assets, which amounted nearly PLN 250 billion in the past year. In this year's 20th edition of the '50 largest banks in Poland 2014' ranking of 'Miesięcznik Finansowy BANK' the Bank won in the category 'Banks financing real estate' and 'Consumer finance'. The ranking is prepared by independent market analysts based on financial data of banks for the previous year.</p>
PKO BP's Brand as the most valuable brand according to „Wprost”	<p>PKO Bank Polski SA came in the first place in the ranking of 'Most valuable Polish brands' of 'Wprost' magazine. The brand's market value was estimated at PLN 46.6 billion. The Bank's trademark alone is worth up to PLN 5 billion, taking into account the average financial institutions' brand valuation. The value of PKO Bank Polski SA's brand accounts for more than 9 per cent of the total brands value of 200 entities evaluated in the ranking.</p> <p>The value of second ranked institution was estimated at PLN 6 billion less. The bank with PLN 15 billion revenue came in the eighth place in the main ranking, which evaluated the sales revenues.</p>
The best private banking offer according to „Wprost”	<p>The jury of 'Portfel Wprost' contest awarded PKO Bank Polski SA for outstanding retail banking in the private banking category. In the two-phased evaluation on the basis of market analysis and banks' survey the jury of 'Portfel Wprost' contest awarded PKO Bank Polski SA for outstanding retail banking in the private banking category.</p>
PKO Bank Polski SA was awarded the ICONIC BRAND ('QLTOWA MARKA') title	<p>As the only institution in its sector (finance and insurance), PKO Bank Polski SA was awarded the title of ICONIC BRAND - Quality, Trust, Reputation ('QLTOWA MARKA - Jakość, Zaufanie, Renoma'). The title is awarded to the brands characterised by a long tradition, an established market position, a high brand awareness and a high quality of products or services. In total, approx. 30 brands from various sectors were awarded the title. The ICONIC BRAND competition was organised by the editorial office of the Business Trends division of the 'Rzeczpospolita' daily and the editorial office of Forum Biznesu.pl.</p>
eDukat for Zbigniew Jagiełło	<p>Zbigniew Jagiełło, the President of the Management Board of PKO Bank Polski SA, was awarded the eDukat prize. The decision of the jury was unanimous - the President was awarded for the highest market achievements in 2014, his vision of development of non-cash payments in Poland and for overcoming competitive divisions in order to build an effective coalition for the standard of mobile payments.</p> <p>The eDukat prizes were awarded for the first time this year. The winners included representatives of the academic milieu, business and government. The gala took place during the 3rd International Congress of Non-Cash Payments organised by the Foundation for Development of Non-cash Payments and the Faculty of Management of the University of Warsaw.</p>
Best Contact Center (Najlepsze Contact Center)	<p>PKO Bank Polski SA's Contact Center once again came in the first place in a survey carried out by ARC Rynek i Opinia. In the final ranking including telephone and e-mail contacts, the Bank obtained over 97.7 points out of the maximum 100 and outclassed 12 banks.</p> <p>The quality and competences of employees decided about the victory. The pollsters very highly evaluated the consultants' politeness, involvement and professionalism as well as knowledge of the products and substantial preparation to conversation.</p>

PKO Bank Polski SA – the Banking IT Leader of Financial Institutions	In the 13th edition of the IT Leader of Financial Institutions competition organised by the 'Gazeta Bankowa' magazine, PKO Bank Polski SA won the title of 'The Banking IT Leader 2014'. From among several dozens of financial institutions whose IT implementation projects participated in the competition, the Jury recognised PKO Bank Polski SA in particular for contribution in critical project for Polish financial sector – set up of the PSP company (Polish Payment Standard) and the activation of BLIK mobile payment system.
Zbigniew Jagiełło – banking manager of the year	Zbigniew Jagiełło, the President of the Management Board of PKO Bank Polski SA was honoured by Gazeta Bankowa with the title of the Banking Manager of the year 2015. At the same time, the Bank was awarded with the 'Highest Effectiveness' award in its category. The 23 rd edition of contest took into account financial results with three main criteria: dynamics, efficiency and structure of portfolio. PKO Bank Polski SA proved to be the best among large commercial banks as well as Zbigniew Jagiełło among Managers (representatives of the banks voted first, followed by the jury's' voting). This is already a second prize for CEO of PKO Bank Polski SA in this contest – he was awarded the title of the Banking Manager of the year 2012.
PKO Bank Polski SA - The Finance Provider of the Year	PKO Bank Polski SA won the 'Diamonds of the Polish Infrastructure' (Diamenty Polskiej Infrastruktury) competition in the category of the Finance Provider of the Year. The Bank was recognised for exemplary cooperation in financing infrastructure investment projects. The competition, organised by the Executive Club, is aimed at recognising the infrastructure leaders among companies and people on the Polish market for exceptional achievements in their respective sectors.
Adam Marciniak Ambasadorem Gospodarki Elektronicznej	Adam Marciniak, the Director of Development and Maintenance of Applications in PKO Bank Polski SA was awarded with 'Ambasador Gospodarki Elektronicznej' title by the jury of 10th Electronic Economy Congress organized by 'Związek Banków Polskich'. The jury recognised Adam Marciniak's contribution in the development of the Bank's IT sector. It resulted in strengthening the potential of solutions based on innovative technologies creation, that generate business and financial benefits for the Bank. 'Ambasador Gospodarki Elektronicznej' title is awarded for contribution in the promotion, dissemination and education in the use of IT in modern economy.
The best employer in Poland (Najlepszy pracodawca w Polsce)	Once again PKO Bank Polski SA was awarded by students. In a prestigious employer ranking – Universum Student Survey – PKO Bank Polski SA was among the best employers in Poland in the business category. In this year's edition of the survey, 23 thousand students and 9 thousand professionals made individual assessments of employers. The survey participants specified their expectations as regards future employers and selected the ideal ones, in their opinion, in seven categories: Business, Engineering, IT, the Humanities, Science, Law, and Medicine and Pharmacy. Apart from our Bank, the companies which received this title included, i.a. Google Poland, Skanska, Bayer, TVN and Ministry of Foreign Affairs.
PKO Bank Polski SA as Hero of HR (PKO Bank Polski SA Bohaterem HR)	The Bank won in the category of greatest HR success of the year in the competition Hero of HR. The jury appreciated the merger of PKO Bank Polski SA with Nordea Bank Polska SA, in particular, initiatives that were implemented for employees' integration, building common organisational culture and ensuring consistent working conditions in the one organisation. In the competition organised by Employer Branding Institute the best practices in the field of HR, an unusual contribution to the development of HR projects, innovatively designed and perfectly implemented HR strategies, in various areas are awarded.
PKO Bank Polski SA as the most wanted employer in the students' opinion	Once again PKO Bank Polski SA found itself among the most desired employers in the 'Employer of the year 2014' ranking organised by the international students' organisation AIESEC. It was ranked first place in the group of companies in the banking sector and fourth place in total. It was also the one of the two Polish companies among the first ten in the ranking. The poll was attended by students of 32 universities in Poland. Among the most important factors in choice of employer, the students pointed to i.a.: a good atmosphere, financial conditions, a work satisfaction. A clear career path, promotion criteria and possibility of training and professional development are also important for them. The respondents followed the company's image and its activities on the market as well.
PKO Bank Polski SA as a wanted employer	In the 5th edition of the Antal International's survey 'The most wanted employers in the opinion of specialists and managers' PKO Bank Polski SA is one of the most wanted employers from the banking and insurance sector. In the survey carried out from September to December 2014 the assessment covered the style of management and organisational culture in the company, innovativeness, stability of employment, possibilities of training and promotion, salary level, location, work-life balance and benefits such as health care and life insurance. A unique feature of the survey carried out for five years is the possibility to indicate any company that meets required criteria as the most wanted employer by the respondents – the questionnaire does not have a selection list.
Zbigniew Jagiełło – pro-marketing chairman	Zbigniew Jagiełło, CEO of PKO Bank Polski SA was awarded with the 'most pro-marketing chairman' title in the fifth, jubilee edition of 'Marketing Director of the Year' contest arranged by Mediarun.com site. He was recognized for strengthening the marketing position in the Bank. The competition jury emphasized the role and importance of marketing in creation of entities' business potential.
Polish Advertisement Contest	Jury of prestigious Polish Advertising Contest recognized the Bank's advertisement. 'W jednym palcu', which was the advertisement promoting mobile application IKO. It was awarded with gold for scenography and

silver in Media/Video category. The scenography of advertisement 'W nosie' of mortgage loan was awarded with bronze statuette. Both of awarded advertisements are components of marketing communication platform presenting the behaviors of customers of PKO Bank Polski SA "Organizm, czyli bank z życia wzięty", that is ongoing since over one year. Moreover silver statues in category photography/advertisement were awarded to the Bank's 2015 calendar card - "Galeria Korona w Kielcach"; nominated were also photos of cooking plant "Przyjaźń" in Dąbrowa Górnicza and Enea's power plant in Kozienice. Among second line calendar's cards - "Mecenas cyfryzacji klasyki polskiego kina" the jury nominated illustrations from movies: Brunet wieczorową porą, "Miś", "Poszukiwany, poszukiwana".

Lamparty

PKO Bank Polski SA was awarded with „Lampart 2015” statuette with the contest for most admired development of banking and insurance brand.

It was recognized for image change through outstanding advertising campaigns. It gained appreciation for inventive communication platform, image rejuvenation and attractive advertising message dedicated to young customers. The main idea behind Polish research agency TNS' award is to distinguish those banks and insurance agencies, which most effectively developed their brand during the given year.

Columns of the year (Szpalty Roku)

In the Columns of the Year 2015 organised by Corporate Press Association (Stowarzyszenie Prasy Firmowej) Bankomania portal was a dual finalist in "Digital" category.

Moreover, it was awarded for video series in "Digital: Periodic publications. Video series" category. PKO Bank Polski SA was frequently rewarded in various competitions and categories for communicational and educational activities conducted on the portal over the years.

The Brokerage House of PKO Bank Polski SA awarded the Broker of the Year 2014

The Brokerage House of PKO Bank Polski SA - during the 'Summary of the Stock Exchange Year 2014' Gala - was awarded a special prize 'Broker of the Year 2014' and prizes: for the highest turnover realised by a market maker on session transactions in non-Treasury bonds on the Catalyst market and for the highest share of a market maker in the volume of transactions in options.

The Brokerage House of PKO Bank Polski SA - the best brokerage house

The 'Parkiet' stock exchange newspaper - the organiser of the Bulls and Bears competition granted its award to the Brokerage House of PKO Bank Polski SA, recognising its successful efforts to strengthen its position and develop its offer. The Brokerage House of PKO Bank Polski SA was recognised for its strong position on the retail market, the introduction of an attractive offer for WIG20 contracts which includes an intraday deposit and low transactional costs, and offering full access to quotations on mobile devices and involvement in numerous training sessions for investors.

PKO PTE awarded by the Warsaw Stock Exchange

PKO BP BANKOWY Powszechnie Towarzystwo Emerytalne obtained a prestigious award from the Warsaw Stock Exchange for using the widest range of informational products of the WSE. When making investment decisions to engage assets on the capital market, PKO PTE uses, i.a., the data and information provided by the Warsaw Stock Exchange. The award was handed out at a gala evening 'Summary of the Stock Exchange Year 2014'.

Strategic Patron of 2015 (Strategiczny Mecenas Roku 2015)

The National Philharmonic in Warsaw awarded PKO Bank Polski SA with a special award for supporting artistic activities by contribution to the performances of most prominent artists. The Bank has been cooperating with the Philharmonic for years. It has been its strategic patron since three artistic seasons.

PKO BP BANKOWY PTE SA - Pension Manager 2015 of Middle-East Europe

PKO BP BANKOWY PTE SA obtained a Pension Manager 2015 of Middle East Europe award granted by Institutional Investor magazine in the annual competition European Investment Management Awards. The aim of the awards is to identify and reward those managers who distinguish in the companies they manage with innovative strategies and the impressive industry experience, which is reflected in a positive perception by investors. Magazine editors and completion jury justified the decision to award the prize BANK PKO BP PTE SA by very good investment results, as well as the difficult conditions under which open pension funds operate, after the transfer of part of the assets to the Social Insurance (ZUS).

The award "ALFA 2014" for selected PKO TFI SA Funds

Three sub-funds managed by PKO TFI SA received awards in the "ALFA 2014", including: PKO Stable Growth in the category of stable growth funds, PKO Balanced Plus in the category of balanced funds and PKO Strategic Allocation in category of active allocation funds. Awards and prizes for the best funds are granted by an independent research center Analizy Online. Each fund is rated for efficiency, the repeatability of results and the level of costs.

High rank of KREDOBANK SA in "50 leading banks of Ukraine" ranking

KREDOBANK SA in the latest "50 leading banks of Ukraine" ranking organized by the "Financial Club" took high ranks in several categories, including: 3rd place in the category of "Overdraft" and "Autokredyty" and the 8th place in the category "Internet-banking" and "Loans for small and medium business". In the overall summary took 13th place among the 50 leading banks of Ukraine.

Leader in the ranking of safety of bank deposits in Ukraine

KREDOBANK SA in the first half of 2015 took the first place in the ranking of safety of bank deposits in Ukraine organized by the Ukrainian ranking agency "Standard-ranking".

5. ORGANISATION OF THE PKO BANK POLSKI SA GROUP

5.1 Entities comprising the PKO Bank Polski SA Group

As at 30 June 2015, the PKO Bank Polski SA Group consisted of the PKO Bank Polski SA (as the parent company) and 48 direct and indirect subsidiaries.

Table 23. Entities comprising the PKO Bank Polski SA Group

No	Entity name	Head office	Business activity	Share in the share capital (%)	Consolidation method	
Parent company						
1.	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna					
Direct subsidiaries						
2.	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	investment fund management	100	full method	
3.	PKO BP BANKOWY PTE SA	Warsaw	pension fund management	100	full method	
4.	PKO Leasing SA	Łódź	leasing services	100	full method	
5.	PKO BP Finat Sp. z o.o.	Warsaw	services, including services supporting fund management	100	full method	
6.	PKO Życie Towarzystwo Ubezpieczeń SA	Warsaw	life insurance	100	full method	
7.	PKO Towarzystwo Ubezpieczeń SA	Warsaw	non-life insurance	100	full method	
8.	PKO Bank Hipoteczny SA	Gdynia	banking activities	100	full method	
9.	PKO Finance AB	Stockholm, Sweden	financial services	100	full method	
10.	KREDOBANK SA	Lviv, Ukraine	banking activities	99.5655	full method	
11.	'Inter-Risk Ukraina' Additional Liability Company	Kiev, Ukraine	debt collection services	100	full method	
12.	Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. ¹	Kiev, Ukraine	factoring	95.4676	full method	
13.	Qualia Development Sp. z o.o. ²	Warsaw	real estate development	100	full method	
14.	Merkury - fiz on ³	Warsaw	placements of funds collected from fund members	100	full method	
15.	NEPTUN - fizan ³	Warsaw	placements of funds collected from fund members	100	full method	
Subsidiaries of PKO Leasing SA						
16.	PKO Bankowy Leasing Sp. z o.o.	Łódź	leasing services	100	full method	
17.	PKO Leasing Sverige AB	Stockholm, Sweden	leasing services	100	full method	
18.	PKO BP Faktoring SA	Warsaw	factoring	100	full method	
Subsidiary of PKO Życie Towarzystwo Ubezpieczeń SA						
19.	Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	Warsaw	services	100	full method	
Subsidiary of KREDOBANK SA						
20.	Finansowa Kompania 'Idea Kapital' Sp. z o.o.	Lviv, Ukraine	financial services	100	full method	
Subsidiaries of Qualia Development Sp. z o.o.⁴						
21.	Qualia 2 Sp. z o.o.	Warsaw	general partner in Qualia 2 limited partnership - Nowy Wilanów Sp. k.	100	full method	
22.	Qualia 2 spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp.	Warsaw	real estate development	99.9750	full method	
23.	Qualia Sp. z o.o.	Warsaw	general partner in limited partnerships of the QDE Group entities	100	full method	
24.	Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k.	Warsaw	real estate development	99.9975	full method	
25.	Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	Warsaw		99.9811	full method	
26.	Qualia spółka z ograniczoną odpowiedzialnością - Jurata Sp. k.	Warsaw		99.9770	full method	
27.	Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k.	Warsaw		99.9123	full method	
28.	Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	Warsaw		99.8951	full method	
29.	Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k.	Warsaw		50	full method	
30.	Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Sp. k.	Warsaw		50	full method	
31.	Qualia Hotel Management Sp. z o.o.	Warsaw		100	full method	
32.	Qualia - Residence Sp. z o.o.	Warsaw		100	full method	
33.	Qualia - Rezydencja Flotylla Sp. z o.o.	Warsaw		100	full method	
34.	'Fort Mokotów Inwestycje' Sp. z o.o.	Warsaw		100	full method	
35.	Sarnia Dolina Sp. z o.o.	Warsaw		100	full method	
36.	Giełda Nieruchomości Wartościowych Sp. z o.o.	Warsaw		intermediation in the sale of real estate	100	full method
37.	'Fort Mokotów' Sp. z o.o. in liquidation	Warsaw		in liquidation	51	full method

Subsidiaries of Merkury - fiz an					
38.	'Zarząd Majątkiem Górczewska' Sp. z o.o.	Warsaw	real estate management	100	full method
39.	Molina Sp. z o.o.	Warsaw	general partner in limited joint-stock partnership entities of the Fund	100	full method
40.	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	purchase and sale of real estate on own account, real estate management	100	full method
41.	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw		100	full method
42.	Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw		100	full method
43.	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw		100	full method
44.	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw		100	full method
45.	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw		100	full method
Subsidiaries of NEPTUN - fiz an					
46.	Bankowe Towarzystwo Kapitałowe SA	Warsaw	services	100	full method
47.	'CENTRUM HAFNERA' Sp. z o.o.	Sopot	subsidiaries real estate management	72.9766	full method
Subsidiaries of 'CENTRUM HAFNERA' Sp. z o.o.					
48.	'Sopot Zdrój' Sp. z o.o.	Sopot	real estate management	100	full method
49.	'Promenada Sopotcka' Sp. z o.o.	Sopot	rental services and real estate management	100	full method

- 1) The second shareholder of the Company is 'Inter-Risk Ukraina' Additional Liability Company.
- 2) In the financial statements the Company is recognised as non-current assets held for sale.
- 3) The Fund was included in this statement as PKO Bank Polski SA owes investment certificates in the above mentioned Fund, which allows, according to IFRS, to exercise control over the Fund; share of owned Fund's investment certificates is presented within share in share capital item.
- 4) In limited partnerships of the Qualia Development Group in the position of share in the capital, the total contributions made by the limited partner - Qualia Development Sp. z o.o. is presented. Other contributions in the companies mentioned above are made by - Qualia Sp. z o.o. or spółkę Qualia 2 Sp. z o.o.

Table 24. Other subordinated entities included in the consolidated financial statements

No	Entity name	Head office	Business activity	The share in the share capital (%)	Consolidation method
Joint ventures of PKO Bank Polski SA					
1.	Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	Warsaw	activities supporting financial services, including servicing of transactions made using payment instruments	34.00	equity method
Joint ventures of NEPTUN - fiz an					
2.	„Centrum Obsługi Biznesu” Sp. z o.o.	Poznań	hotel management	41.44	equity method
Associates of PKO Bank Polski SA					
3.	Bank Poczty SA ¹	Bydgoszcz	banking activities	25.0001	equity method
4.	„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	Poznań	guarantees	33.33	equity method
Subsidiaries of Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.					
5.	EVO Payments International Sp. z o.o.	Warsaw	activities supporting financial services	100	equity method
6.	EVO Payments International s.r.o.	Prague, Czech Republic	activities supporting financial services	100	equity method
Subsidiaries of Bank Poczty SA					
7.	Centrum Operacyjne Sp. z o.o.	Bydgoszcz	activities supporting financial services	100	equity method
8.	Spółka Dystrybucyjna Banku Poczty Sp. z o.o.	Warsaw	intermediary financial services	100	equity method

- 1) In the financial statements the Company is recognised as non-current assets held for sale.

5.2 Changes to the organisation of subordinated entities

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

1. changes concerning the Qualia Development Sp. z o.o. Group

On 9 January 2015, a new company Qualia 2 Sp. z o.o. was registered with the National Court Register. The share capital of the Company amounted to PLN 5 thousand and consisted of 100 shares, each of PLN 50 nominal value. On 30 June 2015 all shares of the Company are acquired by Qualia Development Sp. z o.o.(subsidiary company to PKO Bank Polski SA)

Qualia 2 Sp. z o.o. assumed from Qualia Sp. z o.o. total rights and responsibilities of a general partner in Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k. - on 14 January 2015 an agreement was concluded.

Simultaneously, in a connection with events mentioned above on 2 February 2015 Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k. was registered with the National Court Register - current name: Qualia 2 spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.

2. changes concerning the PKO Towarzystwo Ubezpieczeń SA

On 10 February 2015 PKO Bank Polski SA established PKO Towarzystwo Ubezpieczeń SA with the share capital of amounts to PLN 20 000 thousand and consists of 20 000 common, personal shares with a nominal value of PLN 1000 each with issue price of 3 650 PLN

each, i.e. for total amount of 73 000 thousand PLN in return for cash contribution. The Bank also put PLN 15 000 thousand into a business to assign it to Organization Fund.

On 10 March 2015 Polish Financial Supervision Authority allowed the company mentioned above to execute insurance activity in II Department of Insurance Activity (the remaining are personal and property insurance).

On 13 April 2015 the company mentioned above was registered with the National Court Register. Until 30 June 2015 the Company has not start the operating activity.

3. changes concerning the PKO Bankowy Leasing Sp. z o.o.

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

According to the state from 30 June 2015 the share capital of PKO Bankowy Leasing Sp. z o.o. amounts to PLN 120 000 thousand and consists of 240 000 shares, each of PLN 500 nominal value.

4. changes concerning the "Centrum Majkowskiego" Sp. z o.o. during liquidation

On 4 May 2015 "Centrum Majkowskiego" Sp. z o.o. during liquidation – subsidiary company of "CENTRUM HAFFNERA" Sp. z o.o. – was cross out with the National Court Register.

5. changes concerning the PKO Życie Towarzystwo Ubezpieczeń SA

On 9 June 2015 a decrease in the share capital of PKO Życie Towarzystwo Ubezpieczeń SA of PLN 103 221 thousand was registered with the National Court Register. The decrease was made through the write off of 925 000 shares with a nominal value of 111.59 each and increase through acquire of PKO Bank Polski SA 1 common personal share with a nominal value of PLN 111.59 and with a issue value of PLN 48 000 thousand.

According to the state from 30 June 2015 the share capital of PKO Życie Towarzystwo Ubezpieczeń SA amounts to PLN 89 309 thousand and consists of 800 330 shares, each of PLN 111.59 nominal value.

6. changes concerning the PKO BP Faktoring SA

In June 2015 Bankowe Towarzystwo Kapitałowe SA owner of 8 999 shares and PKO Bank Polski SA owner of 1 share sold them out to PKO Leasing SA.

According to the state from 30 June 2015 the only shareholder of the PKO BP Faktoring SA is PKO Leasing SA (bank subsidiary).

7. changes concerning the NEPTUN – fiz an

In June 2015 PKO Bank Polski SA acquired 1 300 000 A series investment certificates and 5 463 694 B series investment certificates of the NEPTUN fund – fiz an. The total value of acquired shares amounts to PLN 71 665 thousand. B series investment certificates were assumed in return for a noncash contribution in a form of shares of Bankowe Towarzystwo Kapitałowe SA and shares of other public entities chosen from the Bank assets. The fund mentioned above is administrated by PKO Funduszy Inwestycyjnych SA.

The area of business activity of the Fund are placement of wherewithal collected through proposition to acquire investment certificates of securities, money market instruments or other property rights defined in Articles of the Fund and Investment Fund Bill.

At the same time in June 2015 PKO Bank Polski SA has sold to the Fund mentioned above all obtained shares of "CENTRUM HAFFNERA" Sp. z o.o.- Bank subsidiary and of "Centrum Obsługi Biznesu" Sp. z o.o. – joint Bank subsidiary.

8. events which will cause changes in the PKO Bank Polski SA Group in upcoming quarters in 2015

On 17 April 2015 Extraordinary General Meeting of PKO Leasing SA adopt a resolution concerning increasing the company share capital of 80 000 thousand PLN. All capital-raised shares were acquired by PKO Bank Polski SA. The mentioned above increase was not registered with the National Court Register till 30 June 2015.

Among joint subsidiaries and associated companies, in first half of 2015:

1. PKO Bank Polski SA in accordance with IFRS 5 reclassified shares of Bank Pocztowy SA (associated company) to non-current assets destined for sale,
2. Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. (joint Bank company) created two subsidiaries:
 - a) EVO Payments International Sp. z o.o. located in Poland with share capital of PLN 5 thousand – Subsidiary was registered with the National Court Register on 9 February 2015,
 - b) EVO Payments International s.r.o. located in Czech Republic with share capital of CZK 200 thousand – Subsidiary was registered with the Czech Trade Register on 16 February, and acquired capital-raised shares in share capital of EVO Payments International Sp. z o.o. located in Poland in a value of PLN 277 thousand.

The area of business activity mentioned above subsidiaries is to operate financial support activities. Until 30 June 2015 both companies have not start the operating activity.

5.3 Related party transactions

In a first half of 2015, PKO Bank Polski SA provided on an arm's length basis the following services to related (subordinated) entities. The services regarding maintaining bank accounts, accepting deposits, granting loans and advances, issuing debt securities, granting guarantees and concluding foreign exchange transactions and offering participation units in investment funds, lease products, factoring products and insurance products offered by the PKO Bank Polski SA Group entities. Simultaneously provided for PKO Bank Hipoteczny SA services in the field of

intermediation in the sale of mortgage loans to individuals, implementation of after-sales services to these loans and support activities within an outsourcing agreement. PKO Bank Hipoteczny SA rented office space to selected entities of Banks Group and along with Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. did supply payment transaction settlement services.

The list of significant transactions between PKO Bank Polski SA with subsidiaries, including credit debt of these entities to the Bank as at 30 June 2015 was presented in the Condensed interim financial statements of PKO Bank Polski SA for the six months ended 30 June 2015.

6. PRINCIPLES OF RISK MANAGEMENT

Risk management is one of 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, while ensuring control of the level of risk and maintaining it within risk tolerance and limit system adopted by the Bank, in the changing legal and macroeconomic environment. The level of the risks is an important component of 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 risk, operational risk, compliance risk, risk of macroeconomic changes, model risk, business risk (including strategic risk), reputation risk, capital and insurance risk. Derivatives risk is a subject to a special control due to the specific characteristics of used financial instruments.

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.

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 level of the Bank and enacts internal regulations regarding the risk management.

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

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

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

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

The 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 development strategies of the entities, 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 of the particular entities in the risk reporting and risk monitoring system of the entire Group.

The internal management regulations of certain types of risk in the Group entities are defined by internal regulations implemented by those entities, after consulting the Bank's opinion and having taken into account the recommendations issued by the Bank. The internal regulations of the entities concerning risk management are introduced based on consistency principle and comparable assessment of particular types of risk within the Bank and Group entities, including the scope and nature of the link entities included in the Group, the specificity and scale of the entity's activity and the market on which it operates.

The top priority of the PKO Bank Polski SA Group is to maintain its strong capital position and to 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.

For this purpose, in the first half of 2015, the Bank has taken the following activities:

- in the first half year of 2015, rolled forward short-term bonds with a current maturity of six months in the amount of PLN 750 million and issued additional PLN 250 million of these securities,
- in January 2015 and in June 2015, repaid the first and second tranche of consortium loan in CHF for the total of CHF 410 million,
- transferred a part of the Bank's profit for 2014 to own funds.

In the first half of 2015, the operational integration by unification of all elements of credit risk assessment process occurred.

On 1 April 2015 PKO Bank Hipoteczny SA started its operational activity what had no influence on the change of identified risk according to the Groups activity.

In accordance with the amendment of Recommendation P in March 2015 by PFSA concerning banks financial liquidity monitoring system in the first half of 2015 in terms of liquidity risk the Bank prepared analysis on the lacks in adoption this Recommendation by the Bank and proposal of method and timetable to fulfil this lacks.

6.1 Credit risk

Credit risk is defined as a risk of occurrence of losses due to client'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 client's ability to repay amounts due to the Bank.

The objective of credit risk management is to reduce losses on the credit portfolio as well as to minimise the risk of occurrence of loan exposures threatened with impairment, while keeping expected level of profitability and value of credit portfolio at the same time.

The Bank and subsidiaries of the Group applies mainly 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 assessment related to loan transactions is measured on the stage of loan request review and on a cyclical basis during the monitoring process, taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures which are significant due to their risk levels or their value is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
- terms of loan contracts that are offered to a client depend on the credit risk level generated by the contract,
- 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 collaterals received by the Bank, credit margins collected from clients and impairment allowances on loan exposures.

The above mentioned policies are executed by the Bank through the use of more advanced credit risk management methods, both on the level of individual exposures and on the level of the whole credit portfolio of the Bank.

These methods are developed to ensure compliance with the internal rating based method (IRB) requirements, i.e. advanced credit risk measurement method, which can be used while calculating capital requirements for credit risk after being approved by the Polish Financial Supervision Authority.

The Bank assesses the credit risk of retail clients on two dimensions: the client's borrowing capacity and creditworthiness. The assessment of borrowing capacity involves an examination of the client's financial situation, whereas the creditworthiness assessment involves *scoring* and evaluating the client's credit history obtained from internal records of the Bank and external databases.

The evaluation of credit risk related to financing institutional clients is performed in two dimensions: in respect of the client and of the transaction. The assessment measures comprise ratings of clients and transactions. The cumulative credit rating is a synthetic measure of credit risk.

The models 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 the 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).

The rating and scoring models are implemented in an IT tool that supports the Bank's credit risk assessment related to financing corporate clients.

In order to assess the correctness of functioning of methods used in the Bank, methodologies of assessment of credit risk related to individual credit exposures, are reviewed on a periodical basis.

In case of corporate customers and the small and medium enterprises that meet certain criteria, the Bank assesses credit risk using the *scoring* method. This assessment is dedicated to low-value, uncomplicated loan transactions and it is performed in two dimensions: clients' borrowing capacity and creditworthiness. The borrowing capacity assessment 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.

The information about ratings and scoring is widely used in the Bank for the purposes of credit risk management, in particular in the system of credit decision-making powers and in the credit risk assessment and reporting system.

With regard to institutional clients and the small and medium enterprises segment, the Bank implemented a number of improvements in respect of the ongoing portfolio monitoring, which allows for faster response to changes in the existing portfolio of the Bank and the use of an adequate policy and tools for new customers.

Table 25. Table 25. The structure of loan portfolio and impairment allowances of the PKO Bank Polski SA Group (in PLN million)

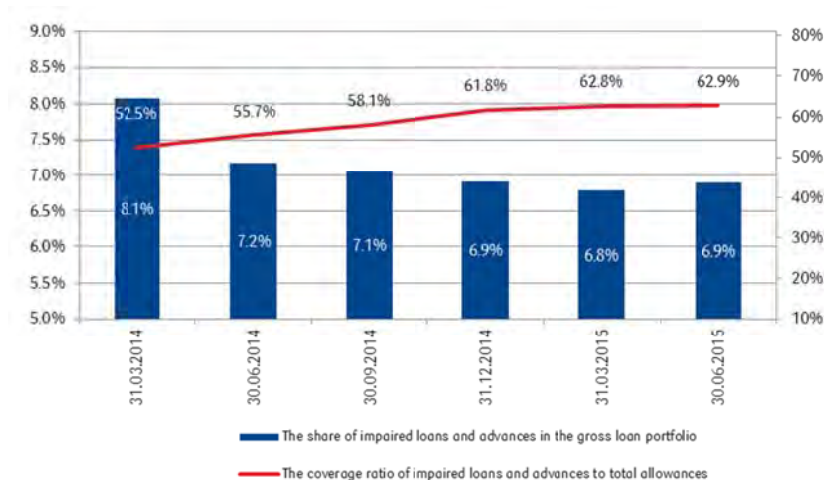
	30.06.2015	31.12.2014	Change (in %)
Loans and advances to customers			
Assessed on an individual basis, of which:	7 585.1	7 378.0	2.8%
Impaired	5 645.6	5 615.9	0.5%
Not impaired	1 939.5	1 762.1	10.1%
Assessed on a portfolio basis, of which:	7 629.2	7 361.4	3.6%
Impaired	7 629.2	7 361.4	3.6%
Assessed on a group basis (IBNR)	178 474.0	172 780.5	3.3%
Loans and advances to customers - gross	193 688.3	187 519.9	3.29%
Allowances on exposures assessed on an individual basis, of which:	(3 021.1)	(2 963.7)	1.9%
Impaired	(3 011.1)	(2 948.0)	2.1%
Allowances on exposures assessed on a portfolio basis	(4 644.4)	(4 426.9)	4.9%
Allowances on exposures assessed on a group basis (IBNR)	(686.6)	(631.9)	8.7%
Allowances - total	(8 352.2)	(8 022.5)	4.1%
Loans and advances to customers - net	185 336.1	179 497.4	3.3%

In the first half of 2015, the gross value of loans granted by the Group and assessed on the individual basis increased by PLN 207 million, those assessed on the portfolio basis increased by PLN 268 million and those assessed on the group basis increased by PLN 5 694 million.

The share of impaired loans and advances in the PKO Bank Polski SA Group's gross loan portfolio as at 30 June 2015 amounted to 6.9% and increased by 0.1 p.p. compared with 31 December 2014.

The coverage ratio of impaired loans for the PKO Bank Polski SA Group as at 30 June 2015 amounted to 62.9%, and increased by 1.1 p.p. compared with 31 December 2014.

Chart 3. The share of impaired loans and advances in the PKO Bank Polski SA Group and the coverage ratio to total allowances



The Group entities, which have significant credit risk levels (the KREDOBANK SA Group, the PKO Leasing SA Group, PKO Bank Hipoteczny SA, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.), the BTK SA Group (PKO BP Faktoring SA from 10 June 2015) 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.

Any changes to the solutions used by the Group's subsidiaries are agreed each time with the Bank's units responsible for risk management.

The PKO Leasing SA Group, the BTK SA Group (PKO BP Faktoring SA from 10 June 2015) and the KREDOBANK SA Group, PKO Bank Hipoteczny SA and Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. measure credit risk regularly and the results of such measurements are submitted to the Bank.

The process of credit decision-making at the KREDOBANK SA Group, the PKO Leasing SA Group and the BTK SA Group (PKO BP Faktoring SA from 10 June 2015) is supported by credit committees, which are activated in case of transactions which generate increased credit risk.

Appropriate organisational units of the Banking Risk Division participate in managing the credit risk in the Group entities by giving their opinions on projects and periodically reviewing the internal regulations of the companies relating to the assessment of credit risk and the preparation of recommendations relating to amendments in the drafts of regulations. The Bank supports the implementation of the recommended changes in principles for assessing credit risk in the Group entities.

6.2 Interest rate risk

The interest rate risk is the risk of incurring losses on 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 potential losses arising from market interest rate changes to an acceptable level by appropriately shaping the structure of statement of financial position and off-balance sheet items.

In the process of interest rate risk management, the Group uses in particular the Value at Risk (VaR) model, interest income sensitivity measure, measure of price sensitivity, stress-testing and the repricing gap.

The Group established limits and thresholds for interest rate risk comprising i.a.: 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's 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 parent company and take into account recommendations issued to the entities by the Bank.

The PKO Bank Polski SA Group's exposure to interest rate risk as at 30 June 2015 and 31 December 2014 consisted mainly of PKO Bank Polski SA exposure. Interest rate risk for USD was changed significantly by the exposure of the Group entities, in which the most significant exposure concerned KREDOBANK SA Group. This exposure, as well as other exposures in other Group entities, does not impact the risk profile of the entire Group.

Table 26. VaR of PKO Bank Polski SA and stress-tests analysis of the Group's exposure to the interest rate risk (in PLN thousand)

Name of sensitivity measure	30.06.2015	31.12.2014
VaR for a 10-day time horizon*	249 695	282 268
Parallel movement of the interest rate curves by 200 b.p. (in PLN thousand) (stress-test)**	2 106 804	2 380 354

* Due to the nature of the activities carried out by other Group entities generating significant interest rate risk and 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 and the value of VaR indicator for KREDOBANK SA amounted to approximately PLN 9 480 thousand as at 30 June 2015, and PLN 9,949 thousand as at 31 December 2014.

** The table presents the value of the most adverse stress-test of the scenarios: movement of interest rate curves by 200 b.p. up and by 200 b.p. down.

As at 30 June 2015, PKO Bank Polski SA interest rate Value at Risk for a 10-day time horizon (VaR for a 10-day time horizon) amounted to PLN 249 695 thousand, which accounted for approximately 0.92% of the Bank's own funds. As at 31 December 2014, the Bank's VaR amounted to PLN 282 268 thousand which accounted for approximately 1.13% of the value of the Bank's own funds (own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio).

6.3 Currency risk

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 respective shaping the structure of statement of financial position and off-balance sheet items.

The Bank measures currency risk using the Value at Risk (VaR) model and stress-tests.

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 the entities, which are characterised by the significant values of currency risk measures. These regulations are prepared after consultation and include recommendations issued to the entities by the parent company.

Table 27. VaR of PKO Bank Polski SA and stress-tests analysis of the Group's exposure to the currency risk, cumulatively for all currencies (in PLN thousand)

Name of sensitivity measure	30.06.2015	31.12.2014
VaR for a 10-day time horizon*	8 524	6 230
Change in CUR/PLN rates by 20% (in PLN thousand) (stress-test)**	21 060	28 609

* Due to the nature of the activities carried out by other Group entities generating significant interest rate risk and 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 and the value of VaR indicator for KREDOBANK SA amounted to approximately PLN 3,527 thousand as at 30 June 2015, and PLN 3 663 thousand as at 31 December 2014.

**The table presents the value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%.

The level of currency risk was low both as at 30 June 2015 and as at 31 December 2014.

Table 28. The Group's currency position for particular currencies (in PLN thousand)

Currencies	Currency position as at 30.06.2015	Currency position as at 31.12.2014
EUR	(183 888)	(216 994)
USD	(52 044)	(113 960)
CHF	(38 406)	(36 566)
GBP	1 757	5 009
Other (global net)	159 443	214 752

6.4 Liquidity risk

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 counterparties, 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 (in particular stable deposit base). In liquidity risk management, money market instruments, including NBP open market operations are also used.

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 short-, medium-, and long-term liquidity measures.

Methods of liquidity risk management in subsidiaries of the Group are defined by internal regulations implemented by the entities which are characterised by the significant value of liquidity risk measures. These regulations are prepared after consultation and include recommendations issued to the entities by the parent company.

The table below presents the Bank's liquidity reserve as at 30 June 2015 and as at 31 December 2014.

Table 29. Liquidity reserve of Bank (in PLN million)

Name of sensitivity measure	30.06.2015	31.12.2014
Liquidity reserve up to 1 month*	20 179	21 075

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

As at 30 June 2015, the level of core balances on deposits constituted approx. 93.4% of all deposits placed within the Bank (excluding the interbank market), which is a decrease of approx. 1.3 p.p. as compared with the end of 2014.

6.5 Commodity price risk

Commodity price risk is the risk of incurring a loss due to changes in commodity prices, generated by maintaining open positions on particular types of goods.

The objective of commodity price risk management is to reduce potential losses resulting from changes in commodity prices to the acceptable level by shaping the structure of statement of financial position and off-balance sheet commodity items.

Commodity price risk is managed by imposing limits on instruments generating the commodity price risk, monitoring their use and reporting the risk level.

The effect of commodity price risk on the Group's financial position is immaterial.

6.6 Equity securities price risk

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 are not expected to increase significantly.

6.7 Derivative instruments risk

The risk of derivative instruments is a risk resulting from 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 instruments 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.

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

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

Risk management is carried out by imposing limits on the derivative instruments divided into banking and trading portfolio, monitoring limits and reporting risk level.

Master agreements concluded by the Bank with the major business partners based on the standards developed by the Polish Bank Association (domestic banks) and ISDA (foreign banks and credit institutions), which allow offsetting mutual liabilities, both due (mitigation of settlement risk) and not yet due (mitigation of pre-settlement risk), are particularly important for mitigating the risk associated with derivative instruments. Additional collateral for exposures, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA (Credit Support Annex) agreement.

Methods of derivative instruments risk management in the Group's subsidiaries are defined by internal regulations implemented by the entities which take up a positions 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 to 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.

6.8 Operational risk

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 process of operational risk management is carried out at the level of the entire Bank and at the levels of each system-based operational risk management areas. System-based operational risk management involves creation of solutions served for exercise of control by the Bank over the level of operational risk, enabling accomplishment of Bank's objectives. The ongoing operational risk management is conducted by every employee of the Group.

For the purposes of operational risk management, the Bank collects external data about operational events and effects of their emergence, internal data about events that occurred in the Bank and the Group entities, data about effects of emergence of these events, data about the operational environment and data concerning the quality of functional internal control.

The operational risk management comprises also identification and assessment of operational risk for Bank's products, processes and applications as well as organisational changes.

Measurement of operational risk comprises calculation of Key Risk Indicators (KRI), calculation of own funds requirement for the Bank in respect of operational risk in accordance with the AMA approach, and for the Group entities conducting financial activity - the basic index approach (BIA), stress-tests and calculation of internal capital for the Group.

The Bank monitors the operational risk level to control operational risk and diagnose areas requiring management actions. In order to limit the exposure to operational risk, the Bank uses various solutions, including the following:

- 1) control instruments (authorization, internal audit, separation of functions),
- 2) human resources management instruments (staff selection, enhancement of professional qualifications of employees, incentive systems),
- 3) thresholds and critical values of Key Risk Indicators (KRI),
- 4) strategic tolerance limits for the Bank and Group and limits on operational risk losses,
- 5) contingency plans,
- 6) insurance,
- 7) outsourcing.

In particular, if the risk level is increased or high, the Bank applies the following approaches:

- risk reduction - mitigating the effect of risk factors or the results of risk materialisation,
- risk transfer - transfer of responsibility for covering potential losses to a third party,
- risk avoidance - resignation from activity that generates risk or elimination of the probability of the occurrence of a risk factor.

The Group entities manage operational risk according to principles of these risk management in PKO Bank Polski SA, considering their specific nature and scale of activities of particular entities.

In the first half of the 2015, the dominant impact on the operational risk profile of the Group was exercised by the following entities: PKO Bank Polski SA, the PKO Leasing SA Group and KREDOBANK SA Group. Other Group entities, considering their significantly smaller scale and type of activity, generate only reduced operational risk.

6.9 Compliance risk

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 compliance risk management is to ensure the Group's compliance with the law, adopted standards of conduct and the Bank's acting as an entity that is reliable, fair and honest, through mitigating compliance risk, mitigating the possibility of losing the Group's reputation or credibility and mitigating the risk of financial losses or legal sanctions resulting from breach of regulations and ethical standards.

Compliance risk management in the Group involves in particular the following:

- preventing involvement of the Bank in illegal activities,
- ensuring data protection,
- promoting ethical standards and monitoring of their application,
- conflict of interest management,
- preventing situations where the Bank'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 claims of clients.

In all entities in the PKO Bank Polski SA Group consistent principles of compliance risk management exist.

The entities of the Group have adopted a zero tolerance policy against compliance risk, which means that the entities of the Group focus their actions on preventing cases of materialisation of this risk.

6.10 Business risk

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. 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:

- conducting stress-tests,
- calculation of internal capital.

Main tools for managing business risk are:

- verification and update of quarterly financial forecasts,
- monitoring of level of strategic tolerance limit.

6.11 Reputation risk

The reputation risk is defined as the risk related to a possibility of negative variations from the planned financial results of the Bank due to the deterioration of the Bank's image. The objective of managing the reputation risk is to protect the Bank's image and limit the probability of the occurrence and level of reputation loss.

Management of reputation risk in the Bank comprises mainly:

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

The main tools for the execution of activities related to the assessment of the Bank's reputation risk level are:

- a catalogue of image-related events categories containing a list of image-related events categories with appropriate weights assigned. A catalogue defines the risk profile by assigning appropriate weights to particular categories of image-related events,
- a register of image-related events effects used to record identified image-related events effects – media monitoring result and complaints and requests.

Based on the Register of effects of image-related events for the previous calendar year, the Bank conducts an annual assessment of effects of particular image-related events categories identified in a given year and specifies their impact on the shaping of the reputation risk level.

6.12 Model risk

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 operating models. The model risk is managed in the Group (the owner of the model) as well as in the Bank as the dominant entity of the Group.

The objective of models management and model risk management is to mitigate the level of model risk in the Group. Model risk management is performed through identification, assessment and monitoring of model risk, reporting and taking management actions. Solutions functioning in the Bank are used in the Group, with the possibility of their individual adaptation to the specific nature of the particular Entities.

The model risk evaluation is aimed at determining the scale of threats associated with the occurrence of the model risk. The assessment of the risk level is performed on the level of a single model and aggregate assessment of the model risk.

The purpose of management actions is to form a model risk management process and the level of this risk.

Management actions in particular consist of determining acceptable levels of risk, making decisions about the use of tools supporting model risk management.

All models relevant to the Bank are covered by the process of regular, independent validation, at the same time actions aimed at covering models relevant to the Group by the independent process of giving opinions by the validation unit of PKO Bank Polski SA are conducted.

6.13 Risk of macroeconomic changes

Risk of macroeconomic changes is the 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.

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.

Management activities related to the risk of macroeconomic changes consist specifically 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.

6.14 Insurance risk

Insurance risk is the 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.

Insurance risk measurement in PKO Życie Towarzystwo Ubezpieczeń SA is carried out as a level of contracts surrender 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 PFSA Office. In preparation period for implementation of the new Solvency II system, PKO Życie Towarzystwo Ubezpieczeń SA performs analyses of exposure to insurance risks in the process of Prospective Assessment of Own Risks (FLAOR) supervised by the PFSA Office.

As to mitigate the insurance risk exposure, PKO Życie Towarzystwo Ubezpieczeń SA uses among others:

- reinsurance of risks (mortality, morbidity risks),
- grace periods,
- exemptions,
- retention activities.

In case of the new products and risks, PKO Życie Towarzystwo Ubezpieczeń SA chooses as follows: a reinsurer, the range 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.

6.15 Comprehensive stress-test

Comprehensive stress-tests constitute an integral element of risk management in the PKO Bank Polski SA Group and are complementary for stress-tests specific for particular risk types.

Comprehensive stress-tests take into account collectively the following types of risk that the PKO Bank Polski SA Group considers material, including:

- credit risk,
- market risk,
- liquidity risk,
- operational risk,
- business risk.

Comprehensive stress-tests cover an analyse of the impact of changes in the environment and functioning of the Bank on the PKO Bank Polski SA Group's financial position, in particular on:

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

Comprehensive stress-tests are conducted for the Group's own purposes at least once a year in a three-year horizon, taking into consideration changes in the values and structure of the statement of financial position and the income statement (dynamic tests). Supervisory tests are conducted at the request of supervisory authorities, in accordance with the assumptions provided by supervisory authorities.

6.16 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 maintain capital in a continuous manner on a level that is adequate to the risk scale and profile of the Group's activities.

The Group's capital adequacy management process comprises:

- identifying and monitoring significant types of risks,
- assessing internal capital to cover the particular risk types and total internal capital,
- monitoring, reporting, forecasting and limiting of capital adequacy,
- performing internal capital allocations to business areas, client segments and the Group entities in connection with profitability analyses,
- using tools affecting the capital adequacy level (including: tools affecting the level of own funds, the scale of own funds item reductions and the level of the loan portfolio).

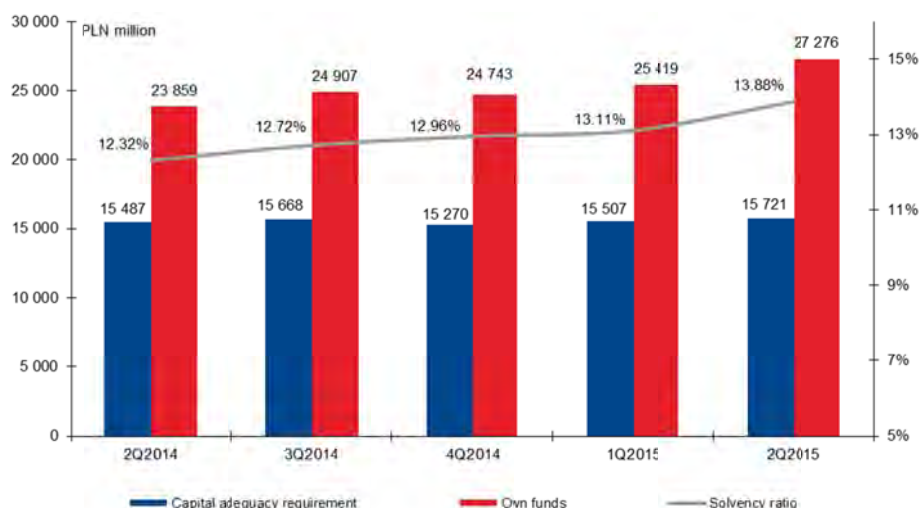
The fundamental regulation applicable in the capital adequacy assessment process as at 30 June 2014 is the Regulation No. 575/2013 of the European Parliament and the Council (EU) of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending the Regulation (EU) No. 648/2012, hereinafter called 'CRR Regulation'.

As at 31 December 2014 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 (Official Journal of PFSA No. 2, item 11 of 9 April 2010 with subsequent amendments) and Resolution of the Polish Financial Supervision Authority No. 325/2011 of 20 December 2011 on decreasing own funds (Official Journal of PFSA No. 13, item 49 of 30 December 2011).

As at 30 June 2015 the Bank meets requirements relating to capital adequacy measures defined within the CRR Regulation.

The level of the PKO Bank Polski SA Group's capital adequacy in the first half of 2015 remained at a safe level, significantly above the supervisory limits.

Chart 4. Capital adequacy of the PKO Bank Polski SA Group



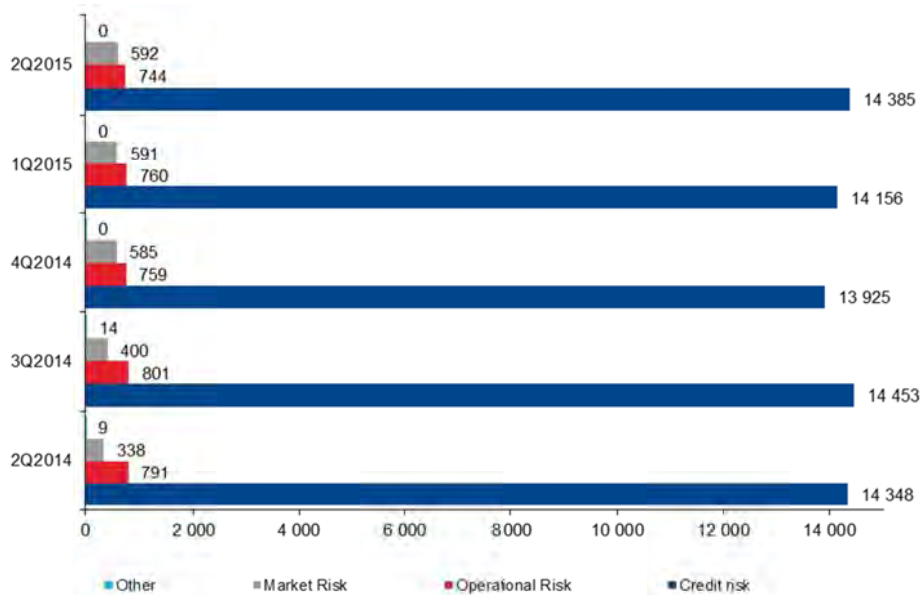
As at 30 June 2015 compared with 31 December 2015, the PKO Bank Polski SA Group's capital adequacy ratio increased by 0.92 p.p. to the level of 13.88%.

As at 30 June 2015 compared with 31 December 2014, the PKO Bank Polski SA Group's total capital requirement increased by PLN 451 million, mainly as a result of an increase in the capital requirement in respect of credit risk, while the PKO Bank Polski SA Group's own funds increased by PLN 2 533 million.

In accordance with the Regulation No. 575/2013 of the European Parliament and the Council (EU) of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending the Regulation (EU) No. 648/2012 and being in force since 1 January 2014, the Group calculates requirements in respect of own funds for the following risk types:

- credit risk – using the standard method,
- operational risk: for the Bank – using the advanced measurement approach (AMA), and for the Group entities under prudential consolidation – using the basic index approach (BIA),
- market risk – using basic methods.

Chart 5. Capital requirements of the PKO Bank Polski SA Group (in PLN million)



An increase in the capital requirement in respect of credit risk was mainly due to increase of exchange rate of CHF and increase of mortgage and corporate loan portfolio.

An increase in the capital requirement in respect of market risk was insignificant.

A decrease in the capital requirement in respect of operating risk was mainly a consequence of including the end of the merger process with Nordea Bank Polska SA.

7 INFORMATION FOR INVESTORS

The shareholders holding, directly or indirectly, through subsidiaries, considerable block of shares (at least 5%) in the number of votes at the General Shareholders Meeting

To the best knowledge of PKO Bank Polski SA, as at reporting date the shareholders holding, directly or indirectly, considerable block of shares (at least 5%) were three entities: the State Treasury, Aviva Otworthy Fundusz Emerytalny and ING Otworthy Fundusz Emerytalny.

Table 30. Shareholding structure of PKO Bank Polski SA

Shareholders	As at the publication date of report for first half of 2015		As at the publication date of report for first quarter of 2015		Change of the share in the number of votes at GSM (pp.)
	Number of shares	Share in the number of votes at GSM	Number of shares	Share in the number of votes at GSM	
State Treasury	392 406 277	31.39%	392 406 277	31.39%	0.00
Aviva Otworthy Fundusz Emerytalny ¹⁾	83 952 447	6.72%	83 952 447	6.72%	0.00
Nationale-Nederlanden Otworthy Fundusz Emerytalny (until 23 June 2015 ING Otworthy Fundusz Emerytalny) ²⁾	64 594 448	5.17%	64 594 448	5.17%	0.00
Other shareholders	709 046 828	56.72%	709 046 828	56.72%	0.00
Total	1 250 000 000	100.00%	1 250 000 000	100.00%	0.00

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 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 the transaction of sale of 95 million of PKO Bank Polski SA's shares by the State Treasury.

Changes in ownership of PKO Bank Polski SA shares by the Bank's authorities

Table 31. Shares of PKO Bank Polski SA held by the Bank's authorities

No.	Name	Number of shares as at the publication date of report for first half of 2015	Purchase	Disposal	Number of shares as at the publication date of report for first quarter of 2015
I. The Management Board of the Bank					
1.	Zbigniew Jagiełło, Prezes Zarządu Banku	11 000	1 000	0	10 000
2.	Piotr Alicki, Wiceprezes Zarządu Banku	2 627	0	0	2 627
3.	Bartosz Drabikowski, Wiceprezes Zarządu Banku	0	0	0	0
4.	Piotr Mazur, Wiceprezes Zarządu Banku	4 500	0	0	4 500
5.	Jarosław Myjak, Wiceprezes Zarządu Banku	0	0	0	0
6.	Jacek Obłękowski, Wiceprezes Zarządu Banku	512	0	0	512
7.	Jakub Papierski, Wiceprezes Zarządu Banku	3 000	0	0	3 000
II. The Supervisory Board of the Bank					
1.	Jerzy Góra, Przewodniczący Rady Nadzorczej Banku	0	0	0	0
2.	Mirosław Czekał, Wiceprzewodniczący Rady Nadzorczej Banku	0	0	0	0
3.	Mirosława Boryczka, członek Rady Nadzorczej Banku	0	0	0	0
4.	Małgorzata Dec-Kruczkowska, członek Rady Nadzorczej Banku*	0	x	x	x
5.	Zofia Dzik, członek Rady Nadzorczej Banku	0	0	0	0
6.	Krzysztof Kilian, członek Rady Nadzorczej Banku*	0	x	x	x
7.	Elżbieta Mączyńska-Ziemacka, Członek Rady Nadzorczej Banku	0	0	0	0
8.	Piotr Marczak, Członek Rady Nadzorczej Banku	0	0	0	0
9.	Marek Mroczkowski, Członek Rady Nadzorczej Banku	0	0	0	0

*) Members of the Supervisory Board who did not hold function as at the publication date of report for first quarter of 2015

Assessment of financial credibility of PKO Bank Polski SA

Rating agencies Moody's Investors Service and Standard & Poor's assign a rating PKO Bank Polski SA at a charge, in accordance with its own bank assessment procedure.

- On 19 May 2015 the rating agency Fitch Ratings (which gives evaluations unsolicited by the Bank) published information, in which announced the downgrade of State Treasury support assessment from grade "2" to "5". The downgrade of State Treasury support assessment resulted from assumption, that Directive of the European Parliament and of the Council on reorganisation and ordered banks liquidation provides a framework for bank insolvency process under which creditors are likely to be required to cover the banks' losses in case when necessary, instead of or in the first instance by the bank prior to receiving support from the Treasury.

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- On 21 May 2015 Moody's Investors Service published press note on www.moody's.com website, announcing changes in Bank's ratings, as a result of the review of the ratings given to banks in Poland. Overview resulted from the adoption of the new methodology published by the agency on 16 March 2015. According to the Note:
 - Deposit's rating was maintained at A2/P-1 level,
 - Liabilities' rating was downgraded from A2/(P)P-1 to A3/(P)P-2 level,
 - Review of counterparty risk was set at A2(cr)/P-1(cr) level,
 - The perspective of ratings was upgraded from "negative" to "stable".

The increase in perspective and maintaining the Bank's ratings was due to the inclusion by the agency Polish favourable macroeconomic environment and the relevant key indicators of the Bank, including improving capital adequacy ratios and the quality of the assets portfolio and to maintaining good profitability.

The adjustment of the liabilities' assessment resulted from consideration by Moody's the lower probability of possible support from the Treasury in the event of Bank's failure to meet their repayment obligations. According to Moody's, Poland, as a country belonging to the European Union, will implement the Directive of the European Parliament and of the Council on reorganisation and ordered banks (BRRD), which in the opinion of the agency will result in changing the likelihood for support from the Treasury to the Bank from very high to moderate.

- On 17 June 2015 the rating agency Standard and Poor's has published a press release on the website www.standardandpoors.com ("Note"), which announced the updating analysis and change ratings of the Bank.

According to the Notes Standard & Poor's has lowered the long-term credit rating of the Bank and unsecured debt rating "A-" to "BBB +". At the same time the agency affirmed the short-term credit rating at "A-2". The prospect has been described as "negative".

The Agency maintained its assessment of the Bank's defined as "SACP" (stand-alone credit profiles) at 'bbb'. Standard and Poor's saw improving quality of assets, the decrease of risk costs, as well as a strong liquidity position of the Bank. Note the Agency evaluates the level of capital and the profitability of the Bank as appropriate.

Agency reviewed the Bank's support factor from the State Treasury and concluded that the Bank no longer meets the definition of a subsidiary of the Treasury ("GRE"), as a consequence of subtracting two so-called notches from the assessment of the Bank's support. Standard & Poor's also expressed the opinion that the Bank may receive support from the State Treasury in connection with the systemically important role of the Bank for the Polish economy, adding to the support evaluation one so called notch. At the same time Standard & Poor's emphasizes that the State Treasury remains the largest shareholder of the Bank, although since 2013 it decreased its share in the capital of the Bank from 51.2% to 31.4%.

Negative outlook is a result of the consideration by Standard and Poor's, predicted by the agency at the beginning of 2016, implementation of the EU Directive on Single Resolution Mechanism (SRM), which in the opinion of Agency results in the possibility of reducing long-term credit rating by one so-called notch, due to the introduction of solutions aggravating Bank creditors in the event of financial problems, with limited possibility of granting the Bank's support by the Treasury.

Table 32 The ratings of PKO Bank Polski SA as at 30 June 2015.

Moody's Investors Service	
Long-term rating for deposits	A2
Short-term rating for deposits	P-1
Long-term rating for liabilities	A3
Short-term rating for liabilities	(P)P-2
Long-term rating for customer risk	A2(cr)
Short-term rating for customer risk	P-1(cr)
Perspective	Stable
Standard and Poor's	
Long-term loan rating of the Bank	BBB+
Short-term loan rating of the Bank	A-2
Perspective	Negative

As at the end of June 2015, KREDOBANK SA had the following rating granted on 23 December 2014 and upheld on 21 April 2015 by the international agency Standard & Poor's:

- long-term credit rating on the international scale - 'CCC-',
- forecast - 'Negative',
- short-term credit rating on the international scale - 'C',
- rating on the Ukrainian scale - 'uaCCC-'.

Changes in the Articles of Association of PKO Bank Polski SA

The Annual General Shareholders' Meeting convened on 25 June 2015 passed the resolutions on changes to the Articles of Association of the Bank:

- Adopted changes resulting from the implementation of the "Principles of corporate governance for supervised institutions" which is an annex to Resolution No. 218/2014 of the Polish Financial Supervision Authority from 22 July 2014 (§ 1, § 15 and § 26 of the Articles of Association), i.e.:

- Change § 1 of the Articles of Association aimed at emphasizing that apart from the mandatory provisions of law The Bank also uses various types of collections of good practices (including corporate governance), which decided to observe, in particular the principle of 'Good Practices of Warsaw Stock Exchange Companies' and "Principles of Corporate Governance for supervised institutions",
- The amendment to § 15 and § 26 the Articles of Association to implement adequately the rules arising from § 27, § 28 paragraph 3, § 47 paragraph. 2 and § 49, "Principles of Corporate Governance for supervised institutions".
- The other changes of the Articles of Association aimed at:
 - Adaptation of the provisions of the Articles of Association of the principles of the Bank to applicable laws, as well as to obtained authorization of the Polish Financial Supervision Authority on changes of the Articles in this regard (change § 4. 1 point 9, 12 and 13 and the deletion of § 4 paragraph 2 point 5)
 - Elimination of existing obligations of the Supervisory Board, which are not required by applicable regulations (deletion of § 15 paragraph 1 point 12 point e),
 - Facilitation of taking by the Supervisory Board resolutions by circulation or using means of direct remote communication also in matters referred to in § 15 paragraph 1, point 12 (amendment § 17 paragraph 4)
 - Clarification of the provisions of the Articles of Association in terms of functioning of the Supervisory Board committees (amendment § 17a)
 - Extending the manner of representation of the Bank (change § 21),
 - Clarification of the provisions of the Articles of Association for the issuing of decisions and internal regulations of the Bank (change § 25).

Resolution of The Annual General Shareholders' Meeting on amendments to the Articles of Association of the Bank, the project was submitted on 24 June 2015. The State Treasury (the original wording of the draft was presented in Current Report No. 37/2015), it was put to the vote and did not receive the required majority of 3/4 votes required in accordance with the Code of Commercial Companies.

Compliance with the corporate governance standards

Corporate governance principles introduced in the document 'Good Practices of Warsaw Stock Exchange Companies'

PKO Bank Polski SA applies the rules for corporate governance introduced in the form of a document 'Good Practices of Warsaw Stock Exchange Companies' (consolidated text adopted by the Council of the Warsaw Stock Exchange SA on 21 November 2012 with the Resolution No.19/1307/2012) with the exception of the rules contained in Chapter IV.10.

On 24 May 2013 the Management Board of PKO Bank Polski SA informed of its decision not to apply the rule included in Chapter IV.10 of the Good Practices of Warsaw Stock Exchange Companies, in accordance with which the Bank should ensure to its shareholders the option of participating in the General Shareholders' Meeting using means of electronic communication.

The decision not to abide by above mentioned rule in accordance with which the Bank should, i.e. ensure bilateral real time communication to its shareholders in order for them to communicate during the General Shareholders' Meeting from a place other than the location of the Meeting was taken due to legal, organisational and technical risks which could threaten the proper conduct of the General Shareholders' Meeting if such a communication option was given to all shareholders.

In the Bank's opinion, the rules currently binding at the Bank ensure that all shareholders may effectively exercise all rights vested in them and secure the interests of all shareholders.

The Bank does not eliminate the possibility of using this rule in the future, based on market standards developed by public companies.

Corporate governance principles for supervised institutions, issued by the Polish Financial Supervision Authority

On 9 December 2014, the Bank's Management Board adopted for use the Corporate Governance Principles for supervised institutions (adopted by the Polish Financial Supervision Authority at the meeting on 22 July 2014) concerning the responsibilities and obligations of the Management Board, i.e. conducting the Bank's affairs and representing it, in compliance with the generally binding laws and the Bank's Articles of Association, with the provision that paragraph 8, clause 4 of the Principles, insofar as it relates to allowing the shareholders the possibility to participate in the meetings of the decision-making authority electronically, will not be applied unless the General Shareholders' Meeting makes appropriate amendments to the Bank's Articles of Association authorising the Management Board to organise the General Shareholders' Meeting using electronic means of communication. Chapter 9 of the Principles, concerning the managing of assets at the client's risk, will not be applied due to the fact that the Bank does not conduct such activities.

On 17 December 2014, the Bank's Supervisory Board adopted for use the Corporate Governance Principles for supervised institutions concerning the responsibilities and obligations of the Supervisory Board, i.e. supervising the conducting of the Bank's affairs in compliance with the generally binding laws and the Bank's Articles of Association.

The Annual General Shareholders' Meeting convened for 25 June 2015, declared in the Resolution No. 50/2015 that by acting in the exercise of its powers is to be guided by the principles of corporate governance for supervised institutions issued by the Polish Financial Supervision Authority, which refrained from applying the rules set out in:

- § 8 paragraph. 4 Rules of providing the possibility of electronic participation in meetings of shareholders decision-making body,
- § 10 paragraph. 2 Rules on the introduction of personal rights or other special rights for shareholders,
- § 12 para 1 of the Rules of the liability of shareholders for the immediate recapitalization of institutions supervised,
- § 28 paragraph. 4 Rules of entering the evaluation authority whether the established remuneration policy promotes the development and security of institutions supervised.

Waiver of application of the rules in § 8. 4, was in line with the prior decision of The Annual General Shareholders' Meeting of PKO Bank Polski SA of 30 June 2011, expressed through failure resolution on amendments to the Articles of Association of the Bank, which aim was to enable participation in The Annual General Shareholders' Meeting through electronic communication means. The decision of not applying this rule was made due to the risk of legal and organizational - technical nature which could jeopardize the proper conduct of the general meeting. Exclusion

of application of this principle by the Annual General Shareholders' Meeting was consistent with the opinion of the Management Board of its non-use, adopted due to the fact that the rules in force in the Bank's participation in the General Meetings allow shareholders at effective implementation of all rights of action and protect the interests of all shareholders.

Waiver of the others, indicated in the resolution of the Annual General Shareholders' Meeting, "Principles of corporate governance for supervised institutions" was due to present these proposals by a qualified shareholder of the Bank – State Treasury and then adopted by the Annual General Shareholders' Meeting by undertaking the resolution No. 50/2015.

According to the justification presented by the State Treasury with a proposal for draft resolutions of the Annual General Shareholders' Meeting, waive the application of the principle set out in § 10 paragraph 2 and § 12 paragraph 1 was justified by unfinished privatization process of the Bank by the Treasury.

Waiver of the application of the principle set out in § 28 paragraph 4 was justified, as requested by the State Treasury, too broad a subjective assessment of the remuneration policy making authority. In the opinion of the above mentioned shareholder, remuneration policy of the employees carrying out key functions and are not members of the supervisory authority and the governing body, should be subject to an assessment of their employer or principal, which is the Bank represented by the Board and controlled by the Supervisory Board.

Information on dividend paid (or declared)

- On March 31, 2015, the Management Board adopted a new version of "Principles of capital adequacy management and equity in PKO Bank Polski SA and PKO Bank Polski SA Group", which takes into the account i.a. the dividend policy.
The overall objective of the dividend policy of the Bank is implementing stable dividends in the long term with the principle of prudent management of the Bank and the Group, according to the defined criteria of financial capacity of the Bank and the Group. The objective of the dividend policy is optimal shape of the structure of the own funds of the Bank and the Group, taking into account the return on capital and its cost, capital needs associated with the development, along with the need to ensure an appropriate level of capital adequacy ratios. Dividend Policy envisages the possibility of realizing payments from the Bank's profit for shareholders in the long term as the excess capital above the minimum capital adequacy ratios with an additional capital cushion. The dividend policy takes into account factors related to the activities of the Bank and Group companies, in particular, the requirements and recommendations of supervisory capital adequacy. Capital adequacy ratios are determined by the dividend criteria are as follows:
 - total capital ratio above 12.5%, and
 - basic capital ratio Tier 1 ratio above 12%.
 These principles were approved by the Supervisory Board on 6 May 2015 year.
- On 31 March 2015, the Bank received from the Polish Financial Supervision Authority recommendation for PKO Bank Polski SA to keep entire profit generated in the period from 1 January 2014 to 31 December 2014 - until the establishment of the supervisory authority the amount of additional capital requirement for the Bank. Polish Financial Supervision Authority expected submission of the Management Board and Supervisory Board in this regard.
Management Board on 7 April 2015 and the Supervisory Board on 8 April 2015 adopted resolutions on the application within its competence recommendation PFSA. The Bank informed that in accordance with Art. 395 § 2 point 2 of the Commercial Companies Code, the decision on the distribution of the profit belongs to the Annual General Meeting.
- On 25 June 2015, the Annual General Shareholders' Meeting decided to distribute the profit of the Bank for the year 2014 and retained profit from previous years, allocating profits in accordance with the recommendation of the Management Board for reserve capital an amount of PLN 1 250 000 thousand, without earmarking amounts for dividend payments. The resolution of the Annual General Shareholders' Meeting of the Bank on the distribution of profits for 2014 years is consistent with the Polish Financial Supervision Authority recommendation.

8. OTHER INFORMATION

Identification data

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (PKO Bank Polski SA) with its registered office in Warsaw at Puławska 15 Street is registered in the District Court for the capital city of Warsaw in Warsaw, XIII Economic Department of the National Court Register, under entry No. KRS 0000026438. The Company's was granted a statistical No. REGON 016298263 and tax identification number (NIP) 525-000-77-38, share capital (the paid share capital) PLN 1 250 000 000.

The authorities of PKO Bank Polski SA in the reporting period

Table 33 The Management Board of PKO Bank Polski SA as at 30 June 2015

No.	Name	Function	Date of appointment
1.	Zbigniew Jagiełło	President of the Management Board	re-appointed on 8 January 2014 to the position of President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board, which begin with the end of previous joint term of the Management Board.
2.	Piotr Alicki	Vice-President of the Management Board	re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board, which begin with the end of previous joint term of the Management Board.
3.	Bartosz Drabikowski	Vice-President of the Management Board	re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board, which begin with the end of previous joint term of the Management Board.

4.	Piotr Mazur	Vice-President of the Management Board	re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board, which begin with the end of previous joint term of the Management Board.
5.	Jarosław Myjak	Vice-President of the Management Board	re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board, which begin with the end of previous joint term of the Management Board.
6.	Jacek Obłękowski	Vice-President of the Management Board	re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board, which begin with the end of previous joint term of the Management Board.
7.	Jakub Papierski	Vice-President of the Management Board	re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board, which begin with the end of previous joint term of the Management Board.

Table 34. The Supervisory Board of PKO Bank Polski SA as at 30 June 2015

No.	Name	Function	Date of appointment/dismissal
1.	Jerzy Góra	Chairman of the Supervisory Board	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Annual General Shareholders' Meeting convened as at 26 June 2014. On 26 June 2014 the State Treasury, as the Eligible Shareholder has appointed Jerzy Góra as a Chairman of the Supervisory Board.
2.	Tomasz Zganiacz	Deputy Chairman of the Supervisory Board until 25 June 2015	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Annual General Shareholders' Meeting convened as at 26 June 2014 the State Treasury, as the Eligible Shareholder has appointed Tomasz Zganiacz as a Deputy Chairman of the Supervisory Board. On 25 June 2015 Tomasz Zganiacz-Deputy Chairman of the Supervisory Board has resigned from Supervisory Board with the effect from 25 June 2015
3.	Mirosław Czekał	Deputy Chairman of the Supervisory Board since 25 June 2015 Secretary of the Supervisory Board until 7 July 2015	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Annual General Shareholders' Meeting convened as at 26 June 2014. On 16 July 2014 the Supervisory Board has chosen Mirosław Czekał as a Secretary of the Supervisory Board. On 25 June 2015 the State Treasury, as the Eligible Shareholder has appointed Mirosław Czekał as a Deputy Chairman of the Supervisory Board. On 7 July 2015, Deputy Chairman has resigned from Secretary of the Supervisory Board.
4.	Mirosława Boryczka	Member of the Supervisory Board	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Annual General Shareholders' Meeting convened as at 26 June 2014.
5.	Małgorzata Dec-Kruczkowska	Member of the Supervisory Board	appointed on 25 June 2015 for the next term of the Supervisory Board, which began on the day of the Annual General Shareholders' Meeting convened as at 26 June 2014
6.	Zofia Dzik	Member of the Supervisory Board	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Annual General Shareholders' Meeting convened as at 26 June 2014.
7.	Krzysztof Kilian	Member of the Supervisory Board	appointed on 25 June 2015 for the next term of the Supervisory Board, which began on the day of the Annual General Shareholders' Meeting convened as at 26 June 2014
8.	Jarosław Klimont	Member of the Supervisory Board until 25 June 2015	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Annual General Shareholders' Meeting convened as at 26 June 2014. On 26 June 2015, the General Shareholders' Meeting has dismissed Jarosław Klimont from the Supervisory Board.
9.	Piotr Marczak	Member of the Supervisory Board	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Annual General Shareholders' Meeting convened as at 26 June 2014.
10.	Elżbieta Mączyńska - Ziemacka	Member of the Supervisory Board	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Annual General Shareholders' Meeting convened as at 26 June 2014.
11.	Marek Mroczkowski	Member of the Supervisory Board	appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Annual General Shareholders' Meeting convened as at 26 June 2014.

On 25 June 2015:

1) the General Shareholders' Meeting of PKO Bank Polski SA:

- dismissed Jarosław Klimont, the member of the Supervisory Board, from Supervisory Board
- appointed Małgorzata Dec-Kruczkowska and Krzysztof Kilian

2) Tomasz Zganiacz- Deputy Chairman of the Supervisory Board has resigned from Supervisory Board with the effect from 25 June 2015

3) The State Treasury, as the Eligible Shareholder has appointed Mirosław Czekał as a Deputy Chairman of the Supervisory Board.

On 7 July 2015, Deputy Chairman has resigned from Secretary of the Supervisory Board.

Seasonality or cyclicity of activities in the reporting period

PKO Bank Polski SA is a universal bank, which provides services on the territory of Poland, and thus its activities are exposed to similar seasonal fluctuations to those affecting the entire Polish economy. The activities of other companies of the PKO Bank Polski SA Group also do not show any particular seasonality or cyclicity characteristics.

Sponsorship, charity and promotional activities

Sponsorship activities carried out in the first half of 2015 were aimed at creating the image of PKO Bank Polski SA of a trustworthy financial institution, open to client's needs and expectations, engaged in the development of the country and local societies. In accordance with the sponsorship activities plan, the Bank focuses on few selected areas of social life, in particular projects which promote an active and healthy lifestyle, contribute to the development of culture, education, expanding knowledge on history and national heritage, and promote patriotism. During the period the Bank concentrated on the following key sponsoring projects: the 'PKO Bank Polski - Let's run together' ('PKO Bank Polski - Biegajmy razem') programme, patronage over renovated and modernised Gallery of Medieval Art of the National Museum in Warsaw, continuance on co-operation with the National Philharmonic, patronage over the Theatre of Poland in Warsaw, patronage over the Theatrical Festival organised by the Imka Theatre in Warsaw as well as patronage over digital reconstruction of classical Polish motion picture. In the first half of this year PKO Bank Polski SA become also a Strategic Partner of the National Forum of Music – new institution within the Polish culture, which arose due to merger of Wrocław Philharmonics and International Festival Wratistavia Cantans. What is more The Bank has been involved in the organization of the exhibition at Royal Castle- 'A New Gallery of Portraits of Polish Kings' by Waldemar Świerzy.

For many years PKO Bank Polski SA has consistently supported important sports events. Under the 'PKO Bank Polski - Let's run together' programme the Bank encourages Poles to engage in joint activities. Among other things, the Bank sponsors the following races: 3 May Constitution Run, Piast Race and the following marathons: Cracovia Marathon, Night Wrocław Half Marathon, Solidarity Half Marathon and the following half marathons:

Apart from the running events which were the dominating events in the sports sponsoring category, the Bank also supported other prestigious sports events, such as Cavaliada or Sea Days (Dni Morza). Cavaliada is a cycle of international equestrian jump competitions, very popular with the public. It is the largest event of this type in Poland. In 2015 the Bank was the sponsor of Cavaliada in Lublin, Poznań and the final of the competition in Warsaw.

The Bank willingly engages in projects which support Polish culture and events supporting cultural education of the society- International Festival of Independence Cinematography- PKO OFF CAMERA. PKO Bank Polski SA has once again supported World Academic Championship in Team Programming – the most prestigious IT competition in the world which promotes gifted and ambitious students, strengthening the image of an institution open to young people. PKO Bank Polski SA was also the Diamond Sponsor of the competition addressed to students: Enactus Poland 2014. The aim of the organiser of the Competition is to promote ideas consistent with the concept of sustainability. Under the programme students complete business projects which are their response to economic, environmental and social challenges. In the period from March to May 2015 a project called 'My first business before turning 20' ('Mój pierwszy biznes przed 20-tką'), addressed to high school students was conducted by WSB School of Banking in Wrocław and Zarząd Obsługi Jednostek Miejskich (an entity providing services for municipal units) of the Municipality of Wrocław with the support of the Bank. 'My first business before turning 20' is a unique project which combines the following areas: education, financial markets and entrepreneurship, which enables young people to gain not only the competencies for running an e-business, but also creating the concepts and mechanics of board games.

As one of the leaders of the banking market in Poland, PKO Bank Polski SA actively participated in organizing congresses and conferences enabling sharing experiences and creative solutions by various business circles. Among others, the Bank sponsored: the 5th European Financial Congress in Sopot (V Europejski Kongres Finansowy), the 4th Congress of CFOs of SEG Public Companies (IV Kongres CFO Spółek Giełdowych SEG), the International Academic Conference ASCOLA in Warsaw (Międzynarodowa Konferencja Naukowa ASCOLA), the 6th Polish Congress of Banking Law (VI Ogólnopolski Kongres Prawa Bankowego). Other events on a smaller scale, important to the local communities, also gained the Bank's support.

Promotional activities realised in the first half of this year focused mainly on support of sales of already existing banking products. Media communication was tailored to the purposes of particular campaigns. Leaflets and posters in the Bank's branches, and internal communication channels were additional support.

As at June 2015, campaign promoting long term saving products prepared under joint communication of PKO Bank Polski SA and entities of the Group: PKOBP BANKOWY PTE SA, PKO Towarzystwo Funduszy Inwestycyjnych SA and PKO Życie Towarzystwo Ubezpieczeń SA, was launched. The main message of the campaign 'Save for the longest holidays of your life' ('Oszczędzaj na najdłuższe wakacje życia') is education and encouragement of customer. During the campaign, lasting until the end of 2015, the financial products presenting complexity and diversity of long term saving solutions will be introduced.

Promotional activities of the PKO Bank Polski SA Group other entities, carried out in the first half of 2015, were mainly aimed at promoting products and services offered by the Companies, primarily through the press and the Internet, and participation in national trade events and fairs such as: V Fund Forum of Online Analysis (V Fund Forum Anazil Online), X IZFiA Fund Forum (X Forum Funduszy IZFiA).

Promotional activities of KREDOBANK SA was concentrated on the promotion of offered products and services and also on creating an image of the entity as a significant financial institution on domestic market. In the first half of 2015, KREDOBANK SA conducted a promotional campaign of deposit product 'The right choice' ('Prawidłowy wybór') and together with MasterCard the campaign of contactless payment cards PayPass. What is more KREDOBANK SA organized trainings and took part in open- lessons for high school students in Lviv concerning the finance knowledge.

The Bank's tasks concerning **charity activities** are carried out through PKO Bank Polski SA's Foundation. PKO Bank Polski SA's Foundation, on 22 July 2015 celebrated its 5th years of work, operates under the slogan 'Good brings profits' ('Dobro procentuje'). In the first half year of 2015, the foundation was engaged in realisation of 18 strategic projects, supported 152 local projects and helped 29 individuals. What is more, The Foundation realised 5 own projects which are: Banking Honourable Blood Donation, charity running events, The Bank collections, Banking souvenirs and Jan Weber's collection. The total cost of the projects was PLN 4 882 686.

The Foundation, realising Strategic Projects and Local and Individual Projects, has awarded beneficiaries with grants within seven programme areas:

1. **32 % - EDUCATION** (the support of education and alternative forms of education in Poland) – for its main partner- SIEMACHA Association within programmes of social solidarity-building with children and youth at risk of exclusion, a grant for outstanding teachers of mathematics and IT, the organisation of workshops on the Polish parliamentary and local government system and execution of social project for local communities within the Academy of Modern Patriotism (Akademia Nowoczesnego Patriotyzmu) project, free online sharing of educational

- materials of American version of Khan Academy in Polish for the Polish user, the organisation of the XXVIII Economic Knowledge Olympiad (Olimpiada Wiedzy Ekonomicznej), research project 'Social Diagnosis 2015' ('Diagnoza Społeczna 2015'),
2. **28% - TRADITION** (*tradition cultivation, protection of the historical heritage, upbringing with a focus on patriotism*) – for i.a. the 'Intergeneration Dialogue' ('Dialog Międzypokoleniowy') programme addressed to representatives of environments which contributed to the life democratisation in Poland, project 'To the democracy' ('Ku demokracji') realised for representatives of student and academic organisations from Poland and Ukraine.
 3. **17% - HEALTH** (*health care and health prophylactics*) – i.a. the Foundation is responsible for organisation of Banking Honourable Blood Donation ('BHBD') conducted in 12 Polish cities. In the first stage of this year's BHBD 1117 people donated blood, including 119 employees of PKO Bank Polski SA. A total amount of blood collected is 603 litres.
 4. **13% - HOPE** (*social assistance, addressed in particular to disabled and harmed persons, and at risk of exclusion*) – on i.a. benefits in terms of social assistance, including additional food for children and youth in schools and care institutions, supporting orphanages wards, subsidising driving license courses and vehicle adaptation in the Mobility of Disabled Persons (Mobilność Osób Niepełnosprawnych) programme, in the first half of 2015, took place 28 charity running events, in which 15 thousand people took part, including 200 employees of PKO Bank Polski SA.
 5. **5% - CULTURE** (*protection of cultural and art heritage and support of young, Polish artists work made pro bono*)– i.a. the education based on The Bank Collection (Kolekcja Zbiorów Bankowych), promotion of young, Polish artists work, promotion of classical music based on intellectual work of genius musicologist Jan Weber within Jan Weber's collection(Kolekcja Jana Webera),
 6. **4% - ECOLOGY** (*undertaking social initiatives aimed at promoting knowledge in the field of environmental protection, in particular water bodies*) – the Foundation cooperates with the Ecological and Cultural Association – Klub Gaja within the 'Adopt a river' ('Zaadoptuj rzekę') project.
 7. **1% - SPORT** (*encouraging physical activity, especially children and youth, as well as disabled persons*)– support of the building of recreational infrastructure in smaller towns.

According to the policies implemented by The Foundation, all local project have to be realised with the involvement of Volunteer- the employee of PKO Bank Polski SA or The Group. The volunteer who is in charge of the project gives aid for local society, is the final confirmation of the credibility of a potential beneficiary, contributes in building the relationship with local environment and supports the evaluation process of the project. As at 30 June 2015 there were 1062 volunteers.

Underwriting agreements and guarantees granted to subsidiaries

As at 30 June 2015 issues of PKO Leasing SA (the Bank's subsidiary) bonds were regulated by the Underwriting Agreement for the Organisation, Conducting and Servicing of the Bond Issuance Programme as at 10 November 2011, in accordance with which the maximum value of the programme was PLN 600 million.

As at 30 June 2015 PKO Leasing SA issued bonds for a total of PLN 590 million, including bonds with a nominal value of PLN 363 million sold on the secondary market and bonds with a value of PLN 227 million held in the portfolio of PKO Bank Polski SA.

In the first half of 2015 PKO Bank Polski SA:

- granted a guarantee of up to PLN 489 thousand to PKO Leasing SA in respect of office space renting; the guarantee is valid until 30 June 2018,
- extended duration and the increased value of guarantees granted to PKO Życie Towarzystwo Ubezpieczeń SA for the rental of office space, a guarantee of the amount of EUR 215 thousand was issued up to 30 April 2016.

Loans and advance contracts, warranties and guarantees not related to the Bank's operating activity

In the first half of 2015, PKO Bank Polski SA has not taken any loans, advances, and has not received any guarantees or warranties which do not relate to its operating activities.

In the first half of 2015, subsidiaries of PKO Bank Polski SA have not taken any loans, advances, and have not received any guarantees or warranties which do not relate to their operating activities.

Significant contracts and important agreements with the central bank or supervisory authorities

In the first half of 2015 PKO Bank Polski SA did not conclude any important agreements with the Central Bank or with its supervisory authorities. In the first half of 2015 the subsidiaries of PKO Bank Polski SA did not conclude any important agreements with the Central Bank or with their supervisory authorities.

Benefits for supervisors and managers

Full information regarding the remuneration and other benefits on behalf of the members of the Management Board of PKO Bank Polski SA and the Supervisory Board of PKO Bank Polski SA in the reporting period was disclosed in Note 42 to the PKO Bank Polski SA Group condensed consolidated interim financial statements for the six-month period ended 30 June 2015.

Number of employees in PKO Bank Polski SA and in the PKO Bank Polski SA Group

As at the end of the first half of 2015, the number of employees of the PKO Bank Polski SA Group decreased by 477 full time equivalents compared to the balance as at the end of the first half of 2014. This change mainly resulted from adaptation of the employment to the situation after operational merger.

Table 35. Number of employees in PKO Bank Polski SA and in the PKO Bank Polski SA Group

	30.06.2015	30.06.2014	Change
PKO Bank Polski SA	25 741	24 421	1 320
Other Group entities	3 168	4 965	(1 797)
Total	28 909	29 386	(477)

Results of changes in the entity's structure, including the effects of business combination, takeover or disposal of the Group entities, long-term investments, division, restructuring and discontinuation of activities

The results of changes in the entity's structure, including the results of merger, takeover or disposal of the Group entities have been described in point 5.2 of this report.

Factors which may affect future financial performance within at least the next quarter

In the perspective of the nearest quarters, economic processes, which will take place in Polish and in the global economy, and reactions of the financial markets, will have an impact on the results of the Bank and the PKO Bank Polski SA Group. The interest rate policy applied by the Monetary Policy Council and by other key central banks will have a large impact on future performance.

A negative impact on banks' results may be affected by legal regulations relating to i.a. with proposals for mandatory conversion of mortgages in Swiss Francs for Polish Zloty and the introduction of a bank tax.

The positive impact on the Bank's performance will have changes in the program "Mieszkanie dla Młodych" - first of all extend it to the secondary market, as well as facilities for families with at least three children, which will increase the availability and attractiveness of the program.

In March 2015 PFSA adopted a new Recommendation P on the management of the financial liquidity risk of banks. Recommendation is to be implemented by banks by the end of 2015.

The results of the PKO Bank Polski SA Group will be impacted also by the political and economic situation in Ukraine where operate the Group entities: KREDOBANK SA and factoring and debt collection company. In February 2015 occurred the significant depreciation of Ukrainian hryvnia compared to other currencies, including Polish zloty. From the beginning of March 2015 after the decision of significant increase of reference interest rates in Ukraine, the depreciation of hryvnia is observed. The group is continuously analysing the influence of these events on financial results including the risk of deterioration of assets quality of The group in Ukraine.

PKO Bank Polski SA continues to implement actions aimed at ensuring the safe functioning of its companies in Ukraine. These actions include strengthening supervisory activities, including i.a. monitoring funds transferred to the Companies by the Bank and the development of the regulatory requirements determined by the National Bank of Ukraine

Information on warranties on loan or advance granted by the issuer or by the issuer's subsidiary or on guarantee granted - cumulatively to a single entity or its subsidiary, if the total value of outstanding warranties or guarantees constitutes at least 10% of the issuer's equity

On 10 April 2015, the Bank signed a framework contract for opening letters of credit (Agreement) with one of the Bank's customers (customer). The subject of the agreement was the opening of letters of credit on behalf of the Client to an amount not exceeding the amount of USD 350 million, to be used to finance the activities of the customer. The agreement was concluded for the period from 10 April 2015, with the longest possible term of validity of letters of credit opened in accordance with this Agreement shall not exceed the date of 10 October 2016 year. Protection clause of the Agreement provides deductions of due monetary claims from the current account of the Client and Customer statement on submission to enforcement. The agreement does not contain any provisions on contractual penalties. The conclusion of the Agreement caused the meeting of the requirement to inform about concluding the significant agreement as the total value of the Bank's exposure under contracts concluded by the Bank with the Client and its subsidiaries during the 12 months to date of the agreement (including the value of the Agreement) was PLN 3 326.8 million, and thus exceeded the equivalent of 10% of the equity of the Bank.

In the first half of 2015 the subsidiaries of PKO Bank Polski SA did not grant warranties on any loan or advance or a guarantee to a single entity or its subsidiary the total value of which would constitute of at least 10% of the Bank's equity.

Information on transaction or a number of transactions concluded by the issuer or its subsidiary with related parties, if they are significant and were concluded not on arm's length

In the first half of 2015, PKO Bank Polski SA did not conclude any significant transactions with related parties not on arm's length. At the same time, the Bank redeemed USD 8 250 thousand loan granted to Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o and USD 8 284 thousand loan granted to Finansowa Kompania "Idea Kapitał" Sp. z o.o. as well as interest due on the above loans (i.e. the value of loans that remained to be repaid). Redemptions were carried out at the request of the above mentioned companies, due to the economic situation on Ukraine, in particular, the devaluation of the Hryvnia resulting in the inability to get through the Company's revenues from recoveries of receivables in UAH at the level required to repay the loans received from the Bank and limitation of the National Bank of Ukraine in terms of currency exchange and transfer of currency abroad.

In the first half of 2015, the subsidiaries of PKO Bank Polski SA did not conclude any significant transactions with related parties not on arms' length.

Proceedings pending before the court, arbitration tribunal or public administrative authority

As at 30 June 2015 the total value of dispute in court proceedings in which the PKO Bank Polski SA Group entities (including the Bank) act as a defendant amounted to PLN 1 430 838 thousand, of which PLN 3 516 thousand concerning court proceedings in the Ukraine (as at 31 December 2014 the total value of dispute of the above mentioned court proceedings amounted to PLN 427 555 thousand), and the total amount of court proceedings initiated by the Group entities (including the Bank) as plaintiffs at 30 June 2015 amounted to PLN 681 642 thousand, of which PLN 102 083 thousand which concerned court proceedings in the Ukraine, mainly related to the recovery of loans granted by KREDOBANK SA (as at 31 December 2014 the total value of the above-mentioned court proceedings amounted to PLN 767 505 thousand).

The Bank does not have any proceedings pending before the court, the value of which amounts to at least 10% of its own funds. Other Group entities have not conducted any proceedings pending before court, arbitration tribunal or public administration authority concerning liabilities or receivables, the value of which amounts to at least 10% of the own funds of PKO Bank Polski SA.

Position of the Management Board of PKO Bank Polski SA as regards to the possibility of achieving previously published forecast for the given year

PKO Bank Polski SA did not publish any financial forecasts of its results for the year 2015.

Other information of particular importance to the assessment of the human resources, proprietary and financial situation of the issuer, its financial results and changes thereto

- On 11 March 2015, the Supervisory Board of PKO Bank Polski SA appointed KPMG Audyty Spółka z ograniczoną odpowiedzialnością spółka komandytowa as an entity authorized to audit and review the Bank's financial statements and consolidated financial statements of the Bank for the years 2015 - 2016. KPMG Audyty Spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw at ul. Chłodna 51 is entered into the list of entities authorized to audit financial statements kept by the National Council of Statutory Auditors under the number 3546. The entity authorized to audit and review of financial statements was made by the Supervisory Board in accordance with applicable regulations and professional standards, on the basis of par. 15 section 1 point 3 of the Articles of Association of the Bank. On 10 April 2015 an agreement was signed on the audit and review of financial statements of the Bank and PKO Bank Polski SA for the years 2015-2016. The Bank has used the consulting services of KPMG Audyty Spółka z ograniczoną odpowiedzialnością spółka komandytowa related to changes in the PKO Bank Polski SA, and support for the analysis and implementation of certain regulatory issues.
- Bearing in mind the concern for the stability of the banking sector and confidence in financial institutions, on 18 June 2015, PKO Bank Polski SA agreed to participate in the restructuring of the Spółdzielcza Kasa Oszczędnościowo- Kredytowa Wesoła in Mysłowice (SKOK Wesoła). On this basis, also on 18 June 2015, The Polish Financial Supervision Authority (PFSA) made a decision about acquisition of SKOK Wesoła by the Bank. According to the decision of the PFSA, starting at 19 June 2015, the Management Board of PKO Bank Polski SA, took the property management of SKOK Wesoła. The date of acquisition of SKOK Wesoła by the Bank is set on 1 August 2015. PKO Bank Polski SA has expressed interest in participating in the restructuring of SKOK Wesoła answering to the invitation of PFSA dated 26 March 2015. Then the Bank obtained the permission of the President of the Office of Competition and Consumer Protection on concentration and developed with the Bank Guarantee Fund (BGF) agreement about restructuring SKOK Wesoła. According to the reached agreement and applicable laws, the assistance of BGF is expected in restructuring process of SKOK Wesoła in the form of subsidies and guarantees of losses.
SKOK Wesoła was established in 1993. It has 67 offices in 12 provinces. SKOK Wesoła network of credit unions are concentrated in Silesia. According to financial data as at 30 April 2015 Cheerful credit unions have about 63 000 members, whose deposits amounted to approximately PLN 625 million.

Declaration of the Management Board of PKO Bank Polski SA

The Management Board of PKO Bank Polski SA certifies that to the best of its knowledge:

1. the condensed consolidated interim financial statements of PKO Bank Polski SA Group for the six month period ended 30 June 2015 and the comparative data have been prepared in accordance with the binding accounting and reporting standards present a true and fair view of financial condition and results of the PKO Bank Polski SA Group,
2. this interim Directors' Report on the activities of PKO Bank Polski SA Group for the first half of 2015 presents a true view of the development and achievements, as well as condition of the PKO Bank Polski SA Group, including a description of basic risks and threats.

The Management Board of PKO Bank Polski SA certifies that the entity authorised to audit the financial statements and which is performing the review of consolidated interim financial statements, has been elected in compliance with applicable laws. The entity as well as the certified auditor performing the review fulfilled all criteria for providing unbiased and independent audit report in compliance with applicable laws and professional norms.

The PKO Bank Polski SA Group Directors' Report for the first half of 2015 consists of 57 sequentially numbered pages.

Signatures of all Members of the Management Board

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